Genetic Network Programming with Reinforcement Learning and Its Application to Creating Stock Trading Rules

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1. Introduction

Evolutionary Computation is well-known for producing the solutions in optimization problems based on change, composition and selection. We have proposed Genetic Network Programming (GNP) [1, 2] as an extended method of Genetic Algorithm (GA) [3, 4] and Genetic Programming (GP) [5, 6]. It has been clarified that GNP is an effective method mainly for dynamic problems since GNP represents its solutions using graph structures, which contributes to creating quite compact programs and implicitly memorizing past action sequences in the network flows. Moreover, we proposed an extended algorithm of GNP which combines evolution and reinforcement learning [7] (GNP-RL). GNP-RL has two advantages, and one of them is online learning. Since original GNP is based on evolution only, the programs are evolved mainly after task execution or enough trial, i.e., offline learning. On the other hand, the programs in GNP-RL can be changed incrementally based on rewards obtained during task execution, i.e., online learning. Concretely speaking, when an agent takes a good action with a positive reward at a certain state, the action is reinforced and when visiting the state again, the same action will be adopted with higher probability. Another advantage of GNP-RL is the combination of a diversified search of GNP and an intensified search of RL. The role of evolution is to make rough structures through selection, crossover and mutation, while the role of RL is to determine one appropriate path in a structure made by evolution. Diversified search of evolution could change programs largely with which the programs could escape from local minima. RL is executed based on immediate rewards obtained after taking actions, therefore intensified search can be executed efficiently.

Research on stock price prediction and trading model using evolutionary computation and neural networks has been done [8–10] in recent years. Generally speaking, there are two kinds of methods for predicting stock prices and determining the timing of buying or selling stocks: one is fundamental analysis which analyzes stock prices using the financial statement of each company, the economic trend and movements of the exchange rate; the other is technical analysis which analyzes numerically the past movement of stock prices. The proposed method belongs to technical analysis since it determines the timing of buying and selling stocks based on the technical indices such as Relative Strength Index, MACD, Golden/Dead Cross and so on.
There are three important points in this paper. First, we combine GNP and Sarsa Learning [11] which is one of the reinforcement learning methods, while Importance Index (IMX) and Candlestick Charts [12–15] are introduced for efficient stock trading decision making. Concretely speaking, Sarsa is used to select appropriate actions (buying/selling), stock price information obtained from IMX and candlestick charts through the experiences during the trading. IMX and candlestick charts tell GNP whether or not the buying or selling signals are likely to appear at the current day. Second, although there are so many technical indices in the technical analysis, GNP with Sarsa can select appropriate indices and also select candlestick charts to judge the buying and selling timing of stocks. In other words, GNP with Sarsa could optimize the combinations of the information obtained by technical indices and candlestick charts. The third important point is that sub-nodes are introduced in each node to determine appropriate actions (buying/selling) and to select appropriate stock price information depending on the situation.

This paper is organized as follows: In Section 2, the related works are described. In Section 3, the algorithm of the proposed method is described. Section 4 shows simulation environments, conditions and results. Section 5 is devoted to conclusions.

2. Related works

Prediction in financial domains, especially in stock market is quite difficult for a number of reasons. First, the ultimate goal of our research is not to minimize the prediction error, but to maximize the profits. It forces us to consider a large number of independent variables, thereby increasing the dimensionality of the search space. Second, the weak relationships among variables tend to be nonlinear, and may hold only in limited areas of the search space. Especially, the data in stock markets are highly time-variant and changing every minute. Third, the stock market data are given in an event-driven way. They are highly influenced by the indeterminate dealing. In financial practice, the key is to find the hidden interactions among variables [16].

Stock market analysis has been one of the most actively pursued avenues of Machine Learning (ML) research and applications. The most recent literature in the related fields exposed Portfolio Optimization, Investment Strategy Determination, and Market Risk Analysis as three major trends in the utilization of Machine Learning approaches. Portfolio Optimization focuses on the correlative properties of stock market data in order to extract mutual dependency (or independency) information [17–19]. Investment Strategy Determination addresses financial prediction based on financial index analysis for the purposes of investment decision-making. Various Neural Network approaches are by far the most commonly taken route in the related works. However, other alternative methods exist, such as Support Vector Machines [20], Genetic Algorithms [21] and statistical analysis [22]. The Market Risk Analysis concentrates on the evaluation of the risk factors involved in various investment options, such as expected return and volatility. An example of an overall market risk evaluation system is described in [23]. Our research focuses on the problem of Investment Strategy Determination through the use of GNP with reinforcement learning technique. In recent years, evolutionary algorithms have been applied to several financial problems. There have been several applications of Genetic Algorithms (GA) to the financial problems, such as portfolio optimization, bankruptcy prediction, financial forecasting, fraud detection and scheduling [24]. Genetic Programming (GP) has also been applied to many problems in the time-series prediction.
In our research, we propose Genetic Network Programming with Sarsa Learning for creating trading rules on stock markets. GNP has the following advantages in the financial prediction field. First, GNP has a memory function because of its graph structure, i.e., judgment nodes and processing node are connected to each other in a network. As stock markets are highly influenced by the time, we can consider the information in the past well by the memory function of GNP for creating the effective programs. Second, GNP works extremely well for dealing with the stock market problems. That is because GNP has quite compact structure and it can reuse the nodes for many times. By using GNP we can create effective trading rules in the stock market, and we can also save the calculation time and memory consumption because of the compact structures of GNP. By combining GNP with Sarsa Learning in this paper, we get more advantages such as the combination of online learning and offline learning, diversified search and intensified search.

3. GNP with Sarsa (GNP-Sarsa) and its trading algorithm

3.1 Basic structure of GNP-Sarsa

Figure 1 shows a basic structure of GNP-Sarsa and Fig. 2 shows judgment node and processing node structures. GNP-Sarsa consists of judgment nodes and processing nodes, which are connected to each other. Judgment nodes have if-then type branch decision functions. They return judgment results for assigned inputs and determine the next node. Processing nodes take actions (buying or selling stocks). While judgment nodes have conditional branches, processing nodes have no conditional branches. The role of a start node is to determine the first node to be executed. The graph structure of GNP has some inherent characteristics such as compact structures and an implicit memory function that contributes to creating effective action rules as described in section 2. GNP-Sarsa has two kinds of time delays: time delays GNP-Sarsa spend on judgment or processing, and the ones
it spends on node transitions. In this paper, the role of time delays is to determine the maximum number of technical indices and candlestick information to be considered when GNP-Sarsa determines buying or selling at a certain day.

In the table of node gene, \( K_i \) represents the node type, \( K_i = 0 \) means start node, \( K_i = 1 \) means judgment node and \( K_i = 2 \) means processing node. \( ID_i \) represents an identification number of the node function, e.g., \( K_i = 1 \) and \( ID_i = 2 \) mean the node is \( J_2 \). \( a_{ip} \) is a parameter which represents the threshold for determining buying or selling stocks in a processing node. \( Q_{ip} \) means \( Q \) value which is assigned to each state and action pair. In this method, “state” means a current node, and “action” means a selection of a sub-node (node function). In general reinforcement learning framework, the current state is determined by the combination of the current information, and action is an actual action an agent takes, e.g., buying or selling stocks. However, in GNP-Sarsa, the current node is defined as the current state, and a selection of a sub-node is defined as an action. \( d_{ip} \) (\( 1 \leq p \leq m_i \), \( m_i \) is the number of subnodes in judgment and processing nodes) is the time delay spent on the judgment or processing at node \( i \), while \( d_{ip}^A, d_{ip}^B, \ldots \) are time delays spent on the node transition from node \( i \) to the next node. In this paper, \( d_{ip}^A, d_{ip}^B, \ldots \) are set at zero time unit, \( d_{ip} \) of each judgment node is set at one time unit, \( d_{ip} \) of each processing node is set at five time units. We suppose that the trade in one day ends when GNP uses five or more time units, which means the trade in one day ends when GNP executes fewer than five judgment nodes and one processing node, or five judgment nodes. \( C_{ip}^A, C_{ip}^B, \ldots \) show the node number of the next node. Judgment node determines the upper suffix of the connection genes to refer to depending on the judgment result. If the judgment result is “B,” GNP-Sarsa refers to \( C_{ip}^B \) and \( d_{ip}^B \). Processing nodes always refer to \( C_{ip}^A \) and \( d_{ip}^A \) because processing nodes have no conditional branch.
3.2 Judgment and processing functions of GNP-Sarsa

The node transition of GNP-Sarsa starts from a start node and continues depending on the node connections and judgment results. Fig. 2 shows node structures of a judgment node and a processing node.

(1) **Judgment node**: When a current node \( i \) is a judgment node, first, one \( Q \) value is selected from \( Q_{i1}, \ldots, Q_{imi} \) based on \( \varepsilon \)-greedy policy. That is, a maximum \( Q \) value among \( Q_{i1}, \ldots, Q_{imi} \) is selected with the probability of \( 1-\varepsilon \), or a random one is selected with the probability of \( \varepsilon \). Then the corresponding function (\( ID_{ip} \)) is selected. The gene \( ID_{ip} \) shows a technical index or a candlestick GNP judges at node \( i \). Each technical index has its own IMX function shown in Fig. 3. 

**x axis** shows the value of each technical index, and the sections \( A, B, C, \ldots \) correspond to judgment results. Suppose \( Q_{i1} \) and the corresponding \( ID_{i1} = 1 \) (judgment of rate of deviation) are selected, and if the rate is more than 0.1, the judgment result becomes \( E \), and the next node number becomes \( C_{i1}E \).

- **y axis** shows the output of the IMX function and it is used at a processing node. However, the IMX output of golden cross, dead cross and MACD could be 1, 0 or -1 based on the cross of the lines, and the values correspond to judgment results \( A, B, C, \ldots \) respectively. Concretely speaking, for three days after a golden cross appears, the IMX output becomes 1, and for three days after a dead cross appears, it becomes -1, otherwise 0. Furthermore, for three days after MACD passes through the signal from the lower side to the upper side, the IMX output becomes 1, and for three days after it does from the upper to the lower, the IMX output becomes -1, otherwise it becomes 0. Generally, golden cross indicates buying signals and dead cross indicates selling signals, therefore, buying signals become stronger as the IMX output is close to 1, and selling signals become stronger as it is close to -1.

In this paper, candlestick chart is used as one of judgment functions. As we know, candlestick chart has been winning international recognition for its good indication of stock prices, and it has been widely used as the means of indicating the fluctuations of the stocks.

The proposed method has judgment nodes which check candlestick chart patterns. The judgment function of candlestick chart is executed as follows. When the selected sub-node has a judgment function of candlestick chart, GNP judges yesterday’s candlestick and the candlestick of the day before yesterday. There are eight patterns of candlestick charts as shown in Fig. 4 according to two kinds of rules: (A) Judge whether there is a gap or not between yesterday’s lowest price and the highest price of the day before yesterday, or
between yesterday’s highest price and the lowest price of the day before yesterday. (B) Judge whether or not yesterday’s closing price is higher than the opening price of the day before yesterday. Especially, when the opening price equals to the closing price, the case is treated as black body candlestick. As an example, when the candlestick pattern is “3”, GNP-Sarsa selects third branch to transfer to the next node. However, judgment nodes of candlestick chart do not have IMX function.

Fig. 4. Candlestick chart patterns

(2) Processing node: When a current node is a processing node, $Q_{ip}$, the corresponding $ID_{ip}$ and $a_{ip}$ are selected based on $\varepsilon$-greedy policy. The selected $a_{ip}$ is a threshold for determining buying or selling stocks. We explain the procedure of buying and selling stocks using Fig. 5, where the current node at time $t$ is a processing node.

1. First, one $Q$ value is selected from $Q_{i1}, \ldots, Q_{im}$ based on $\varepsilon$-greedy policy. That is, a maximum $Q$ value among $Q_{i1}, \ldots, Q_{im}$ is selected with the probability of $1-\varepsilon$, or a random one is selected with the probability of $\varepsilon$. Then the corresponding $a_{ip}$ is selected.

2. Calculate an average of the IMXs obtained at the judgment nodes executed in the node transition from the previous processing node to the current processing node.

$$A_i = \frac{1}{|I'|} \sum_{i' \in I'} IMX(i')$$

where, $I'$ shows a set of suffixes of the judgment node numbers executed in the node transition from the previous processing node to the current processing node. IMX($i'$)
shows an IMX output at node \( i' \). However, when a judgment node of the candlestick chart was executed or an IMX output is zero at a judgment node of golden cross, dead cross and MACD, the node number is excluded from \( I' \) for calculating \( A_t \).

Fig. 5. An example of node transition

3. determine buying or selling:
   In the case of \( ID_{ip} = 0 \) (buy): if \( A_t \geq a_{ip} \) and we do not have any stocks, GNP buys as much stocks as possible. Otherwise, GNP takes no action.
   In the case of \( ID_{ip} = 1 \) (sell): if \( A_t < a_{ip} \) and we have stocks, GNP sells all the stocks. Otherwise, GNP takes no action.

4. The current node is transferred to the next node. If \( a_{ip} \) is selected, the next node number becomes \( C_{ip}^A \).

The above procedure puts the information of the technical indices together into \( A_t \), and GNP-Sarsa determines buying or selling stocks by comparing \( A_t \) with \( a_{ip} \). Therefore, the points of this paper are 1) to find appropriate \( a_{ip} \) in the processing nodes by evolution and Sarsa, and 2) to determine \( I' \) by evolution, in other words, what kinds of judgments (technical indices and candlestick charts) should be considered is determined automatically.

3.3 Learning phase

First we explain Sarsa algorithm briefly. Sarsa can obtain \( Q \) values which estimate the sum of the discounted rewards obtained in the future. Suppose an agent selects an action \( a_t \) at state \( s_t \) at time \( t \), a reward \( r_t \) is obtained and an action \( a_{t+1} \) is taken at the next state \( s_{t+1} \). Then \( Q(s_t, a_t) \) is updated as follows.

\[
Q(s_t, a_t) \leftarrow Q(s_t, a_t) + \alpha \left[ r_t + \gamma Q(s_{t+1}, a_{t+1}) - Q(s_t, a_t) \right]
\]

\( \alpha \) is a step size parameter, and \( \gamma \) is a discount rate which determines the present value of future rewards: a reward received \( k \) time steps later is worth only \( \gamma^{k-1} \) times of the reward supposed to receive at the current step.

As described before, a state means the current node and an action means the selection of a sub-node. Here, we explain the procedure for updating \( Q \) value in this paper.

1. At time \( t \), GNP refers to \( Q_{n1}, \ldots, Q_{nm} \) and selects one of them based on \( \varepsilon \)-greedy.
   Suppose that GNP selects \( Q_{ip} \) and the corresponding function \( ID_{ip} \).
2. GNP executes the function $ID_{ip}$, gets the reward $r_t$ and suppose the next node $j$ becomes $C_{ip'}$.
3. At time $t+1$, GNP selects one $Q$ value in the same way as step 1. Suppose that $Q_{ip'}$ is selected.
4. $Q$ value is updated as follows.
   \[
   Q_{ip}^{t+1} = Q_{ip}^t + \alpha \gamma (r_t + gQ_{ip'} - Q_{ip})
   \]
5. $t \leftarrow t + 1$, $i \leftarrow j$, $p \leftarrow p'$ then return step 2.

![Flowchart of GNP-Sarsa](image)

Fig. 6. Flowchart of GNP-Sarsa

### 3.4 Evolution phase

Figure 6 shows the whole flowchart of GNP-Sarsa. In this sub-section, the genetic operators in the evolution phase are introduced. The role of evolution is to change graph structures and randomly change node parameters $a_{ip}$.

#### 3.4.1 Crossover

Crossover is executed between two parents and generates two offspring [Fig. 7]. The procedure of crossover is as follows.
1. Select two individuals using tournament selection twice and reproduce them as parents.
Fig. 7. Crossover

Fig. 8. Mutation
2. Each node is selected as a crossover node with the probability of $P_c$.
3. Two parents exchange the genes of the corresponding crossover nodes, i.e., the nodes with the same node number.
4. Generated new individuals become the new ones of the next generation.

Figure 7 shows a crossover example of the graph structure with three processing nodes for simplicity. If GNP exchanges the genes of judgment nodes, it must exchange all the genes with suffix $A, B, C, \ldots$ simultaneously.

### 3.4.2 Mutation

Mutation is executed in one individual and a new one is generated [Fig. 8]. The procedure of mutation is as follows.

1. Select one individual using tournament selection and reproduce it as a parent.
2. Mutation operation
   a. change connection: Each node branch ($C_{ip}^A, C_{ip}^B, \ldots$) is selected with the probability of $P_m$, and the selected branch is reconnected to another node.
   b. change parameters ($a_{ip}$): Each $a_{ip}$ is changed to other value with the probability of $P_m$.
   c. change node function: Each node function ($ID_{ip}$) is selected with the probability of $P_m$, and the selected function is changed to another one.
3. Generated new individual becomes the new one of the next generation.

### 4. Simulation

To confirm the effectiveness of GNP-Sarsa, we carried out the trading simulations using 16 brands selected from the companies listed in the first section of Tokyo stock market in Japan (see Table 3). The simulation period is divided into two periods; one is used for training and the other is used for testing simulation.

- **Training:** January 4, 2001–December 30, 2003 (737 days)
- **Testing:** January 5, 2004–December 30, 2004 (246 days)

We suppose that the initial funds is 5,000,000 Japanese yen in both periods, and the order of buying or selling is executed at the opening of the trading day, i.e., we can buy and sell stocks with the opening price.

#### 4.1 Fitness and reward

Reward shows a capital gain of one trade (one set of buying and selling) and is used for learning. Fitness is the sum of the rewards obtained in the trading period.

\[
\text{Fitness} = \sum \text{Reward}
\]

#### 4.2 Conditions of GNP-Sarsa

GNP-Sarsa uses judgment nodes which judge the technical indices shown in Table 1 and candlestick charts. The technical indices are calculated using three kinds of calculation periods except Golden/Dead cross and MACD. Therefore, the number of kinds of judgment nodes is 21 (including one candlestick judgment). The number of processing functions is two: buying and selling. Table 2 shows simulation conditions. The total number of nodes in each individual is 31 including 20 judgment nodes, 10 processing nodes and one start node. However, the functions $ID_{ip}$ in sub-nodes are determined randomly at the beginning of the first generation, and changed appropriately by evolution.
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<table>
<thead>
<tr>
<th>Technical index</th>
<th>period1</th>
<th>period2</th>
<th>period3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of deviation</td>
<td>5</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>RSI</td>
<td>5</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>ROC</td>
<td>5</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>Volume ratio</td>
<td>5</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>RCI</td>
<td>9</td>
<td>18</td>
<td>27</td>
</tr>
<tr>
<td>Stochastics</td>
<td>12</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Golden/Dead cross</td>
<td>5 (short term), 26 (long term)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MACD</td>
<td>5 (short term), 26 (long term), 9 (signal)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1. Calculation periods of the technical indices [day]

| Number of individuals = 300  
  (mutation: 179, crossover:120, elite:1) |
|------------------------------------------|
| Number of nodes = 31                   
  (Judgment node:20, Processing node:10, start node:1) |
| Number of sub-node in each node = 2    |
| P₀=0.1, Pᵐ=0.03, α=0.1, γ=0.4, ||=0.1 |

Table 2. Simulation conditions

The initial connections between nodes are also determined randomly at the first generation. At the end of each generation, 179 new individuals are produced by mutation, 120 new individuals are produced by crossover, and the best individual is preserved. The other parameters are the ones showing good results in the simulations. The initial Q values are set at zero.

4.3 Simulation results

First, 300 individuals are evolved for 300 generations using the training data. Fig. 9 shows the fitness curve of the best individual at each generation in the training term using the data of Toyota motor, and the line is the average over 30 independent simulations. From the Figure, we can see that GNP-Sarsa can obtain larger profits for the training data as the generation goes on. The fitness curves of the other companies have almost the same tendency as that of Toyota Motor.

Next, the test simulation is carried out using the best individual at the last generation in the training term. Table 3 shows the profits and losses in the testing term. The values in Table 3 are the average of the 30 independent simulations with different random seeds. For the comparison, the table also shows the results of Buy&Hold which is often considered to be a benchmark in trading stocks simulations. Buy&Hold buys as much stocks as possible at the opening of the market on the first day in the simulations, and sells all the stocks at the opening on the last day. From the table, the proposed method can obtain larger profits than Buy&Hold in the trade of 12 brands out of 16. By comparing with original GNP, the proposed method can get larger profits than traditional GNP in the trade of 13 brands out of 16. Especially, the stock prices of NEC, Fuji Heavy Ind., KDDI, Nomura Holdings, Shin-Etsu Chemical Co., Ltd. are down trend, so Buy&Hold always makes a loss, however the proposed method can obtain profits in five all brands.
Table 3. Profits in the test simulations

Figure 10 shows the change of the price of Toyota motor in the testing term and also shows typical buying and selling points by the proposed method. Fig. 11 shows the change of the funds as a result of the trading. From these figures, we can see that GNP-Sarsa can buy stocks at the lower points and sell at the higher points.

<table>
<thead>
<tr>
<th>Brand</th>
<th>GNP-Sarsa</th>
<th>GNP</th>
<th>Buy&amp;Hold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toyota Motor</td>
<td>522,333(10.4)</td>
<td>480,500(9.6)</td>
<td>520,000(10.4)</td>
</tr>
<tr>
<td>Mitsubishi Estate</td>
<td>444,733(8.9)</td>
<td>405,700(8.1)</td>
<td>664,000(13.3)</td>
</tr>
<tr>
<td>Showa Shell Sekiyu</td>
<td>263,100(5.3)</td>
<td>294,755(5.9)</td>
<td>319,200(6.4)</td>
</tr>
<tr>
<td>East Japan Railway</td>
<td>413,833(8.3)</td>
<td>491,500(9.8)</td>
<td>477,000(9.5)</td>
</tr>
<tr>
<td>NEC Corporation</td>
<td>36,600(0.7)</td>
<td>-126,150(-2.5)</td>
<td>-1,026,000(-20.5)</td>
</tr>
<tr>
<td>Fuji Heavy Ind.</td>
<td>217,133(4.3)</td>
<td>97,700(2.0)</td>
<td>-189,000(-3.8)</td>
</tr>
<tr>
<td>Sekisui House, Ltd.</td>
<td>582,466(11.6)</td>
<td>54,600(1.1)</td>
<td>264,000(5.3)</td>
</tr>
<tr>
<td>Mitsu &amp; Co.</td>
<td>473,033(9.5)</td>
<td>118,450(2.4)</td>
<td>240,000(4.8)</td>
</tr>
<tr>
<td>Sony</td>
<td>148,733(3.0)</td>
<td>280,500(5.6)</td>
<td>150,000(3.0)</td>
</tr>
<tr>
<td>Tokyo Gas</td>
<td>669,733(13.4)</td>
<td>382,000(7.6)</td>
<td>372,000(7.4)</td>
</tr>
<tr>
<td>KDDI</td>
<td>199,400(4.0)</td>
<td>-76,600(-1.5)</td>
<td>-576,000(-11.5)</td>
</tr>
<tr>
<td>Tokyo Electric Power</td>
<td>570,266(11.4)</td>
<td>210,000(4.2)</td>
<td>262,500(5.3)</td>
</tr>
<tr>
<td>Daiwa House</td>
<td>612,633(12.3)</td>
<td>235,400(4.7)</td>
<td>32,000(0.6)</td>
</tr>
<tr>
<td>Nomura Holdings</td>
<td>366,033(7.3)</td>
<td>-293,785(5.9)</td>
<td>-985,500(-19.7)</td>
</tr>
<tr>
<td>Shin-Etsu Chemical</td>
<td>562,700(11.3)</td>
<td>7,250(0.1)</td>
<td>-264,000(-5.3)</td>
</tr>
<tr>
<td>Nippon Steel</td>
<td>469,866(9.4)</td>
<td>-27,350(-0.5)</td>
<td>-576,000(-11.5)</td>
</tr>
<tr>
<td>Average</td>
<td>409,537(8.2)</td>
<td>158,404(3.2)</td>
<td>41,200(0.8)</td>
</tr>
</tbody>
</table>

Fig. 9. Fitness curve in the training period (Toyota Motor)

Figure 12 shows the average ratio of the nodes used in the test period over 30 independent simulations in order to see which nodes are used and which are most efficient for stock trading model. The total number of node function is 23, while each processing node has a
node number (0–1), and each judgment node has a node number (2–22). The \( x \)-axis shows the kinds of the nodes while the \( y \)-axis shows the average ratio of the used nodes. From the figure, we can see that the processing nodes are used to determine buying and selling stocks, and the judgment nodes of “Rate of deviation1” corresponding to period1 and “Volume ratio3” corresponding to period3 are frequently used. Thus it can be said that GNP-Sarsa judges that these nodes are important to determine stock trading. GNP-Sarsa can automatically determine which nodes should be used in the current situation by evolving node functions and connections between nodes, in other words, GNP-Sarsa can optimize the combination of technical indices and candlestick charts used for stock trading model.

Fig. 10. Stock price of Toyota Motor and typical buying/selling points in 2004 (test period)

Fig. 11. Change of funds in the test simulation (Toyota Motor)
5. Conclusions

In this paper, a stock trading model using GNP-Sarsa with important index and candlestick charts is proposed. First, a newly defined IMX function is assigned to each technical index to tell GNP-Sarsa whether buying or selling stocks is recommended or not. Second, Sarsa learns $Q$ values to select appropriate sub-nodes/functions used to judge the current stock price information and determine buying and selling timing. We carried out simulations using stock price data of 16 brands for four years. From the simulation results, it is clarified that the fitness becomes larger as the generation goes on and the profits obtained in the testing term are better than Buy&Hold in the simulations of 12 brands out of 16. By comparing with original GNP, the proposed method can get larger profits than traditional GNP in the trade of 13 brands out of 16. When there is downtrend, Buy&Hold makes a loss in five brands, but the proposed method can obtain profits in five all brands. There remain some problems to be solved. First, in this paper, the calculation period of each technical index is fixed in advance. However, to improve the performance of the proposed method, we should develop a new method that can learn appropriate calculation periods. Next, it is necessary to consider the way of classifying the candlestick chart body type, and create more efficient judgment functions to judge current stock price appropriately. Also, we will evaluate the proposed method comparing with other methods using many data of other brands.

6. References


Machine Learning can be defined in various ways related to a scientific domain concerned with the design and development of theoretical and implementation tools that allow building systems with some Human Like intelligent behavior. Machine learning addresses more specifically the ability to improve automatically through experience.

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