



Feature-Rich Long-Term Bitcoin Trading Assistant

Jatin Nainani^(✉), Nirman Taterh, Md Ausaf Rashid, and Ankit Khivasara

K. J. Somaiya College of Engineering, Vidyavihar 400077, India
{jatin.nainani,nirman.t,mdausaf.r,ankit.khivasara}@somaiya.edu

Abstract. For a long time predicting, studying and analyzing financial indices has been of major interest for the financial community. Recently, there has been a growing interest in the Deep-Learning community to make use of reinforcement learning which has surpassed many of the previous benchmarks in a lot of fields. Our method provides a feature rich environment for the reinforcement learning agent to work on. The aim is to provide long term profits to the user so, we took into consideration the most reliable technical indicators. We have also developed a custom indicator which would provide better insights of the Bitcoin market to the user. The Bitcoin market follows the emotions and sentiments of the traders, so another element of our trading environment is the overall daily Sentiment Score of the market on Twitter. The agent is tested for a period of 685 d which also included the volatile period of Covid-19. It has been capable of providing reliable recommendations which give an average profit of about 69%. Finally, the agent is also capable of suggesting the optimal actions to the user through a website. Users on the website can also access the visualizations of the indicators to help fortify their decisions.

Keywords: Bitcoin · Cryptocurrency · Reinforcement Learning · Sentiment Analysis · Technical Analysis · Trend trading

1 Introduction

Cryptocurrency is a virtual currency which is secured by cryptography which uses cryptographic functions to facilitate financial transactions and form a system to store & transfer value. It leverages blockchain technology in order to be decentralized. Its most important feature is that it's not controlled by a central authority like the government or bank to uphold or maintain it. Bitcoin, which was released in 2009 is the first decentralized cryptocurrency.

While there are numerous solutions and trading bots that try to generate profits by trading and through short term patterns, there is a need for an investing assistant which tries to maximise profits by considering long term trends and real-time user sentiments.

It helps give the investor a perspective of the overall market situation and accordingly enables them to plan their investment and allocate an appropriate percentage of their financial portfolio to cryptocurrencies and Bitcoin.

It is important to note that more than 98% percentage of short-term traders do not make a profit net of fees. This is because it is complicated to time the market and make the right trading decision every time. This is because there are too many variables involved in predicting the short-term price of any asset, more so in the case of Bitcoin since it is one of the most volatile financial assets in the market.

The critical difference between a trading bot and an investing assistant is: In the case of the trading bot, the final trade decision is made by the bot itself, while in the investing assistant, the final investment decision is on the investor.

There are numerous challenges involved in building a robust and accurate reinforcement learning model that's a good enough representation of a cryptocurrency market's environment. Cryptocurrency price actions are extremely volatile and depend on a large amount of real-world and statistical factors. We will start by outlining the overall flow and architecture of the model. We then move forward to discuss the implementation of various features like Twitter sentiments, technical indicators and the custom index. Finally, all these features will be utilized in the reinforcement learning model. The model will be evaluated using robust evaluation metrics like entropy loss, policy loss and value loss. The final product is hosted on a website for the user to get the recommendations and gain insights from the visualizations.

2 Literature Survey

Behavioural economists like Daniel Kahneman and Amos Tversky have established that decisions, including financial consequences, are impacted by the emotions and not just value alone [1]. Insights from these researchers open up prospects to find advantages through various tools like sentiment analysis as it shows that demand for goods, and hence their price, may be impacted by more than its economic fundamentals. Panger et al. found that the Twitter sentiment also correlated with people's overall emotional state [2].

Similar work has been done on cryptocurrencies after their introduction to see if such methods effectively predict cryptocurrency price changes. In the paper by Stenqvist et al. [3], the authors describe how they collected tweets related to Bitcoin. First, tweets were cleaned of non-alphanumeric symbols (using “#” and “@” as examples of symbols removed). Then the tweets which were not relevant were removed from the analysis. The authors then used VADER (the Valence Aware Dictionary and Sentiment Reasoner) to finally analyze the sentiment of each tweet and hence classify it as negative, neutral, or positive. Only tweets that could be considered positive or negative were kept in the final analysis. The sentiment analysis done in this project builds off everything above but is unique, and we solve the problem of giving the tweets a weight.

Sattarov et al. [4] created a recommendation system for cryptocurrency trading with Deep Reinforcement Learning. Data was taken from cryptodata-download and focused on three currencies Bitcoin (BTC), Litecoin (LTC), and Ethereum (ETH). The environment was responsible for accounting for stock

assets, money management, model monitoring, buying and holding or selling stocks and finally calculating the reward for actions taken. The experiment on Bitcoin via DRL application shows that the investor got 14.4% net profits within one month. Similarly, tests when carried out on Ethereum and Litecoin also finished with 74% and 41% profit, respectively.

Liu et al. [5] regarded the transaction process as actions. The returns were regarded as awards and prices are considered to be states to align with the idea of reinforcement learning. A Deep Reinforcement Learning Algorithm - Proximal Policy Optimization (PPO) was used for high-frequency bitcoin trading. They first compared the results between advanced machine learning algorithms like support vector machine (SVM), multi-layer perceptron (MLP), long short-term memory (LSTM), Transformers and temporal convolutional network (TCN), by applying them to real-time bitcoin price and the experimental results demonstrated that LSTM outperforms. It was then decided to use LSTM as the policy for the PPO algorithm. The approach was able to trade the bitcoins in simulated environment paired with synchronous data and obtained a 31.67% more return than that of the best benchmark, improving the benchmark by 12.75%.

Borrageiro et al. [6] created an agent that learns to trade the XBTUSD (Bitcoin versus US Dollars) perpetual swap derivatives contract on BitMEX on an intraday basis. The cryptocurrency agent realized a total return of 350%, net transaction costs over five years, 71% of which is down to funding profit. The annualized information ratio that it achieves is 1.46. The echo state network provides a scalable and robust feature space representation.

We can conclude a few points from the above literature survey. There is a distinct lack of a consistent environment, leading to some really restrictive while others are too free and ill-defined. Most of the agents are restricted to a single type of market. The variety of preprocessing techniques used led to the question of whether the improvement in the metric was the result of the model or the data fed. Most models are treated as a complete black box with a lot of hyperparameter tuning. Perhaps some form of explainable AI might find some use here to convince the investors and help them understand on what basis our model recommends actions.

3 Approach

3.1 Block Diagram

The block diagram is shown in Fig. 1. It describes the flow of the project.

3.2 Data Description

Bitcoin Historical Data: We obtained the data on past prices from Cryptocompare as it regularly reviews exchanges, carefully monitoring the market to deliver the most accurate pricing indices. The main difference between BTC prices and usual stock prices is that the BTC prices change on a much larger

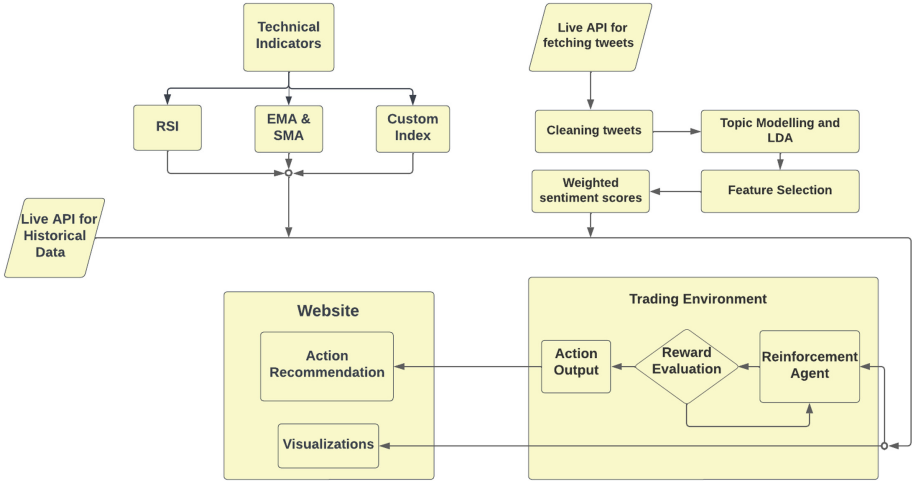


Fig. 1. Block Diagram

scale than the local currencies. The overall data collection period is from January 2016 to April 2021 on a daily fidelity which gives us a total of 1918 values. This dataset consists of six different attributes, namely, Date, High, Low, Open, Close, and Volume.

Bitcoin Related Tweets: Twitter is a minefield of information due to the volume and variety of users. This has resulted in Crypto Twitter being significantly influential on cryptocurrency trading decisions. Thus, we collected tweets to perform sentiment analysis on. We used the Twitter API to query tweets by applying to the developer role. bitcoin, BTC, #Bitcoin, and #BTC were used as the keyword filters for fetching tweets for a period of 2016/1 to 2021/04. Also, all tweets were fetched in the English language. This gave us a total of 4,265,266 tweets to work with.

3.3 Technical Analysis

Trend Indicators

Simple Moving Average: SMA is just the mean price over the specified period. The mean average is called “moving” because it is plotted on the chart bar-wise, which forms a line that moves along the chart with respect to the average value. When it comes to our project, we aim at maximizing profits in the long run. So, we took a longer time span of 21 weeks to calculate our SMA to make sure that

it is not sensitive to all the little changes in price but also does not overlook the major price changes.

$$SMA = \frac{(A_1 + A_2 + \dots + A_n)}{n} \quad (1)$$

A_n is the price of Bitcoin at period n
 n is the number of total periods

Exponential Moving Average: EMA is used to determine trend direction and to trade in that direction. When the EMA rises buying when prices dip near the EMA is a good move. When the EMA falls, selling when prices rally towards EMA is a good choice. Testing for different values, we found the value of 2 to give just enough credibility to recent data. The EMA has a shorter delay than the SMA within the same period. Hence we decided to go for a period of 20 weeks for EMA calculations.

The formula for EMA at period n is:

$$EMA_n = \left(A_n * \left(\frac{S}{1+n} \right) \right) + EMA_{n-1} * \left(1 - \left(\frac{S}{1+n} \right) \right) \quad (2)$$

where, A_n is the price of Bitcoin at period n
 S is the smoothing factor
 n is the number of total periods

Relative Strength Index: The RSI is a momentum oscillator that measures the change of price movements. Traditionally the RSI is considered to be overbought when its value is above 70 and oversold when the value is below 30. RSI is also helpful to identify the general trend. Usually 14 periods are used to calculate the initial RSI value. Once 14 periods of data is available, the second part of the RSI formula is to be done which smooths the results.

Value of RSI is calculated with a two steps that starts with the below formula:

$$RS = \frac{Avg.Gain}{Avg.Loss} \quad (3)$$

$$RSI = 100 - \frac{100}{1 + RS} \quad (4)$$

Custom Indicator-BMSB: BMSB index is a Bollinger band that helps us understand the current valuation of bitcoin against USD, vis., undervalued, overvalued, or fair valued. It ranges from -100 to 100, with the negative side corresponding to extreme undervaluation and the positive side indicating extreme overvaluation with respect to recent price movements.

Usually, when the price of Bitcoin falls below BMSB, there is a bearish momentum in the market, and when the price of Bitcoin holds support or stays above the BMSB, it indicates the onset of a bull market. That being said, being over-extension (+70 to +100 range) does not necessarily imply a bull run, and

under-valuation (-70 to -100 range) does not necessarily imply a bearish movement. In fact, it can indicate the end of a bull run and bear market, respectively. Therefore, in our project, when the BMSB index tends to -100, we show it as a buying opportunity, and when it tends to +100, we show it as a time to take profits.

Algorithm: Let us introduce a few of the crucial variables that will enable us to formulate the algorithm for the BMSB Index: We define Combined Average (μ) as the average of the current 21 weeks EMA and 20 weeks SMA. We define K_p as the Price Coefficient. The price coefficient decides the extent of the price range from which the Bitcoin price is considered to be normal. The normal price range varies from $\mu(1 - K_p)$ to $\mu(1 + K_p)$.

Algorithm 1: BMSB Indicator

Inputs: Price of Bitcoin (p), Exponential Moving Average (EMA), Simple Moving Average (SMA), Price Coefficient (K_P) and Scaling Coefficient (K_S)

Outputs: BMSB Index (I)

START

Combined Average (μ) = Average(SMA, EMA)

Upper Bound (B_U) = $\mu(1 - K_P)$

Lower Bound (B_L) = $\mu(1 + K_P)$

IF $p > B_L$ && $p < B_U$ **then**

$$I = \left(\frac{p - \mu}{\mu} \right) \frac{K_S}{K_P} \times 100$$

ELSE IF $p < B_L$ **then**

$$I = \left[\frac{p(1 - K_S)}{\mu(1 - K_P)} - 1 \right] \times 100$$

ELSE $p > B_U$

$$I = \left[1 - \frac{\mu(1 + K_P)(1 - K_S)}{p} \right] \times 100$$

end IF

STOP

K_s is defined as the scaling coefficient. The scaling coefficient decides the extent on the BMSB Index scale for the normal price range. It varies from $100(0-K_s)$ to $100(0+K_s)$ and corresponds to the $\mu(1 - K_p)$ to $\mu(1 + K_p)$ price range. We calculate the BMSB Index as shown in Algorithm 1.

3.4 Sentiment Analysis

Preprocessing

Cleaning: After scraping the tweets, we had to drop some columns that we deemed irrelevant for the sentiment analysis. We kept the columns that we deemed useful, which include the date, username, number of replies, retweets, favorites, and the text of the tweet. Before we are able to start doing any form of sentiment analysis, the tweets collected have to be cleaned.

Sample tweet before cleaning:

“Bitcoin Climbs Above 11,316.7 Level, Up 6% <https://yhoo.it/2YV6wKZ> #bitcoin #crypto #blockchain #btc #news #cryptocurrency pic.twitter.com/mPv3rd4kLn”

These tweets contain a large amount of noise. Using regex expressions, all these noises were removed. Preprocessing is a very important aspect of sentiment analysis; if we were to pass these raw tweets to our analyzer, chances are it will perform very poorly and take up much more time

Sample Tweet after cleaning:

Bitcoin Climbs Above Level Up

Next, we set all the characters to lower cases and also removed stopwords in our tweets. Stop words are commonly used words such as a, the, and as, which provide no valuable information in Sentiment analysis. We made use of the NLTK to get rid of them. This was enough for VADER as it was specially tuned for social media content.

Sentiment Analysis: We then compare between VADER and TextBlob, which are lexicon-based approaches for sentiment analysis. We selected a few tweets to compare if VADER or TextBlob performs better. We noticed that the sentiment score for advertisements and spam tweets was mostly quite positive. Hence, we filtered out such tweets, which has been described in detail in the Topic Handling section. From the tests we conducted on the selected few tweets, VADER works better with things like slang, emojis, etc., which is quite prevalent on Twitter, and it is also more sensitive than TextBlob. So, we choose to go with VADER.

After the sentiment of each Tweet is computed, we take the daily average sentiment, but taking the average sentiment results in the loss of information. For example, a prominent user’s positive tweet (score of +1.0) may have greater influence over public opinion as compared to a common users’ negative tweet (score of 0). To address this issue, we decided to use weighted Sentiment analysis scores.

Table 1. Established Weight Rules

Rule	Weight Scores
Prominent Users: List of prominent Crypto Twitter users is generated.	If the Tweet is made by user on the list, +1 to the weight score
Bitcoin Keyword List: List of keywords used in Bitcoin are generated.	Add weight +1 if at least one or more keywords are used.
Number of Retweets, Replies and Favourites: The larger the number, the greater the impact and reach of the tweet.	Added the round(log(no of retweets + replies + favourites) to the weight score. We took log to normalise the data.
Time: Tweets made nearer to closing price are more reflective of the current public opinion and carry more weight.	For daily, if the tweet is made from 13:00 to 23:59 and for hourly, if the tweet is made in the last 30 mins, +1 is added to the weights.
Advertisement Score: We tag each tweet with an ad score based on topic clustering.	The Advertisement Score weight is the ad score obtained during data pre-processing

Feature Selection and Weighted Sentiment Score: Our collection of features consists of Tweets text, Time of Tweet, Number of Retweets, Number of Replies, Number of Favorites, Advertisement score, Tweet Volume, and Sentiment Analysis Score (VADER). To prevent the loss of information by taking the average sentiment, we have generated weights to create weighted sentiment scores. Each tweet will have a weighted score. Table 1 shows the Weight Rules we have established.

The final weights equation is as follows:

$$\text{Weight} = [\text{weight}(\text{prominent user}) + \text{weight}(\text{keyword}) + \text{weight}(\# \text{ of retweets}) + \text{weight}(\# \text{ of replies}) + \text{weight}(\# \text{ of favorites}) + \text{weight}(\text{time})] * \text{ad_score}$$

$$\text{Weighted Sentiment per tweet} = \text{sentiment score of tweet} * \text{Weight}$$

$$\text{Weighted Sentiment per day} = \text{sum}(\text{Weighted Sentiment per tweet}) / \# \text{ of tweets in one day}$$

To address the issue with VADER assigning ads high polarity scores, we multiply the ad_score to the other weights. As ad_score for ads are assigned as 0 and so Weighted Sentiment will be 0. As the weighted sentiment of ads are now neutral, we have effectively filtered out the ads as it will not affect our model prediction. Hence these newly generated Weighted Sentiment Scores are then passed onto the RL model as a feature.

3.5 Reinforcement Learning

Environment

Positions: Positions of the market describe the amount of Bitcoin a particular user holds at that moment. In our environment, we have considered long and

short positions. These suggest the two potential directions of the price required to maximize profit. The Long position wants to buy shares when prices are low and profit by sticking with them while their value is going up, and the Short position wants to sell shares with high value and use this value to buy shares at a lower value, keeping the difference as profit. The environment assigns a value of 0 to the agent if the position is discovered to be Short and 1 if the position is discovered to be Long. When starting a new environment, the position of the user is considered short as default.

Actions: The environment assigns a value of 0 to the agent if the recommended action is Sell and 1 if recommended action is Buy. However, performing a trade on every interval does not produce reliable results for a real-life situation. To bridge the gap between simulation and reality and maximize long-term profits, the algorithm accepts the recommendation from the model and the user's current position in the market to provide the final verdict. To do that, it refers to the position of the environment. When you make a short trade, you are selling a borrowed asset hoping that its price will go down and you can buy it back later for a profit. So our algorithm will recommend the user to Buy after the short trade is satisfied and Sell after the long trade is satisfied. If the above conditions are not satisfied, then no trade occurs (Holding) because our conditional logic suggests that profit can be maximized just by holding in such a case.

Algorithm 2: Final Recommendation

Inputs: Recommended Action, Current Position

Outputs: Final Recommendation

IF Recommended Action = Buy && Current Position = Short **then**
 Final Recommendation = BUY

ELSE IF Recommended Action = Sell && Current Position = Short **then**
 Final Recommendation = SELL

ELSE,
 Final Recommendation = HOLD

end IF

STOP

In the end, our algorithm can now recommend three independent actions depending on the situation of the market, namely, Buy, Hold or Sell.

Learning Algorithm

Model Specifications: The Asynchronous Advantage Actor-Critic method (A3C) has been very influential since the paper [7] was published. The algorithm combines allows sharing of layers between the policy and value function and asynchronous updates.

However, Synchronous A2C performs better than asynchronous implementations, and we have not seen any evidence that the noise introduced by asynchrony provides any performance benefit. The host of this algorithm was the ‘stable baselines 3’ library on Python. The library offers multiple learning policies depending on the type of input data.

We have used the MLP (Multi-Layer Perceptron) policy which acts as a base policy class for actor-critic networks allowing both policy and value prediction. It provides the learning algorithm with all the base parameters like the learning rate scheduler, activation functions, normalization, feature extraction class, and much more. This model is learned with a sliding window approach.

3.6 Training of Proposed Model

The training of the RL agent was done on the Google Colab GPU, with *NVIDIA-SMI 460.67 Driver Version: 460.32.03 CUDA Version: 11.2*. The model was tested for multiple scenarios, and the below gave the most consistent results. The time steps were set to be 50000, which is equivalent to the number of iterations of training. The 1918 data instances were present, and 1233 were used for training the model with a window size of 30. The remaining 685 instances were used for testing.

3.7 Results and Discussion

After training for 50000 time steps, the entropy loss of 0.0209 was obtained. The learning rate was optimized at 0.007. Finally, the testing was performed on the latest 685 d in the data. Specifically, the testing period started from 17th May 2019 and ended on 1st April 2021. This period is highly significant as it captures the peak points of Covid-19 and its effects on the market. Given these extreme scenarios, the model was able to generate a total reward of 39,412 and a profit value of 1.69486, which is equivalent to a 69.486% increase over 685 d.

The green dots in the Fig. 2 indicate a long position, whereas the red dots indicate a short position. As discussed before, the agent itself recommends only Buy or Sell with the aim to capture every penny. Our algorithm then reviews the current situation/position of the user in the market and either recommend the agent action or asks them to hold their assets.

Total Reward: 39411.860000 ~ Total Profit: 1.694863

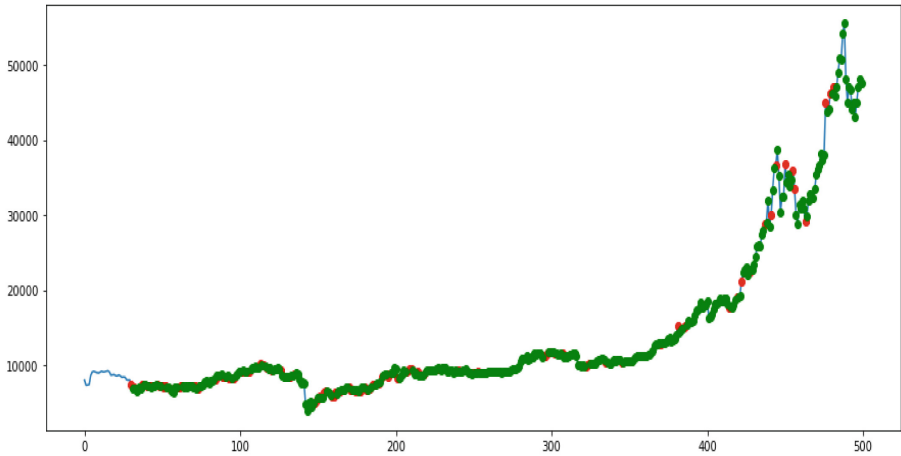


Fig. 2. Graph of recommendations

4 Conclusion

Investing in the crypto market is a tedious task and requires a lot of effort to make good trading strategies. Moreover, analyzing real-time data is a more difficult task. Traders make several trading decisions and keep on learning from them. During this process, they improve their decision-making skills. This is the major idea behind implementing a Reinforcement Learning agent, which trains against the environment to adapt and make better decisions. Thus, we can say that trading can be approached as a Reinforcement Learning Problem.

Our plan was to allow the learning agent to learn in such a feature-rich learning environment. Specifically, we have used some of the most popular and tested long-term trend indicators like SMA, RSI, and EMA. We have also crafted our technical indicator, which is used by the agent to find opportunities for trade action. Another huge factor that impacts the flow of prices is the overall sentiment of the market. By including this factor in the environment, the agent was better able to understand the market situation.

The value of the added features was demonstrated as without these, the average profit of the model was not always positive. In addition to the features, we were able to get consistently positive profits over a long period of testing. With these handcrafted features, our model was able to analyze the situation of the user and market and recommend smart decisions to the user.

We were able to provide an interface to the user for their better understanding of the current market situation through visualizations of the important indicators and sentiment scores. The interface was able to host the agent to provide its final recommendation to the user. The results show great potential for the approach,

but the bitcoin markets are quite large, complex and volatile, so the modelling of this environment still presents a lot of challenges.

5 Further Work

Many experts in the field of cryptocurrency and stock trading utilize trend analysis by identifying the popular patterns in the price action. Each of these patterns helps in the analysis of the price changes to occur in the future. The ascending and descending triangle pattern leads to a continuity in the trend of prices. Because of their impact, the recognition of these patterns becomes of most significance. However, current pattern matching algorithms fail to work for different pattern spans. This problem is highly significant as even though we have an idea of what pattern we are looking for, most patterns occur at significantly different intervals.

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