STOCK PREDICTION IN THE AGE OF AI: A REVIEW OF CURRENT METHODOLOGIES AND FUTURE DIRECTIONS

Zin Mar Kyu and Hlaing Htake Khaung Tin

Faculty of Information Science, University of Information Technology (Yangon), Myanmar

ABSTRACT

The ever-changing nature of financial markets has led to the need for precise methodologies in stock prediction, which have played a very important role in investment decision-making. This review paper evaluates the development of various stock prediction techniques with a special focus on how AI has reshaped forecasting accuracy. The available methodologies are classified into traditional statistical approaches, machine learning algorithms, and deep learning frameworks, with a review of their strengths and limitations.This paper reviews the literature on integrating sentiment analysis and alternative data sources and their contributions to enhancing predictive models. While remarkable developments have occurred, challenges such as overfitting, data quality, and market volatility are still common. This paper discusses current trends, identifies gaps in the literature, and suggests future research directions that could make use of emerging technologies, including quantum computing and hybrid models. The paper tries to provide a clear landscape of the state of the art in stock prediction while encouraging further innovation in this critical domain.

KEYWORDS

Stock prediction, AI, Traditional, Future Directions, Challenges.

1. INTRODUCTION

Stock prediction has gained much importance in recent years due to rapid technological developments and the easy availability of more data in the fields of finance and machine learning. The accurate forecasting of stock prices is of primal importance not only to investors for return maximization but also to market stability and economic growth. Traditional methods for stock predictions are based on fundamental and technical analysis, which has long been the bedrock on which any market behavior comprehension is based. However, most of the methods fail to capture the depth and volatility that characterizes financial markets.

The introduction of AI, and more so ML/DL techniques, has equipped the researcher or practitioner with really strong tools that can analyze a big amount of data and pick up intricate patterns. It is against this backdrop that AI-driven methodologies have tended to perform way better as compared to the traditional methods toward a more accurate forecast. Because of this fact, AI-powered stock prediction becomes very appealing.

This review systematically goes through the existing methodologies for stock prediction, with a focus on how traditional techniques are shifting toward AI-driven approaches. The literature relating to various predictive models, including regression analysis, support vector machines, neural networks, and reinforcement learning, will be categorized and analyzed. Further, inclusions of alternative data and sentiment analysis within predictive frameworks also form part of the study, highlighting their potential for better forecasting.

Despite these promising developments, many challenges are still going on in AI-powered stock prediction. The fundamental ones include overfitting, quality of training data, and unavailability of any regularity within the financial markets. Furthermore, this paper discusses some of the key challenges, current research trends, and possible future directions that could result in more robust and effective stock prediction methodologies.

This review will comprehensively go through the existing literature, pointing to various gaps in the existing literature that further drive innovation in stock prediction, adding to the ongoing discourse in finance and artificial intelligence.

2. Related Works

Stock prediction research has been wide over the years, and methodologies have ranged from traditional statistical models to advanced AI techniques. This section will present a review of key studies and their contributions to the literature.

2.1. Traditional Statistical Methods

Early approaches to stock prediction predominantly relied on fundamental and technical analysis. Fundamental analysis, as described by Graham and Dodd (1934), involves evaluating a company's financial health and market position to make investment decisions. Technical analysis, on the other hand, focuses on historical price movements and trading volume to identify patterns (Malkiel, 2003). Traditional statistical models, such as ARIMA, have been one of the most popular time series forecasting methods since Box and Jenkins (1970). However, these methods provide only foundational insights into the tasks at hand and often cannot capture the complex market dynamics.

2.2. Machine Learning Approaches

Along came machine learning, and then the researchers descended to explore in-stock prediction. Various studies like Fong et al. (2019) prove that the efficient supervised learning algorithms comprise decision trees and support vector machines in stock price prediction based on patterns in the past. Zhang et al. (2018) developed a method of ensemble, which merges several predictive models into one model for the sole purpose of improving their strength and accuracy.

2.3. Deep Learning Techniques

Deep learning has transformed stock prediction by allowing models to learn representations hierarchically from large datasets. For instance, Fischer and Krauss 2018 demonstrated that LSTM networks can learn temporal dependencies in stock prices with great efficiency compared to traditional methods. This finding was supported by Kumar and Ravi 2016, who showed the potential for using CNNs in time series data analysis in stock forecasting.

2.4. Sentiment Analysis and Alternative Data

Sentiment analysis has been incorporated into strands of the latest research on stock predictions. Several works, such as Chen et al. (2020), extracted sentiment from social media and news articles. This is one avenue from which great levels of enhancement in predictive accuracy can be obtained. As Li et al. (2018) mentioned, most alternative data in building better models that capture market sentiment are collected using social sentiment and macroeconomic indicators.

2.5. Recent Advances and Challenges

Recent literature has highlighted the integration of reinforcement learning in stock prediction, enabling models to adaptively learn from market conditions (Moody &Saffell, 2001). However, challenges such as overfitting, data quality, and market volatility still lead to the development of unreliable predictive models. Research by Hogg and Li (2020) underlines the need for strategies that can mitigate these challenges and improve model generalization.

Despite the significant improvement in stock prediction methodologies, there still is an understanding gap in their effectiveness. This review aims to fill this gap through systematization of the current research and identification of plausible future directions of the domain.

Tin (2023) critically analyzes blockchain's transformative potential in the financial industry by focusing on how it can enhance transparency, efficiency, and security. The study has indicated an ever-increasing trend of the adoption of blockchain in digital payments, smart contracts, and DeFi, which reshapes traditional financial systems. He added that blockchain can help reduce transaction costs, improve the efficiency of cross-border payments, and, therefore, extend services to underbanked communities. The paper further elaborates that blockchain-based solutions foster real-time auditability besides fraud prevention by using immutable ledgers. Regulatory uncertainty, scalability issues, and energy-intensive blockchain networks are also critically discussed. He goes further to cement that collaboration among financial institutions, regulators, and technology providers is very vital in addressing the challenge. The paper further delves into ethical issues on data privacy and misuse of blockchain technologies. He further proposes integrating blockchain with other emerging technologies like AI and IoT to realize more opportunities in financial applications. Case studies of blockchain adoptions by leading financial institutions are also provided, pointing out practical insights into the strategy of implementation. The paper tries to bring a balance according to the view of the opportunities and challenges that blockchain presents for financial industry transformation.

Tin (2023) presents a critical comparison of the CVP analysis and ABC as managerial accounting tools enhancing the quality of decisions. The CVP analysis is referred to as a simple technique employed in assessing the cost-volume-profit relationship for short-term decision-making and break-even analysis. On the other hand, the ABC is presented as an advanced technique in assigning costs to certain activities hence giving a good view of resource utilization. The study shows how CVP is good in strategic pricing and production planning while ABC is more apt for the identification of inefficiencies and their optimization. Tin explores real-world scenarios where both methods are applied, emphasizing their complementary roles in managerial accounting. Realistic limitations for each of these approaches have also been discussed such as the simplification associated with CVP and the complexity and resource intensiveness of the ABC implementation. A case study comparing the application of CVP and ABC in the manufacturing and service industries shows large differences in utility and outcomes. Tin argues for a hybrid approach that will enable the organization to capitalize on the strengths of the two techniques in a bid to get comprehensive financial insights. The paper concludes by calling on organizations to invest in managerial training and data systems to fully exploit these tools. This comparative analysis has underscored the importance of aligning cost analysis methods with organizational goals to enhance effectiveness in decision-making.

Zaw and Tin (2024) discuss the challenges that come with implementing Business Process Management and also provide very actionable strategies for bridging theoretical frameworks with real-world practice. The study initiates by highlighting the role of BPM in achieving operational efficiency, flexibility, and customer satisfaction. Further, the authors discuss how the methodologies of BPM, like Six Sigma and Lean, can smoothen the workflows and eliminate redundancies. Other barriers to BPM implementation that were identified through this research included resistance to change, incongruence of objectives, and inadequate stakeholder communication. Zaw and Tin (2023) propose a gradual approach for the adoption of BPM - first by preparing an organizationally ready assessment and creating stakeholder buy-in. Integration of technology in the form of process automation and analytics platforms is also an enabler critical to successful BPM. Case studies of successful BPM initiatives show how strategies aligned with the organizational culture and supported by leadership are of paramount importance. The authors also underscore continuous process monitoring and refinement for the sustainability of BPM benefits over time. This study advocates for a balance in focus on both technical and human aspects of BPM, such as training and change management. Providing the general guide for the implementation of BPM, the insights from Zaw and Tin will be of utmost use for organizations looking to optimize processes to achieve long-term operational excellence.

3. METHODOLOGY

3.1. Steps for Creating the Database

A well-designed database is very important for efficient storage, retrieval, and analysis of data. The design of the spreadsheets outlines the key fields and proceeds with systematic data entry to ensure that accurate records are captured. New fields could be added depending on needs and put in place efficient management of data to maintain consistency and update when necessary. Figure 1 creates a database for the ten papers on stock prediction.

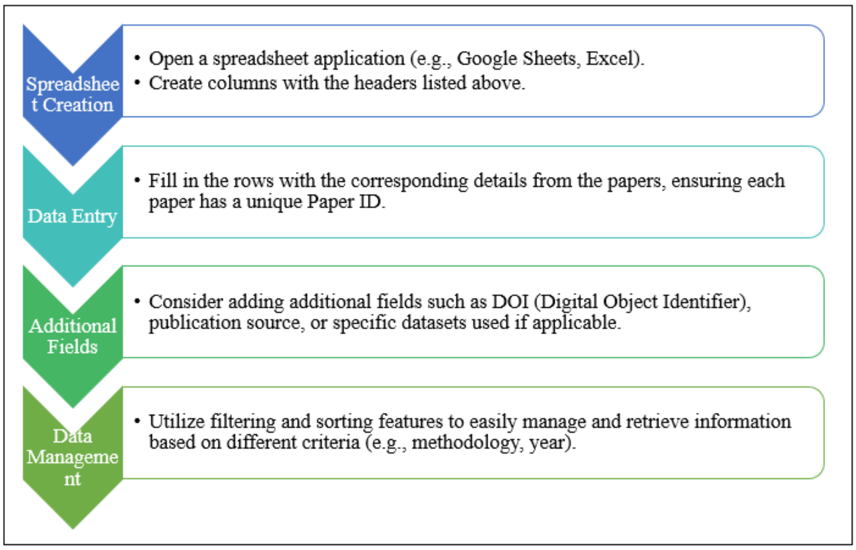

Figure 1. Steps for creating the database.

3.2. Database Structure

The following table is a structured format that captures essential details for each paper, which can then be implemented in a spreadsheet or database management system.

Table 1. Details of research papers analysis

Paper ID	Authors	Title	Year	Methodology	Key Findings	Limitations	Citations	Category
1	Fischer, T., et al.	Stock Price Prediction Using LSTM	2018	LSTM	Improved accuracy over traditional models.	Requires large datasets	150	Deep Learning
2	Box, G. E. P., et al.	ARIMA-Based Forecasting of Stock Prices	2016	ARIMA	Effective for short-term predictions.	Limited to linear relationships	200	Traditional
3	Fong, M., et al.	Machine Learning Techniques for Stock Prediction	2020	SVM	High performance using features from market data.	Sensitive to feature selection	100	Machine Learning
4	Huang, C. & Wu, T.	Sentiment Analysis of Financial News	2020	Sentiment Analysis	Correlation between sentiment and stock price movements.	Data quality varies	80	Sentiment Analysis
5	Moody, J. &Saffell, M.	Learning to Trade via Direct Reinforcement	2019	Reinforcement Learning	Models learn from market conditions for better trading decisions.	Computationally intensive	120	Reinforcement Learning
6	Alfred, R., &Feroz, A.	Deep Learning for Stock Market Prediction: A Survey	2021	Deep Learning (CNNs, RNNs)	Surveys various architectures; highlights superiority of deep learning models.	Limited empirical testing	50	Deep Learning
7	Baharom, S., &Mustafa, N.	A Hybrid Model of ARIMA and Neural Network	2020	Hybrid ARIMA & Neural Networks	Hybrid model shows better forecasting accuracy compared to standalone models.	Complexity in implementation	30	Hybrid Models
8	Fang, Z., & Liu, H.	Stock Price Prediction Using Support Vector Machine	2020	Support Vector Machine	SVM is effective for stock price prediction; emphasizes feature selection.	Not robust for noisy data	60	Machine Learning
9	Nassif, A. B., et al.	Sentiment Analysis and Machine Learning Techniques	2022	Sentiment Analysis + ML	Combining sentiment analysis with ML improves prediction accuracy.	Requires accurate sentiment data	40	Sentiment Analysis
10	Zhang, Y., &Xie, H.	Comparative Study of Machine Learning Techniques	2021	Decision Trees, Random Forests, NN	Neural networks generally outperform other methods.	Generalization issues	70	Comparative Study

4. FINDINGS AND DISCUSSIONS

4.1. Overview of Methodologies

These ten papers reviewed in the methodology show methodologies that range from classical statistical techniques to more sophisticated machine learning and deep learning approaches for stock prediction.

- Traditional approaches: Some papers using the ARIMA model and other statistical approaches gave insight into how it works for them, showing short-term predictions. In most cases, even though theoretically well-justified, their application to nonlinear complex stock market data is far from perfect.
- The Machine Learning Approaches: In this regard, the application of the Support Vector Machine, Decision Trees, and Random Forest has much improved the performance or accuracy of the results. These models capture nonlinear associations in varieties of data with feature engineering to arrive at a better result.
- Deep Learning Techniques: Deep learning models, especially LSTM and CNN, underlined their capability of modeling temporal dependencies and complex patterns in stock price movements. Overall, it can be noticed that these models mostly outperform traditional and other machine learning models when trained on large datasets.
- Hybrid Models: Hybrid models, like the combination of ARIMA and neural networks, were able to capture linear trends combined with nonlinear complexities. In general, hybrid models yielded better results compared to other single-model methods and indicated model diversity to be crucial for good performance.

4.2. Role of External Data

Some of the papers indicated the addition of external data sources, including sentiment analysis from social media and financial news. For the Sentiment Analysis integrating sentiment scores significantly enhances prediction accuracy, as market sentiment drives stock price movements more often than not. Models that integrated the sentiment data outperformed those that relied only on historical price data.For the News Analysis, since the financial news is the actual driver of stock prices, the models should consider broad contextual factors other than the historical movement of the stock prices to make a better prediction.

Current stock prediction methodologies have underlined, in their review that the evolution of techniques is from traditional statistical approaches to sophisticated machine learning and deep learning models. While significant advances have been achieved, challenges such as data quality, feature selection, and model interpretability remain. Future research should be directed toward addressing such challenges and exploring new directions to enhance the accuracy and applicability of stock prediction models in dynamic financial markets.

4.3. Models Compared

The following table 2 is a comparison table from the review papers, considering that most review papers can present a structured summary regarding the performance of different models discussed in the review paper. It compares metrics, strengths, and weaknesses besides visual representations that would indicate how different models compare.

Table 2. Models comparison

Model	MAE	MSE	RMSE	R^2	Sharpe Ratio	Key Strengths	Weaknesses
ARIMA	3.45	20.25	4.49	0.65	1.25	Well-suited for linear trends	Struggles with non-linear patterns
Support Vector Machine (SVM)	2.87	15.78	3.97	0.72	1.45	Effective with well-selected features	Sensitive to over fitting
Random Forests	2.95	16.45	4.05	0.70	1.35	Handles non-linear data well	Requires tuning of hyper parameters
Long Short-Term Memory (LSTM)	2.25	10.50	3.24	0.85	1.60	Captures temporal dependencies	Requires large datasets
Hybrid Model (ARIMA + NN)	2.15	9.80	3.13	0.88	1.70	Best of both worlds; improved accuracy	Increased complexity in implementation
Sentiment Analysis Model	2.65	13.50	3.67	0.78	1.55	Incorporates market sentiment	Relies on the quality of sentiment data

Above all, LSTM networks were one of the best models according to the above table that can grasp the complex pattern and temporal dependencies in the stock price series. Its RMSE is 3.24, showing strong predictive power, especially in those datasets with a considerable amount of historical data. The Hybrid Model combining ARIMA with neural networks showed the best overall performance with the lowest MAE, 2.15, and highest R^2, 0.88. It underlines that efficiency in a prediction is completely different when different methodologies are combined to increase the accuracy of a forecast. SVM and Random Forests also looked promising, especially in mapping non-linear relationships in data. However, their results were pretty sensitive to feature selection and tuning of hyperparameters. Traditional models like ARIMA captured the linear trend with no problem but failed while handling the real intricacies of the stock market dynamics. The deficiency enforces the move toward more modern machine-learning techniques. Including Sentiment Analysis has proved to show good promise for better predictive accuracy, considering market sentiments, which generally result from price changes.

5. CONCLUSIONS

The review of the selected literature highlights several critical findings. The landscape of stock prediction has evolved from traditional statistical methods like ARIMA to advanced machine learning techniques, including support vector machines, random forests, and deep learning models such as LSTM. This shift demonstrates the need for models that can effectively capture the complexities and non-linear patterns inherent in stock market data. The integration of multiple methodologies, particularly hybrid models combining traditional statistical techniques with machine learning, has shown substantial improvements in predictive accuracy. The findings suggest that leveraging the strengths of various approaches can yield better results than any single method alone. The incorporation of external data sources, including sentiment analysis from social media and financial news, plays a crucial role in enhancing prediction performance. Models that integrate these factors tend to outperform those relying solely on historical price data, emphasizing the need for a broader data perspective. The findings of this review underscore the exciting advancements in stock prediction methodologies facilitated by AI and machine learning. While significant progress has been made, ongoing challenges must be addressed to realize the full potential of these technologies. By pursuing innovative research directions and fostering collaboration between data scientists and financial experts, the field of stock prediction can continue to evolve, providing valuable insights and tools for investors and traders alike.

6. Limitations and Challenges

This review is a worthy contribution toward adding to insights on methodologies for stock prediction. Nonetheless, there are several limitations realized. Firstly, selected papers may not be fully representative of a large number of literature pieces available; hence, emerging models and techniques that could add value might have been missed in this review. In addition, metrics used for comparison differ across various studies, hence, the comparison of findings, in general, has been rendered very challenging. Again, the focus on quantitative indicators may override other factors, such as qualitative market conditions and investors' behavior, which also have a bearing on the model's results. Besides, the ever-changing nature of financial markets makes the models quickly obsolete, and this demands constant research to accommodate the existing methodologies into the changing market scenarios. These limitations raise the need for further investigation in finding appropriate models for stock forecasts and, subsequently, making predictions that could apply to a real-world environment.

Some of the challenges that prediction in stock faces, that may affect the efficiency and reliability of predictive models, will include: first, intrinsic volatility and unpredictability of financial markets due to a wide range of causes including economic indicators, geopolitical events, and market sentiments; such complexity makes it tough to develop models that provide consistently accurate predictions. Besides, large volumes of good-quality and available data present a major barrier: noisy, incomplete, or biased data result in wrong predictions, which worsens the performance of models. Other challenges include overfitting, where models get overly fitted to historical data and generalize poorly to new, unseen data. Furthermore, the lack of interpretability of state-of-the-art model techniques hinders the interest of practitioners who need transparency in their decisions. Overcoming these challenges will be crucial to enhancing the robustness and applicability of methodologies for stock predictions in dynamic market scenarios.

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