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Particle Swarm Optimization of Bollinger Bands

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Swarm Intelligence

(ANTS 2010)

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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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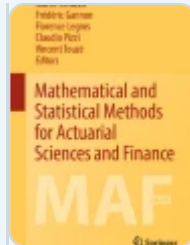
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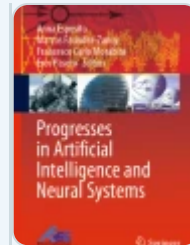
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About this paper

Cite this paper

Butler, M., Kazakov, D. (2010). Particle Swarm Optimization of Bollinger Bands. In: Dorigo, M., *et al.* Swarm Intelligence. ANTS 2010. Lecture Notes in Computer Science, vol 6234. Springer, Berlin, Heidelberg.
https://doi.org/10.1007/978-3-642-15461-4_50

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|---|------------------------------|-------------------|
| DOI | Publisher Name | Print ISBN |
| https://doi.org/10.1007/978-3-642-15461-4_50 | Springer, Berlin, Heidelberg | 978-3-642-15460-7 |

| | |
|-------------------|---|
| Online ISBN | eBook Packages |
| 978-3-642-15461-4 | Computer Science |
| | Computer Science (R0) |
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