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Stock Market Analysis and Prediction Using Deep Learning

Muhammad Safiullah[1], Madiha Sher[1], Muhammad Kashan[1], Adeel Rehman[1], Yasir Saleem Afridi[1]
[1]Department of Computer Systems Engineering, University of Engineering and Technology, Peshawar, Pakistan.
*Correspondence: Muhammad Safiullah, qazisafiullah.7@gamil.com.

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The stock market is a complex system influenced by various factors, including economic indicators, geopolitical events, and investor sentiments. Traditional methods of stock market analysis often rely on statistical models and technical indicators, which may struggle to capture the intricate patterns and non-linear relationships present in financial data. This paper is about an innovative application which is designed to fill the gap between traditional stock market analysis and cutting-edge predictive modeling. The paper not only addresses the challenges associated with fragmented data and delayed analysis but also opens avenues for continuous monitoring and optimization of predictive models in response to dynamic market conditions. These models are seamlessly integrated into the application developed in the Analysis Phase, providing users with real-time predictions and valuable insights. Many machines learning (ML) and deep learning (DL) techniques have demonstrated to perform well in stock price prediction by prior research, and most people regard DL techniques them as one of the most accurate prediction methods, particularly when used for longer prediction ranges. In this research, after performing pre-processing steps like data normalization, we have employed an LSTM and GRU based models. Through training and testing, we determined the ideal settings for the optimizer, dropout, batch size, epochs, and other parameters. The outcome of comparing the LSTM network model with GRU we concluded that LSTM it is not suitable for short-term forecasting, and performs well for long-term forecasting whereas GRU performs well in both cases.

Keywords: Stock Market; Predictive Modeling; Deep Learning; LSTM, Data Analysis; Financial Technology.

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We would like to acknowledge and give my warmest thanks to my university teachers who made this work possible. Their teachings, guidance and advice carried me through all the stages of writing my project.

Author's Contribution:
Author 3, 4, 5 collected data and pre-processed data and performed steps like data normalization and then author 1 and 2 employed LSTM and GRU models through training and testing, and all authors determined the ideal settings for the optimizer, dropout, batch size, epochs, and other parameters.

Conflict of Interest:
There exists no conflict of interest for publishing this manuscript in IJIST.

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Introduction:

In the ever-evolving landscape of financial markets, the ability to comprehend and forecast stock trends is a critical facet for investors, analysts, and financial institutions. As markets become increasingly dynamic and interconnected, traditional methods of analysis are often challenged to provide timely and accurate insights. This study sets out to exploit the capabilities of deep learning, namely Long Short-Term Memory (LSTM) and Gated Recurrent Unit (GRU) based networks, in order to tackle the intricacies, present in stock market data.

Background:

The development of technology and the growing complexity of international financial markets have had a profound impact on the field of stock market analysis. Conventional approaches to stock data analysis frequently struggle to deliver thorough and timely insights, which puts investors and financial experts at a disadvantage when it comes to making wise judgements. Because of the stock market's volatility, a more complex strategy combining predictive modelling and real-time data analysis is required.

The goal of this project is to close these gaps and offer a solution that gives customers access to a thorough and intuitive platform for analyzing and predicting market data. More precise trend analysis and prediction may be possible thanks to the advances in machine learning and data science, which have created new opportunities for the meaningful pattern extraction from large datasets.

Navigating the Evolving Landscape of Stock Market Dynamics with Advanced Analysis and Prediction Tools:

Technology and the complexity of today's financial markets have caused a revolutionary change in the field of stock market analysis. The needs of modern investors and financial professionals are not adequately satisfied by traditional techniques of analyzing stock data, which frequently leads to delayed insights and less-than-ideal decision-making. Because the stock market is so volatile, a more advanced strategy that seamlessly combines predictive modelling and real-time data analysis is required.

Contextualizing the Challenges:

Technology and the complexity of today's financial markets have caused a revolutionary change in the field of stock market analysis. The needs of modern investors and financial professionals are not adequately satisfied by traditional techniques of analyzing stock data, which frequently leads to delayed insights and less-than-ideal decision-making. Because the stock market is so volatile, a more advanced strategy that seamlessly combines predictive modelling and real-time data analysis is required.

The Django Advantage:

Our solution is built around the robust web framework Django, which offers a solid base for creating an integrated utility. Our project aims to overcome the drawbacks of conventional methods by utilizing Django's capabilities in conjunction with sophisticated data analysis and machine learning packages. This combination not only solves the problems caused by incomplete data and slow analysis, but it also brings predictive modelling, which allows users to foresee market movements and take well-informed decisions instantly.

User-Centric Design:

This study is important because of its user-centered design, which targets a wide range of readers, from seasoned financial experts to novice market participants. Our project places a high priority on a user-friendly interface that incorporates real-time data analysis and predictive modelling using data obtained from APIs or other sources.

Literature Review:

Overview of Literature Review:

This research is situated at the nexus of financial analysis and technology innovation. Through the application of web development, deep learning, and data analysis, the project aims to close the gap between state-of-the-art predictive modelling and conventional stock market analysis. The background of the research is further reinforced by the growing use of technology in financial decision-making. Investors are actively looking for tools that allow them to make preemptive decisions using predictive analytics, in addition to providing a retrospective picture of market movements. In order to satisfy this need, this application offers a solution that integrates data collecting, analysis, and predictive modelling into a single, cohesive program.

Theoretical Foundations:

By utilizing the Hidden Markov Model (HMM) to estimate stock prices for the four distinct airlines depicted in Figure 1, Hassan and Nath made a significant contribution to the field of stock market forecasting [1]. Notably, the opening, closing, highest, and lowest prices four crucial components of stock prices—were captured by the authors by narrowing down the model's states. Their method stands out for not relying on expert knowledge, which makes it possible to build a prediction model without the need for specific domain knowledge. Nonetheless, it is imperative to recognize certain constraints identified in their research, namely its limitation to the airline sector and assessment on a rather limited dataset. Although their application's specialization offers insightful information about the aviation industry, its generalizability may be restricted to more general stock market circumstances. Additionally, as the authors limited the time frame for training and testing datasets to a maximum of two years, it is imperative to take the evaluation period into account. This period provides a useful benchmark for our assessment and enables a comparison with alternative methods in the field of stock market forecasting.

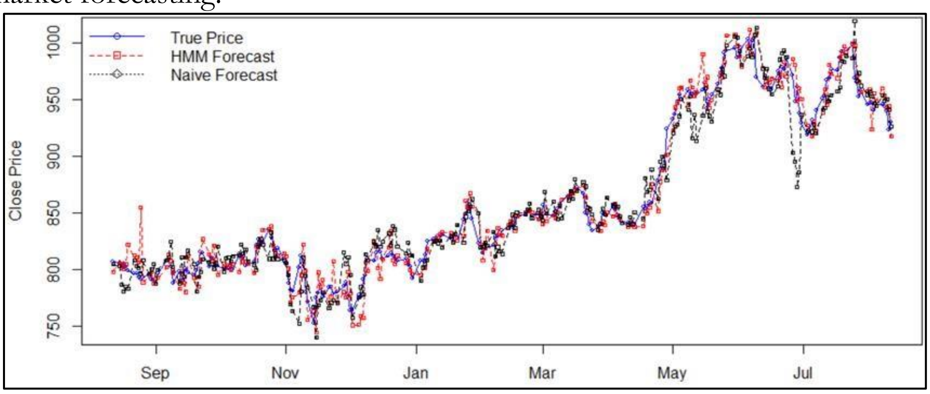

Figure 1: Hidden Markov Model for stocks prediction

Related Works:

More recently, a paradigm shift in stock market prediction has been brought about by the rise of deep learning. Recurrent neural networks (RNNs) and long short-term memory (LSTMs) are two deep learning models that have proven to be exceptionally adept at identifying complex patterns in sequential data [2]. The financial research community has taken a keen interest in these models due to their capacity to automatically learn hierarchical representations of data without the need for manual feature engineering.

Ya Gao, Rong Wang, and Enmin Zou's study, which was carried out at the Central University of Finance and Economics in Beijing, China's School of Public Finance and Taxation, the School of Computer Science and Technology at Xidian University in Xi'an, China, and the School of Electronics and Information at Xi'an Jiaotong University in Xi'an, China, [3], uses a variety of technical indicators, including financial data and indicators of investor sentiment. The authors utilize sophisticated dimension reduction methods, utilizing deep learning techniques like PCA and LASSO, to reduce the multiplicity of factors that impact returned stock values.

In addition, a thorough analysis of the effectiveness of two well-known deep learning architectures—LSTM and Gated Recurrent Unit (GRU)—in the context of stock market forecasting is included in the study. This comparative investigation is carried out using several parameter values in order to fully assess the prediction abilities of both GRU and LSTM. The results of this study demonstrate that LSTM and GRU are equally efficient in predicting stock values, underscoring the versatility and potency of both deep learning techniques in the field of financial forecasting [4].

By using an optimized artificial neural network (ANN) model, Qiu and Song [5] developed a predictive approach for predicting the direction of the Japanese stock market. The authors' study combined artificial neural network-based models with genetic algorithms (GAs), naming the resulting framework a hybrid GA-ANN model. This novel method increases the forecasting accuracy of stock market movements by combining the learning capabilities of artificial neural networks with the evolutionary optimization capabilities of genetic algorithms. The study by V.V. Kranthi Sai Reddy emphasizes how important stock trading is on a worldwide level [6]. The endeavor to forecast future prices of different financial instruments traded on currency exchanges is known as share market prediction. According to the author, technical and fundamental analysis are typically combined to create stock projections in modern finance. These studies form the basis of stockbrokers' basic methods.

In this paper, machine learning algorithms based on Python are used to realise the predictive capabilities of the system. The suggested strategy promotes the use of machine learning techniques, in which the model is trained on stock data that is already available in order to gain intelligence and then apply this knowledge to produce precise forecasts. The study uses a machine learning system called the Support Vector Machine to operationalize this method. Specifically, three different marketplaces are used to anticipate the prices of large and minor equities using this approach. The forecasting model covers a range of time periods, including daily and minute-by-minute price fluctuations [7].

Prof. S.P. Pimpalkar together with co-authors Jenish Karia, Muskaan Khan, Satyamandand, and Tushar Mukherjee are credited with a combined effort on the scholarly publication titled "Stock Market Forecasts Using Machine Learning" [8]. With a focus on using a wide range of attributes as input for building predictive models, the study presents a novel method to stock market prediction. Predicting whether the market value will show a positive or negative trend is these models' main goal. The study utilizes a variety of machine learning approaches, including Regression, Support Vector Machine, and Recurrent Neural Network methods. This unique combination of machine learning techniques highlights the writers' dedication to investigating several strategies, each designed to tackle a particular facet of the challenging challenge of stock market forecasting. Regression models are employed to ascertain linear associations in the data, whilst Support Vector Machine and Recurrent Neural Network models aid in identifying non-linear patterns and temporal dependencies [9].

RNN and LSTM models were used by McNally et al. [10] to forecast Bitcoin values. They used a feature engineering method called Boruta algorithm, which is similar to random forest classifier. The authors used Bayesian optimization to adjust the LSTM parameters in addition to feature selection. The study's primary emphasis was a Bitcoin dataset that ran from August 19, 2013, to July 19, 2016. Several optimization techniques were used to improve the performance of deep learning models; nonetheless, overfitting proved to be a significant obstacle. There are similarities between the study problem McNally et al. addressed and stock market price prediction, especially when it comes to handling noise and hidden elements in the price data. The study question was formulated by the authors as a time sequence problem. Their work is notable for the careful consideration they provide to the feature engineering and optimization procedures. We might be able to duplicate the techniques used in these areas in our own data preprocessing stage.

Comparison with Related Works:

Their meticulous attention to detail in feature engineering and optimization processes makes their work stand out. It's possible that we could replicate these areas' methods in our own data preprocessing phase. HMMs became popular in the early 2000s for stock price forecasting, as Hassan and Nath [1] showed. HMMs are useful in certain situations, but they have trouble identifying intricate, non-linear correlations in data. On the other hand, our approach makes use of LSTMs' deep learning capabilities to automatically identify complex patterns in sequential stock data without the need for manual feature engineering.

In contrast to traditional machine learning models, the paper by Weng et al. [11] explores short-term stock price prediction using ensemble methods, incorporating neural network regression ensembles, Random Forests, AdaBoost, and support vector regression ensembles. While ensemble methods are robust, they might lack the capacity to capture nuanced temporal patterns present in stock data. Our LSTM-based approach, being a deep learning model, inherently excels at capturing temporal dependencies and has the p Furthermore, the LSTM model we propose extends beyond the limitations faced by Overall, our methodology, grounded in LSTM networks, strives to overcome the limitations and enhance the predictive capabilities observed in existing works. The deep learning paradigm, particularly with LSTM networks, proves to be a promising avenue for advancing the accuracy and adaptability of stock market predictions.

Material and Methods:

As shown in Figure 2, we got our data using APIs and then made streaming pipelines for analysis of data and then made predictions from that data.

Analysis Phase:

Data Collection:

In the initial stage, we gathered stock data from various sources, fetching data from APIs and implemented web scraping techniques. This step ensures a comprehensive and diverse dataset for analysis and prediction. The utilization of APIs ensures a structured and organized retrieval of real-time market data, while web scraping allows us to extract valuable insights from a broader spectrum of sources.

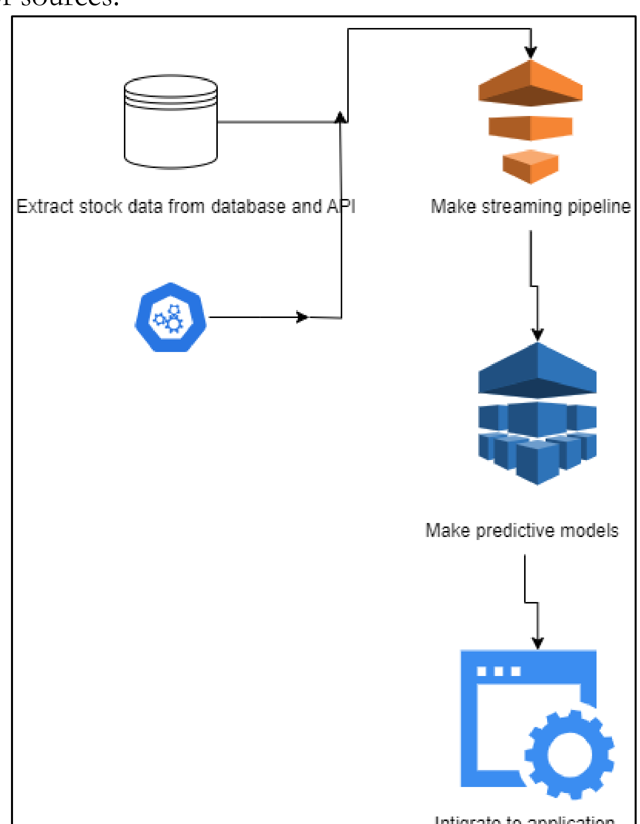

Figure 2: Flow chart of implementation

Data Transformation and Streaming:

Once collected, the raw data is transformed to cleanse and preprocess collected data from different sources so that it can be used for analysis and predictive purposes. Mechanism is developed in such a manner so that stock related information keeps on updating on real time in the application and investors can have informed and intelligent decisions. Streaming pipeline like ETL is created to transfer real time data using Apache Kafka and to get good stock data ready for analysis.

Interactive Application:

For the facilitation of the users, we develop an interactive application so that users can have seamless view of real time stock data. This would allow users to visualize and analyze key metrics, trends, and patterns in the real time stocks.

Model Creation:

Prediction Phase:

Predictive Model Development:

In this phase, we focused on building a robust predictive model using large datasets. Leveraging the power of deep learning, particularly LSTM networks, we constructed a model capable of capturing complex temporal dependencies and patterns in stock data. Many factors affect stock prices, and these factors change over time. Since stock values are continuously changing due to market sentiment, economic events, and other external causes, long short-term memory (LSTM) models are excellent in learning and adapting to the temporal dynamics of sequential data. Our prediction model is the result of a painstaking process that includes complex algorithms, architecture fine-tuning, and model parameter calibration. We hope to use deep learning to not only forecast stock movements but also to understand the intricate dynamics and underlying complexity of the financial system.

Model Integration:

Our application architecture effortlessly incorporates the established prediction model. Thanks to this connectivity, users may use the same platform to forecast future stock movements in addition to analyzing previous data.

Model Evaluation and Optimization:

We carry out extensive assessments to guarantee our forecasting model's precision and dependability. Performance is evaluated using a variety of metrics, such as mean absolute error (MAE), recall, and precision. We also investigate optimization strategies, modifying model parameters and architecture to improve prediction performance.

Deployment:

Deployment of the application on platforms that align with security standards, making it accessible to users and stakeholders.

Continuous Monitoring and Improvement:

Establishment of mechanisms for continuous monitoring of the application's performance, with the ability to introduce updates and improvements based on user feedback and evolving market conditions.

Optimization and Scalability:

Optimization of the application and predictive models for performance, scalability, and efficiency, providing a smooth user experience.

Testing and Quality Assurance:

Rigorous testing to identify and rectify bugs or issues, ensuring the reliability and accuracy of the application and predictive models.

Result and Discussion:

In this experiment, we compared LSTM and GRU models with long-term and short-term forecasting data to decide which good in predicting the outcome when it's given small dataset and when given large dataset. So we used stock market data to to compare the models.

First we trained them on data of last 4 years to predict the outcome and then compared the models with last 24 years of stock data.

In figure 2 and 3, we used timestamp of 4 years to compare the result and found that GRU is performing much better and LSTM model is nowhere near the GRU model so we can say that GRU is very good in predicting the outcome when even it's given not enough data.

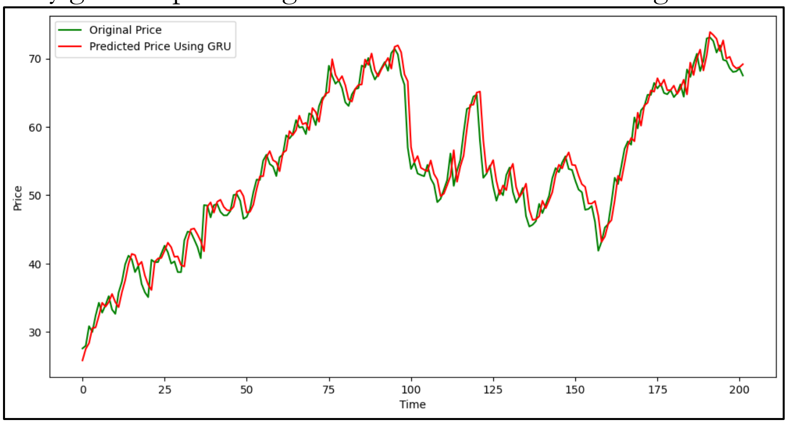

Figure 3: Forecast results of GRU (4 years)

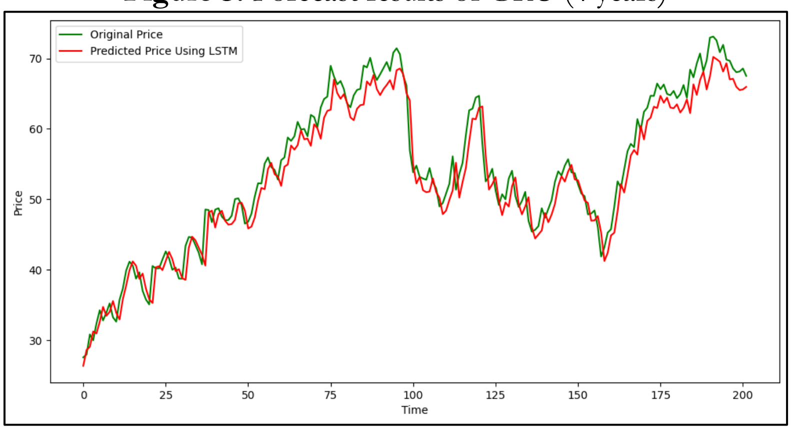

Figure 4: Forecast results of LSTM (4 years)

In figure 4 and 5, we used timestamp of 24 years to compare the result and found that GRU is still performing better than LSTM, but this time LSTM is also performing very good but not as good as GRU. So we can say that GRU is better model in predicting time-stamp data.

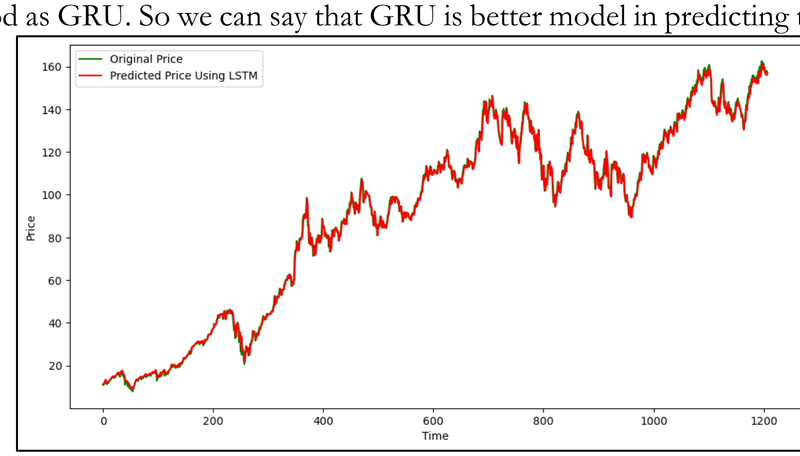

Figure 5: Forecast results of GRU (24 years)

We used root mean square error (RMSE) to evaluate the prediction results.

RMSE is sensitive to the very large or very small errors in a set of measurements, so root-mean-square error can reflect the precision of the measurement very well.

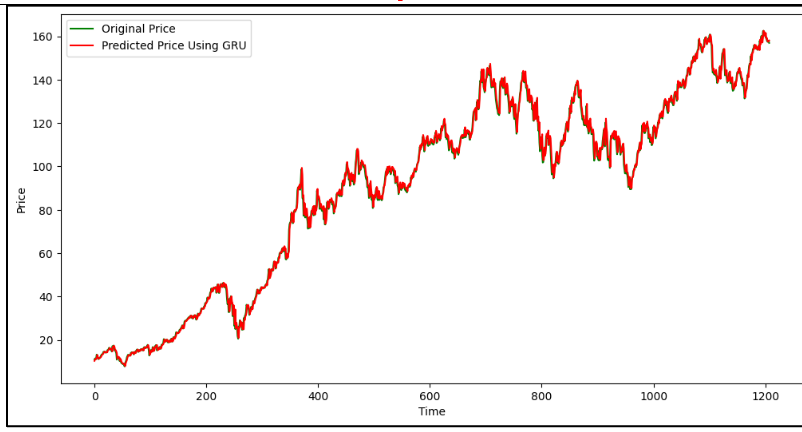

Figure 6: Forecast results of GRU (24 years)

The formula of RMSE in equation (1) is shown below, where y_i is the neural network output and y is the true value [12].

$$\mathrm{RMSE} = \sqrt{\frac{\sum_{i=1}^{n}(y_i - y)^2}{n}} \tag{1}$$

The RMSE values of the short-term and long-term forecasting are shown in Table 1 and Table 2.

Table 1: RMSE of 4 years prediction method (short-term forecasting)

Method	RMSE
LSTM	1.330
GRU	0.380

Table 2: RMSE of 24 years prediction method (long-term forecasting)

Method	RMSE
LSTM	0.443
GRU	0.340

By comparing the GRU and LSTM methods, it can be seen from Table 1 that GRU hast performed much better than LSTM because GRU has much lower RMSE than LSTM model. From Table 2, we can see that GRU is still performing better than LSTM, but now the difference of very less and from figures, it looks almost similar to each other. So we can say that still LSTM's performance is also very good and it's almost equal to GRU's performance when means that it's possible that if we used dataset of much greater timestamps in the future, we can see a different result or maybe GRU can still beat LSTM in too, who knows.

Conclusion:

Trading in the stock market is growing rapidly and investors, analysts are eager to find a method and technique to effectively predict future stock market trends. In recent years, many studies have shown that LSTM neural network models are effective in predicting the stock market, and compared with other machine learning algorithms, LSTM neural network models perform very well when applied to longer prediction horizons.

In this paper, we compare the results of the LSTM neural network model in making short-term and long-term forecast range predictions with the results of the GRU algorithm and find that the LSTM neural network model is not a perfect prediction method. However, it has to be admitted that the LSTM neural network model is better at capturing trends and seasonality in long-term forecast range prediction. This will encourage more researchers to use new techniques to find new forecasting methods that can be applied to more situations, thus helping investors, analysts or anyone interested in investing in the stock market by providing them with a good knowledge of the future of the stock market.

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