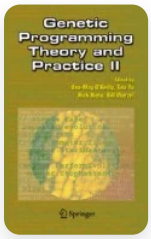
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Discovering Financial Technical Trading Rules Using Genetic Programming with Lambda Abstraction

Chapter

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Genetic Programming Theory and Practice II

Tina Yu, Shu-Heng Chen & Tzu-Wen Kuo

Part of the book series: Genetic Programming ((GPEM,volume 8))

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Abstract

We applied genetic programming with a lambda abstraction module mechanism to learn technical trading rules based on S&P 500 index from 1982 to 2002. The results show strong evidence of excess returns over buy-and-hold after transaction cost. The discovered trading rules can be interpreted easily; each rule uses a combination of one to four widely used technical indicators to make trading decisions. The consensus among these trading rules is high. For the majority of the testing period, 80% of the trading rules give the same decision. These rules also give high transaction frequency. Regardless of the stock market climate, they are able to identify opportunities to make profitable trades and out-perform buy-and-hold.

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Author information

Authors and Affiliations

Chevron Texaco Information Technology Company, USA

Tina Yu

National Chengchi University, Taiwan

Shu-Heng Chen & Tzu-Wen Kuo

Editor information

Editors and Affiliations

Massachusetts Institute of Technology, USA

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About this chapter

Cite this chapter

Yu, T., Chen, SH., Kuo, TW. (2005). Discovering Financial Technical Trading Rules Using Genetic Programming with Lambda Abstraction. In: O'Reilly, UM., Yu, T., Riolo, R., Worzel, B. (eds) Genetic Programming Theory and Practice II. Genetic Programming, vol 8. Springer, Boston, MA. https://doi.org/10.1007/0-387-23254-0_2

.RIS .ENW .BIB

DOI	Publisher Name	Print ISBN
https://doi.org/10.1007/0-387-23254-0_2	Springer, Boston, MA	978-0-387-23253-9
Online ISBN	eBook Packages	
978-0-387-23254-6	Computer Science	

Computer Science (R0)

Keywords

modular genetic programming | lambda abstraction modules | higher-order functions | financial trading rules | buy-and-hold | S&P 500 index | automatically defined functions | PolyGP system | stock market | technical analysis | constrained syntactic structure | strongly typed genetic programming | financial time series | lambda abstraction GP

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