

Twitter Thread by [Indian Quant](#) ■■



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Nano Course On Python For Trading

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Module 3

In this post, I will attempt to teach you how to write an algorithm in python to automatically find support and resistance. We shall use the data we downloaded in module 2.

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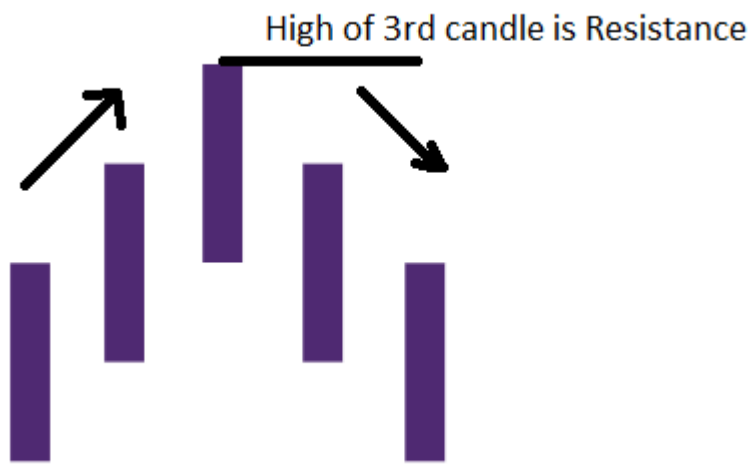
To visualize price action, I have used the daily candlestick chart. To quantify the meaning of support and resistance, I have taken below definitions:

In a series of 5 continuous candles, if the first three candles make increasing high and then 2 decreasing highs, then the

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high of the third candle is considered resistance. Similarly, if the first 3 candles make lower lows and the next 2 make high lows then the low of the third candle is support.

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The above explanation is for the sake of quantifying support and resistance at a very basic level. These are called fractals. Now let's get started with the code.

`mpl_finance` is the new module here. We will use its `candlestick_ohlc` function.

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```
1 import pandas as pd
2 import numpy as np
3 import yfinance
4 from mpl_finance import candlestick_ohlc
5 import matplotlib.dates as mpl_dates
6 import matplotlib.pyplot as plt
7
8 plt.rcParams['figure.figsize'] = [12, 7]
9
10 plt.rc('font', size=14)
```

Now, if you remember, you downloaded data for nifty 50 stocks in module 2. We shall use that data. Let's work on ITC data this time.

We will use data from 1 Jan 2021 to 30 June 2021.

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```

1 df = pd.read_csv(r"C:\Users\pvarshney\Downloads\BlackField Research\Content\Nifty 50 Data\ITC.csv")
2 df = df.drop(['Unnamed: 0'], axis = 1)
3 df
4 start_date = "2021-01-01"
5 end_date = "2021-06-31"
6 df = df[(df['Date'] >= start_date) & (df['Date'] <= end_date)]
7
8 df

```

	Date	Open	High	Low	Close
1730	2021-01-01	209.90	214.20	209.30	213.85
1731	2021-01-04	214.00	216.00	212.10	213.40
1732	2021-01-05	212.45	213.25	210.60	211.45
1733	2021-01-06	211.45	211.50	204.50	205.40
1734	2021-01-07	206.10	207.60	202.10	202.80
...
1847	2021-06-24	204.45	204.65	202.55	203.25
1848	2021-06-25	204.00	205.60	203.75	205.05
1849	2021-06-28	205.90	205.90	203.35	203.60
1850	2021-06-29	203.60	205.30	203.15	203.30
1851	2021-06-30	204.30	204.40	202.55	202.70

Let's plot the candlestick chart for this data frame. We are going to use the `candlestick_ohlc` function from the `mpl_finance` module. I have defined a function `plot_chart()` which you can see in the google colab link in the last thread

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We will iterate over this dataframe and see if the low of the current candle is a support or high is a resistance. For that, we have created an array named `levels`.

Again remember the definition of fractals, we shall leave the first two candles and the last 2 candles as we

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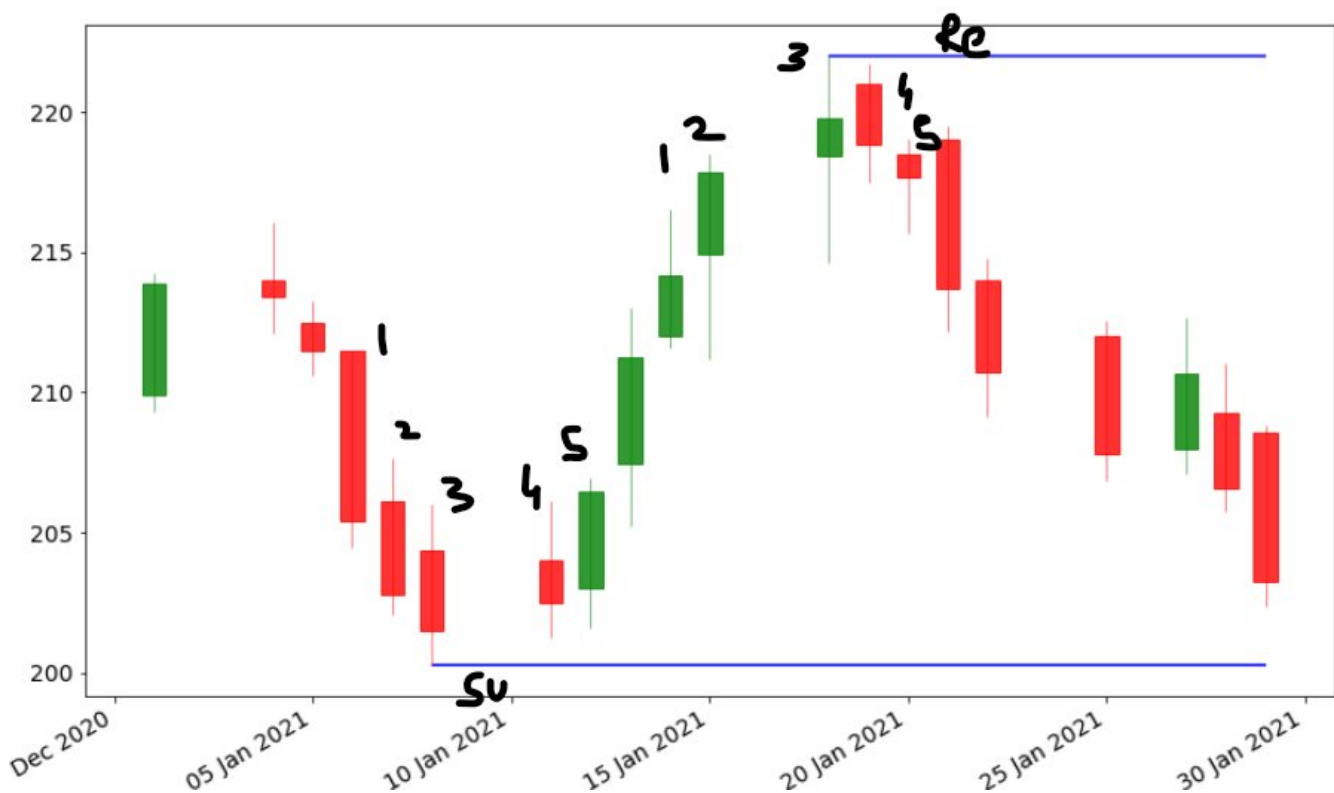
need two candles to the right of a candle in order to consider it a fractal. Similarly, we will leave the last two candles. We will iterate over the data frame from index 2 till it is 2 less than its size. We also need to define two functions "isSupport" and "isResistance"

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```
1 levels = []
2 for i in range(2,df.shape[0]-2):
3     print(i)
4     if isSupport(df,i):
5         levels.append((i,df['Low'][i]))
6     elif isResistance(df,i):
7         levels.append((i,df['High'][i]))
```

determines and returns true/false if a candle low is a support or its high is resistance. In this image below 1-2-3-4-5 is a fractal as explained above, low of the candle on 10 Jan is support and high on 20 Jan is resistance. Repeating this process for the entire data frame.

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To plot the levels we add it in our plot function (named it plot_all()) and execute it.

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```

12
13     for level in levels:
14         plt.hlines(level[1],xmin=df['Date'][level[0]],\
15                     xmax=max(df['Date']),colors='blue')
16     fig.show()

```

But, alas it looks so ugly currently, I don't wanna look at it. There is a way that we can reduce the number of levels marked. What we will do that will first find the average length of a candle and reject all other price levels which are closed then twice this average

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let's find the average length of a candle i.e. average of high - low

```
s = 2 * np.mean(df['High'] - df['Low'])
```

Using this number, we will reject the current price level if there is already another price level within the range $\pm s$. For this, we defined a function `isFarFromLevel`

Finally, we have reduced the number of price levels and the chart looks like below:

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If you want to work on the code and tinker with the code, go to Google Colab <https://t.co/G8DuZvWO0g>

I have shared the entire code on colab and added references for you to look into.

D: these won't help you become profitable but this will teach you how quant traders think &

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automate their day-to-day tasks and quantify certain ideas. If you have any doubt reach out to me in DM.

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In Module 4, we will learn about cloud computing and the use of cloud in trading. Until then, happy learning.