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Fuzzy logic to rank Dutch giant's stocks

Jennifer Foreshew | February 07, 2006

ABP, the world's second largest pension fund, has awarded a big contract to the University of Adelaide to design an advanced stock market trading system.

Dutch-based ABP, which has €168 billion (\$270 billion) in funds, has commissioned the university's International Centre for Financial Services to design a new ranking system for stocks.

Project leader Ralf Zurbruegg, from the international centre, said the system would incorporate financial decision parameters that covered a broader information than is used in trading signal systems.

"Rather than having one trading rule with fixed parameters about when to buy or sell, this system constantly evolves as new information comes into the market to update what the trading rules are," Professor Zurbruegg said. "It is quite novel.

"Nobody else, as far as we are aware, has developed something like this."

The system will be based on adaptive evolutionary algorithms and fuzzy logic.

It will be jointly developed with Adelaide firm SolveIT Software, co-founded by evolutionary computation expert and University of Adelaide professor of computer science Zbigniew Michalewicz. Professor Zurbruegg said the technology would speed up response times so signals were handled in real time.

"The systems that are in place don't have this evolutionary algorithm, and they don't necessarily take in the same type of information that we are looking at," he said.

Technical and fundamental trading strategies would be synergistically built into the new system, he said. ABP could use the system as another trading rule, with other strategies to pick stocks and buy and sell them as part of their portfolio, he said.

The undisclosed "six-figure" contract has an initial deadline of May-June.

"We are looking at a longer term relationship at the moment," he said. An adaptation of the trading routine would be developed into a stock pick platform, which was expected to be released by the end of the year, he said.

"There is the potential for us as a centre to also take some of the material - because it is going to be partly public domain - to develop a trading stock pick product that we could use in the Australian market."

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