Particle Swarm Optimization of Bollinger Bands

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Matthew Butler & Dimitar Kazakov

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Abstract

The use of technical indicators to derive stock trading signals is a foundation of financial technical analysis. Many of these indicators have several parameters which creates a difficult optimization problem given the highly non-linear and non-stationary nature of a financial time-series. This study investigates a popular

financial indicator, Bollinger Bands, and the fine tuning of its parameters via particle swarm optimization under 4 different fitness functions: profitability, Sharpe ratio, Sortino ratio and accuracy. The experiment results show that the parameters optimized through PSO using the profitability fitness function produced superior out-of-sample trading results which includes transaction costs when compared to the default parameters.

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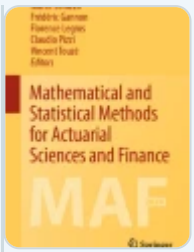

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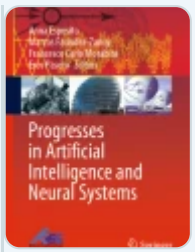

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Author information

Authors and Affiliations

Faculty of Computer Science, Artificial Intelligence Group, University of York, UK

Matthew Butler & Dimitar Kazakov

Editor information

Editors and Affiliations

IRIDIA, CoDE, Université Libre de Bruxelles, Brussels, Belgium

Marco Dorigo

IRIDIA, CoDE, Université Libre de Bruxelles, Av. F. Roosevelt 50, CP 194/6, 1050, Brussels, Belgium

Mauro Birattari

'Dalla Molle' Institute for Artificial Intelligence (IDSIA), Galleria 2, 6928, Manno-Lugano, Switzerland

Gianni A. Di Caro

Complex Systems Institute, Paris-Ile-de-France, CREA, Ecole Polytechnique & CNRS, 57-59, rue Lhomond, 75005, Paris, France

René Doursat

Department of Computer Science, University of Pretoria, 0002, P.O. Box, Pretoria, South Africa

Andries P. Engelbrecht

EPFL, Laboratory of Intelligent Systems, Lausanne, Switzerland

Dario Floreano

Istituto Dalle Molle di Studi sull'Intelligenza Artificiale (IDSIA), Lugano, Switzerland

Luca Maria Gambardella

Department of Automatic Control and Systems Engineering, The University of Sheffield, Mappin Street, S1 3JD, Sheffield, UK
Roderich Groß

KOVAN Research Lab., Department of Computer Engineering, Middle East Technical University, Inonu Bulvari, 06531, Ankara, Turkey
Erol Şahin

Department of Bioengineering, Binghamton University, State University of New York, 13902-6000, Binghamton NY, USA
Hiroki Sayama

IRIDIA, CoDE, Université Libre de Bruxelles, Avenue F. Roosevelt 50, CP 194/6, 1050, Brussels, Belgium
Thomas Stützle

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