Using KADS to Design a Multi-Agent Framework for Stock Trading

Yuan Luo
School of Computing, Staffordshire University, Stafford, ST18 0DG, UK. Y.Luo@staffs.ac.uk

Darryl N. Davis
Neural, Emergent and Agent Technologies Group, Department of Computer Science, University of Hull, HU6 7RX, UK. D.N.Davis@dec.hull.ac.uk

Kecheng Liu
School of Computing, Staffordshire University, Stafford, ST18 0DG, UK. K.Liu@staffs.ac.uk

Abstract: A requirement analysis for a portfolio management in stock trading is presented. This provides a theoretical foundation for a stock trading system. The overall portfolio management tasks include eliciting user profiles, collecting information on the user's initial portfolio position, monitoring the environment on behalf of the user, and making decision suggestions to meet the user's investment goals. Based on the requirement analysis, this paper presents a framework for a Multi-Agent System for Stock Trading (MASST). The key issues it addresses include gathering and integrating diverse information sources with collaborating agents, and providing decision-making for investors in the stock market. We identify the candidate agents and the tasks that the agents perform. A KADS based analysis of the processes within the framework is described in this paper.

Keywords: Multi-agent system, Knowledge-based system, Stock trading, Decision-making, KADS

1. Introduction

The stock market is one of the most popular investing places because of its expected high profit. The Internet, Web, and other information technologies have brought in and will continue to have a dramatic effect on the stock market. Various types of financial information and stock trading become available to investors from the Internet. However, the information available from the Internet is disorganised and distributed over many server sites. The variety of data sources is increasing dramatically and constantly changing. Therefore, information becomes increasingly difficult for an individual investor to collect, filter, evaluate, and use for decision-making in stock trading. As a result, the problem of locating information sources, accessing, filtering, and integrating information in support of decision making has become a critical task.

In their analysis of the portfolio management domain, Decker et al. [7] point out that the fundamental task is that of providing an integrated financial picture for the management of an investment portfolio over time, using the information resources already available over the Internet. Central to this task is the provision of the best possible rate of return for a specified level of risk, or conversely, to achieve a specified rate of return with the lowest possible risks.

Agent technology is especially suited to the issues that need to be addressed in designing computational systems for portfolio management. Rus and Subramanian [19] present a customisable architecture for software agents that capture and access information in large, heterogeneous, distributed electronic repositories. The key idea is to exploit the underlying domain structure at various levels of granularity to build high-level indices with task-specific interpretations. Information agents construct such indices and are configured as a network of reusable modules called structure detectors and segmenters. They illustrate their architecture with the design and implementation of smart information filters in two contexts: retrieving stock market data from Internet newsgroups and retrieving technical reports from Internet FTP sites.

Benos and Tzafestas [3] present a methodology for studying the complex phenomena emerging in stock markets. Their methodology is based on the use of distributed multi-agent models with limited knowledge representation and reasoning capabilities that have proven to be a powerful modelling tool for complex biological systems. Unlike neural models, they report that their models allow a comparative and incremental evaluation of validity and relevance to the observed phenomena. The feasibility of their application for the modelling and study of stock market phenomena has been demonstrated with a simple example of a central agency that regulates the behaviour of the investors.

Bui and Lee [4] propose a framework for building decision support systems using software agent technology to support organisations characterised by physically distributed enterprise-wide, heterogeneous information systems. Intelligent agents have offered tremendous potential in supporting well-defined tasks such as information filtering, data mining and data conversion. They propose a taxonomy of agent characteristics that can be used to help identify the type of agents needed to support different types of decision tasks. They advocate a goal-directed, behaviour-based architecture for building co-operative decision support using agents.
Delgado et al. [8] investigate a hybrid learning system that combines different fuzzy modelling techniques. In order to implement the different methods, they proposed the use of intelligent agents, which collaborate within a multi-agent architecture. This approach, involving agents that embody the different problem solving methods, is a potentially useful strategy for enhancing the power of fuzzy modelling systems.

Even though there are several agent-based approaches reported in literature, these address the issues in the financial trading domain. The use of intelligent agents to support decisions has not been thoroughly explored and merits serious consideration. In current practice, portfolio management is carried out by investment houses that employ teams of specialists for finding, filtering and evaluating relevant information. Based on their evaluation and on predictions of the economic future, the specialists make suggestions about buying or selling various financial instruments. The current practice, as well as software engineering considerations, motivates our research in multi-agent systems for the stock management. A multi-agent system approach is natural for portfolio management because of the multiplicity of information sources and the different types of expertise that must be brought to bear to produce a good recommendation for a stock buy or sell decision.

In the rest of this paper, we present the requirement analysis for the task domain of stock management. Based on the requirement analysis using the KADS methodology [21], we identify the overall organisational process that the system will support, and present the KADS process model that consists of process decomposition, process distribution, and process glossary. According to the process model, we propose a framework comprising of multiple task-specific agents that together will be capable of performing decision support in the stock trading. We present an analysis of how the agents exchange information and knowledge, and the processes the system must support.

2. KADS – Knowledge Acquisition and Document Structuring

In the last few years, several attempts have been made to develop agent-oriented modelling techniques and methodologies, such as Agent-Oriented Analysis and Design by Burmeister [5]; Agent Modelling Technique for Systems of BDI agents [12]; the CoMoMAS methodology [10]; and the MAS-CommonKADS methodology [11]. However, none of these techniques can yet be regarded as a comprehensive methodology for the analysis and design of multi-agent systems. In this section, the KADS methodology employed in this research is briefly presented. We do not claim this methodology is a comprehensive methodology for the analysis and design of multi-agent systems, but it has sufficient power for analysing our problem domain.

KADS is knowledge engineering methodology in which the main concern is with the two phases of analysis and design. The central theme is that of modelling the behaviour of the intended knowledge-based system, the context within which it will work and the framework for more general requirements and constraints.

KADS is a structured approach to the development of knowledge based systems and as such is to be seen in contrast to unstructured approaches such as rapid prototyping. According to KADS, development of a knowledge-based system is to be seen as a modelling process, during which models of the acquired knowledge at different levels of abstraction are developed.

KADS identifies three levels of models. At the process level, the process model identifies the tasks involved in the domain, the nature of data flows and stores, and the assignment of ownership of tasks and data stores to agents. At the system level, the cooperation model describes in detail the interactions between the system and external agents, and how the internal agent interact. The co-operation model can be used to separate the user task model and the system task model. It allows the knowledge wholly internal to the system to be readily identified. The expertise level corresponds to an expertise model. This divides the task of describing the expertise level of the system into a number of supportive tasks. The four-layer framework for expertise consists of the domain, inference, task and strategic layer. The domain layer is comprised of static or slowly changing knowledge describing concepts, relations, and structures in the domain. The inference layer reformulates the domain layer in terms of the different types of inferences that can be made. The task layer defines knowledge about how to apply the knowledge in these two layers to problem-solving activities in the domain. The strategic layer defines how to select appropriate problem-solving capabilities for specific types of task.

Within this framework knowledge engineering becomes a structured search for appropriate task, inference and knowledge models. This is performed through the use of analysis (the process of generating abstract descriptions of the inference patterns) and design and coding (a process of implementing the details of those patterns).

3. Requirement Analysis for Stock Management Systems

The overall task in the portfolio management, as stated by modern portfolio theory [15], is to provide the best possible rate of return for a specified level of risk. Sycara et al. [22] point out that portfolio management has several components, which include eliciting (or learning) user profile information, collecting information on the user’s initial portfolio...
position, and suggesting and monitoring stock allocation to meet the user’s current profile and investment goals.

The stock market is a complex system. Stock price movements are affected by many financial and human factors. Two common analytical approaches are fundamental analysis and technical analysis. A fundamental analysis relies on the statistics of the macroeconomics data to arrange an estimate of future business conditions. This includes factors such as interest rates, money supply, inflationary rates and foreign exchange rates, as well as the basic financial status of firms and the daily news. Taking all these into account, the analyst buys in those stocks priced below his appraisal threshold. In contrast, a technical analyst pays more attention to historical financial time-series data. Predictions are made by exploiting implications hidden in past trading activities, and by analysing patterns and trends shown in price and volume charts. A technical analyst does not deal with what a firm sells or manufactures, or how it is capitalised. Both fundamental analysis and technical analysis can interpret stock price movements well. The former is usually adopted to predict the long-term stock trend, and the latter is better suited for the short-term stock price movements.

Besides these analytical approaches, artificial intelligence (AI) is widely used to develop new methodologies for time-series predication. Advanced trading systems employ neural networks, fuzzy logic, genetic algorithms, and expert systems. These have been widely used in finance for stock selection, stock forecasting, as well as profit and risk management with proven performance [13][20][6][14].

Based on the literature and discussion above, by consulting with experienced traders, the basic requirements for a stock trading management system are the ability to perform the following tasks:

- Collecting raw stock trading data – the daily opening price, highest price, lowest price, closing price, trading volume, and number of trades.
- Providing technical indicators such as charts analysis, Japanese candlesticks philosophy, and Dow theory. Technical indicators are a group of mathematical equations with simple trading algorithms [1]. Charts analysis is aimed at determining patterns and trends, for example, reversal patterns, hidden in price and volume charts [18]. Japanese candlesticks can reflect the mass psychology in a stock market [17]. Dow theory explains the financial market behaviour by means of primary, secondary and minor trends [9].
- Collecting and updating the fundamental information concerning the listed companies – such as amount of stock trading volume, after-tax profits, earnings per share, the percentage increase in earnings per share, number of common shares, new products or services, and new management.
- Finding, filtering and evaluating relevant news, reports, and analyst’s comments from the environment (the Internet).
- Providing decision support for stock trading - combining technical analysis, fundamental analysis, and artificial intelligent technology, processing the input data, filtering out feasible stocks, and advising a list of stocks for buying, selling or holding.
- Identifying the investment behaviours of the institutional investors. Though the number of the institutional investors in the stock market is small, they play an influential role on the state of the stock market. For individual investors, one of the most essential conditions for success is to understand the investment behaviours of institutional investors [2].
- Monitoring the status of given stocks on behalf of users, reporting the technical indicators’ status of the given stocks, notifying any abnormal change in trading volume and price according to the user’s profile.
- Providing the profits and risks management - calculating profits based on the user’s investment, reminding stop-loss for users’ holding shares according to the user’s profile.

4. MASST Scoped Organisational Context

This paper proposes a Multi-Agent System framework for Stock Trading (MASST). Before discussing this framework in more detail, this section outlines the organisation-level tasks of the framework. MASST is a middle layer agent system between the demand side of information (i.e. investors in stock market) and the supply side of information (i.e. the Internet), as shown in Fig. 1.

The major functions of MASST include:

- Stock Information Retrieval – this function is not a unique function of our system. Nowadays many online brokers and commercial stock analysis software can provide this function. Thus our research does not focus on this field. Our system will provide this function because it is a basic requirement of investors and users. MASST will provide four categories of information retrieval: (a) trading history and current quotations, such as the information of Opening Price, Highest Price, Lowest Price, Current Price, Trading Volume for the selected stock on given trading date; (b) browsing stock technical analysis charts, such as price movement chart (for example Candlestick Chart), trading volume chart, and various technical indicators chart; (c) listed company’s fundamental data and financial health information retrieval, such as total amount of stock trading volume, after-tax profits, earnings per share, annual earnings increases, number of common shares, new products or services, new management, and the market news; (d) market statistics information retrieval, such as the list of top ten shares of maximum trading volume in the given trading day(s), the list of top ten
shares of maximum price upward (or downward), the list of top ten of the lowest Price-Earning Ratios.

- **Stock Status Monitoring and Risk Management –** MASST will automatically monitor the market status of the shares that the user holds and is interested. The share’s market status includes the listed company’s fundamental financial status and status of the share’s technical indicators. Based on the share’s market status, MASST will automatically and promptly report any abnormal activity to the users. Indicators of abnormal status include: (a) price fluctuation abnormal; (b) trading volume abnormal; (c) technical indicator’s status abnormal, (d) price chart pattern abnormal, and (e) some break news relating to the given shares. Furthermore, MASST will provide the profits and risks management including calculation of profits/risk ratio based on shares’ market status and user’s investment, and reminders of stop-loss level for holding shares according to the user’s profile.

- **Buying and Selling Shares Decision Support –** From the investors’ perspective, the most important and concerned issues for investment in stock market are the buying and selling of share issue. Which share is the best one to buy? What time is the right time to buy the share? What time is the right time to sell your holding shares? It is difficult (maybe impossible) to find a simple and accurate answer for these kinds of questions. Every investor has his/her own buying and selling share strategies and rules. MASST will provide buying and selling decision support based on behaviour rules defined by the investors themselves. Through a combination of human and machine knowledge, using agent and AI technologies, MASST aims to reduce investors’ work overload in the process of stock analysis and investment decision-making.

![Fig. 1. MASST Scoped Organisational Context](image)

**5. Process Decomposition and Distribution**

The previous section identified the system level functions or tasks of MASST. In this section, the further detail analysis will be carried out for the three major functions of MASST. The tasks and data stores associated with the decomposed process will be assigned to different agents.

**5.1 Stock information retrieval process**

In MASST the stock information retrieval process is decomposed into seven sub-processes according to the Search Condition (SC) submitted by the user. SC1 - query all shares’ quotation of current day. SC2 - query a given share’s quotation of current day. SC3 - query a given share’s real-time chart. SC4 - query a given share’s history price chart over a given period. SC5 - query a given share’s price and indicator chart over a given period. SC6 - query a given share’s fundamental analysis data. SC7 - query the market statistic information over a given period. Fig. 2 shows the augmented form of the stock information retrieval process, in which the process decomposition with tasks and data stores are separately assigned to Interface Agent, Technical Analysis Agent, and Fundament Analysis Agent.

![Fig. 2 Stock information retrieval process decomposition](image)
new management, and the market news, etc. FIDB consists of text files that contain the listed company’s fundamental information. There are several decades of Technical Indicators (TIs) which are used in stock technical analysis, such as MACD (Moving Average Convergence/Divergence), RSI (Relative Strength Index), MFI (Money Flow Index). The MASST can provide users with most of the technical indicators in common use.

5.2 Stock status monitoring and risk management process

The stock status and risk management process in MASST is decomposed into six sub-processes according to the Monitoring Instruction (MI) delegated by the user: (1) monitoring the price abnormality for given shares; (2) monitoring the trading volume abnormality for given shares; (3) monitoring the technical indicator abnormality for given shares; (4) monitoring the price pattern abnormality for given shares; (5) monitoring the break news related to the given shares; and (6) reporting profit and risk status for given shares. Fig. 3 shows the stock status monitoring and risk management process decomposition with tasks and data stories assigned to agents. Both user held share codes and user interested (not held) share codes are stored in User Profile Database (UPDB). Monitoring Agent can get all the monitored share codes by requesting UPDB every trading day. MASST provides the five kinds of abnormal status’ monitoring functions described above. The user must define what the abnormal status is. For example, if the user wants MASST to monitor the selected shares’ price abnormal status, the user should define what price level is the abnormal price (appraisal threshold) for each share. The user can deliver monitoring tasks by giving the Monitoring Instructions (MI) that are any combinations of these five functions and related abnormal status definitions. User’s Monitoring Instructions are also stored in UPDB. Monitoring agent will interact with Technical Analysis Agent and Fundamental Analysis Agent in order to complete the monitoring tasks assigned by user, and the reports of abnormal status will be presented to user through Interface Agent. Risk Management Agent will continuously assess the profits status and risk level of user’s holding shares by interacting with Monitoring Agent.

5.3 Buying and selling shares decision support process

The main functions of the buying and selling shares decision support process are (1) to evaluate the investment value of the given shares; (2) to give suggestions of buying decision for given shares; and (3) to give suggestions of selling decision for given shares. The process decomposition is shown in Fig. 4. This process is composed of an intelligent stock selection sub-process and an intelligent stock assessment decision support sub-process. The stock market is a complex system. Stock price movements are affected by many financial and human factors. Two common analytical approaches are fundamental analysis and technical analysis. A fundamental analysis relies on the statistics of the macroeconomics data to arrive at an estimate of future business conditions. This includes factors such as interest rates, money supply, inflationary rates and foreign exchange rates, as well as the basic financial status of firms and the daily news. Taking all these into account, the analyst buys in those stocks priced below his appraisal threshold. In contrast, a technical analyst pays more attention to historical financial time-series data. Predictions are made by exploiting implications hidden in past trading activities, and by analysing patterns and trends shown in price and volume charts. Both fundamental analysis and technical analysis can interpret stock price movements well. The former is usually adopted to predict the long-term stock trend, and the latter is better suited for the short-term stock price movements.

![Fig. 3 Stock status monitoring and risk management process decomposition](image-url)

![Fig. 4 Buying and selling share decision support process decomposition](image-url)
There are two main components in this process. A Technical Analysis (TA) component is responsible for pre-processing the market raw trading data, filtering out feasible shares and advising a list of shares for buying or selling. The second component is the Fundamental Analysis (FA) component, which plays the role of an experienced trader to refine the advised share list produced by the TA component. Thus, the activities of this process can be divided into two major stages. In first stage, the TA component pre-processes the raw trading data of each given stock and gets a temporary share list with the highest potential. In the second stage, the FA component makes its own judgement of the market based on financial data and combines it recommendation with the output of the TA component to give a final list of shares advised for the next trading day.

In this process, the Decision Support Agent (DMA) will need to interact with Technical Analysis Agent (TAA) and Fundamental Analysis Agent (FAA) in order to give the decision support to the users. The activities in this process are closely related to the user’s trading strategies that are stored in Trading Strategies Database (TSDB). Because of the complexity of the stock market itself and the complexity of the investors’ investment behaviours, there is no unique, indubitable trading strategy to guarantee to win in the stock market. The investors should have their own trading strategies for buying and selling shares. The records in TSDB are the user’s instructions, which are the guidance for the system to carry out the decision support activities.

6. MASST Framework

![Fig. 5 MASST Framework](image)

Based on the process analysis above, the MASST framework is being implemented as shown in Fig. 5. MASST provides a unified environment in which several agents are integrated. These intelligent agents inter-operate to collect, filter, and fuse information from distributed, network-based information sources and to make buying and selling decision suggestions for investors in their daily stock trading.

The framework aims to provide a secure and private environment for registered users. There are three levels of privacy of the information held in a user profile:

- **Public**: the public information is available for all registered users.
- **Restricted**: the user can specify which individuals or groups are allowed to know about the restricted information. The user can exchange the information or opinions with specified users or groups in their common interest.
- **Private**: the private information is only available to the user’s agents and will not be disclosed to other users’ personal agents.

One of the key components in this framework is the User Profile Database (UPDB), which is dynamic, changing and shared amongst agents within the system. Each user has his or her own personalised interface agent, an individual user profile and Trading Strategy Database (TSDB) which is the user’s private trading strategies, while other agents in the system are shared by all users. The UPDB includes information such as the username, password, the group that the user belongs to, the stock list that the user possesses, the stock list that the user is interesting in, monitoring instructions, planned tasks, preferences and privacy settings. These agents are assigned to an individual user and must be able to learn a user’s interests and behaviour autonomously and adapt to the changing needs of the user over time. The profile is centrally available to all the user’s agents.

The History Trading Database (HTDB), Real-time Trading Database (RTDB), and Fundamental Information Database (FIDB) combine to form a volatile local warehouse which is the internal data resource and is continuously updated with relevant external information by the Technical Analysis Agent and the Fundamental Analysis Agent. The functions and relationships among the agents in MASST are as follows:

- **Interface agent** interacts with the user, receiving user tasks and specifications and delivering results. Interface agent pass user’s tasks to and get returns from co-ordinator agent.
- **Co-ordinator agent** is responsible for task decomposition and planning. The co-ordinator agent maintains a set of beliefs about the capabilities of all agents in MASST. It can decompose a given task into a number of subtasks and dispatch the subtasks to relevant agents to perform, in order to achieve its goals.
- **Profiler agent** provides the mechanism by which a user’s profile and TSDB are generated and maintained. The profiler agent interacts with the co-ordinator agent to receive information from the user and the environment to determine the interests of the user.
- Monitoring agent monitors the status of the given stocks on behalf of users according to the user’s profile. This agent reports on the technical indicators’ status of the given stocks and notifies any abnormal change in trading volume and price.

- Communication agent allows the framework to interact or communicate with other agents or programmes developed by other developers. This is a reserved interface to other systems.

- Risk management agent, on the basis of the user profile, interacts with the monitoring agent and decision-making agent to analyse the risk levels of user’s share holdings, report the profit status and suggest a stop-loss level for the holding shares.

- Decision-making agent combines the outcomes of the technical analysis agent and the fundamental analysis agent, according to the investment strategies selected through the user’s TSDB. The decision agent has two main functions: (1) to give a list of stocks advised for the next trading day to buy; (2) to give suggestions for users holding shares to hold or sell.

- Technical analysis agent retrieves and processes the raw stock trading data from the Internet, store the raw data to relevant database (HTDB, RTDB), calculates various technical indicators, identifies various price and trading volume patterns, and gives the output to decision agent.

- Fundamental analysis agent gathers the macroeconomics data, fundamental financial status of the listed companies, opinions of the market commentators or experts, and some relative news, and puts this information into FIDB. The fundamental analysis agent integrates the information and makes recommendations to the decision agent.

### 7. Experiment Platforms

This research work is still ongoing. At the time of writing, the framework is being implemented using the following experiment platforms as shown in Fig. 6.

![Fig. 6 Experiment platforms](image)

Users delegate their tasks through the web browser. The Servlets which are running on the WWW server to accept users’ requests and pass them to the MASST. According to the tasks, MASST task specific agents will complete the tasks on behalf of users. Our agent resources (for example, the raw trading data) are put into a Microsoft Access database. MASST agents interact with the database through JDBC-ODBC connection. Servlets produce HTML pages in response to the client’s requests. Our MASST agents are constructed using Zeus Agent Builder Toolkit (Nwana, et al., 1999).

### 8. Conclusion and Future Work

As mentioned in the introduction, this paper aims to develop a multiagent (knowledge-based) framework for stock trading which can assist investors in decision-making of investment that would meet the investor’s requirements. The development of this framework is being guided by KADS methodology. It has been shown that the contribution of KADS is most influential and pervasive during the knowledge acquisition and analysis stages. KADS is therefore considered to be a valuable tool in the hands of KBS developers. Its greatest strengths lie in the provision of a structure, which can be used as a starting point for system development.

This paper has presented the framework of a multi-agent system for the management of stock trading through information access, filtering and integration. Descriptions have been provided for the various agent types that are necessary for supporting and seamlessly integrating information gathering from distributed internet-based information sources and decision support. We believe that such a flexible multi-agent architecture, consisting of reusable agent components, will be able to fit the requirements for systems used in stock trading. These requirements include locating, accessing, filtering and integrating information from disparate information sources, monitoring the environment and notifying the investors about events of particular interest in performing the user-designated tasks, and incorporating retrieved information into decision support tasks.

There are many online trading systems that provide basic technical analysis including charts analysis and trading data display in real-time. However, they do not provide intelligent decision-making support. The analysis is actually carried out by the users. They do not adopt the agent-oriented approach and the programs cannot be executed autonomously. However, these existing systems can be a useful information source (including the raw trading data, relevant news reports, and the comments from the market analysts) for our agent system. It is feasible for the system to interact with these existing systems.

Further work involves the implementation of each MASST agent. There are many difficult issues that need to be addressed. These include how to define the common ontology in the stock trading domain which every agent can share and understand the
common domain concepts and how to represent the knowledge in the stock trading domain. The knowledge involved in our agent system includes both quantitative (such as the opening market index) and qualitative knowledge (such as macro-economic states, the opinions expressed in mass media) which can be used for decision support. The representation of the qualitative knowledge is one of the key issues for the future work.

References


