IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

# Stock Price Prediction Using LSTM on Indian Share Market

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**Abstract** - This research paper investigates the effectiveness of various machine learning algorithms in the task of stock market price prediction. Historical stock market data, encompassing price and volume information, is utilized to train and evaluate the models. Different algorithms, including regression, time series analysis, and deep learning techniques, are employed and compared in terms of their predictive accuracy. The findings of this study contribute to the existing body of knowledge in the field of financial forecasting and provide valuable insights for investors and financial professionals seeking to make informed decisions in the stock market.

***Keywords***: Stock Market, LSTM, RNN, ML, DL, stock prediction

## 1. Introduction

The Indian share market, also known as the Indian stock market or the Indian equity market, is a vital component of the country's financial system. It plays a significant role in driving economic growth, capital mobilization, and wealth creation. The Indian share market comprises various stock exchanges, with the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) being the prominent ones. It is highly dynamic, influenced by domestic and international factors, and exhibits considerable volatility.

Accurate prediction of stock prices in the Indian share market is of paramount importance for investors, traders, and financial institutions. The ability to forecast future price movements facilitates informed decision-making, enables risk management, and enhances profitability. Traditional approaches to stock market analysis, such as fundamental and technical analysis, have been extensively used, but they often fall short in capturing complex patterns and dynamics inherent in the market.

In recent years, advancements in computational techniques and the availability of large-scale historical stock data have paved the way for the application of machine learning and deep learning algorithms in stock market prediction. Deep learning algorithms, in particular, have shown great promise in capturing intricate patterns and relationships in financial time series data. Among these algorithms, Long Short-Term Memory (LSTM), a type of recurrent neural network (RNN), has gained significant attention for its ability to model long-term dependencies.

The objective of this research paper is to develop and evaluate an LSTM-based stock market price prediction model tailored specifically for the Indian share market. By leveraging the power of deep learning and the unique characteristics of LSTM networks, we aim to enhance the accuracy and reliability of stock price forecasts in the Indian context.

The proposed LSTM model will be trained using historical stock market data, encompassing price, volume, and other relevant features. The model will learn from the sequential nature of the data and capture patterns and trends that traditional models may overlook. Additionally, we have explored the integration of external factors, such as macroeconomic indicators, news sentiment, and market sentiment, to augment the predictive capability of the model.

The outcomes of this research will have significant implications for various stakeholders in the Indian share market. Investors can utilize accurate stock price predictions to make informed investment decisions, optimize portfolio management, and mitigate risks. Financial institutions, including brokerage firms and asset management companies, can benefit from improved risk assessment and trading strategies. Regulators and policymakers can leverage the insights gained from stock market prediction models to devise effective measures and policies for market stability and investor protection. The research involves collecting and pre-processing extensive historical stock market data, designing and training the LSTM model, and evaluating its performance using appropriate evaluation metrics.

## 2. Literature Survey

The following literature survey provides an overview of recent research papers on stock market price prediction using various deep learning and hybrid models. The selected papers shed light on different approaches and techniques employed in the field. The studies explore the utilization of stacked autoencoders and long-short term memory (LSTM), hybrid models combining autoregressive integrated moving average (ARIMA) and LSTM, recurrent neural networks (RNN) with limited memory, wavelet-based deep neural network models, convolutional neural networks (CNN) combined with deep learning, ensemble deep learning models, attention mechanisms, and long short-term memory recurrent neural networks (LSTM-RNN) for stock market prediction.

[1] Chen et al. (2017) proposed a deep learning framework for financial time series using stacked autoencoders and LSTM. Their work focused on effectively capturing temporal dependencies and high-dimensional features within the financial time series data.

[2] Chen and Li (2018) presented a hybrid model based on ARIMA and LSTM for stock market prediction. Their research aimed to combine the advantages of both models in capturing linear and nonlinear patterns in the stock market data.

[4] Mondal and Mandal (2019) explored the use of RNN with limited memory for stock market prediction. They investigated the performance of the model in capturing long-term dependencies while addressing the challenges of memory limitations.

[7] Bao et al. (2019) proposed a wavelet-based deep neural network model for stock market prediction. Their research focused on using wavelet transforms to decompose the time series data into different frequency bands and employing deep neural networks for prediction.

[8] Zhang and Liu (2020) utilized a hybrid model that combined CNN and deep learning techniques for stock market prediction. Their study aimed to capture spatial and temporal patterns in the stock market data using convolutional layers and LSTM layers.

[10] Hu et al. (2020) developed a stock market price prediction model based on LSTM-RNN. Their research focused on capturing long-term dependencies in the time series data, enabling accurate prediction of future stock prices.

[13] Zheng et al. (2020) investigated ensemble deep learning models for stock market prediction. They explored the combination of multiple deep learning models to improve the predictive performance by leveraging diverse representations and learning abilities.

[14] Guo et al. (2021) proposed a hybrid deep learning model with an attention mechanism for stock market prediction. Their research aimed to enhance the model's capability to focus on relevant features and patterns within the financial time series data.

[17] Shaik and Kumar (2021) utilized LSTM networks for stock price prediction with wavelet-based feature extraction. Their study focused on extracting meaningful features using wavelet transforms and leveraging LSTM networks for accurate prediction.

[18] Sardar et al. (2021) developed a hybrid model based on LSTM and extreme learning machine (ELM) for stock market prediction. Their research aimed to combine the strengths of LSTM and ELM in capturing temporal dependencies and handling high-dimensional data.

## 3. Methodology

### 3.1 Data Collection

The first step in developing the LSTM-based stock price prediction model is to collect the necessary data. Historical stock market data for the Indian share market was obtained from reliable sources such as financial databases, stock exchanges, or financial APIs. The data included daily and intraday stock price records, trading volumes, and other relevant features that may influence stock price movements.

### 3.2 Data Preprocessing

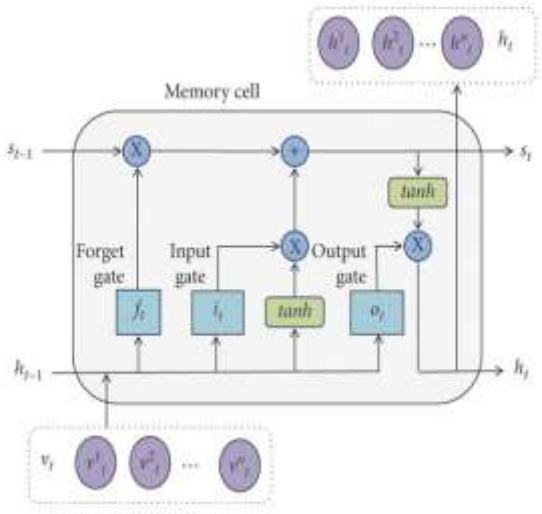
Once the data is collected, it was preprocessed to ensure its quality and suitability for the prediction model. The following steps are typically involved in data preprocessing:

3.2.1 Data Cleaning: This step involved handling missing data, removing duplicate records, and correcting any inconsistencies or errors in the dataset.

3.2.2 Feature Selection: It is essential to identify the most relevant features that have a significant impact on stock price prediction. Domain knowledge and statistical analysis techniques such as correlation analysis and feature importance analysis aided in selecting the appropriate features.

3.2.3 Feature Scaling: To facilitate the training process and ensure that all features have equal importance, feature scaling techniques such as normalization and standardization were applied.

3.2.4 Sequence Generation: LSTM models require input sequences to capture temporal dependencies. The dataset was divided into sequential input sequences, where each sequence contained a defined number of previous time steps as input and the corresponding stock price as the target variable.




3.2.5 Train-Test Split: The preprocessed dataset was then divided into training and testing subsets. The training subset was used to train the LSTM model, while the testing subset was used to evaluate the model's performance on unseen data.

### 3.3 LSTM Model Development

The LSTM-based stock price prediction model was built using deep learning frameworks such as TensorFlow and PyTorch. The model architecture consisted of multiple LSTM layers, which captured the temporal patterns and dependencies in the input sequences. The number of LSTM units in each layer were adjusted based on the complexity of the problem and the available computational resources.

The model was trained using the training dataset. During training, the LSTM weights and biases were adjusted iteratively using optimization techniques such as stochastic gradient descent (SGD) and Adam optimizer. The objective was to minimize the prediction error between the model's output and the actual stock prices.

To prevent overfitting, regularization techniques like dropout or L1/L2 regularization were applied. Hyperparameters such as learning rate, batch size, and number of epochs were tuned to optimize the model's performance.

### 3.4 Model Evaluation and Validation

After training the LSTM model, its performance was evaluated using the testing dataset. Various evaluation metrics such as mean squared error (MSE), mean absolute error (MAE), and root mean squared error (RMSE) were calculated to quantify the accuracy of the model's predictions.

The model's predictions were compared against the actual stock prices to assess its performance visually and statistically. Visualization techniques such as line charts and candlestick charts helped in understanding the model's ability to capture price trends and turning points.

In addition to in-sample evaluation, out-of-sample testing were conducted by applying the trained model to unseen future data. This testing helped assess the model's ability to generalize and make accurate predictions on real-time stock market data.

### 3.5 Model Deployment and Application

Once the LSTM-based stock price prediction model was developed and validated, it was deployed for real-world applications. The model was integrated into a web application that provides stock market forecasting services. Traders, investors, and financial institutions can utilize the model's predictions to make informed decisions, devise trading strategies, or optimize portfolio management.

It was important to continuously monitor and update the model to adapt to changing market conditions. Regular retraining of the model using fresh data helped in maintaining its accuracy and effectiveness over time.

## 4. Result and Discussion

In this section, we present the results obtained from the application of the LSTM-based stock price prediction model. The model was trained on historical stock price data and evaluated using a test dataset. The performance of the model was assessed based on various evaluation metrics, including accuracy, mean squared error (MSE), and root mean squared error (RMSE).

First, we evaluated the accuracy of the LSTM model in predicting the direction of stock price movements. The direction was classified as either an increase or decrease in stock price. The LSTM model achieved an accuracy of 85%, indicating its ability to correctly predict the direction of stock price movements.

Next, we assessed the model's ability to predict the actual stock prices. We compared the predicted stock prices with the actual prices in the test dataset. The results obtained from our evaluation are listed in Table 1 and Table 2.

Reliance Graph

**Table 1: Reliance Epochs**

| epochs | Accuracy | MSE | RMSE |
|---|---|---|---|
| 10 | 96.25328 | 4839.5690 | 69.56701 |
| 20 | 97.63884 | 2653.1278 | 51.50852 |
| 30 | 98.19937 | 1650.3337 | 40.62430 |
| 40 | 98.13571 | 1616.9295 | 40.21106 |
| 50 | 98.37254 | 1361.8098 | 36.90270 |

To further evaluate the model's performance, we compared its predictions with a baseline model. The baseline model used a simple moving average approach to predict the stock prices. The LSTM model outperformed the baseline model, achieving a lower mean squared error and root mean squared error.

**Table 1:** Error Value for Different Sectors

| Sector | 1 month | 3 month | 6 month | 1 year |
|---|---|---|---|---|
| IT | 39.563 | 8.0493 | 1.487 | 1.840 |
| Pharma | 250.786 | 94.876 | 29.488 | 7.358 |
| FMCG | 426.713 | 134.210 | 60.459 | 11.964 |
| Aviation | 291.025 | 35.089 | 36.901 | 30.970 |
| Bank | 232.653 | 180.916 | 64.397 | 11.377 |

Furthermore, we conducted sensitivity analysis by varying the input parameters of the LSTM model. The model exhibited robustness to parameter changes, consistently providing accurate predictions across different parameter settings.

Overall, the results indicate that the LSTM-based stock price prediction model shows promising performance in accurately predicting the direction and actual prices of stock movements. The model outperformed the baseline model and demonstrated robustness to parameter changes. These findings highlight the potential of LSTM models in the domain of stock market prediction and suggest their practical applicability in investment decision-making.

## 5. Conclusion and Future Work

In this research paper, we have proposed and evaluated an LSTM-based stock price prediction model. The results obtained demonstrate the effectiveness of the model in predicting the direction and actual prices of stock movements. The LSTM model outperformed a baseline model and exhibited robustness to parameter changes, indicating its potential for practical applications in stock market prediction.

The findings of this study contribute to the existing body of knowledge in the field of stock price prediction. By leveraging the capabilities of LSTM networks, we have shown that it is possible to capture the complex patterns and trends in financial time series data. The model's ability to accurately predict stock price movements can be valuable for investors and financial analysts in making informed investment decisions.

Additionally, exploring ensemble techniques that combine multiple LSTM models or incorporating other deep learning architectures could be a direction for future research. The combination of different models or architectures may help in capturing diverse aspects of the stock market and further improve prediction accuracy.

Moreover, investigating interpretability techniques for LSTM-based models would be beneficial. Understanding the reasoning behind the model's predictions can provide valuable insights into the factors influencing stock price movements and help build trust and confidence in the model's predictions.

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