

Contents

1	From Learning Systems to Financial Modelling	1
1.1	Introduction	1
1.2	Adaptive Systems and Financial Modelling	3
1.2.1	Financial Modelling: The Efficient Markets Hypothesis	3
1.2.2	Learning Systems	4
1.2.3	Technical Issues	5
1.3	Time Series Analysis	8
1.3.1	Fundamentals of Time Series Forecasting and Learning	8
1.4	Brief History of Neural Networks	10
1.4.1	The Development of Neural Net Techniques	11
1.4.2	More Recent Issues	13
1.5	Book Overview	13
1.5.1	Research Objectives	14
1.5.2	Book Structure	14
1.6	Summary	17
2	Adaptive Systems and Financial Modelling	19
2.1	Financial Modelling	19
2.2	The Problems with Financial Modelling	20
2.2.1	Fuzzy Rationality and Uncertainty	21
2.2.2	Efficient Markets and Price Movement	22
2.3	Evidence Against the Efficiency Hypothesis	23
2.4	An Adaptive Systems Approach	25
2.5	Neural Nets and Financial Modelling	26
2.5.1	Comparisons Between Neural Nets and Other Time Series Methods	29
2.6	Genetic Algorithms in Finance	31
2.6.1	The Genetic Algorithm Search Technique	31
2.6.2	Applications of Genetic Algorithms	34
2.7	Summary	34

3	Feed-Forward Neural Network Modelling	37
3.1	Neural Net Search	37
3.2	MLP Training: The Model	38
3.3	MLP: Model Parameters	40
3.4	The Data	41
3.5	MLP: Training Parameters	42
3.5.1	Architecture	42
3.5.2	Activation Function	45
3.5.3	Learning Rules, Batch and On-Line Training	45
3.6	Network Performance	46
3.6.1	Convergence	46
3.6.2	Network Validation and Generalisation	49
3.6.3	Automated Validation	51
3.7	Summary	52
4	Genetic Algorithms	55
4.1	Using Genetic Algorithms	55
4.2	Search Algorithms	56
4.2.1	The GA Search Process: The Simple GA	57
4.2.2	Schema Analysis	58
4.2.3	Building Blocks Under Review	60
4.3	GA Parameters	61
4.3.1	The Shape of Space	61
4.3.2	Population Encodings	66
4.3.3	Crossover, Selection, Mutation and Populations	68
4.4	A Strategy for GA Search: Transmutation	73
4.4.1	Five New Algorithms: Morphic GAs (MGAs)	75
4.5	Summary	79
5	Hypothesising Neural Nets	81
5.1	System Objectives	81
5.2	Hypothesising Neural Network Models	82
5.3	Occam's Razor and Network Architecture	83
5.3.1	Existing Regularisation and Pruning Methods	83
5.3.2	Why use Occam's Razor?	84
5.4	Testing Occam's Razor	85
5.4.1	Generating Time Series	85
5.4.2	Artificial Network Generation (ANG)	86
5.4.3	ANG Results	87
5.4.4	Testing Architectures	87
5.5	Strategies using Occam's Razor	91
5.5.1	Minimally Descriptive Nets	92
5.5.2	Network Model	93
5.5.3	Network Regression Pruning (NRP)	94
5.5.4	Results of NRP on ANG Series	96

5.5.5	Interpretation of the Pruning Error Profiles	98
5.5.6	Determining Topologies	100
5.6	Validation	101
5.7	GA-NN Hybrids: Representations	102
5.7.1	Fitness Measures for GA-NN Hybrids	103
5.7.2	Neural Networks and GAs: Fitness Measure for Generalisation	104
5.8	Summary	105
6	Automating Neural Net Time Series Analysis	107
6.1	System Objectives	107
6.2	ANTAS	108
6.2.1	Stage I: Primary Modelling	109
6.2.2	Stage II: Secondary Modelling	111
6.2.3	Stage III: System Modelling	111
6.3	Primary Modelling	111
6.3.1	Automating the use of Neural Nets	112
6.3.2	GA Rule-Based Modelling	114
6.4	Secondary Modelling	115
6.4.1	Generating Secondary Models	115
6.4.2	Model Integration	115
6.4.3	Model Performance Statistics	117
6.5	Validation Modules	118
6.6	Control Flow	119
6.6.1	Neural Net Control	119
6.6.2	GA Control	121
6.7	Summary	122
7	The Data: The Long Gilt Futures Contract	125
7.1	The Long Gilt Futures Contract	125
7.2	The LGFC Data	126
7.2.1	Time Series Construction	126
7.3	Secondary Data	128
7.4	Data Preparation	130
7.4.1	LGFC Data Treatment	130
7.4.2	Using Moving Averages	131
7.5	Data Treatment Modules	133
7.5.1	Moving Average Modules	133
7.6	Efficient Market Hypothesis and the LGFC	135
7.7	Summary	136
8	Experimental Results	137
8.1	Experimental Design	137
8.2	Phase I – Primary Models	138
8.2.1	NN Hypothesis Modules (Phase I)	138
8.2.2	Results for GA-NN Module	140

8.2.3	In-Sample Testing and Validation of the 15-4 Neural Network	144
8.3	GA-RB Module and Combined Validation	144
8.4	Phase II – Secondary GA-RB Models	149
8.4.1	Secondary Model Control Module	150
8.5	Phase III – Validation and Simulated Live Trading	152
8.6	Controls: Analysis of ANTAS	157
8.6.1	Choosing a Network Architecture	157
8.6.2	GA Control Tests	157
8.6.3	Second Order Modelling	159
8.7	ANTAS: Conclusions	160
8.8	Summary	161
9	Summary, Conclusions and Future Work	163
9.1	Motivations	163
9.2	Objectives: Neural Networks and Learning	163
9.3	Book Outline and Results	164
9.3.1	Morphic Genetic Algorithms using Base Changes	165
9.3.2	Artificial Network Generation	167
9.3.3	Network Regression Pruning	168
9.3.4	ANTAS and the Long Gilt Futures Contract	170
9.3.5	Results	171
9.4	Conclusions	172
9.5	Future Work	174
Appendices		
A	Test Functions	179
B	ANTAS Outline Code	185
C	ANTAS Results	191
References		
		217
Index		
		225