Clustering of ETF Data for Portfolio Selection during Early Period of Corona Virus Outbreak

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Abstract

Market prediction is important for well-organized portfolio management with wise selection of investments. As share market prices change dynamically depending on various factors, manual tracking is difficult. Machine learning tools are now becoming popular for automatic prediction and recommendation for stock trading. In this work, the objective is to apply popular machine learning techniques for time series clustering on real ETF (Exchange Traded Funds) data and conduct a performance comparison of the results. Here four clustering methods are used which are: 1) Hierarchical clustering with Euclidean distance, 2) k-means clustering with a) Euclid distance (ED) and b) Dynamic Time Warping (DTW) as the distance measures, 3) k-means with shape based distance measure (k-Shape) and 4) k-means with a newly developed shape based transformation along with DTW as a similarity measure LTAA (Log Time Axis Area). The clustering results on 20 ETF data from Tokyo Stock Exchange have been analyzed. It is found that the trends of the stock market of different funds during the early period after the outbreak of coronavirus can be categorized into roughly three clusters. The big cluster is representing ETFs suffering loss and two smaller clusters, one of them showing no damage and the other comprised of ETFs suffering loss but showing varying degrees of recovery with time.

Keywords: Portfolio selection, Time series clustering, ETF data

1. Introduction:

Portfolio management by optimal allocation of a limited capital among a finite number of assets, such as stocks, bonds etc. based on trade-off between risk and return is a well-known topic in financial market. Modern portfolio theory based on Markowitz’s mean-variance portfolio model [1, 2] attempts to
minimize portfolio risk for a given level of return or maximizes the return for a given level of risk. However, given many stocks/assets, the instability of the expected frontiers are likely to become high [3]. Clarke et al. insisted that it was required to incorporate additional constraints in order to achieve its robustness [4]. Prado incorporated the hierarchical structure to the set of stocks/assets in his proposed method called Hierarchical Risk Parity (hereafter HRP)[3, 5, 6]. The HRP methods use the inverse variance allocation method which splits a weight in inverse proportion to the subset’s variance, because such allocation is optimal when the covariance matrix is diagonal. As a result, the HRP outperformed the original Markowitz’s model [7, 8].

Towards the final objective of constructing a well-organized portfolio, our approach is as follows: (1) defining a set of clusters having similar fluctuations in the time series, (2) drawing the risk and return graph of the representatives/averages of the individual clusters, and (3) drawing the expected frontier. In this work, we shall focus on the first step which is a time-series clustering process for grouping the similar trending time series to fulfill the aim.

Time-series clustering consists of (1) whole time-series clustering, (2) subsequence time-series clustering, and (3) time point clustering [9]. Among them, our approach is to follow whole time-series clustering, which is clustering of a set of individual time-series with respect to their similarity. Whole time series clustering has two significant attributes which are 1) type of distance measurement or similarity metric such as Dynamic Time Warping (DTW), Pearson’s correlation coefficient and related distances or Euclidean distance and (2) type of clustering algorithm such as hierarchical clustering or partitioning clustering.

Regarding the distance measurement, DTW [10], being an elastic distance measure, clusters time-series with similar patterns of changes regardless of time points. For example, DTW clusters share price related to different companies which have a common pattern in their stock movement independent of their occurrence in time-series [11]. The advantage of DTW is its capability to align one point in a time series to multiple points in another one [12, 13]. WDTW (Weighted Dynamic Time Warping) is a weighted version of DTW [14, 15] which produced more efficient result. There are many researches on financial time series clustering which used DTW as the distance measurement [16-18]. Regarding the clustering algorithms, there are two types; they are hierarchical clustering and a representative partitioning clustering. For example, Hierarchical clustering [19] constructs a hierarchy of clusters using 1) agglomerative or bottom-up, 2) divisive or top-down algorithms. On the other hand, k-Means [20] which is a representative partitioning method minimizes the total distance between all objects in a cluster from their cluster center.

Clustering based portfolio optimization have been reported in several works. Massahi et al. compared the original Markowitz’s method and cluster-based portfolio optimization methods using weighted dynamic time warping (WDTW), autocorrelation coefficient (ACC) and Pearson’s correlation coefficient (PCC) as the similarity measures [21]. They used 500 stocks in New York Stock Exchange as time series data. The results revealed that the cluster-based portfolio optimization model often (in most of the cases) outperformed Markowitz’s minimum variance portfolio model. Especially in high-volatility periods, the ACC and WDTW based models lead to superior results compared to the PCC model as cross-correlation seems to be an unstable measure of similarity. Another cluster based model using
Euclidean distance and DTW has been reported in Puspita et al. [22]. They used stock data in Indonesia Sharia Stock Index and Jakarta Islamic Index and Silhouette index to estimate the cluster quality. They found no significant difference in the clustering results regarding the similarity measures. In [23], hierarchical clustering has been used for portfolio optimization. A hybrid model of portfolio optimization based on clustering stock prices is reported in [24].

In this work, we have used four clustering methods 1) Hierarchical clustering with Euclidean distance, 2) k-means clustering with Euclid distance (ED) and Dynamic Time Warping (DTW) as the distance measures, 3) k-means with shape based distance measure (k-Shape) and 4) k-means with a newly developed shape based similarity measure LTAA (Log Time Axis Area) for clustering ETF data to find out the change of trend of funds during the early period of corona virus outbreak and comparative study of the results. The next section describes the data and the methods used in our experiment followed by the section representing the results and analysis. The final section contains summary and conclusion.

2. Materials and Methods:

In this section, we will describe the time series data and the methods adopted in our work for clustering the time series data.

2.1 Data:

Here we used real Exchange Traded Funds (ETF) data during the early period of the outbreak of Corona virus from 2020/01/06 to 2020/05/01 (4 month-data). We selected various kinds of ETFs, because we wanted to grasp the whole trend of global market movement. The ETF data was retrieved from the data base Nikkei Financial QUEST by Nikkei. For the missing data, we conducted a linear interpolation. The data shown in Table 1 has been standardized. T1482 and T1656 are both US treasuries. The difference between them is that T1482 has a foreign currency exchange hedge to avoid losses due to the fall in the exchange rate. The foreign exchange hedges are recommended for those who want to take profits such as foreign stocks and foreign bonds without the influence of foreign currency exchange rates.
Table 1. ETF data from Tokyo Stock Exchange (Japan).

<table>
<thead>
<tr>
<th>Serial Number</th>
<th>Name of the ETF</th>
<th>Code Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TOPIX-linked listed investment trusts</td>
<td>T1306</td>
</tr>
<tr>
<td>2</td>
<td>TOPIX Core 30 Linked Listings</td>
<td>T1311</td>
</tr>
<tr>
<td>3</td>
<td>Listed Index Fund China A Shares (Panda)</td>
<td>T1322</td>
</tr>
<tr>
<td>4</td>
<td>UBS ETF Eurozone Large Stock 50</td>
<td>T1385</td>
</tr>
<tr>
<td>5</td>
<td>UBS ETF Swiss Shares (MSCI Switzerland)</td>
<td>T1391</td>
</tr>
<tr>
<td>6</td>
<td>UBS ETF UK Shares (MSCI UK)</td>
<td>T1392</td>
</tr>
<tr>
<td>7</td>
<td>iShares Core U.S. Treasuries 7-10 E</td>
<td>T1482</td>
</tr>
<tr>
<td>8</td>
<td>NEXT FUNDS Dow Jones Listed Index</td>
<td>T1546</td>
</tr>
<tr>
<td>9</td>
<td>Listed Index Fund U.S. Equities (S&amp;P)</td>
<td>T1547</td>
</tr>
<tr>
<td>10</td>
<td>China H-share bull double-listed investment trust</td>
<td>T1572</td>
</tr>
<tr>
<td>11</td>
<td>China H-Share Bear Listed Investment Trust</td>
<td>T1573</td>
</tr>
<tr>
<td>12</td>
<td>TSE Banking Stock Index listed ETF</td>
<td>T1615</td>
</tr>
<tr>
<td>13</td>
<td>NEXT FUNDS Energy Resources (TOPIX)</td>
<td>T1618</td>
</tr>
<tr>
<td>14</td>
<td>NEXT FUNDS Construction and Materials(TOPIX)</td>
<td>T1619</td>
</tr>
<tr>
<td>15</td>
<td>NEXT FUNDS Pharmaceuticals (TOPIX)</td>
<td>T1621</td>
</tr>
<tr>
<td>16</td>
<td>NEXT FUNDS Iron and Steel, and Non-Ferrous (TOPIX)</td>
<td>T1623</td>
</tr>
<tr>
<td>17</td>
<td>NEXT FUNDS Electric and Precision Machine (TOPIX)</td>
<td>T1625</td>
</tr>
<tr>
<td>18</td>
<td>NEXT FUNDS Power and Gas (TOPIX)</td>
<td>T1627</td>
</tr>
<tr>
<td>19</td>
<td>iShares Core U.S. Treasuries 7-10 E</td>
<td>T1656</td>
</tr>
<tr>
<td>20</td>
<td>NEXT NOTES Hong Kong Hansen Bear</td>
<td>T2032</td>
</tr>
</tbody>
</table>

2.2 Clustering Methods:
In this work we have used hierarchical clustering and three similarity measure based partitioning clustering methods for clustering of ETF data to assess the trend of the stock price movement of different ETF and to extract the representative pattern of the group of ETF data.

2.2.1 Hierarchical Clustering (HC):
Hierarchical clustering is a popular datamining technique in which similar data points are grouped into a hierarchy of classes in either of the two ways: agglomerative (bottom-up) or divisive (top-down). Depending on the way of distance measurement between data points within a group and outside of it, there are several variations of the algorithm. In this work we used single linkage agglomerative HC algorithm. In the field of portfolio construction, Prado’s proposed HRP (Hierarchical Risk Parity)
method has been widely used [3]. One of the main advantages of HRP is an ability in computing a portfolio on an ill-degenerated or even a singular covariance matrix [4]. After HRP, many researches by a hierarchical clustering had been conducted [4-7]. We shall conduct the same hierarchical clustering approach as HRP. Let us explain the method we used.

The input data is the raw data of ETF.

\[ G_{i,j} = S_{i,j} \]  

where \( S_{i,j} \) represents the i-th ETF’s price on j-th day. The number of ETFs is \( N \) and the number of sales days is \( T \). The size of the matrix \( G_{i,j} \) is \( N \) times \( T \). From the matrix \( G_{i,j} \), we shall make the correlation coefficient matrix \( \rho = \{ \rho_{i,j} \}_{i,j=1,\ldots,N} \). In HRP, the distance \( d \) is defined as follows:

\[ d_{i,j} = \frac{1}{2} (1 - \rho_{i,j}) \]  

Then the distance matrix \( D = \{ d_{i,j} \}_{i,j=1,\ldots,N} \) is obtained. Next, selecting any two distance columns, we shall calculate the Euclid distance as follows:

\[ d_{i,j} = \sqrt{\sum_{n=1}^{N} (d_{n,i} - d_{n,j})^2} \]  

Input the matrix \( \{ d_{i,j} \} \), we shall conduct the hierarchical clustering with single linkage as explained in the textbook [8]. Then, using the distances between nodes, we shall conduct “quasi-diagonalization” on the distance matrix \( \{ d_{i,j} \} \).

2.2.2 k-means clustering with Euclid distance (ED) and Dynamic Time Warping(DTW):

k-means clustering is the most popular algorithm for partitioning clustering in which data is partitioned into \( k \) groups based on similarity among data points with \( k \) prototypes. Euclid distance is the most common and computationally fastest distance metric and DTW is the most popular metric for measuring similarity between two different time series. DTW is an elastic measure and work well for unequal length and shifted time series unlike Euclid distance. The k-means algorithm is dependent on the value of \( k \) (number of clusters) and initial data values of \( k \) prototypes. Here we have checked with different values of \( k \) and used the best value according to sum of squared distances from cluster center (SSD) of the resultant cluster for final clustering of the data set.

2.2.3 k-Shape (k-means with shape based distance measure):

k- Shape is a comparatively new time series clustering algorithm developed in [25] for time series clustering. k-Shape uses a normalized version of cross correlation measure as a distance metric for comparing similarity of time series based on shape. In [26], authors used k-Shape for analysis of changes in stock price. We have used here k-Shape for clustering the ETF data.

2.2.4 k-means with Log Time Axis Area(LTAA):

Time Axis Area (TAA) is a newly developed shape based transformation technique which can be used as a similarity measure for time series classification by Ito and Chakraborty in [27]. It is 10 times faster than DTW in calculating similarity between different time series and is suitable for clustering of time series. LTAA represents Log Time Axis Area which is the logarithm of TAA. This algorithm actually
selects characteristics points from the original time series and use DTW for similarity calculation between two different time series but as the length of the time series becomes shorter, this technique takes much shorter time compared to similarity calculation by DTW with the original time series. Here we used k-means algorithm to cluster the time series with LTAA as the similarity measure.

3. Experimental Results and Analysis:

We will present the results of clustering and their analysis in this section.

Figure 1. Dendrogram of Hierarchical clustering with Euclidean distance (5 clusters)

Figure 2. Dendrogram of Hierarchical clustering with Euclidean distance (3 clusters)
### 3.1 Results of Hierarchical Clustering (HC)

Fig. 1 and Fig. 2 represent the results of clustering by using hierarchical clustering method if we consider 5 clusters and 3 clusters respectively. Fig. 3 shows the correlation co-efficient matrix after quasi diagonalization in which the order of ETF was changed and the greater correlation coefficients are collected diagonally. The Table 2 presents the result of HC. The table represents the clusters of funds (the serial numbers of funds in Table 1 are noted here) considering the different cuts of dendrogram resulting in 2, 3 and 5 clusters.

If we consider 3 clusters, No. 20, Code T2032, No. 11, Code T1573 are in one cluster, cluster 3 contains only No. 7, Code T1482 which is the US bond ETF with currency exchange hedge, while cluster 2 contains other funds. The third cluster contains only “iShares Core U.S. Treasuries 7-10 E with the hedge” while the other ETF funds falls into the second cluster.

![Figure 3. Correlation coefficient matrix after quasi diagonalization](image)

<table>
<thead>
<tr>
<th>Number of Clusters</th>
<th>Cluster 1</th>
<th>Cluster 2</th>
<th>Cluster 3</th>
<th>Cluster 4</th>
<th>Cluster 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>11, 20</td>
<td>19</td>
<td>7</td>
<td>4, 5</td>
<td>Other funds</td>
</tr>
<tr>
<td>3</td>
<td>11, 20</td>
<td>19, and Other funds 7</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>11, 20</td>
<td>7, 19, 4, 5 and Other funds</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Results of Hierarchical Clustering for different cuts of Dendrogram
3.2 Results of Clustering of k-means with ED and DTW

We have experimented with k-means clustering to find the best value of k for both the similarity measures. Fig. 4 represents the MSE (mean square error) of the clusters for different values of k.

From the figure it is found that for Euclid distance, k=4 is the best value and for DTW, k=3 represents the correct number of clusters.

![Figure 4. Sum of squared distance with number of clusters for k-means clustering](image)

Table 3. Clustering results for k-means with ED and DTW

<table>
<thead>
<tr>
<th>Method</th>
<th>Cluster 1</th>
<th>Cluster 2</th>
<th>Cluster 3</th>
<th>Cluster 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>k-means(ED) with k=3</td>
<td>7,11,19,20 (blue)</td>
<td>1,2,3,4,6,8,9,10,12,13,14,16,17 (green)</td>
<td>5,15,18 (red)</td>
<td></td>
</tr>
<tr>
<td>k-means(ED) with k=4</td>
<td>7,19 (blue)</td>
<td>1,2,3,4,5,6,8,9,10,12,13,14,16,17 (red)</td>
<td>15,18 (yellow)</td>
<td>11,20 (green)</td>
</tr>
<tr>
<td>k-means(DTW) with k=3</td>
<td>7,11,19,20 (green)</td>
<td>1,4,6,12,13,14,16,18 (blue)</td>
<td>2,3,5,8,9,10,15,17 (red)</td>
<td></td>
</tr>
<tr>
<td>k-means(DTW) with k=4</td>
<td>7,11,19,20 (green)</td>
<td>1,12,13,14,16 (blue)</td>
<td>5,8,9,15,18 (red)</td>
<td>2,3,4,6,10,17 (yellow)</td>
</tr>
</tbody>
</table>

Table 3 presents the clustering results of k-means with ED and DTW for k=3 and k=4.

Fig. 5 and Fig. 6 represent the results of clustering of k-means with ED for k=3 and k=4 in which normalized data is used. It seems from the Table 3 and Fig. 5 that the trend of cluster 1 (blue) shows growth, these group of stocks did not suffer any damage by corona virus outbreak. Cluster 2 (green), the biggest group of stocks suffered the most and could not recover to the original level.
Cluster 3 (red) also suffered loss and could not yet recover to original level but the rate of recovery is faster than Cluster 2. Fig.6 shows cluster 1 in Fig 5. is divided into two groups: blue and green (cluster 4) where green represents better growth than blue group. The biggest cluster 2, green in Fig 5 is same as red in Fig 6 representing initial loss and slow recovery. Cluster 3, red group in Fig 5 is same as yellow group in Fig 6 representing initial loss and better recovery.
3.3 Results of Clustering of k-Shape:

For k-Shape method also we have experimented with different values of k presented in Fig. 9. It seems that k=5 should be the most proper value of k.
Clustering of ETF Data for Portfolio Selection during Early Period of Corona Virus Outbreak (Ito, Murakami, Dutta, Shirota, Chakraborty)

Figure 9. SSD values for clustering with k-Shape for different values of k

3.3 Results of Clustering of k-Shape:

For k-Shape method also we have experimented with different values of k presented in Fig. 9. It seems that k=5 should be the most proper value of k.

Table 4. Clustering results of k-Shape

<table>
<thead>
<tr>
<th>Method</th>
<th>Cluster1</th>
<th>Cluster2</th>
<th>Cluster3</th>
<th>Cluster4</th>
<th>Cluster5</th>
</tr>
</thead>
<tbody>
<tr>
<td>k-Shape, k=3 (Fig. 10)</td>
<td>3,7,10,13 (red)</td>
<td>2,4,6,11,12,14,16,19,20 (green)</td>
<td>1,5,8,9,15,17,18 (blue)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>k-Shape, k=5 (Fig. 11)</td>
<td>7,19 (yellow)</td>
<td>1,2,4,8,9,12,14,17 (red)</td>
<td>3,6,10,13,16 (green)</td>
<td>5,15,18 (sky blue)</td>
<td>11,20 (blue)</td>
</tr>
</tbody>
</table>

Fig 10 and Fig 11 represents the results of clustering by k-Shape using shape based distance measure for k=3 and k=5 respectively. The clustering results are shown in Table 4.

Figure 10. Clustering Result of k-Shape (k=3)
Examining Fig 10 and Fig 11, it is seen that Fig 11 captures the trend of the ETFs grouping better than Fig 10 as is expected from the fact that k=5 is the proper number of k. Now in Fig 11, cluster 1 (yellow) and cluster 5 (blue) represent the group of funds having growth as is found in other methods also. Cluster 2 (red), the largest group, represents the group suffering initial loss and then slow recovery. This also matches with other methods. Cluster 4 (sky blue) represents the group of funds with initial loss and better recovery. Cluster 3 (green) actually resembles cluster 2 with very little difference of larger group variance. They are considered one cluster by other methods.

3.4 Results of Clustering of LTAA:

Fig. 12 represents the result of LTAA with number of clusters k =3 which seems to be the most appropriate value for k from experiments with clustering by k-means with LTAA and from other clustering algorithms used in this study.

Here the three clusters found are as follows:

(1) Cluster 1 (red): 7, 19
   - iShares Core U.S. Treasuries 7-10 E (T1482)
   - iShares Core U.S. Treasuries 7-10 E (T1656)

This group did not suffer loss due to COVID-19.

(2) Cluster 2 (blue): The biggest group (1,2,3,4,5, 6,8,9,10,12,13,14,15,16,17,18)

This group of funds suffer loss and could not recover well.

(3) Cluster 3 (green):11, 20
   - China H-Share Bear Listed Investment Trust (T1573)
   - NEXT NOTES Hong Kong Hansen Bear (T2032)

This group also relatively low in loss or recovered early.

3.5 Comparative Performance Analysis:

The findings from the different clustering results are summarized in Table 5. It is found from the results of different clustering algorithms that the 20 ETF data can be clustered into three groups for all the clustering algorithms except k-Shape and k-means (ED) for which it is 5 and 4 respectively. This table summarizes the best clusters found from different
Here the three clusters found are as follows:

1. Cluster 1 (red): 7, 19
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   - iShares Core U.S. Treasuries 7-10 E (T1656)
   This group did not suffer loss due to COVID-19.

2. Cluster 2 (blue): The biggest group (1, 2, 3, 4, 5, 6, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18)
   This group of funds suffer loss and could not recover well.

3. Cluster 3 (green): 11, 20
   - China H-Share Bear Listed Investment Trust (T1573)
   - NEXT NOTES Hong Kong Hansen Bear (T 2032)
   This group also relatively low in loss or recovered early.

3.5 Comparative Performance Analysis:

The findings from the different clustering results are summarized in Table 5. It is found from the results of different clustering algorithms that the 20 ETF data can be clustered into three groups for all the clustering algorithms except k-Shape and k-means (ED) for which it is 5 and 4 respectively. This table summarizes the best clusters found from different algorithms and their respective analysis regarding the nature of the trend of ETF groups.

<table>
<thead>
<tr>
<th>Method</th>
<th>Clusters</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hierarchical Clustering (HC)</td>
<td>C1: 11,20</td>
<td>Hong Kong Bear 11 and 20 belong to the same C1</td>
</tr>
<tr>
<td></td>
<td>C2: 19, others</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C3 7</td>
<td></td>
</tr>
<tr>
<td>k-means (ED)</td>
<td>C1: 7,19, 11,20</td>
<td>US treasuries 7 and 19, and Hong Kong Bear 11 and 20 belong to the same C1</td>
</tr>
<tr>
<td></td>
<td>C2: Others</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C3: 5,15,18</td>
<td></td>
</tr>
<tr>
<td>k-means (DTW)</td>
<td>C1: 7,11,19,20</td>
<td>US treasuries 7 and 19, and Hong Kong Bear 11 and 20 belong to the same C1</td>
</tr>
<tr>
<td></td>
<td>C2: Others</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C3: 2,3,5,8,9,10,15</td>
<td></td>
</tr>
<tr>
<td>k-Shape</td>
<td>C1: 7,19</td>
<td>US treasuries 7 and 19, and Hong Kong Bear 11 and 20 are separated</td>
</tr>
<tr>
<td></td>
<td>C2: others</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C3: 3,6,10,13,16</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C4: 5,15,18</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C5: 11,20</td>
<td></td>
</tr>
<tr>
<td>LTAA</td>
<td>C1: 7,19</td>
<td>US treasuries 7 and 19, and Hong Kong Bear 11 and 20 are separated</td>
</tr>
<tr>
<td></td>
<td>C2: others</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C3: 11,20</td>
<td></td>
</tr>
</tbody>
</table>

When we compare the results by k-means (DTW) and by LTAA, we think that LTAA is superior to the k-means (DTW), because the US treasuries ETFs are separated from the Hong Kong related bear ETFs.
The clustering by human beings must be the LTAA result, because the Hong Kong related bear ETFs have two large peaks.

At least as it concerns the given ETF data, LTAA and k-Shape are superior to the DTW and ED from the viewpoint that the results by LTAA and k-Shape are more in accordance with human interpretation.

4. Conclusion:

In this work, different machine learning algorithms are used for clustering ETF data obtained during the early period after corona virus outbreak to analyze the market condition and their performances are evaluated according to their resemblance with human interpretation. Successful development of effective machine learning tools for market analysis is supposed to be very much needed in order to develop automatic techniques for prediction of investment choices. The well-known k-means algorithm for data clustering with several similarity measures is used here for clustering ETF time series.

We have explored the simplest and low cost Euclid distance and the most effective and computationally heavy Dynamic Time Warping as the similarity measures. We have also examined two shape based similarity measures to assess their effectiveness in clustering by k-means algorithm. One of them k-Shape has been already used in other similar time series clustering problems in financial area. The last one is LTAA, a newly developed shape based similarity measure used in time series classification. The experimental results confirm that k-Shape and LTAA have greater potential in clustering ETF data compared to Euclid distance and DTW as similarity measures for clustering by k-means algorithm. It can be inferred that as k-Shape and LTAA are based on extracting the shape characteristics of the time series, they have superior effect in clustering time series of same shape.

References

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