Scalable sparse covariance estimation via self-concordance

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Abstract

We consider the class of convex minimization problems, composed of a self-concordant function, such as the log det metric, a convex data fidelity term $h(\cdot)$ and a regularizing—possibly non-smooth—function $g(\cdot)$. This type of problems have recently attracted a great deal of interest, mainly due to their omnipresence in top-notch applications. Under this locally Lipschitz continuous gradient setting, we analyze the convergence behavior of proximal Newton schemes with the added twist of a probable presence of inexact evaluations. We prove attractive convergence rate guarantees and enhance state-of-the-art optimization schemes to accommodate such developments. Experimental results on sparse covariance estimation show the merits of our algorithm, both in terms of recovery efficiency and complexity.

Introduction

Convex $\ell_1$-regularized log det divergence criteria have been proven to produce—both theoretically and empirically—consistent modeling in diverse top-notch applications. The literature on the setup and utilization of such criteria is expanding with applications in Gaussian graphical learning (Dahl, Vandenberghe, and Roychowdhury 2008; Banerjee, El Ghaoui, and d’Aspremont 2008; Hsieh et al. 2011), sparse covariance estimation (Rothman 2012), Poisson-based imaging (Harmony, Marcia, and Willett 2012), etc.

In this paper, we focus on the sparse covariance estimation problem. Particularly, let $\{\mathbf{x}_j\}_{j=1}^n$ be a collection of $n$-variate random vectors, i.e., $\mathbf{x}_j \in \mathbb{R}^n$, drawn from a joint probability distribution with covariance matrix $\Sigma$. In this context, assume there may exist unknown marginal independences among the variables to discover; we note that $(\Sigma)_{kl} = 0$ when the $k$-th and $l$-th variables are independent. Here, we assume $\Sigma$ is unknown and sparse, i.e., only a small number of entries are nonzero. Our goal is to recover the nonzero pattern of $\Sigma$, as well as compute a good approximation, from a (possibly) limited sample space.

Mathematically, one way to approximate $\Sigma$ is by solving:

$$
\Theta^* = \arg \min_{\Theta} \left\{ -\log \det(\Theta) + h(\Theta) + g(\Theta) \right\}, \tag{1}
$$

where $\Theta \in \mathbb{R}^{n \times n}$ is the optimization variable, $h(\cdot) := 1/(2\rho) \cdot \|\Theta - \hat{\Sigma}\|_F^2$ where $\hat{\Sigma}$ is the sample covariance and $g(\cdot) := \lambda/\rho \cdot \|\Theta\|_1$ is a convex nonsmooth regularizer function, accompanied with an easily computable proximity operator (Combettes and Wajs 2005). And $\rho, \lambda > 0$.

Whereas there are several works (Becker and Fadili 2012; Lee, Sun, and Saunders 2012) that compute the minimizer of such composite objective functions, where the smooth term is generally a Lipschitz continuous gradient function, in (1) we consider a more tedious task: The objective function has only locally Lipschitz continuous gradient. However, one can easily observe that (1) is self-concordant; we refer to some notation and definitions in the Preliminaries section.

Within this context, (Tran-Dinh, Kyrillidis, and Cevher 2013a) present a new convergence analysis and propose a series of proximal Newton schemes with provably quadratic convergence rate, under the assumption of exact algorithmic calculations at each step of the method.

Here, we extend the work of (Tran-Dinh, Kyrillidis, and Cevher 2013a) to include inexact evaluations and study how these errors propagate into the convergence rate. As a byproduct, we apply these changes to propose the inexact Self-Concordant OPTimization (iSCOPT) framework. Finally, we consider the sparse covariance estimation problem as a running example for our discussions. The contributions are:

(i) We consider locally Lipschitz continuous gradient convex problems, similar to (1), where errors are introduced in the calculation of the descent direction step. Our analysis indicates that inexact strategies achieve similar convergence rates as the corresponding exact ones.

(ii) We present the inexact iSCOPT solver (iSCOPT) for the sparse covariance estimation problem, with several variations that increase the convergence rate in practice.

Preliminaries

Notation: We reserve $\text{vec}(\cdot) : \mathbb{R}^{n\times n} \to \mathbb{R}^{n^2 \times 1}$ to denote the vectorization operator which maps a matrix into a vector, by stacking its columns and, let $\text{mat}(\cdot) : \mathbb{R}^{n^2 \times 1} \to \mathbb{R}^{n \times n}$ be the inverse operation. $\mathbf{I}$ denotes the identity matrix.
Definition 1 (Self-concordant functions (Nesterov and Nemirovskii 1994)). A convex function $\varphi(\cdot)$ : dom($\varphi$) → $\mathbb{R}$ is self-concordant if $|\varphi''(x)| \leq 2\varphi'(x)^{3/2}, \forall x \in$ dom($\varphi$). A function $\psi(\cdot)$ : dom($\psi$) → $\mathbb{R}$ is self-concordant if $\psi(t) = \psi(x + tv)$ is self-concordant $\forall x \in$ dom($\psi$), $v \in \mathbb{R}^n$.

For $v \in \mathbb{R}^p$, we define $\|v\|_x \equiv (v'\nabla^2 f(x)v)^{1/2}$ as the local norm around $x \in$ dom($f$) with respect to $f(\cdot)$.

The corresponding dual norm is $\|v\|_x^* \equiv \max_{\|u\|_x \leq 1} u^T v = (vT\nabla^2 f(x)^{-1}v)^{1/2}$. We define $\omega(\cdot): \mathbb{R} \rightarrow \mathbb{R}^p$ as $\omega(t) \equiv t - \ln(1 + t)$, and $\omega_*(\cdot) : [0, 1] \rightarrow \mathbb{R}$ as $\omega_*(t) \equiv t - \ln(1 - t)$. Note that $\omega(\cdot)$ and $\omega_*(\cdot)$ are both nonnegative, strictly convex, and increasing.

Problem reformulation: We can transform the matrix formulation of (1) in the following vectorized problem:

$$\min_{x \in \mathbb{R}^p} \{ F(x) := -\log \det(\text{mat}(x)) + h(x) + g(x) \}, \tag{2}$$

for $\text{mat}(x) \equiv \Theta, x \in \mathbb{R}^p$, $p = n^2$, where $f(x)$ is a convex, self-concordant function and $g(x)$ is a proper, lower semicontinuous and non-smooth convex regularization term. For our discussions, we assume $g(x)$ is $\ell_1$-norm-based.

The algorithm in a nutshell

For our convenience and without loss of generality, we use the vectorized reformulation in (2). Here, we describe the SCOPT optimization framework, proposed in (Tran-Dinh, Kyrillidis, and Cevher 2013a). SCOPT generates a sequence of putative solutions $\{x_i\}_{i \geq 0}$, according to:

$$x_{i+1} = (1 - \tau_i)x_i + \tau_i \delta_i^*, \quad \tau_i = \frac{1}{\lambda_i} + 1, \tag{3}$$

where $\delta_i^* - x_i \in \mathbb{R}^p$ is a descent direction, $\lambda_i := \|\delta_i^* - x_i\|_x$, and $\tau_i > 0$ is a step size along this direction. To compute $\delta_i^*$, we minimize the non-smooth convex surrogate of $F(\cdot)$ around $x_i$; observe that $\lambda_i$ assumes exact evaluations of $\delta_i^*$:

$$\delta_i^* = \arg \min_{\delta \in \mathbb{R}^p} \{ U(\delta, x_i) + g(\delta) \}; \tag{4}$$

$U(\delta, x_i)$ is a quadratic approximation of $f(x_i)$ such that $U(\delta, x_i) := f(x_i) + \nabla f(x_i)^T(\delta - x_i) + \frac{1}{2}(\delta - x_i)^T\nabla^2 f(x_i)(\delta - x_i)$, where $\nabla f(x_i)$ and $\nabla^2 f(x_i)$ denote the gradient (first-order) and Hessian (second-order) information of function $f(x_i)$ around $x_i \in$ dom($F$), respectively.

While quadratic approximations of smooth functions (of the form $U(\delta, x_i)$) have become de facto approaches for general convex smooth objective functions, to the best of our knowledge, there are not many works considering a composite non-smooth and non-Lipschitz gradient minimization case with provable convergence guarantees under the presence of errors in the descent direction evaluations.

Inexact solutions in (4)

An important ingredient for our scheme is the calculation of the descent direction through (4). For sparsity based applications, we use FISTA – a fast $\ell_1$-norm regularized gradient method for solving (4) (Beck and Teboulle 2009) – and describe how to efficiently implement such solver for the case of sparse covariance estimation where $f(x) = \frac{1}{2p}\|x - \text{vec}(\Sigma)\|^2_2 - \log \det(\text{mat}(x))$.

Given the current estimate $x_i$, the gradient and the Hessian of $f(\cdot)$ around $x_i$ can be computed respectively as:

$$\nabla f(x_i) = \frac{1}{p}\left( x_i - \text{vec}(\Sigma) \right) - \text{vec}(\text{mat}(x_i)^{-1}) \in \mathbb{R}^{p \times 1},$$

$$\nabla^2 f(x_i) = \frac{1}{p} + \text{mat}(x_i)^{-1} \otimes \text{mat}(x_i)^{-1} \in \mathbb{R}^{p \times p}.$$

Given the above, let $z := \nabla f(x_i) - \nabla^2 f(x_i)x_i$. After calculations on (4), we easily observe that (4) is equivalent to:

$$\delta_i = \arg \min_{\delta} \left\{ \frac{1}{2}\delta^T\nabla^2 f(x_i)\delta + z^T\delta + g(\delta) \right\}, \tag{5}$$

where $\varphi(\cdot)$ is smooth and convex with Lipschitz constant $L$:

$$L = \frac{1}{\rho} + \lambda_{\min}(\text{mat}(x_i)), \tag{6}$$

where $\lambda_{\min}(\cdot)$ denotes the minimum eigenvalue of a matrix. Combining the above quantities in a ISTA-like procedure (Daubechies, Defrise, and De Mol 2004), we have:

$$\delta^{k+1} = S_{\frac{1}{\lambda}} \left( \delta^k - \frac{1}{L}\nabla \varphi(\delta^k) \right), \tag{7}$$

where we use superscript $k$ to denote the $k$-th iteration of the ISTA procedure (as opposed to the subscript $i$ for the $i$-th iteration of (3)). Here, $\nabla \varphi(\delta^k) = \nabla^2 f(x_i)\delta^k + z$ and $S_{\lambda}(\cdot) := \text{sign}(\cdot) \max(\|\cdot\| - \frac{\lambda}{\rho}, 0)$. Furthermore, to achieve an $O(1/k^2)$ convergence rate, one can use acceleration techniques that lead to the FISTA algorithm, based on Nesterov’s seminal work (Nesterov 1983). We repeat and extend FISTA’s guarantees, as described in the next theorem; the proof is provided in the supplementary material.

Theorem 1. Let $\{\delta^k\}_{k \geq 1}$ be the sequence of estimates generated by FISTA. Moreover, define $G(\delta) := U(\delta, x_i) + g(\delta)$ where $\delta^\star$ is the minimizer with $\|\delta^\star\|^2_2 \leq c$ for some global constant $c > 0$. Then, to achieve a solution $\delta^\star$ such that:

$$G(\delta^K) - G(\delta^\star) \leq c, \quad c > 0, \tag{8}$$

the FISTA algorithm requires at least $K' := \left\lceil \sqrt{\frac{2Lc}{c}} - 1 \right\rceil$ iterations. Moreover, it can be proved that:

$$G(\delta^K) - G(\delta^\star) \geq \frac{1}{2}\|\delta^\star - \delta^K\|^2_{x_i}.$$
iSCOPT: Inexact SCOPT

Assembling the ingredients described above leads to Algorithm 1, which we call as the Inexact Self-Concordant Optimization (iSCOPT) with the following convergence guarantees; our objective function satisfies the assumptions A.1, defined in (Tran-Dinh, Kyrillidis, and Cevher 2013a); the proof is provided in the supplementary material.

Theorem 2 (Global convergence guarantee). Let $\tau_i := \frac{\varepsilon_i - \sqrt{2\varepsilon_i}}{\varepsilon_i(\varepsilon_i - \sqrt{2\varepsilon_i} + 1)} \in (0, 1)$, where $\varepsilon_i := \|\delta_i - x_i\|_{x_i}$ is the Newton decrement, $\delta_i$ is the solution of (4) and $\varepsilon$ is the requested accuracy for solving (4). Assume $\varepsilon_i \geq \sqrt{2\varepsilon_i}$, $\forall i$, and let the set $\{x_i \in \text{dom}(F): F(x_i) \leq F(x_0)\}$ be bounded. Then, iSCOPT generates $\{x_i\}_{i \geq 0}$ such that $x_i$ satisfies:

$$F(x_{i+1}) \leq F(x_i) - \varepsilon_i, \quad \text{where}$$

$$\varepsilon_i = -\omega_i \varepsilon_i - \tau_i \left( \varepsilon_i - \sqrt{2\varepsilon_i} \right)^2 - \frac{1}{2} \varepsilon_i^2 \geq 0, \quad \forall i, i.e., \{F(x_i)\}_{i \geq 0} \text{ is a strictly non-increasing sequence.}$$

Quadratic convergence rate of iSCOPT algorithm

For strictly convex criteria with unique solution $x^*$, the above proof guarantees convergence, i.e., $\{x_i\}_{i \geq 0} \rightarrow x^*$ for sufficiently large $i$. Given this property, we prove the convergence rate towards the minimizer using local information in norm measures: as long as $\|x_{i+1} - x_i\|$ is away from 0, the algorithm has not yet converged to $x^*$. On the other hand, as $\|x_{i+1} - x_i\| \rightarrow 0$, the sequence $\{F(x_i)\}_{i \geq 0}$ converges to its minimum and $\{x_i\}_{i \geq 0} \rightarrow x^*$, as $i$ increases.

Algorithm 1 Inexact SCOPT for sparse cov. estimation

1: Input: $x_0, \rho, \lambda > 0, \sigma = \frac{3}{\rho \lambda}, \varepsilon_i > 0$.
2: while $\varepsilon_i \leq \gamma$ or $i \leq \nu_{\text{max}}$ do
3: Solve (4) for $\delta_i$ with accuracy $\varepsilon_i$ and parameters $\rho, \lambda$.
4: Compute $\varepsilon_i = \|\delta_i - x_i\|_{x_i}$.
5: if $(\varepsilon_i > \sigma)$
6: $x_{i+1} = (1 - \tau_i)x_i + \tau_i \delta_i$ for $\tau_i = \frac{\varepsilon_i - \sqrt{2\varepsilon_i}}{\varepsilon_i(\varepsilon_i - \sqrt{2\varepsilon_i} + 1)}$.
7: else $x_{i+1} = \delta_i$.
8: end while

In our analysis, we use the weighted distance $\|x_{i+1} - x_i\|_{x_i}$ to characterize the rate of convergence of the putative solutions. By (3) and given $\delta_{i}$ is a computable solution where $\|\delta_{i} - \delta_{i}\|_{x_i} \leq \varepsilon_i$, we observe:

$$\|x_{i+1} - x_i\|_{x_i} = \|\tau_i \delta_i - x_i\|_{x_i} \propto \|\delta_i - x_i\|_{x_i} := \varepsilon_i.$$ 

This setting is nearly algorithmic: given $x_i$ and $\delta_i$ at each iteration, we can observe the behavior of $\|x_{i+1} - x_i\|_{x_i}$ through the evolution of $\{\varepsilon_{i}\}_{i \geq 0}$ and identify the region where this sequence decreases with a quadratic rate.

Definition 2. We define the quadratic convergence region $Q = \{x_i : x_i \in \text{dom}(F)\}$ as such where $\{x_i\}_{i \geq 0}$ satisfies $\varepsilon_{i+1} \leq \beta \varepsilon_i^2 + c$, for some constant $\beta > 0$, $\varepsilon_i < 1$ and bounded and small constant $c > 0$.

The following lemma provides a first step for a concrete characterization of $\beta$ for the iSCOPT algorithm; the proof can be found in the supplementary material.

Lemma 1. For any $\tau_i$ selection, $\forall i$, the iSCOPT algorithm generates the sequence $\{\varepsilon_i\}_{i \geq 0}$ such that (9) holds.

We provide a series of corollaries and lemmata that justify the local quadratic convergence of our approach in theory.

Corollary 1. In the ideal case where $\delta_{i}$ is computable exactly, i.e., $\varepsilon_i = 0$, the iSCOPT algorithm is identical to the SCOPT algorithm (Tran-Dinh, Kyrillidis, and Cevher 2013a).

We apply the bound $\sqrt{\varepsilon_i} \leq \varepsilon_i$, so to simplify (9) as:

$$\varepsilon_{i+1} \leq \frac{2}{1 - 2\tau_i \varepsilon_i} \cdot \frac{1 - \tau_i + 2\tau_i^2 \varepsilon_i}{1 - 8\tau_i \varepsilon_i + 8\tau_i^2 \varepsilon_i} \cdot \varepsilon_i + \sqrt{\varepsilon_i}$$ \hspace{1cm} (10)

Next, we describe the convergence rate of iSCOPT for the two distinct phases in our approach: full step size and damped step size; the proofs are provided in the supplementary material.

Theorem 3. Assume $\tau_i = 1$. Then, iSCOPT satisfies:

$$\varepsilon_{i+1} \leq \beta \varepsilon_i^2 + c,$$

where $\beta = \frac{4}{(1 - 2\tau_i)(1 - 8\tau_i + 8\tau_i^2)} = O\left(\frac{1}{\varepsilon_i}\right)$, $c = \sqrt{\varepsilon_i}$ and $\varepsilon$ is user-defined. I.e., iSCOPT has locally quadratic convergence rate where $c > 0$ is small-valued and bounded. Moreover, for $\varepsilon_i \leq \frac{3}{\rho \lambda}$, $\forall i, \varepsilon_{i+1} \leq 14\varepsilon_i^2 + \sqrt{\varepsilon_i}$.

Theorem 4. Assume the damped-step case where $\tau_i = \varepsilon_i(\varepsilon_i - \sqrt{2\varepsilon_i} + 1) \in (0, 1)$. Then, iSCOPT satisfies:

$$\varepsilon_{i+1} \leq \beta \varepsilon_i^2 + c,$$

where $\beta = \frac{2(\varepsilon_i - \varepsilon_i^2 + 1)}{1 - 2\varepsilon_i(\varepsilon_i - \sqrt{2\varepsilon_i})} \cdot \frac{e^{\varepsilon_i^2 + 3\varepsilon_i + 2\varepsilon_i^2}}{(2 + 6\sqrt{2\varepsilon_i} - e^{\varepsilon_i^2 + 3\varepsilon_i + 2\varepsilon_i^2})} = O\left(\frac{1}{1 - \varepsilon_i}\right)$ and $\varepsilon$ is user-defined. I.e., iSCOPT has locally quadratic convergence rate where $c > 0$ is small-valued and bounded. Moreover, for $\varepsilon_i \leq \frac{1}{\rho \lambda}$, $\forall i, \varepsilon_{i+1} \leq 14\varepsilon_i^2 + \sqrt{\varepsilon_i}$.

An iSCOPT variant

Starting from a point far away from the true solution, Newton-like methods might not show the expected convergence behavior. To tackle this issue, we can further perform Forward Line Search (FLS) (Tran-Dinh, Kyrillidis, and Cevher 2013a): starting from the current estimate $\tau_i$, one might perform a forward binary search in the range $[\tau_i, 1]$. The selection of the new step size $\tau_i$ is taken as the maximum-valued step size in $[\tau_i, 1]$, as long as $\tau_i$ decreases the objective function $F(\cdot)$, while satisfying any constraints in the optimization. The supplementary material contains illustrative examples which we omit due to lack of space.

Application to sparse covariance estimation

Covariance estimation is an important problem, found in diverse research areas. In classic portfolio optimization (Markowitz 1952), the covariance matrix over the asset returns is unknown and even the estimation of the most significant dependencies among assets might lead to meaningful decisions for portfolio optimization. Other applications of the sparse covariance estimation include inference in gene
\[
\varepsilon_{i+1} \leq \left( 1 - \tau_i \varepsilon_i + \tau_i \sqrt{2\varepsilon} \right) \cdot \left( 1 - \tau_i \left( 1 - \sqrt{2\varepsilon} \right) + \left( 2\tau_i^2 - \tau_i \right) \varepsilon_i \right) \frac{1 - 4\tau_i \left( \sqrt{2\varepsilon} + \varepsilon_i \right) \varepsilon_i + 2\tau_i^2 \left( \sqrt{2\varepsilon} + \varepsilon_i \right)^2}{1 - \tau_i \varepsilon_i - \tau_i \sqrt{2\varepsilon}}
\] 

(9)

dependency networks (Schäfer and Strimmer 2005), fMRI imaging (Varoquaux et al. 2010), data mining (Alqallaf et al. 2002), etc. Overall, sparse covariance matrices come with nice properties such as natural graphical interpretation, whereas are easy to be transferred and stored.

To this end, we consider the following problem:

**PROBLEM I:** Given \( n \)-dimensional samples \( \{x_j\}_{j=1}^n \), drawn from a joint probability density function with unknown sparse covariance \( \Sigma \succ 0 \), we approximate \( \Sigma \) as the solution to the following optimization problem for some \( \lambda, \rho > 0 \):

\[
\Theta^* = \arg \min_{\Theta} \left\{ \frac{1}{2\rho} \| \Theta - \Sigma \|_F^2 - \log \det(\Theta) + \frac{\lambda}{\rho} \| \Theta \|_1 \right\}
\]

A summary of the related work on the sparse covariance problem is given in Table 1 and a more detailed discussion is provided in the supplementary material.

**Experiments**

All approaches are carefully implemented in MATLAB code with no C-coded parts. In all cases, we set \( I^{\text{max}} = 500 \), \( \gamma = 10^{-10} \) and \( \epsilon = 10^{-8} \). A more extensive presentation of these results can be found in the supplementary material.

**Benchmarking iSCOPT: time efficiency**

To the best of our knowledge, only (Rothman 2012) considers the same objective function as in **PROBLEM I**. There, the proposed algorithm follows similar motions with the graphical Lasso method (Friedman, Hastie, and Tibshirani 2008).

To show the merits of our approach as compared with the state-of-the-art in (Rothman 2012), we generate \( \Sigma \equiv \Sigma_0 \) as a random positive definite covariance matrix with \( \| \Sigma_0 \|_0 = k \). In our experiments, we test sparsity levels \( k \) such that \( \frac{k}{n} = \{0.05, 0.1, 0.2\} \) and \( n \in \{100, 1000, 2000\} \). Without loss of generality, we assume that the variables are drawn from a joint Gaussian probability distribution. Given \( \Sigma_0 \), we generate \( \{x_j\}_{j=1}^N \) random \( n \)-variate vectors according to \( \mathcal{N}(0, \Sigma_0) \), where \( N = \frac{n}{2} \). Then, the sample covariance matrix \( \hat{\Sigma} = \frac{1}{N} \sum_{j=1}^N x_j x_j^T \) is ill-conditioned in all cases with \( \text{rank}(\hat{\Sigma}) \leq \frac{n}{2} \).

We observe that the number of unknowns is \( \frac{n^2}{2} = \frac{n(n-1)}{2} \); in our testbed, this corresponds to estimation of 4950 up to 1,999,000 variables. To compute \( L \) in (6), we use a power method scheme with \( P \approx 100 \), \( P \approx 2000 \), and \( P \approx 5000 \). All algorithms under comparison are initialized with \( x_0 = \text{vec}(\text{diag}(\hat{\Sigma})) \). As an execution wall time, we set \( T = 3600 \) seconds (1 hour). In all cases, we set \( \rho = 0.1 \).

Table 2 contains the summary of results. Overall, the proposed framework shows superior performance across diverse configuration settings, both in terms of time complexity and objective function minimization efficiency: both iSCOPT and iSCOPT FLS find solutions with lower objective function value, as compared to (Rothman 2012), within the same time frame. The regular iSCOPT algorithm performs relatively well in terms of computational time as compared to the rest of the methods. However, its convergence rate heavily depends on the conservative \( \tau_i \) selection. We note that (4) benefits from warm-start strategies that result in convergence in Step 3 of Algorithm 1 within a few steps.

**Benchmarking iSCOPT: reconstruction efficiency**

We also measure the \( \Sigma \) reconstruction efficacy by solving **PROBLEM I**, as compared to other optimization formulations for sparse covariance estimation. We compare our \( \Theta^* \) estimate with: (i) the Alternating Direction Method of Multipliers (ADMM) implementation (Xue, Ma, and Zou 2012), and (ii) the coordinate descent algorithm (Wang 2012).

Table 3 aggregates the experiment results in terms of the normalized distance \( \| \Theta - \Sigma \|_F / \| \Theta \|_F \) and the captured sparsity pattern in \( \Sigma \). Without loss of generality, we fix \( \lambda = 0.5, \rho = 0.1 \) for the case \( n = 100 \) and, \( \lambda = 1.5, \rho = 0.1 \) for the case \( n = 2000 \). iSCOPT framework is at least as competitive with the state-of-the-art implementations for sparse covariance estimation. It is evident that the proposed iSCOPT variant, based on self-concordant analysis, is at least one order of magnitude faster than the rest of algorithms under comparison. In terms of reconstruction efficacy, using our proposed scheme, we can achieve marginally better \( \Sigma \) reconstruction performance, as compared to (Xue, Ma, and Zou 2012).

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**Table 1: Summary of related work on sparse covariance estimation.** Here, [1]: (Xue, Ma, and Zou 2012), [2]: (Bien and Tibshirani 2011), [3]: (Rothman 2012), [4]: (Wang 2012). All methods have the same \( \mathcal{O}(n^3) \) time-complexity per iteration.

|                | [1]  | [2]  | [3]  | [4]  | This work |
|----------------|------|------|------|------|-----------|
| # of tuning parameters | 2    | 1    | 2    | 1    | 2         |
| Convergence guarantee | ✓    | ✓    | ✓    | -    | ✓         |
| Convergence rate   | Linear | -    | -†   | -†   | Quadratic |
| Covariate distribution | Any  | Gaussian | Any  | Gaussian | Any       |

\(^†\)To the best of our knowledge, block coordinate descent algorithms have known convergence only for the case of Lipschitz continuous gradient objective functions (Beck and Tetruashvili 2013).
Sparse covariance estimates for portfolio optimization

Classical mean-variance optimization (MVO) (Markowitz 1952) corresponds to the following optimization problem:

\[
\begin{align*}
\text{minimize} & \quad w^T \Sigma w \\
\text{subject to} & \quad w^T r = \mu, \quad \sum_i w_i = C, \quad w_i \geq 0, \quad \forall i.
\end{align*}
\]

Here, \( \Sigma \in \mathbb{R}^{n \times n} \) is the true covariance matrix over a set of asset returns, \( r \in \mathbb{R}^n \) denotes the true asset returns of \( n \) stocks, \( w \) represents a weighted probability distribution over the set of assets such that \( \sum_i w_i = C \) and \( C \) is the total capital to be invested. Without loss of generality, one can assume a normalized capital such that \( \sum_i w_i = 1 \). In such case, \( w^T \Sigma w \) is both the risk of the investment as well as a metric of variance of the portfolio selection.

In practice, both \( r \) and \( \Sigma \) are unknown and MVO requires an estimation for both. Empirical estimates, such as \( \hat{\Sigma} \), quickly become problematic in the large scale: the data amount required increases quadratically to be commensurate with the degree of dimensionality. Due to such difficulties, even a simple equal weighted portfolio \( w \) such that \( w_i = 1/n, \forall i \), is often preferred in practice (DeMiguel, Garlappi, and Uppal 2009). Nevertheless, practitioners assume that many elements of the covariance matrix are zero, a property which is appealing due to its interpretability and ease of estimation. Moreover, there are cases in practice where most of the variables are correlated to only a few others.

Figure 1 shows some representative correlation estimates that we observed during the period 01.09.2009 and 31.08.2013. For this purpose, we use iSCOPT with \( \lambda = 0.1 \) and \( \rho = 1 \) to solve PROBLEM 1 and sort the non-diagonal elements of \( \Theta^* \) to keep the most important correlations. We observe in practice some strong correlations between assets, while most of the rest entries in \( \Theta^* \) have significantly small magnitude. This dataset contains 2833 stocks over a trading period of 1038 days, crawled from the Yahoo Finance website\(^1\). Stocks are retrieved from stock markets in the America (e.g., Dow Jones, NYSE, etc.), Europe (e.g., London Stock Exchange, etc.), Asia (e.g., Nikkei, etc) and Africa (e.g., South Africa’s exchange).

Out-of-sample performance with synthetic data: It is apparent that both strong and weak correlations among stock assets are evident in practice. The behavior of non-diagonal entries in correlation matrix estimates is such that it is not easily distinguishable whether small values indicate weak dependence between variables or estimation fluctuations. Under these settings, (Hero and Rajaratnam 2011) propose that small values should be considered as zeros while only large values can be considered as good covariate estimates.

To measure the performance of using a sparse covariance estimate in MVO, we assume the following synthetic case: Let \( \Sigma \succ 0 \) be a synthetically generated Gaussian covariance matrix to represent the correlations among assets. Further-

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\(^1\)http://finance.yahoo.com
expected returns

portfolios

approach comes with some cost to compute

Θ \hat{\Sigma}

risk achieved by the equally-weighted portfolio or the sam-

Θ \Sigma \hat{\Sigma}

Our algorithm for the latter. Using these two quantities, we

Σ \Sigma \Theta \Sigma

more, assume that only k entries of Σ are sufficiently larger

than the rest of the entries. In our experiments below we set

\Sigma \Sigma \Theta \Sigma

1000 and consider a time window of N = 90, 180 days

(i.e., a 3- and 6-month sampling period).

Given the above, both Σ \Sigma \Theta \Sigma

and Θ \Sigma \Theta \Sigma

are calculated – we use

our algorithm for the latter. Using these two quantities, we

then solve (11) for Σ \Sigma \Theta \Sigma

and Σ \Sigma \Theta \Sigma

for various ex-

pected returns µ and record the computed minimum risk

portfolios w(Σ) and w(Θ^*), respectively. Finally, given

w(Σ) and w(Θ^*), as well as the equal-weight portfolio

w_{\text{equal}} := \frac{1}{n} \cdot 1_{n \times 1}, we report the risk/variances achieved by

the constructed portfolios, using the ground truth covariance

Σ. In Table 4, we report lower variances w^T \Sigma w for port-

folios w trained when Θ^* is used in (11), compared with the

risk achieved by the equally-weighted portfolio or the sam-

ple covariance estimation where Σ is used. However, our

approach comes with some cost to compute Θ^* . The empir-

ical strategy with w(Σ) has the worst performance in terms

of minimum risk achieved for most of our testings; we point

out that, in this case, Σ is a rank-deficient positive semidef-

ite matrix.

### Discussion

A drawback of our approach is the combined setup of the

parameters λ and ρ: one needs to identify selections that

perform well on-the-fly, via a trial-and-error strategy. Un-

fortunately, such process might be inefficient in practice, es-

pecially in high dimensional cases. An interesting question

to pursue is the adaptive setup of at least one of λ, ρ. Such

adaptive strategies have attracted a great deal of interest

c.f., (Hale, Yin, and Zhang 2008). One idea is to devise a

path-following scheme with an adaptive ρ selection, where

the resulting scheme solves approximately a series of prob-

lems as ρ \to 0 is adaptively updated (Tran-Dinh, Kyrillidis,

and Cevher 2013b). We hope this paper triggers future ef-

corts towards this research direction for further investigation.
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