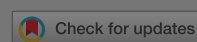


Quantitative Finance >
Volume 18, 2018 - Issue 106,488 9
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Invited Paper

Machine learning for quantitative finance:
fast derivative pricing, hedging and fittingJan De Spiegeleer, Dilip B. Madan , Sofie Reyners & Wim Schoutens 

Pages 1635-1643 | Received 08 Jun 2018, Accepted 18 Jun 2018, Published online: 27 Jul 2018

 Cite this article  <https://doi.org/10.1080/14697688.2018.1495335>

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Abstract

In this paper, we show how we can deploy machine learning techniques in the context of traditional quant problems. We illustrate that for many classical problems, we can arrive at speed-ups of several orders of magnitude by deploying machine learning techniques based on Gaussian process regression. The price we have to pay for this extra speed is some loss of accuracy. However, we show that this reduced accuracy is

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Disclosure statement

No potential conflict of interest was reported by the authors.

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Notes

† Matrix inversion is often implemented via a Cholesky decomposition (Benoît [1924](#), Rasmussen and Williams [2006](#)), which is more stable than actually inverting the matrix. For small matrices, i.e. small values of n , ordinary matrix inversion can be performed. For the results in this paper we used the Matlab functions `fitrgp` and `predict`. However if the dimension increases, special techniques need to be deployed. We mention LU-factorization and blockwise Cholesky decomposition, which aim at solving traditional memory problems that one encounters when inverting large matrices. For future work we will employ Cholesky and blockwise Cholesky routines to handle problems with many more data points.

† κ = rate of mean reversion, ρ = correlation stock - vol, θ = vol of vol, η = long run variance, σ_0^2 = initial variance.

† For each parameter combination, the same random numbers are used to construct the 100 000 Heston-based price paths of the underlying.



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