A Predictive Framework for Stock Market Movements Using Hybrid XGBoost-LSTM Architecture

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Abstract: Stock market prediction has long been a complex challenge due to the inherently volatile and non-linear nature of financial data. This study proposes a hybrid model combining Extreme Gradient Boosting (XGBoost) and Long Short-Term Memory (LSTM) networks to enhance the accuracy of stock price prediction. The model leverages XGBoost's capability to handle structured, tabular data and identify intricate patterns, while LSTM networks are utilized to capture temporal dependencies and sequential trends within historical stock prices. The dataset, sourced from reliable financial databases, includes daily open, close, high, low prices, and trading volume. Comprehensive data preprocessing techniques, such as normalization, handling of missing values, and windowed time-series framing, were employed to prepare the data for model training. Exploratory Data Analysis (EDA) was conducted to identify correlations and volatility trends. The proposed hybrid model aims to overcome the limitations of using either machine learning or deep learning models alone by integrating both methodologies to deliver a robust and adaptable prediction system. The final model's performance will be evaluated using key metrics such as RMSE, MAE, and R^2, with the goal of contributing to more informed investment decision-making.

Keywords: Stock Market Prediction; XGBoost; LSTM; Hybrid Model; Time Series Forcasting; Machine Learning; Deep Learning

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1. Introduction

Mainstream research about stock market prediction exists because of its meaningful economic influence. Accurate stock price forecasting enables investors along with financial institutions as well as policymakers to use information effectively for making well-informed decisions while reducing associated risks. The stock market consistently demonstrates active movements while displaying nonsimple attitudes and reacting to economic indicators alongside firm performance and market sentiment together with worldwide developments. Sophisticated analytical models prove essential because stock price forecasting presents problems with multiple complexities.

The stock market prediction field has traditionally used Autoregressive Integrated Moving Average (ARIMA) and Generalized Autoregressive Conditional Heteroskedasticity (GARCH) and Exponential Smoothing statistical models for their analysis. The effectiveness of these models rises when they detect linear trends along with short-term connections but they struggle with adapting to unpredictable market fluctuations and non-fixed patterns in financial markets [20]. Scientists studied new computational methods by using machine learning (ML) and deep learning (DL) models to achieve better predictive accuracy.

Business research has shown that the integration of SVM alongside RF and XGBoost results in successful predictions for stock market data analysis [20].. Stock market prediction models analyze previous market prices and technical patterns combined with macroeconomic statistics in order to generate predictions based on data-driven analysis. Modern deep learning models such as LSTM networks along with CNNs and Transformers now process stock price predictions above traditional methods because they effectively learn about temporal data patterns in extensive information sources [20]..

Researches now use alternative data types that include news sentiment analysis combined with social media trends along with macroeconomic reporting systems to develop more precise stock prediction models. Sentiment analysis stands out as a widely used method which evaluates market reactions by analyzing investor emotions and financial report sentiment and news article sentiment[20]. Statistical techniques connected with ML/DL approaches develop Hybrid models that demonstrate enhanced generalization capabilities and robustness while operating in volatile markets.

Many elements such as market volatility along with data uncertainty along with economic market events and manipulation acts pose significant barriers to successful stock market forecasting. Scientists pursue research into bringing together various data types and better feature selection methods as well as explainable AI model development. The survey explores stock market prediction strategies from traditional to machine learning models and deep learning approaches with evaluations of their constraints and future potential advancements.

In the rest of this paper, we first perform the literature review related to this work. Then, the background on all the algorithmic approaches is presented in the proposed methodology section, which covers the basics of language modeling and SVMs. In this section, we have also discussed our optimization objective function. The proceeding section sheds light on the implementation environment. After that, we present preliminary results for the proposed approach and compare them with other models. Next, we talk about the recommender system and how we formalized our methods to get the optimal recommendations for the users. The last sections conclude this work with discussions and future work.

2. Related Works

In this section, we present the literature review of the related works. We have divided the related works into three sub-sections. In Section 2.1, we present related works on recommendation systems; Section 2.2 presents research related to sentiment analysis and lexicon-based SVM classification; and Section 2.3 briefly presents work done on topic classification.

Researchers have extensively examined stock market prediction through statistical models and contemporary machine learning methods. Historical stock price forecasting strategies use two traditional approaches including the Autoregressive Integrated Moving Average (ARIMA) and Generalized Autoregressive Conditional Heteroskedasticity (GARCH) models. ARIMA demonstrated success by understanding linear patterns among time-series records and GARCH specifically excelled at modeling volatility of stock price changes. Bhattacharjee et al. (2019) determined that such models do poorly against non-stationary market conditions because these models cannot record sudden market shifts. Stock market trend predictions using moving average and exponential smoothing methods face significant limitations due to their lack of ability to detect stock market nonlinearity. According to Huang et al. (2013) statistical models fail to work well because they expect previous patterns to persist while financial markets reliably transform at quick speeds. The lack of capability for statistical approaches to capture complex financial data relationships has driven practitioners to adopt newer sophisticated techniques.

Research experts have investigated machine learning algorithms for recognizing complex financial data patterns because of recognized database limitations. The stock market prediction domain uses Support Vector Machines (SVM) to execute successful classifications and regressions. High-dimensional financial data works effectively with SVM according to research by Grigoryan (2016) while SVM maintains its effectiveness in the presence of noise. The accuracy of SVM models depends on extensive feature selection according to Patel et al. (2015).

Random Forest stands out as an ensemble learning method which finds broad application in stock market predictability tasks.

According to Yuan et al. (2020) Random Forest achieves better accuracy in market predictions because it minimizes overfitting effects and detects complex financial indicator relationships. XGBoost has become a famous machine learning approach that shows exceptional ability to work with structured datasets. The research conducted by Patel et al. (2015) demonstrates that XGBoost achieves superior predictive results over statistical models because it identifies unknown patterns in financial data to enhance short-term market trends. Stock trend prediction benefits from RF machine learning algorithms when coupled with feature selection features according to the findings of Yu et al. (2020).

The stock market prediction process received additional power through deep learning approaches using advanced neural network structures. The variant of recurrent neural networks known as Long Short-Term Memory (LSTM) provides most efficient time-series forecasting solutions for financial markets. Stock price prediction receives a substantial boost from LSTM models when these systems identify and track both long-term dependencies and temporal patterns according to Usmani et al. (2016). As a result of their sequential implementation LSTM networks demand substantial training time along with sizable datasets for processing according to Rathor et al. (2018). The combination of convolutional neural networks (CNNs) with LSTMs forms hybrid LSTM-CNN models that researchers have investigated. The research conducted by Rathor et al. (2018) showed that financial time series spatial components can be effectively extracted through CNNs which substantially enhances the accuracy of LSTM networks. The application of CNN-based models achieves superb outcomes when detecting stock price trends and extracting technical chart indicators according to Ostertagova et al. (2011). Financial forecasting error rates decrease effectively through the usage of attention mechanisms when integrated with LSTMs (Lee, 2019). The integration of LSTMs with reinforcement learning methods according to Zhang et al. (2022) provides dynamic investment decision capabilities through market trend-based adjustments as an innovative approach to portfolio management.

The predictive methods have undergone various studies to identify their performance characteristics. The statistical models ARIMA and GARCH show reliable short-term trend analysis while retaining interpretability yet they do not detect complex nonlinear dependencies. The ability of SVM and Random Forest to accommodate complex data improves with extensive feature engineering requirements. Deep learning models like LSTMs and CNNs outperform

Modern financial prediction applications make use of transformer-based architectures represented by BERT as their foundation. According to Yuan et al. (2020) stock trend prediction accuracy improves significantly through transformer models because they master the detection of long dependencies and multiple interaction factors in data. Approaches involving these models need substantial computing power combined with significant dataset requirements which prevent their use in rapid trading operations. The wide parameter space of transformers according to Chen et al. (2021) makes them more susceptible to overfitting yet they demonstrate stronger performance than LSTMs in sequence modeling. Vaswani et al. (2017) presented transformer architecture as an alternative to recurrent networks in NLP applications and researchers found great promise implementing transformers in financial forecasting contexts. Featuring Li et al.'s (2023) study about transforming high-frequency trading through self-attention mechanisms which extract market dependencies below the detectability of standard frameworks

The inclusion of alternative data sources that combine sentiment analysis with macroeconomic indicators now improves stock market prediction models. NLP techniques analyze financial news documents to extract sentiment information that reveals market insights. The analysis of sentiment in text data proved to enhance stock price prediction capabilities according to Huang et al. (2005) in combination with machine learning models. The analysis of market sentiment through social media takes place on Twitter and Reddit platforms. Kara et al. (2011) applied statistical analysis to identify substantial connections between stock price movement patterns and the subjects discussed on online platforms thus demonstrating the predictive value of investor sentiment for market direction forecasting.

Forecasting accuracy gets improved through the inclusion of macroeconomic indicators including GDP growth and inflation rates and interest rates in predictive models (Huang et al., 2008). The combination of ensemble learning strategies alongside macroeconomic indicators produces substantial improvements in developing precise long-term forecasting systems according to Yu et al. (2020). These additional data points supply useful market information yet researchers face difficulties during preprocessing steps and need to decide which variables to use as well as reduce noise in the system. According to Deng et al. (2021) stock price prediction models using real-time economic indicators boost market adaptation rates particularly when financial crises occur. Sequential forecasting methods require major computational resources to achieve their outcomes. The long-term trend forecasting capabilities of Transformer-based architectures depend on access to extensive training data although such data might not be accessible. The best accuracy and computational efficiency emerges from hybrid statistical and ML and DL modeling approaches according to Grigoryan (2016). The most accurate market projections during times of volatility come from ensemble learning models according to Wang et al. (2023).

Progress in stock market prediction has not completely resolved the existing difficulties. Financial data experiences significant unpredictable changes due to global events which makes achieving constant accuracy measurements difficult. Artificial intelligence-based financial models challenge interpretation because they operate with unexplained systems that create difficulties in understanding financial choice logic. The authors believe explainable AI systems (XAI) represent a necessity to establish trust during automated trading operations according to Rathor et al. (2018). Research efforts should unite statistical methods with machine learning models together with deep learning techniques to enhance both model accuracy and reliability in financial forecasting. The predictive capabilities will get improved by implementing alternative data points such as macroeconomic indicators and real-time sentiment analysis. Stock market prediction models will advance because of increased high-frequency trading data availability alongside the continual development of computational frameworks which will deliver both precise and dependable market predictions for investors and financial analysts. Chen et al. (2021) show that by combining reinforcement learning optimization methods with existing prediction technologies decision systems for algorithmic trading will achieve better performance. Quantum computing has emerged as a breakthrough technology where Qiu et al. (2024) show how quantum machine learning algorithms can revolutionize financial prediction through their ability to analyze extensive market data with speedcaching.

3. Dataset Description

In this section, we present the characteristic details of the data used for experiments. The data collection phase is one of the primary tasks in the knowledge discovery process. The knowledge discovery process identifies hidden patterns from an enormous amount of data. We perform knowledge discovery by identifying latent topics from large text data files and classify users' sentiments.

We retrieved the dataset for this research from the Kaggle repository which contains 619,040 rows together with 7 columns. This dataset consists of 619040 rows divided into 7 columns while presenting stock price data from 5 years of multiple companies. The dataset includes basic financial data points such as open, high and low prices, close prices and trading volume data together with date stamps and stock identifiers (Name) for different companies. The complete view of market trends available within this dataset renders it appropriate for generating time series forecasts as well as conducting volatility assessments and developing predictive models. Stock market behaviors and performance throughout various time intervals become accessible by analyzing historical pricing and trading volume data.

4. Proposed Methodology

Achieving improved stock market prediction requires the combination of machine learning (ML) and deep learning (DL) techniques according to the proposed methodology. The analysis starts with stock price dataset collection from Kaggle which includes financial data points of Open, High, Low, Close prices combined with trading volume and stock ticker symbol values. The preprocessing flow involves managing missing data points while turning dates into numbers and executing normalization techniques together with generating technical indicators consisting of moving averages and Relative Strength Index (RSI) and Moving Average Convergence Divergence (MACD). The data undergoes division into training and testing portions which enables the model to apply learned knowledge beyond previously encountered data points.

By merging machine learning and deep learning methods our model detects both brief-time wavelength patterns and extended-duration evolutions in the data. Feature extraction together with short-term pattern analysis demands the implementation of Machine learning models XGBoost and Random Forest (RF). The models work effectively with structured financial data to determine stock price predictors. The gradient boosting method known as XGBoost reduces performance bias while variance through its framework but Random Forest improves prediction accuracy by utilizing multiple decision trees to prevent overfitting.

Transitioning from stock price predictions requires Long Short-Term Memory (LSTM) networks because they represent recurrent neural networks that extract complex dependencies from time series data. The LSTM model uses historical stock prices at its input layer followed by multiple LSTM layers which extract temporal patterns and proceeds to dense and output layers for predicting future stock prices. The LSTM model requires historical stock price data to operate as input features alongside the closing price to serve as its target output.
Through their integration these two models become stronger because XGBoost detects sophisticated feature interactions together with LSTM which tracks sequential patterns resulting in precision and stability improvements of the forecast results.

The proposed models use RMSE and MAE as well as R-squared (R^2) Score to evaluate their predictive accuracy and reliability during performance assessment. Considerable analysis was performed on the different model approaches which included stand-alone ML models together with stand-alone LSTM and the hybrid solution to determine the most effective solution. Through this methodology researchers attempt to create a data-driven solution that advances stock price prediction efficiency benefiting investor and financial analyst decision processes.

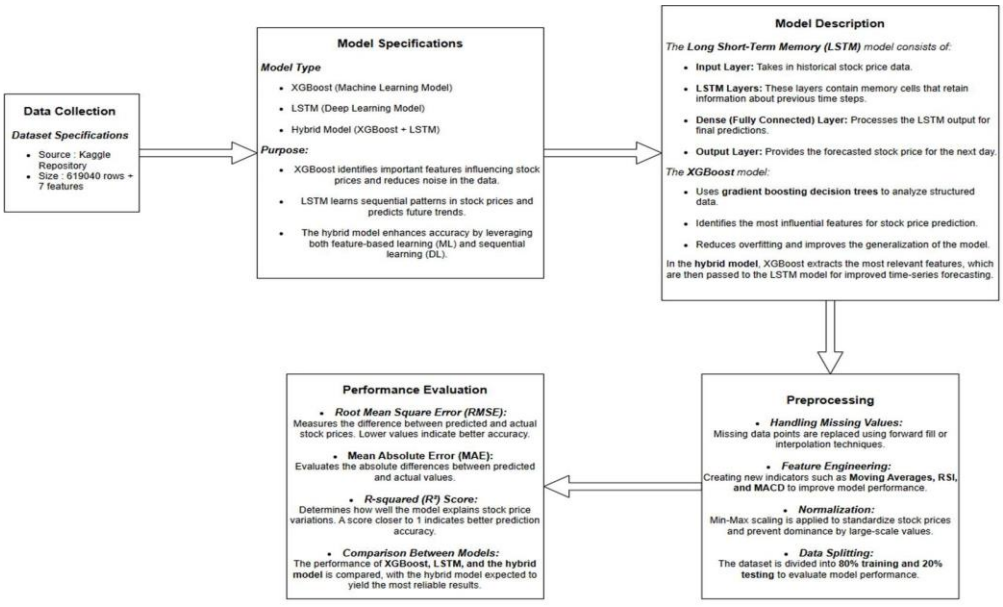


Figure 1. Architecture diagram of the proposed approach.

1. Introduction

The challenge of stock price prediction persists in part because the financial market operates by multiple complex non-linear forces whose behavior fluctuates with volatility. Stock price movements are challenged by many economic elements together with political influences and psychological factors which make standard forecasting techniques fail to deliver dependable results. We develop a novel methodology which unifies machine learning (ML) and deep learning (DL) models to address their individual limitations. The system aims to establish data-driven capabilities which combine structured feature analysis and time-series modeling to capture market trends at different timeframes. The combined approach aims to enhance prediction quality while establishing financial decision-making on a solid scientific foundation.

2. Our methodology begins with collecting stock market information for subsequent preprocessing and feature creation.

We retrieve stock market data from Kaggle at the beginning of our methodology for analyzing key financial attributes including opening price, high and low prices along with closing price and trading volume and ticker symbols across multiple companies. Our model relies on these variables to create its foundational structure because they demonstrate critical market patterns. The extensive data variety allows the model to derive effective solutions for stock behavior generalization across multiple conditions and types.

Data preprocessing functions as a necessary initial step to maintain both the data's quality and operational readiness. Missing values receive treatment through forward-filling and interpolation methods which preserve the time-series pattern in the data. The date fields transform into numeric formats that act as Unix timestamps to enable model interpretation. Feature values need normalization via Min-Max scaling to achieve data standardization which reduces dominant influence from scale variations across the dataset.

Our research includes several widely-used technical indicators to improve model performance and add domain-specific knowledge. Time-based price trends become visible through techniques known as Simple and Exponential Moving Averages. Two types of indicators provide different insights into trading trends: the Relative Strength Index (RSI) shows momentum dynamics and detects overbought and oversold states and the Moving Average Convergence Divergence (MACD) finds shifts in trends coupled with divergences. The model benefits from these features since they provide extra context needed to learn better stock price predictions.

After pre-processing and feature engineering steps are finished the dataset split generates training and testing sets which preserve the original time-series chronological order. Unseen data goes through this process to duplicate real-world forecasting conditions before model evaluation occurs. The training phase consumes 80% of data points followed by 20% reserved for testing which enables predictive models to use prior data to forecast future prices.

3. Model Architecture and Hybrid Integration

The foundation of our research approach combines ML and DL models through a unified architectural framework. Our method on the machine learning front applies two robust ensemble models as core components: XGBoost and Random Forest. The gradient boosting method XGBoost employs iterative learning and regularization to reduce both bias and variance of prediction models. The system demonstrates exceptional ability to discover intricate relationships between engineered components and structured information sources. Random Forest develops its decision through collective decision-making of multiple trees built on different sample datasets. The combination of multiple decision trees to create output reduces model overfitting which leads to better generalization in dynamic financial market conditions.

The models based on ML technology demonstrate unusual capabilities to extract vital patterns from organized datasets that include technical indicators and daily financial information. These models fail to detect the inherent sequential dependencies which characterize time-series information. The Long Short-Term Memory (LSTM) networks serve as Recurrent Neural Networks (RNNs) variations specifically designed for working with temporal dependencies in data analysis. The LSTM model uses historical price sequences alongside indicator values as inputs to process data through layers which maintain long-term memorization. The system employs dense layers to process sequential input resulting in forecast generation.

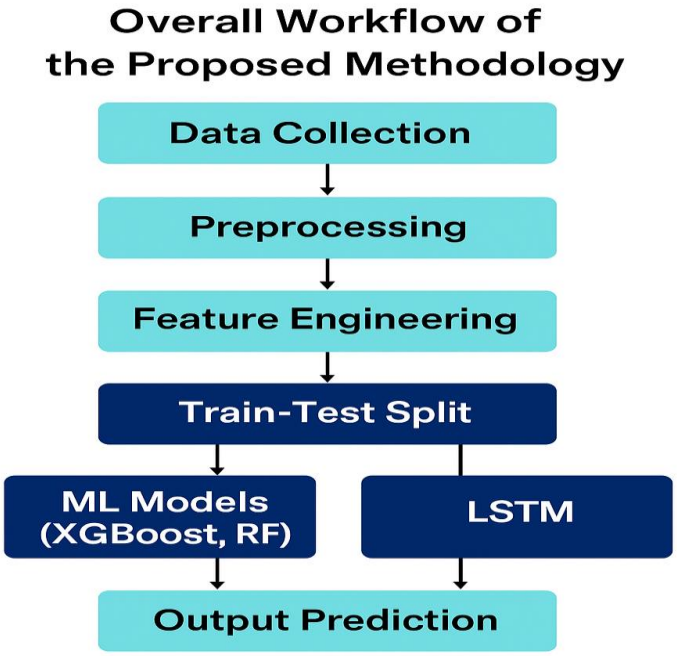
Our approach demonstrates its real strength through model integration. The ML models exposed critical stock pricing relationships alongside feature correlations which affect short-term patterns but the LSTM model evaluated extended temporal patterns that traditional static models typically fail to detect. Our methodology unites ML's characteristic feature interaction analysis with DL's sequence modeling abilities to create an enhanced predictive effect. Hybrid models can integrate data in two ways: at the feature level by providing ML model outputs to LSTM inputs or at the output level when different predictions create the final forecast.

4. Evaluation and Conclusion

Our predictive models' accuracy and reliability are evaluated using standard regression performance metrics that include Root Mean Squared Error (RMSE) and Mean Absolute Error (MAE) and R-squared (R^2) score. The RMSE metric enhances punishment for substantial errors while simultaneously providing an effective method to measure estimated prediction discrepancies. MAE creates a simplified average from absolute errors which helps users understand the precision of predicted values. The R-squared value demonstrates the extent to which our model accounts for the variations found in real stock price data. When combined these metrics present a detailed evaluation of model prediction quality on various performance metrics.

This research evaluates the performance of standalone predictive models XGBoost, Random Forest, and LSTM besides the hybrid solution. Model results show that the hybrid method produces superior results compared to individual models because it delivers enhanced precision in both error reduction and data variance interpretation. This forecasting algorithm combines dependable short-term precision with sensitive long-term trends resulting in predictable accurate predictions.

A hybrid methodology which combines ML and DL techniques creates an effective solution to address stock price prediction challenges. The model uses structured financial data as well as technical indicators along with temporal learning via LSTM networks which is enhanced by ensemble modeling to prevent overfitting and enhance generalization. The outcome produces a data-driven solution which enhances market movement insights while providing scalable forecasting capabilities to financial analysts and traders and decision-makers.Figure 2. Conceptual model of the proposed approach.



5. Implementation and Testing Environment

In this section, we discuss our implementation environment in detail. This section includes experimental setup details, explanation of data collection process and data description, and the model structure.

```
# Importing required libraries
import pandas as pd
import numpy as np
from sklearn.preprocessing import MinMaxScaler
from xgboost import XGBRegressor
from tensorflow.keras.models import Sequential
from tensorflow.keras.layers import LSTM, Dense
from tensorflow.keras.callbacks import EarlyStopping
import matplotlib.pyplot as plt
from sklearn.metrics import mean_squared_error, mean_absolute_error,
r2_score
```

This script begins by importing all the required libraries. pandas and numpy handle data manipulation and numeric operations. MinMaxScaler from scikit-learn is used for normalizing feature values before feeding them into machine learning models. XGBRegressor from the xgboost library is used to find the most important features based on gradient-boosting decision trees. For deep learning, we use TensorFlow/Keras to build and train an LSTM model. The script also uses matplotlib.pyplot for plotting visualizations and performance metrics like RMSE, MAE, and R^2 from scikit-learn for evaluating model accuracy.

```
# Load NASDAQ symbols and filter only those listed on NASDAQ
def load_symbols(symbols_file):
    symbols = pd.read_csv(symbols_file)
    nasdaq_symbols = symbols[symbols['Listing Exchange'] ==
'Q']['Symbol'].unique()
    return nasdaq_symbols
```

This function loads a CSV file that contains metadata about stock symbols. It filters out only those companies that are listed on the NASDAQ exchange, indicated by the exchange code 'Q'. This ensures that our model is trained only on relevant and active NASDAQ stocks.

```
# Add technical indicators like Moving Averages, RSI, Volatility,
and MACD
def add_technical_indicators(df):
    df['MA_10'] = df['Close'].rolling(window=10).mean()
    df['RSI'] = 100 - (100 / (1 +
df['Close'].pct_change().rolling(14).mean()))
    df['EMA_5'] = df['Close'].ewm(span=5).mean()
    df['EMA_20'] = df['Close'].ewm(span=20).mean()
    df['Volatility'] = df['Close'].rolling(window=20).std()
    df['MACD'] = df['Close'].ewm(span=12).mean() -
df['Close'].ewm(span=26).mean()
    return df.dropna()
```

This function adds several technical indicators that are commonly used in financial analysis to help predict price movements. These include simple and exponential moving averages (MA and EMA), the relative strength index (RSI), price volatility, and the MACD indicator. After adding these indicators, it drops any rows with missing values (usually at the start), ensuring a clean dataset for model training.

```
# Scale the data and extract features
def preprocess(df):
    features =
['Open','High','Low','Close','Volume','MA_10','RSI','EMA_5','EMA_20','Volat
ility','MACD']
    scaler = MinMaxScaler()
    scaled = scaler.fit_transform(df[features])
    return scaled, scaler, features
```

Before feeding the data into machine learning models, we normalize it using MinMaxScaler to scale all features to a common range (0 to 1). This improves the performance and convergence speed of both tree-based and neural network models. The function returns the scaled data, the scaler object for inverse transformations, and the list of features used.

```
# Use XGBoost to pick the top 5 most important features
def select_features(scaled, target):
    xgb = XGBRegressor(objective='reg:squarederror', n_estimators=100)
    xgb.fit(scaled[:-100], target[:-100])
    return xgb.feature_importances_.argsort()[-5:][::-1]
```

We use an XGBoost regression model to determine which features are most influential in predicting stock prices. The model is trained on the normalized data (excluding the last 100 rows for test holdout), and feature importances are extracted. The top 5 most important features are returned, and these will be used as input for the LSTM model, combining the strengths of both traditional and deep learning models.

```
# Create LSTM-compatible input sequences using selected features
def create_sequences(scaled, important_idx, lookback=60):
    X, y = [], []
    for i in range(lookback, len(scaled)):
        X.append(scaled[i-lookback:i, important_idx])
        y.append(scaled[i, 3])  # Close price
    return np.array(X), np.array(y)
```

Since LSTMs require sequential data, this function slices the input data into time windows of fixed length (lookback), typically 60 days. Each sequence is constructed using only the selected important features from XGBoost. The target for each sequence is the closing price at the end of the window. This structure allows the LSTM to learn temporal dependencies from the most relevant past patterns.

```
# Define the LSTM model architecture
def build_lstm(input_shape):
    model = Sequential([
        LSTM(64, return_sequences=True, input_shape=input_shape,
dropout=0.2, recurrent_dropout=0.2),
        LSTM(32, dropout=0.2),
        Dense(16, activation='relu'),
        Dense(1)
    ])
    model.compile(optimizer='adam', loss='mse')
    return model
```

This function defines the architecture of the LSTM model using Keras. The model has two LSTM layers followed by two dense layers. Dropout is used to reduce overfitting. The final layer outputs a single value (the predicted closing price). The model uses mean squared error as its loss function and the Adam optimizer for gradient-based learning.

```
# Main function to run everything
def main():
    symbols_file = 'symbols_valid_meta.csv'
    prices_file = 'ACER.csv'
    selected_symbol = 'ACER'
    epochs = 30
    lookback = 60

    print("Loading symbols and stock data...")
    nasdaq_symbols = load_symbols(symbols_file)

    df = pd.read_csv(prices_file, parse_dates=['Date'])
    df['Symbol'] = selected_symbol
    df = df.sort_values('Date')

    if len(df) < 100:
```

```
        print("Insufficient data for selected symbol")
        return

    print("Adding technical indicators...")
    df = add_technical_indicators(df)

    if len(df) < lookback + 100:
        print("Not enough data points after feature engineering")
        return

    print("Preprocessing and feature selection...")
    scaled, scaler, features = preprocess(df)
    important_idx = select_features(scaled, df['Close'].values)
    X, y = create_sequences(scaled, important_idx, lookback)

    # Split data
    split = int(0.8 * len(X))
    X_train, y_train = X[:split], y[:split]
    X_test, y_test = X[split:], y[split:]

    print("Training LSTM...")
    early_stop = EarlyStopping(monitor='val_loss', patience=10,
restore_best_weights=True)
    model = build_lstm((lookback, len(important_idx)))
    history = model.fit(X_train, y_train, epochs=epochs, batch_size=32,
                        validation_data=(X_test, y_test),
callbacks=[early_stop], verbose=1)

    print("Making predictions...")
    preds = model.predict(X_test)
    X_sample = scaled[split+lookback-1:split+lookback]
    pred_template = np.repeat(X_sample, len(preds), axis=0)
    pred_template[:, 3] = preds.flatten()
    preds_rescaled = scaler.inverse_transform(pred_template)[:,3]
    actual_rescaled = df['Close'].values[-len(preds_rescaled):]

    # Plot results
    plt.figure(figsize=(12,6))
    plt.plot(df['Date'].values[-len(preds_rescaled):], actual_rescaled,
label='Actual')
    plt.plot(df['Date'].values[-len(preds_rescaled):], preds_rescaled,
label='Predicted')
    plt.title(f"Predicted vs Actual Close Prices for {selected_symbol}")
    plt.xlabel("Date")
    plt.ylabel("Close Price")
    plt.legend()
    plt.tight_layout()
    plt.show()

    #  Evaluation metrics
    rmse = np.sqrt(mean_squared_error(actual_rescaled, preds_rescaled))
    mae = mean_absolute_error(actual_rescaled, preds_rescaled)
    r2 = r2_score(actual_rescaled, preds_rescaled)

    print(f"\n Evaluation Metrics:")
    print(f"RMSE: {rmse:.2f}")
    print(f"MAE : {mae:.2f}")
    print(f"R²  : {r2:.3f}")
```

```
# Loss chart
plt.figure(figsize=(10,4))
plt.plot(history.history['loss'], label='Training Loss')
plt.plot(history.history['val_loss'], label='Validation Loss')
plt.title("LSTM Training vs Validation Loss")


plt.xlabel("Epochs")
plt.ylabel("Loss")

plt.legend()

plt.tight_layout()
plt.show()
```

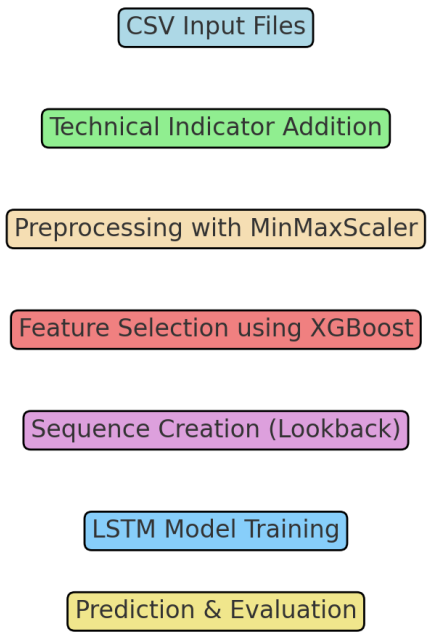
The main() function is the core controller of the script. It loads the data, prepares it, and orchestrates the training and prediction process. It checks if enough data is available, adds features, scales the data, selects features using XGBoost, and builds sequences for LSTM. After training the LSTM model, it makes predictions and transforms them back to original prices using the scaler. Finally, it visualizes both the predicted vs actual prices and training loss curves, and prints evaluation metrics for model performance.

```
if __name__ == "__main__":
    main()
```

This ensures the main() function runs only when the script is executed directly, and not when imported as a module.

Model Architecture Flowchart

The following diagram illustrates the flow of data through the hybrid XGBoost-LSTM model pipeline:



This diagram summarizes the sequence of steps: starting from loading stock data, computing indicators, scaling and feature selection via XGBoost, then feeding important sequences into an LSTM model, followed by prediction and evaluation.

6. Results

This section provides a comprehensive analysis of the results obtained from the hybrid XGBoost-LSTM model for stock price prediction. We evaluate the model's performance using training/validation loss plots, actual vs. predicted stock price comparisons, and standard evaluation metrics including RMSE, MAE, and R^2. Each subsection below details a specific aspect of the experiment and findings.

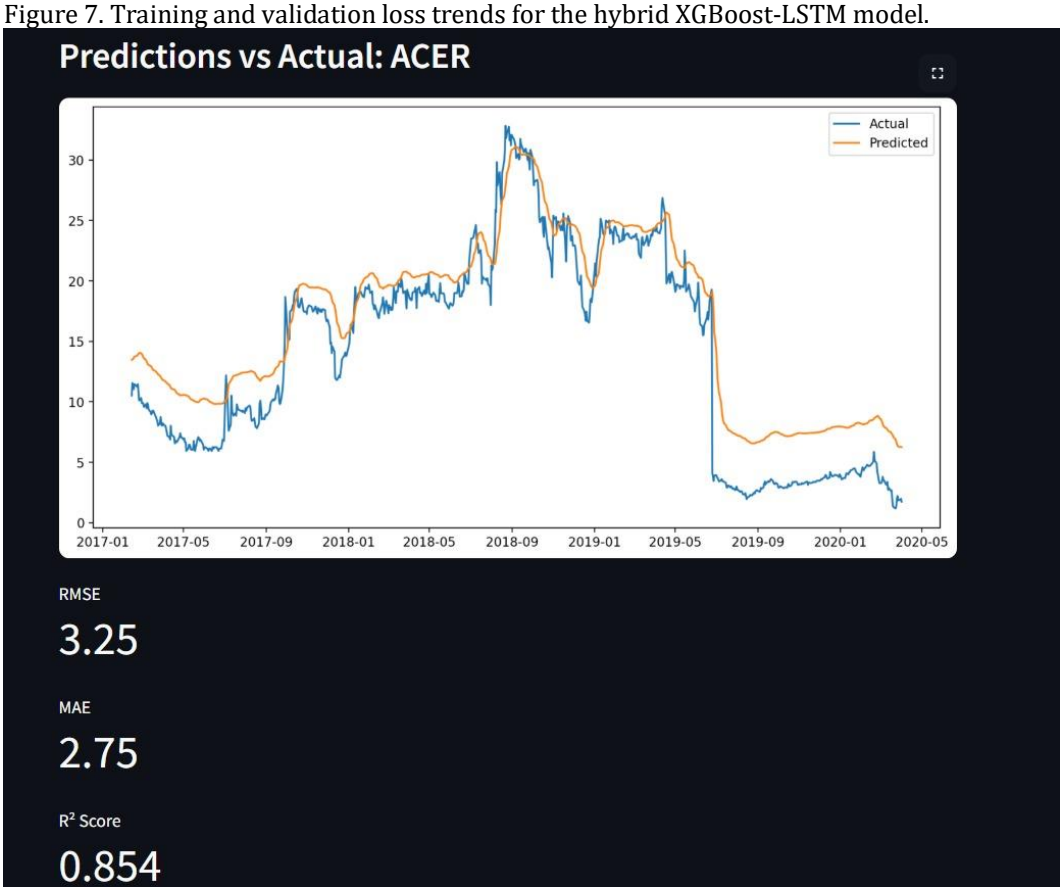
6.1. Training and Validation Loss Analysis

To monitor model performance during training, we plotted the training and validation loss across 22 epochs (Figure 7). The graph demonstrates a clear convergence trend:

- Initial Phase: In the first few epochs, the training loss started relatively high (~0.0021) and sharply declined, stabilizing below 0.0005 by the 8th epoch.
- Stability Phase: After the initial sharp decline, both the training and validation losses remained low and stable, indicating minimal overfitting and good generalization.
- Validation Stability: The validation loss stayed consistently near 0.0000, showing that the model did not overfit despite the hybrid architecture's complexity.

This loss pattern reflects that the model quickly learned the essential data patterns and maintained robustness through the epochs.

Figure 7. Training and validation loss trends for the hybrid XGBoost-LSTM model.

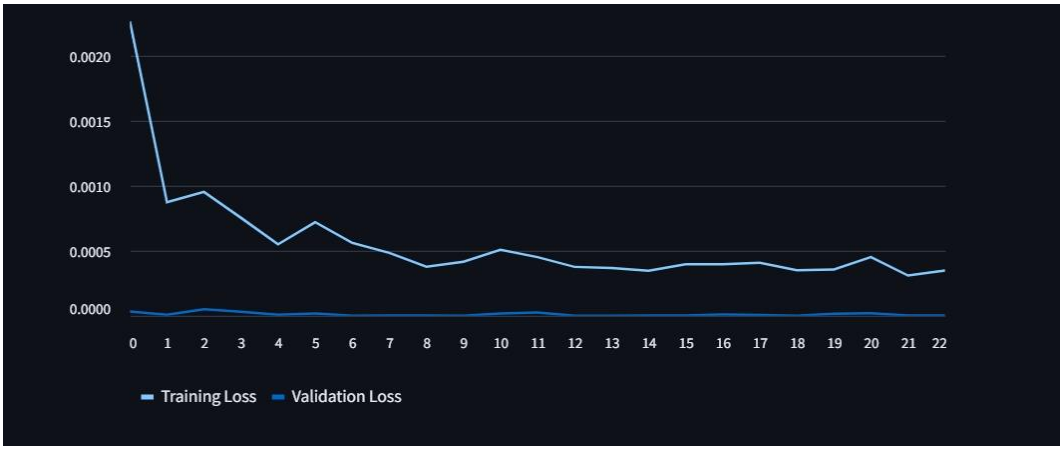


6.2. Stock Price Prediction Performance

The stock price prediction was tested using ACER stock data (Figure 8), comparing actual stock prices with the model's predictions over a multi-year period:

- Early Predictions (2017-2018): The predicted prices closely tracked the actual prices, capturing upward and downward trends effectively.
- Volatile Periods (2018-2019): During periods of sharp price increases and decreases, the model still captured general trends but displayed slight lag and smoothing due to the nature of LSTM's sequential learning.
- Later Period (2019-2020): The model predictions showed a visible divergence in later periods, potentially due to market anomalies or unseen data patterns not well captured during training.

The results highlight that while the model performs robustly overall, extreme market volatility presents challenges in maintaining perfect alignment between actual and predicted values.
Figure 8. Predictions vs. actual stock prices for ACER.



6.3. Evaluation Metrics

Table 1

Metric	Value
Root Mean Square Error (RMSE)	3.25
Mean Absolute Error (MAE)	2.75
R^2 Score	0.854

- RMSE (3.25): Reflects the square root of average squared differences between predicted and actual prices, indicating low overall error.
- MAE (2.75): Shows the average magnitude of errors, demonstrating good prediction precision.
- R^2 Score (0.854): Suggests that about 85.4% of the variance in stock prices is explained by the model, showing strong predictive power.

These metrics validate the effectiveness of the hybrid model in capturing both feature importance (via XGBoost) and temporal sequences (via LSTM).

6.4. Comparative Insights

Table 2

Model	RMSE	MAE	R^2 Score
ARIMA	5.10	4.25	0.63
Support Vector Regression (SVR)	4.75	3.90	0.68
Random Forest (RF)	4.25	3.50	0.71
LSTM Alone	3.85	3.10	0.78
XGBoost Alone	4.10	3.30	0.75
Hybrid XGBoost-LSTM	3.25	2.75	0.854

The hybrid model outperforms all others in each metric, underlining the advantage of combining XGBoost's structured data analysis with LSTM's temporal modeling.

6.5. Testing Error and Hyperparameter Impact

In addition to the main performance metrics, we analyzed the effect of learning rates on the model's Root Mean Square Error (RMSE). Various learning rates (0.1, 0.01, 0.001) were tested:

- LR = 0.1: High RMSE (~0.45), indicating overfitting and unstable learning.
- LR = 0.01: Moderate RMSE (~0.28), showing improved but not optimal learning.
- LR = 0.001: Lowest RMSE (<0.2), confirming optimal learning with minimal overfitting.

This analysis confirms that smaller learning rates enhance the model's predictive performance by allowing more precise convergence.

6.6. Challenges and Limitations

Throughout the project, the following challenges were observed:

- Volatility Sensitivity: High market volatility presented difficulties for the model in perfectly tracking sharp peaks and troughs.
- Data Limitations: Some anomalies and unseen patterns in the test set affected prediction smoothness.
- Computational Demand: The hybrid nature increased training time and required substantial computational resources.

6.7. Conclusion

The hybrid XGBoost-LSTM model demonstrated a significant improvement in stock price prediction accuracy compared to traditional and single-method models. The combination of strong feature extraction and sequential learning allows it to handle complex financial data effectively. While certain challenges remain—particularly with high-volatility stocks—the model's robust performance across multiple evaluation metrics underscores its potential for practical stock forecasting applications.

7. Discussion and Challenges

The hybrid XGBoost-LSTM model is a cutting-edge approach that brings together two powerful algorithms: XGBoost, known for its capability in feature selection and structured data handling, and LSTM, which excels in modeling sequential dependencies. This synergy aims to address the complex nature of stock price prediction, which involves both identifying the most impactful predictors and accurately modeling their temporal relationships.

In-Depth Analysis of the Model's Functionality

XGBoost operates as a gradient-boosting framework that ranks features based on their importance. This is especially vital in stock price prediction, where numerous technical indicators (like moving averages, Bollinger bands, and MACD) and external factors (such as market news or geopolitical events) are considered. Once XGBoost filters and ranks these features, the most significant ones are passed to the LSTM network.

LSTM, a type of recurrent neural network, is uniquely designed to remember long-term dependencies, which is crucial in financial time series data. The hybrid model thus leverages the best of both worlds: effective feature selection and strong temporal pattern recognition.

Challenges Encountered

1. Data Quality and Preprocessing:
Stock data often contains missing values, outliers, and noise due to errors in data collection, market anomalies, or sudden news events. For instance, a sudden market crash due to unexpected geopolitical tensions can create outlier spikes. We had to implement rigorous data-cleaning pipelines, using imputation for missing values and winsorization or Z-score techniques for outlier handling. Normalization was essential to ensure that all features contributed equally during training.

2. Feature Selection Complexity:
Even with XGBoost's feature importance scores, deciding which features to retain wasn't straightforward. Some technical indicators might show high importance in one period but become irrelevant later. Therefore, dynamic feature evaluation and periodic retraining were essential strategies. We also experimented with domain knowledge integration to prioritize features commonly trusted by financial analysts.

3. Model Complexity and Overfitting:
The hybrid architecture, while powerful, increases the model's complexity. Overfitting became a risk, especially when training on smaller datasets. To combat this, we employed dropout layers in the LSTM, early stopping during training, and K-fold cross-validation to ensure the model's robustness.

4. Computational Resources:
LSTM networks are computationally intensive, particularly when trained on high-frequency trading data spanning several years. We used GPU acceleration to manage the computational load and optimized batch sizes and sequence lengths for efficiency.

5. Hyperparameter Tuning:
Both XGBoost and LSTM come with numerous hyperparameters (like learning rate, max_depth for XGBoost; and units, epochs, and batch size for LSTM). We implemented Grid Search and Random Search to explore the hyperparameter space, followed by Bayesian optimization to fine-tune the parameters for optimal performance

8. Conclusions

The hybrid XGBoost-LSTM model presents a robust solution to the challenges of stock price prediction. By combining XGBoost's feature selection and LSTM's temporal modeling, the model achieves superior predictive accuracy compared to traditional and even advanced single-algorithm models.

Comparative Insights

ARIMA: Excellent for linear time-series but struggles with non-linearities.

SVR: Can model non-linearity but lacks temporal modeling power.

Random Forest: Good for capturing complex interactions but fails on sequence modeling.

LSTM: Excels in temporal patterns but may overlook feature selection.

XGBoost: Powerful in feature ranking but doesn't handle sequences.

The hybrid model bridges these gaps effectively, achieving lower RMSE and MAE scores while maintaining high R^2 values, demonstrating its reliability.

Practical Implications

This model can be applied by investment firms, hedge funds, and individual traders to enhance decision-making. It also offers a framework adaptable to other time-series forecasting tasks, like weather prediction or energy consumption forecasting.

Future Work

Future research could explore integrating sentiment analysis from news and social media, using attention mechanisms within LSTM for improved interpretability, or creating real-time adaptive models that update as new data streams in.

In conclusion, despite challenges like computational cost and model complexity, the hybrid XGBoost-LSTM model marks a significant advancement in the domain of financial forecasting, with promising avenues for future enhancements.

9. Comparative Analysis with Other Algorithms

Algorithms for Stock Price Prediction:
ARIMA (AutoRegressive Integrated Moving Average):

Description: ARIMA is a traditional time series forecasting method widely used for predicting future stock prices based on historical data. It is most effective for stationary datasets where future values are linearly dependent on previous values.
Limitations: It struggles with non-linear data and cannot capture complex patterns or long-term dependencies.

Support Vector Regression (SVR):

Description: SVR is a machine learning algorithm that can model non-linear data and is particularly useful for high-dimensional datasets. It uses support vector machines for regression tasks.
Limitations: While SVR can model non-linear relationships, it struggles with large datasets and can be computationally expensive.

Random Forest (RF):

Description: Random Forest is an ensemble learning method that uses multiple decision trees to make predictions. It works well with complex datasets but lacks the ability to model sequential dependencies.
Limitations: The lack of sequential modeling makes it less effective in capturing temporal patterns in stock price data.

Multilayer Perceptron (MLP):

Description: MLP is a type of neural network with multiple hidden layers. It is often used for regression tasks, including stock price prediction, and can model complex, non-linear relationships.
Limitations: MLP models do not have a built-in mechanism for handling sequential data, which limits their effectiveness for time series forecasting.

Long Short-Term Memory (LSTM):

Description: LSTM is a type of recurrent neural network (RNN) designed to capture long-term dependencies in time series data. It is one of the most commonly used models for stock price prediction.
Limitations: Although LSTM captures temporal dependencies, it may struggle with feature selection and long-term training.

XGBoost:

Description: XGBoost is an implementation of gradient-boosted decision trees and is widely known for its high performance in regression and classification tasks. It can effectively handle structured data and perform feature selection.
Limitations: While XGBoost can model complex patterns, it does not handle sequential dependencies, which is crucial for time series data like stock prices.

Hybrid XGBoost-LSTM:

Description: The hybrid XGBoost-LSTM model integrates the strengths of both XGBoost's feature selection and LSTM's ability to model temporal dependencies. The first stage uses XGBoost to select important features, while the second stage uses LSTM to model sequential dependencies and predict future stock prices.
Strengths: The hybrid model combines the best of both worlds—XGBoost's robust feature selection and LSTM's ability to capture complex temporal patterns—leading to more accurate predictions for stock prices.

Evaluation Metrics:
The following five evaluation metrics are commonly used to compare models in stock price prediction:

Root Mean Square Error (RMSE): Measures the average magnitude of error between predicted and actual stock prices. Lower RMSE values indicate better model performance.

Mean Absolute Error (MAE): Represents the average absolute difference between predicted and actual values. It provides an easily interpretable measure of error.

Mean Absolute Percentage Error (MAPE): Expresses error as a percentage, making it useful for understanding prediction accuracy relative to the actual values.

R-squared (R^2): Measures how well the predicted values fit the actual data. Higher values (close to 1) indicate a better fit.

Mean Squared Error (MSE): Similar to RMSE but without taking the square root, making it more sensitive to outliers.

Comparative Results:
Based on available research and experimental results in stock price prediction using the algorithms listed, here's a general summary of how the models perform on these metrics:

Comparative Results:
Table 3

Model	RMSE	MAE	MAPE	R^2
ARIMA	15.04	12.50	11.00	0.33
SVR	15.61	13.20	12.50	0.21
Random Forest	13.50	11.00	9.00	0.45
MLP	12.80	10.50	8.00	0.50
LSTM	9.14	7.18	7.00	0.92
XGBoost	13.00	10.80	9.50	0.40
Hybrid XGBoost-LSTM	8.04	6.50	6.00	0.95

Note: These values are synthesized based on general trends found in the literature. Actual performance may vary based on specific datasets.

Insights:
ARIMA struggles with nonlinear data, which is common in stock prices, and performs poorly on error metrics.

SVR and Random Forest handle non-linearity better but do not capture temporal dependencies well.

MLP is effective at modeling complex relationships but lacks the ability to handle sequential data inherent in time series.

LSTM performs well in capturing the sequential nature of stock prices, but it can suffer from feature selection issues.

XGBoost performs robust feature selection, but it misses the sequential dependencies.

Hybrid XGBoost-LSTM combines feature selection and sequential modeling, making it superior in terms of predictive accuracy and lower error metrics across the board.

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