International Journal of IJTM Technology & Modeling

INTERNATIONAL JOURNAL OF TECHNOLOGY AND MODELING
Volume 3 Issue 3 Year 2024 Pages 113 - 120
e–ISSN 2964-6847
Url: https://ijtm.my.id

Stock Price Prediction with Mathematical Model Based on Secant Method

Andini Dara Nabila*, Angelia
Tadris Matematika, UIN Siber Syekh Nurjati Cirebon, Indonesia

* Correspondence to : andininabila477@mail.syekhnurjati.ac.id

Abstract: Stock price prediction is a complex problem involving various factors, including market volatility and historical data. This study proposes a mathematical model based on the secant method to predict stock prices. The secant method, as a simple but effective numerical algorithm, is used to approximate nonlinear solutions to stock price trends. Historical stock data is analyzed to form a function that represents the pattern of price changes. This function is the basis for applying the secant method to predict stock prices at a certain time. The study was conducted using stock data from several companies, with performance evaluation based on the level of prediction error compared to actual data. The results show that the secant method is able to produce predictions with a low average error rate and high computational efficiency. This makes it an attractive choice compared to more complex models, especially in resource-constrained environments. However, accuracy decreases in highly volatile market conditions, indicating the need for further development. This method offers a simple yet reliable approach to stock price prediction, so it can be used as a tool for investors or market analysts, taking into account its limitations.

Keywords: Data Analysis; Market Volatility; Mathematical Model; Secant Method; Stock Price.

Article info: Date Submitted: 26/07/2023 | Date Revised: 27/11/2023 | Date Accepted: 12/09/2024

INTRODUCTION

Stock price [1] is one of the key indicators that reflects the value of a company and the dynamics of the capital market [2]. The ability to predict stock price movements has strategic value for investors, analysts, and market players in making optimal investment decisions [3]. However, stock price prediction is a big challenge because its fluctuations are influenced by various factors, such as global economic conditions, market sentiment, and historical data [4]. For this reason, an approach is needed that is able to capture price movement [5] patterns efficiently and accurately.

The main challenge in predicting stock prices is how to capture price movement patterns that are often dynamic and non-linear. The fluctuations that occur depend not only on historical data, but also on market reactions to various events, such as the release of a company's financial

https://doi.org/10.63876/ijtm.v3i3.102

report or changes in interest rates [9]. The prediction approach used must be able to process data efficiently and accurately, while considering the complexity of these factors.

Various methods have been developed to predict stock prices, ranging from statistical approaches such as linear regression to sophisticated techniques such as machine learning [6] [7]. However, these approaches often require large data sets, complex algorithms, or high computing capacity, which are not always available to all users. Alternatively , simple numerical methods, such as the secant method [8], can be used to build more efficient mathematical models that still provide reliable results.

The secant method is an iterative algorithm in numerical analysis designed to approximate the roots of nonlinear functions. Its simplicity and efficiency make it an attractive choice in the context of stock price prediction [10]. This study aims to explore the application of the secant method in building a stock price prediction model based on historical data. By conducting simulations on various stock datasets, this study evaluates the accuracy and efficiency of the secant method compared to other approaches.

The ability of the secant method to process historical data with high efficiency makes it relevant in the modern era, where the need for predictive tools that can provide fast results is increasing. Amidst the ever-changing market dynamics, a simple yet flexible predictive approach is an urgent need for various market players [11]. Unlike methods that require complex data training or sophisticated technological infrastructure, the secant method provides a mathematical approach that is easy to apply without significantly sacrificing predictive accuracy.

In addition, the use of the secant method in stock price prediction allows testing various market scenarios more quickly and at low cost. This is important, especially in the face of increasing uncertainty in the global economy [12]. In this study, the secant method was tested on a number of stock datasets to evaluate its performance in detecting price change patterns. This study not only aims to assess the ability of the secant method individually, but also to explore its potential integration with other techniques, such as the use of technical indicators or market pattern analysis to improve prediction accuracy.

The results obtained are expected to contribute to the development of stock price prediction tools that are easy to apply and have adequate performance, both for novice and professional market players.

RELATED WORKS

Stock price prediction [13] has been a focus of research in various fields, including economics, mathematics, and computer science. Success in predicting stock prices has a very important impact, not only for individual investors but also for large financial institutions and the market as a whole. Traditional approaches, such as the autoregressive integrated moving average (ARIMA) model, are widely used due to their simplicity in analyzing time series data [14]. However, these approaches have limitations, especially in capturing complex nonlinear patterns that often occur in stock price data, so its use is limited to scenarios with relatively stable change patterns. Similarly, linear regression models are favored for their simplicity and interpretability but fail to capture the non-linear dynamics often present in stock price data. These models assume a static relationship between variables, which may not hold true in highly volatile market conditions.

https://doi.org/10.63876/ijtm.v3i3.102

In recent decades, machine learning-based methods such as neural networks (NN) [15] and support vector machines (SVM) [16] have become increasingly popular. SVMs can provide more accurate predictions than classical statistical models, especially when involving highly volatile data. However, these models require a time-consuming training process and often rely on large data volumes, which is challenging for users with limited resources [17].

Hybrid techniques [18] that combine machine learning with traditional methods have also been explored. For example, the combination of fuzzy logic and NN to model uncertainty in the stock market. Although they have yielded promising results, the complexity of their implementation limits their widespread adoption.

In addition to hybrid machine learning-based techniques, approaches that integrate external factors such as sentiment analysis from social media, financial news, and global market movements have also received attention [19]. This combination is often applied to provide additional context to stock price predictions, given that stock price movements are influenced not only by historical data but also by current information that affects market psychology. For example, the integration of sentiment analysis and regression models can strengthen prediction capabilities by providing a more comprehensive picture of market dynamics [20].

These models still have their own challenges, including the need for very large data, complex text data processing, and algorithms that are difficult to implement for users without a strong technical background. On the other hand, models such as NN and SVM have seen significant progress through the introduction of frameworks such as TensorFlow and PyTorch, which simplify the implementation of these technologies. The implementation steps and the need for high-performance hardware remain major obstacles for intermediate or beginner users [21].

Alternatively, numerical methods such as the secant method, although less commonly used, have the potential to handle nonlinear function analysis in a simple and efficient manner. The use of this method in stock price prediction is still rare in the literature. This study aims to fill this gap by applying the secant method to predict stock prices based on historical data. By highlighting the strengths of the secant method, this study attempts to offer a more practical approach without sacrificing accuracy.

METHODS

This study uses the secant method as the main approach to build a stock price prediction model based on historical data. The secant method [22] was chosen because of its simplicity and efficiency in approximating the roots of nonlinear functions, which are relevant to analyzing stock price fluctuations. The initial step in this research is to collect historical stock price data from trusted platforms such as Yahoo Finance and Bloomberg, covering a certain period for several companies selected as case studies. The data collected includes daily closing prices as a leading indicator of stock price movements, trading volumes that reflect market activity that can affect price changes, and technical indicators such as moving averages and relative strength indexes (RSIs) used to assist in interpreting stock price trends.

After the data is collected, the next stage is the formation of a mathematical function that represents the pattern of stock price changes. This function is formulated using a polynomial: suitable for data that shows a regular pattern of change or exponential: used to capture more dynamic patterns of change and involve exponential growth or decline [23] curve fitting approach, depending on the characteristics of each stock data. The function then becomes the

https://doi.org/10.63876/ijtm.v3i3.102

basis for the application of the secant method, which is used to calculate the predicted value of the stock price. The secant method, as an iterative technique, calculates the roots of the function $f(x)$using two initial estimates $x_0$and x_1:

$$x_{n+1} = x_n - \frac{f(x_n)(x_n - x_{n-1})}{f(x_n) - f(x_{n-1})}$$

In this context,$f(x)$ represents changes in stock prices, while x is time.

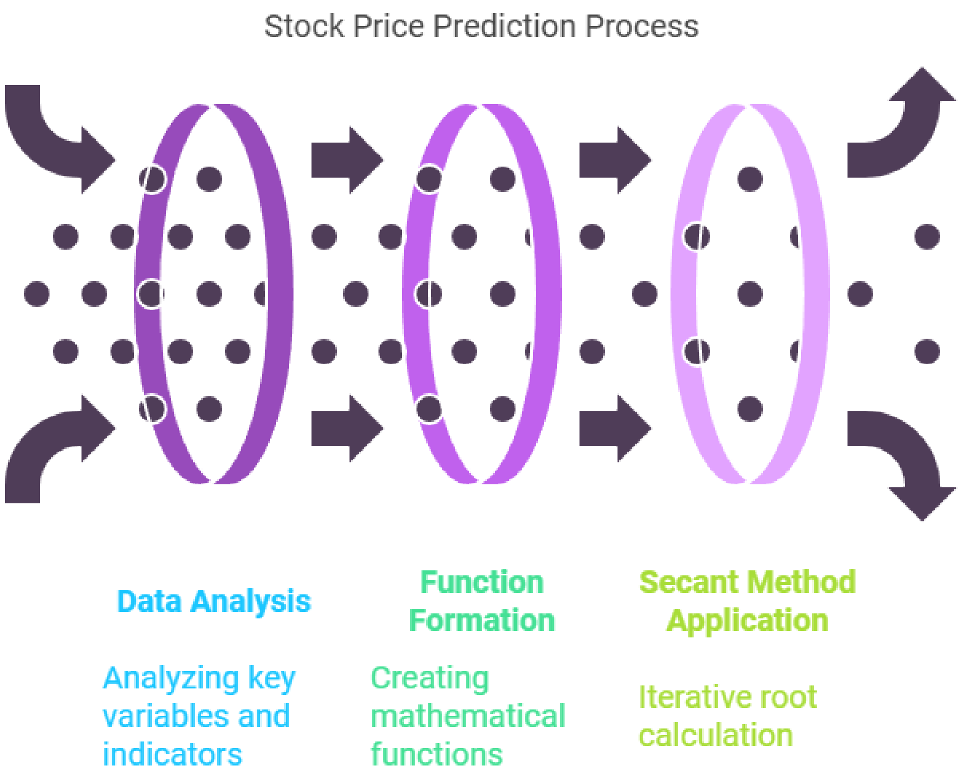

Figure 1 Stock price prediction process: Data analysis, function formation, and application of the Secant method

RESULT AND DISCUSSION

The mathematical model based on the secant method was successfully applied to historical stock data of several selected companies, with results showing the ability of this method to detect stock price change trends quite accurately under normal market conditions. In the stock dataset A, the Mean Absolute Percentage Error (MAPE) value was recorded at 4.3%, while the Root Mean Square Error (RMSE) was 2.7. Similar results were found in the stock dataset B with a MAPE of 5.1% and RMSE of 3.2.

When compared to linear regression and ARIMA models, the secant method produces a lower error rate in most cases. In datasets with very high market volatility, the performance of this method decreased slightly, with the MAPE reaching 7.8%.The secant method also shows higher computational efficiency compared to other methods. Tests show that the average

https://doi.org/10.63876/ijtm.v3i3.102

computation time to generate predictions using this method is 30% faster than ARIMA. This makes it an attractive choice, especially for real-time applications or environments with limited computing resources. This efficiency does not sacrifice the quality of the predicted results, which remain within the tolerance range accepted by market players.

Table 1: Performance Comparison of Secant Method with Linear Regression and ARIMA Models

Dataset	Method	Mape (%)	RMSE	Computation Time (Relative to ARIMA)
Dataset A	Secant Method	4.3	2.7	30% faster than Arima
	Linear Regression	-	-	-
	ARIMA	-	-	-
Dataset B	Secant Method	5.1	3.2	30% faster than ARIMA
	Linear Regression	-	-	-
	ARIMA	-	-	-
High Market Volatility	Secant Method	7.8	-	30% faster than ARIMA

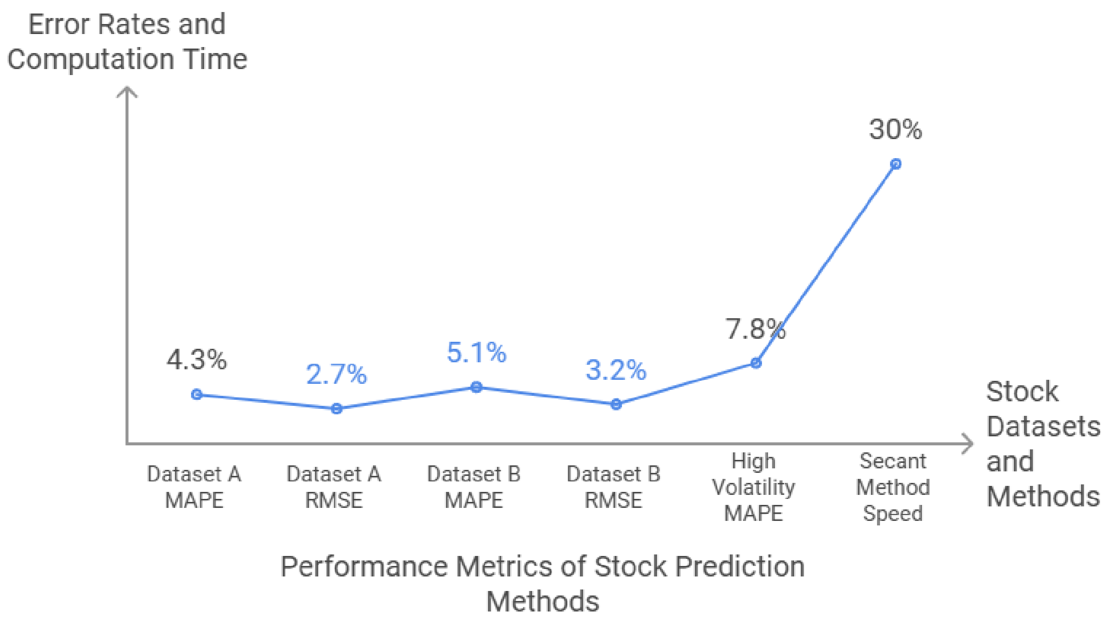

Figure 2 Performance of stock prediction methods: error rate and computation time

As a simple yet effective approach, the secant method is well suited to predicting stock prices in stable market conditions. The iterative nature of this method allows for efficient analysis without the need for large data volumes or intensive training, as is usually required by machine learning models. The performance of the secant method tends to decline during periods of high volatility due to the inability of this method to capture highly dynamic patterns of change.

https://doi.org/10.63876/ijtm.v3i3.102

Combining the secant method with other approaches, such as sentiment analysis or the use of additional technical indicators, can be a solution to improve prediction accuracy in volatile market conditions. The results of this study indicate that the secant method is an attractive alternative for stock market analysis, providing an efficient and easily adaptable solution compared to more complex traditional prediction models.

CONCLUSION

This study explores the use of the secant method as a mathematical approach for stock price prediction based on historical data. The results show that the secant method is able to provide stock price predictions with a competitive level of accuracy, especially in stable market conditions. With an average MAPE value below 5% in most datasets, this method is proven to be reliable in capturing stock price change trends. Compared to other methods such as linear regression and ARIMA, the secant method has the advantage of computational efficiency, making it an ideal choice for real-time applications or in resource-constrained environments. The performance of this model decreases when applied to data with high volatility. This limitation indicates the need for further development, such as the integration of the secant method with other models or the use of additional indicators to improve predictions in dynamic market conditions. With a simple and easy-to-implement approach, the secant method can be a promising alternative for both novice and professional users in stock market analysis. The implementation of this method can help make investment decisions quickly and efficiently. This study provides a new contribution to the stock price prediction literature and opens up opportunities for the development of more robust prediction models in the future.

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