





# PREDICTING STOCK PRICES IN DUBAI FINANCIAL MARKET USING NEURAL NETWORKS AND POLYNOMIAL CLASSIFIERS

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## ABSTRACT

Predicting stock prices has always been the aim of investors in stock markets around the globe and has been considered as one of the most challenging applications of modern Time Series Forecasting. Accordingly, there were many studies conducted in this area which addressed the prediction of stock prices. In broad terms, methods used in predicting market prices fall into three categories; fundamental analysis, technical analysis and time series forecasting.

Fundamental analysis concerns analyzing the company's operation and the market in which the company is operating in order to reasonably predict the stock prices. Technical Analysis deals with past stock prices and volume information in forecasting future prices, assuming certain trends and patterns in price movement

will be repeated in future. Time series forecasting is also applied to predict stock price movement, using techniques like multivariate regression, in which stock prices data can be modeled as non-linear functions.

Financial markets can be either emerging markets or mature markets. Emerging markets are newly established markets with few listed companies and limited number of buy/sell deals. Price movements in these markets are more volatile and often score radical changes. On the other hand, mature markets were established in much earlier stages, and currently have large number of listed companies with enormous daily trading deals. Accordingly, prices volatility is usually more rational and stable compared to the emerging markets.

This thesis is based on technical analysis of stock prices movement in an emerging market; Dubai Financial Market (DFM). The historical prices of three active companies were used as the data to the intelligent systems developed in this study, namely, neural networks and polynomial classifiers. In recent years, artificial neural networks have been used widely in predicting stock prices; due to their capability in capturing the non-linearity that exists in price movement. On the other hand, polynomial classifiers became very popular in the area of recognition and classification, in view of their superior capability in such applications compared to other techniques.

In the first part of this thesis, feed-forward back-propagation neural network was used to construct a prediction model based on stock historical prices. The model was tested on three leading stocks listed in Dubai Financial Market. In the second part, polynomial classifiers were used to develop a similar prediction model with first order and second order classifiers, and the model was also tested on the same three stocks. Results of both models were compared throughout the analysis.

The analysis was based on predicting the closing prices of the consecutive three trading days. The results showed that both prediction models scored high prediction accuracy and could achieve small prediction errors. Particularly, both models scored around 1.5 % average error on the first predicted day and around 2.5 % average error on the second day. Whilst the average prediction error on the third predicted day was almost 4 %. The performance of the two models was very close where polynomial classifiers performed slightly better than the neural network.

At the end of this study, some future improvements were suggested in order to enhance the current results and achieve better prediction accuracy.

# TABLE OF CONTENTS

ABSTRACT.....	iii
LIST OF FIGURES.....	viii
LIST OF TABLES.....	ix
LIST OF ABBREVIATIONS.....	xii
ACKNOWLEDGMENTS.....	xiii
DEDICATIONS.....	xiv

## Chapter

1. INTRODUCTION.....	1
1.1. Background.....	1
1.2. Problem Statement.....	1
1.3. Research Objectives.....	3
1.4. Thesis Organization.....	4
2. LITERATURE REVIEW.....	5
3. INTELLIGENT SYSTEMS.....	10
3.1. Artificial Intelligence Overview.....	10
3.2. Neural Network.....	11
3.3. Polynomial Classifiers.....	15
4. METHODOLOGY.....	19
4.1. Data Source.....	19
4.2. Selected Securities.....	19
4.3. Data Setup.....	23
4.4. Learning Methods.....	24
4.5. Prediction Modes.....	26
5. PREDICTION MODEL IMPLEMENTATION.....	29
5.1. Neural Network Prediction Technique.....	29
5.2. Polynomial Classifier Prediction Technique.....	33
6. EXPERIMENTAL RESULTS AND DISCUSSION.....	34

6.1.	Prediction Model Using Neural Network.....	34
6.1.1.	Mode1.....	34
6.1.2.	Mode2.....	44
6.1.3.	Mode3.....	50
6.2.	Prediction Model Using Polynomial Classifiers.....	52
6.2.1.	Mode1.....	53
6.2.2.	Mode2.....	57
6.2.3.	Recent Updates.....	62
7.	CONCLUSION, LIMITATIONS AND FUTURE WORK.....	67
7.1.	Conclusion.....	67
7.2.	Limitations.....	64
7.3.	Future Work.....	69
REFERENCES		
Appendix		
A.	Results of neural network prediction model – mode 3 on Dubai Islamic bank and Dubai investments stocks.....	74
B.	Results of Polynomial classifiers prediction model – mode 3 on Emaar and Dubai Islamic bank stocks.....	78
VITA.....		82

## LIST OF FIGURES

Figure	Page
3.1	Feed-forward neural network structure.....12
3.2	Polynomial Classifiers structure – training stage.....15
3.3	Polynomial Classifiers structure – validation stage.....15
3.4	Polynomial Classifiers structure for stocks prediction.....16
6.1	The improvement of neural network prediction-mode 1 in terms of average absolute error over the three training methods on Emaar stock. ....37
6.2	Actual prediction error distribution of neural network trained on 1/3 of data – mode 1 on Emaar stock.....37
6.3	Actual prediction error distribution of neural network trained on 1/2 of data – mode1 on Emaar stock.....39
6.4	Actual prediction error distribution of neural network trained on 2/3 of data – mode1 on Emaar stock.....40
6.5	The improvement of neural network prediction accuracy-mode 2 in terms of average absolute error over the three training methods on Emaar stock.....46



## LIST OF TABLES

Table		Page
6.1	Results of mode 1 - neural network prediction model on Emaar stock.....	36
6.2	Error intervals of prediction error of neural network trained on 1/3 of data – mode 1 on Emaar stock.....	38
6.3	Error intervals of prediction error of neural network trained on 1/2 of data – mode 1 on Emaar stock.....	39
6.4	Error intervals of prediction error of neural network trained on 2/3 of data – mode1 on Emaar stock.....	40
6.5	Error intervals of prediction error of neural network in all training methods – mode 1 on Emaar stock.....	41
6.6	Results of mode 1 - neural network prediction model on DIB stock.....	42
6.7	Error intervals of prediction error of neural network in all training methods – mode1 on DIB stock.....	42
6.8	8 results of mode 1 - neural network prediction model on Dubai Investments stock.....	43
6.9	Error intervals of prediction error of neural network in all training methods – mode1 on Dubai Investments stock.....	44
6.10	Results of mode 2 - neural network prediction model on Emaar stock.....	45
6.11	Error intervals of prediction error of neural network in all training methods for the next three days – mode2 on Emaar stock.....	47
6.12	12 results of mode 2 - neural network prediction model on DIB stock.....	48

6.13	Error intervals of prediction error of neural network in all training methods for the next three days – mode2 on DIB stock.....	48
6.14	Results of mode 2 - neural network prediction model on Dubai Investments stock.....	49
6.15	Error intervals of prediction error of neural network in all training methods for the next three days – mode2 on Dubai Investment stock.....	50
6.16	Results of mode 3 - neural network prediction model on Emaar stock.....	51
6.17	Error intervals of prediction error of neural network in all training methods for the next three days – mode3 on Emaar stock.....	51
6.18	Results of mode 1 – first order polynomial classifier model on Emaar stock.....	53
6.19	Error intervals of prediction error of first order polynomial classifier in all training methods – mode1 on Emaar stock.....	53
6.20	Results of mode 1 – second order polynomial classifier model on Emaar stock.....	54
6.21	Error intervals of prediction error of second order polynomial classifier in all training methods – mode1 on Emaar stock.....	54
6.22	Results of mode 1 – first order polynomial classifier model on DIB stock.....	55
6.23	Error intervals of prediction error of first order polynomial classifier in all training methods – mode1 on DIB stock.....	56
6.24	Results of mode 1 – second order polynomial classifier model on DIB stock.....	56
6.25	Error intervals of prediction error of second order polynomial classifier in all training methods – mode1 on DIB stock.....	57
6.26	Results of mode 2 – first order polynomial classifier model on Emaar stock.....	58

6.27	Error intervals of prediction error of first order polynomial classifier in all training methods for the next three days – mode2 on Emaar stock.....	58
6.28	Results of mode 2 – second order polynomial classifier prediction model on Emaar stock.....	59
6.29	Error intervals of prediction error of second order polynomial in all training methods for the next three days – mode2 on Emaar stock.....	59
6.30	Results of mode 2 – first order polynomial classifier prediction model on DIB stock.....	60
6.31	Error intervals of prediction error of first order polynomial classifier in all training methods for the next three days – mode2 on DIB stock.....	60
6.32	Results of mode 2 – second order polynomial classifier prediction model on DIB stock.....	61
6.33	Error intervals of prediction error of second order polynomial classifier in all training methods for the next three days – mode2 on DIB stock.....	61
6.34	Results of mode 1 – Neural network model on ARAMEX stock.....	63
6.35	Results of mode 1 – Neural network model on Union Properties stock.....	63
6.36	Results of mode 1 – Comparison of neural network model on the five stocks.....	64
6.37	Comparison of error intervals of neural network prediction model - Mode 1 on all the five stocks.....	65
6.38	Results of mode 2 – Comparison of neural network model on the five stocks.....	66
6.39	Comparison of error intervals of neural network prediction model - Mode 2 on all the five stocks.....	66

## LIST OF ABBREVIATIONS

AI –	Artificial Intelligence
ANN –	Artificial Neural Networks
DFM –	Dubai Financial Market
DIB –	Dubai Islamic Bank
IS –	Intelligent Systems
NN –	Neural Networks
PC –	Polynomial Classifiers

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