Chicago Board of Trade

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Using Market Profile As A Basis for A Trading Plan

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Live Presentation Starts at 3:30 PM Chicago Time

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The Market Profile Based Trade Plan

1. It provides a statistically valid concept
2. It provides a depth and breadth of information other methodologies cannot
3. It provides more consistently accurate support and resistance information than any other methodology
4. It helps determine, in an objective manner, the potential risk/reward of taking a trade at any given level during the trading day
5. It is logical and is based on natural market development

The Market Profile Based Trade Plan

1. It makes for more objective, relaxed trading
2. It enables the identification of trades with the greatest potential
3. It helps cure the overtrading tendency so many traders have
4. It is robust across time frames and markets
5. It is based on market generated information and simplifies the decision making process at the execution level.

The Ultimate Reason to Use Market Profile

It Works

What is Different about a Market Profile Chart?

It is multi-dimensional:

Time

Price

Volume

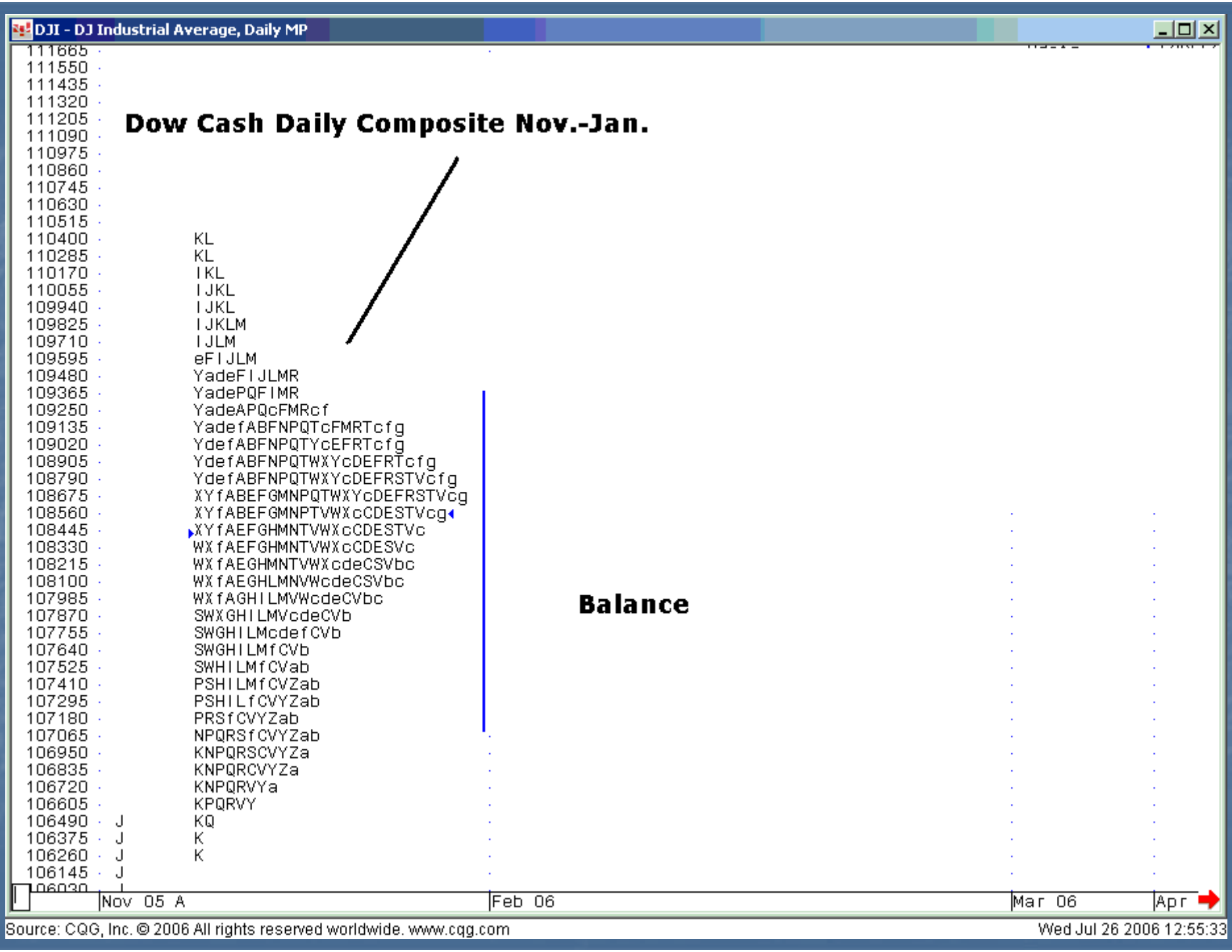
Critical Concept:

Time + Price = Volume (VALUE)

Value: Two Phases

1) Balance = Horizontal Development (consolidation)

2) Imbalance + Vertical Development (trend)


DJI - DJ Industrial Average, Daily MP
Dow Cash Daily Composite Nov.-Jan.
Balance
Nov 05 A
Feb 06
Mar 06
Apr
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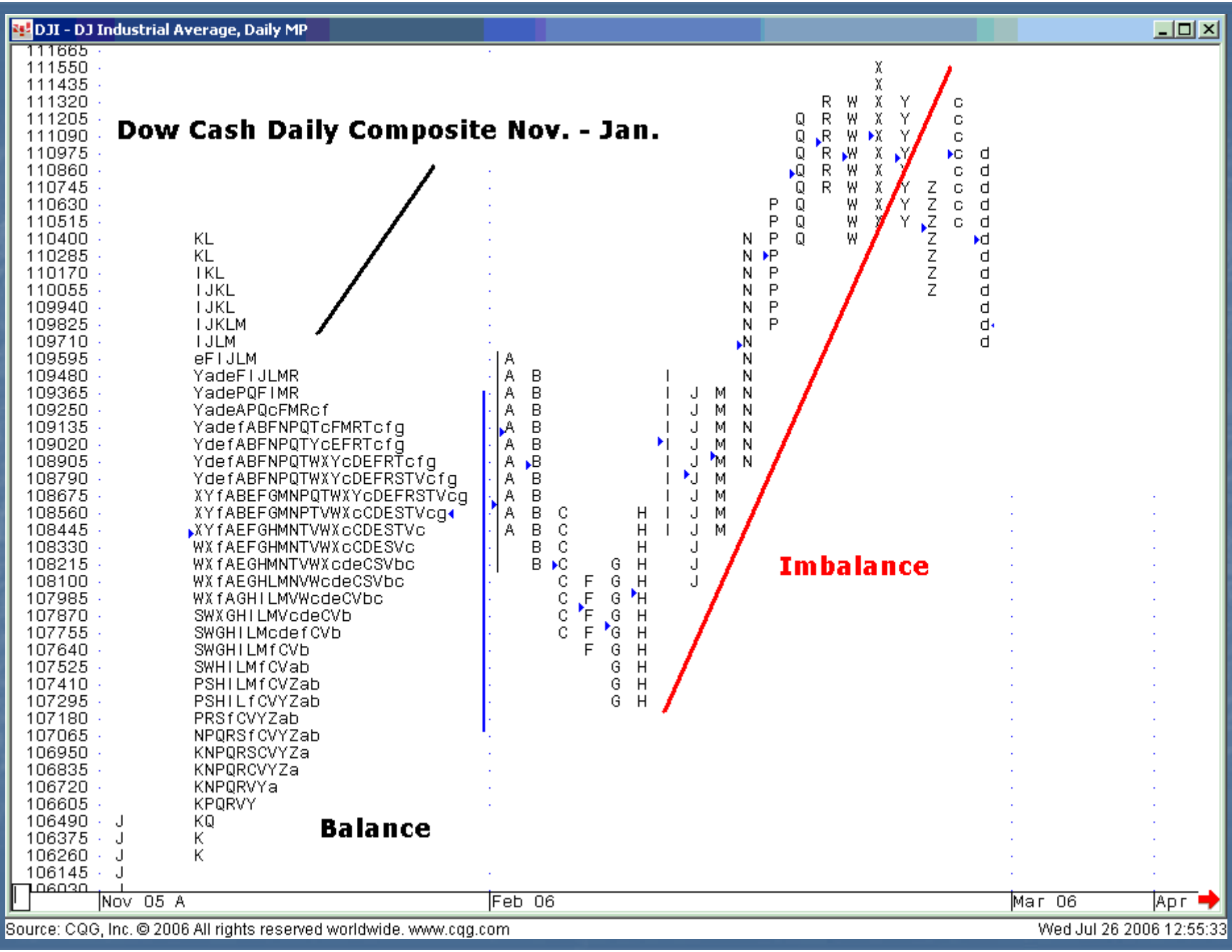
DJI - DJ Industrial Average, Daily MP
Dow Cash Daily Composite Nov. - Jan.
Balance
Imbalance
Nov 05 A
Feb 06
Mar 06
Apr
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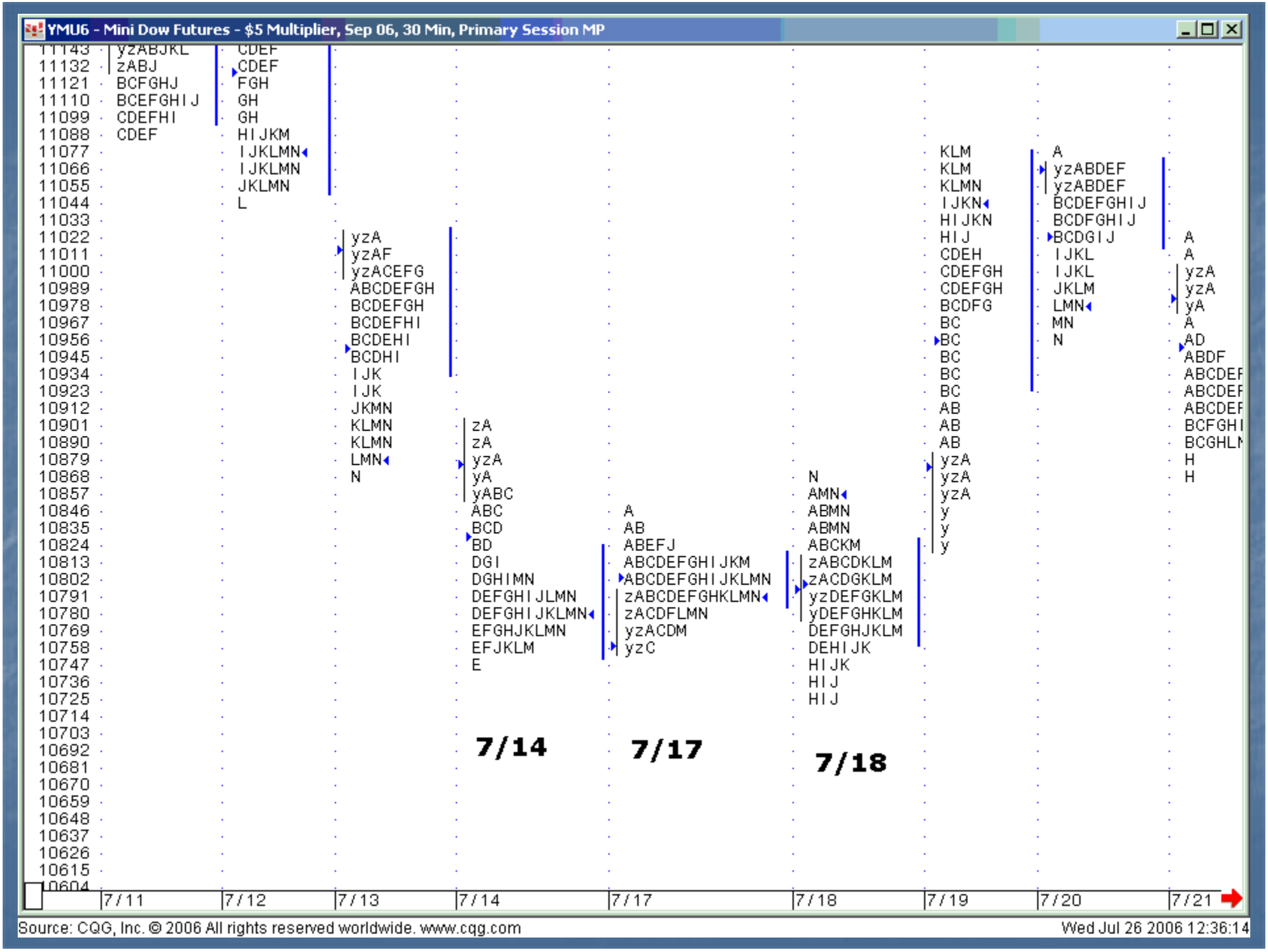
YMU6 - Mini Dow Futures - $5 Multiplier, Sep 06, 30 Min, Primary Session MP
11143 yzABJKL
11132 zABJ
11121 BCFGHJ
11110 BCEFGHIJ
11099 CDEFHI
11088 CDEF
CDEF
CDEF
FGH
GH
GH
HIJKM
IJKLMN
IJKLMN
JKLMN
L
yzA
yzAF
yzACEFG
ABCDEFGH
BCDEFGH
BCDEFHI
BCDEHI
BCDHI
IJK
IJK
JKMN
KLMN
KLMN
LMN
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zA
yzA
yA
yABC
ABC
BCD
BD
DGI
DGHIMN
DEFGHIJLMN
DEFGHIJKLMN
EFGHJKLMN
EFJKLM
E
A
AB
ABEFJ
ABCDEFGHIJKM
ABCDEFGHIJKLMN
zABCDEFGHKLMN
zACDFLMN
yzACDM
yzC
N
AMN
ABMN
ABMN
ABCKM
zABCDKLM
zACDGKLM
yzDEFGKLM
yDEFGHKLM
DEFGHJKLM
DEHIJK
HIJK
HIJ
HIJ
KLM
KLM
KLMN
IJKN
HIJKN
HIJ
CDEH
CDEFGH
CDEFGH
BCDFG
BC
BC
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yzABDEF
BCDEFGHIJ
BCDFGHIJ
BCDGIJ
IJKL
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JKLM
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ABCDEF
ABCDEF
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BCGHLM
H
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7/14
7/17
7/18
7/11
7/12
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7/19
7/20
7/21
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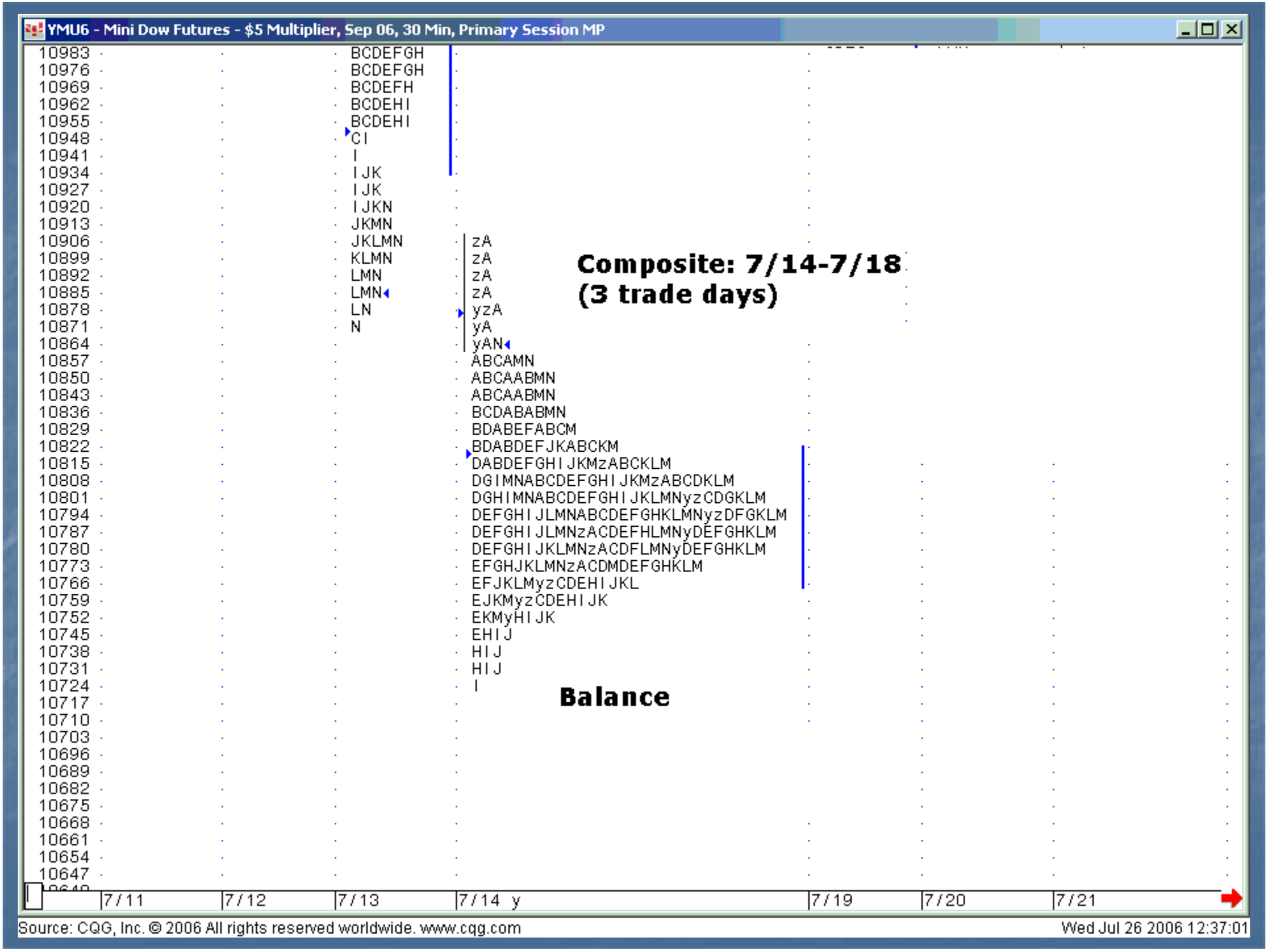
YMU6 - Mini Dow Futures - $5 Multiplier, Sep 06, 30 Min, Primary Session MP
10983 BCDEFGH
10976 BCDEFGH
10969 BCDEFH
10962 BCDEHI
10955 BCDEHI
10948 CI
10941 I
10934 IJK
10927 IJK
10920 IJKN
10913 JKMN
10906 JKLMN zA
10899 KLMN zA
10892 LMN zA
10885 LMN zA
10878 LN yzA
10871 N yA
10864 yAN
10857 ABCAMN
10850 ABCAABMN
10843 ABCAABMN
10836 BCDABABMN
10829 BDABEFABCM
10822 BDABDEFJKABCKM
10815 DABDEFGHIJKMzABCKLM
10808 DGIMNABCDEFGHIJKMzABCDKLM
10801 DGHIMNABCDEFGHIJKLMNyzCDGKLM
10794 DEFGHIJLMNABCDEFGHKLMNyzDFGKLM
10787 DEFGHIJLMNzACDEFHLMNyDEFGHKLM
10780 DEFGHIJKLMNzACDFLMNyDEFGHKLM
10773 EFGHJKLMNzACDMDEFGHKLM
10766 EFJKLMyzCDEHIJKL
10759 EJKMyzCDEHIJK
10752 EKMyHIJK
10745 EHIJ
10738 HIJ
10731 HIJ
10724 I
10717
10710
10703
10696
10689
10682
10675
10668
10661
10654
10647
Composite: 7/14-7/18
(3 trade days)
Balance
7/11
7/12
7/13
7/14 y
7/19
7/20
7/21
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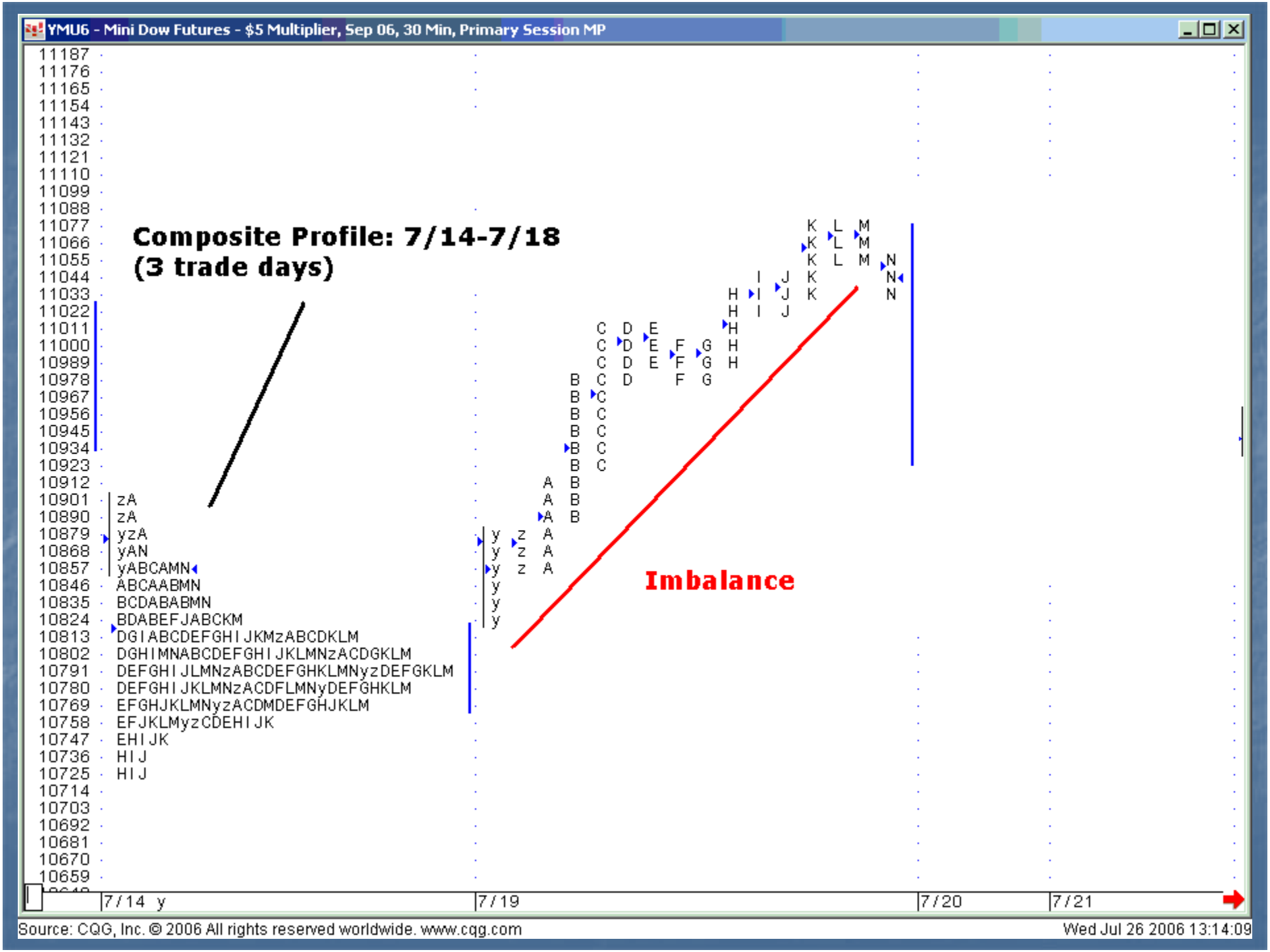
YMU6 - Mini Dow Futures - $5 Multiplier, Sep 06, 30 Min, Primary Session MP
Composite Profile: 7/14-7/18
(3 trade days)
Imbalance
7/14 y
7/19
7/20
7/21
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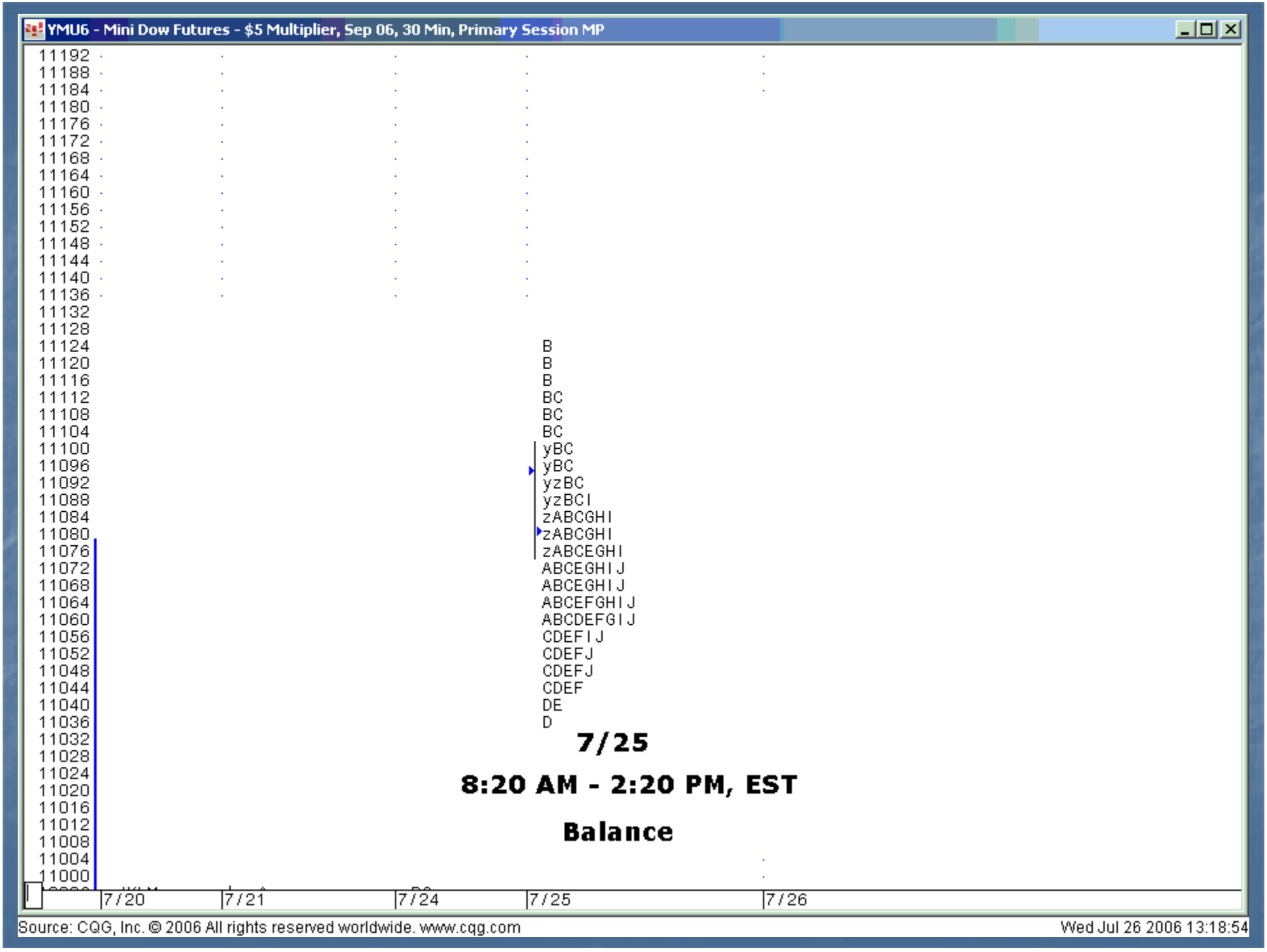
YMU6 - Mini Dow Futures - $5 Multiplier, Sep 06, 30 Min, Primary Session MP
11192
11188
11184
11180
11176
11172
11168
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11160
11156
11152
11148
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11140
11136
11132
11128
11124
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11016
11012
11008
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yzBC
yzBCI
zABCGHI
zABCGHI
zABCEGHI
ABCEGHIJ
ABCEGHIJ
ABCEFGHIJ
ABCDEFGIJ
CDEFIJ
CDEFJ
CDEFJ
CDEF
DE
D
7/25
8:20 AM - 2:20 PM, EST
Balance
7/20
7/21
7/24
7/25
7/26
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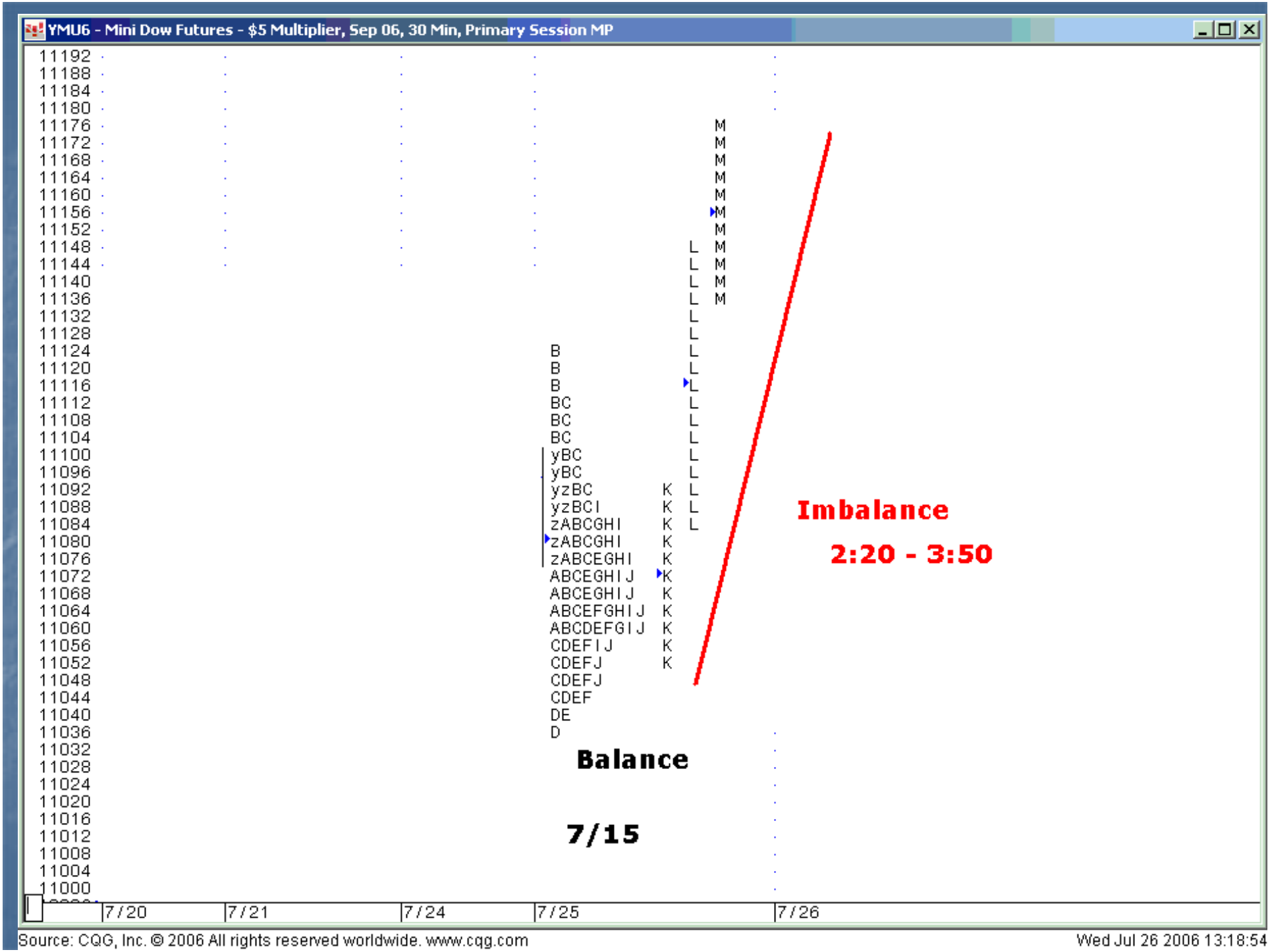
YMU6 - Mini Dow Futures - $5 Multiplier, Sep 06, 30 Min, Primary Session MP
Imbalance
2:20 - 3:50
Balance
7/15
7/20
7/21
7/24
7/25
7/26
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Market Development

Constant process of cycling in phases from Imbalance to Balance.

This creates consistent inflection points that help define market condition and helps to identify and quantify trade opportunity.

Market Profile Charts Market Development

- Market Structure gives clues to the present state of market development
- Market Structure provides areas of potential resistance and support
- Market structure enables one to objectively evaluate the risk/reward equation of taking a trade

Understanding Market Development Provides Certain Useful Statistical Tendencies of Value to a Trader

- Markets spend more time consolidating (Horizontal Development) than trending (Vertical Development)
- The tendency of the market is overwhelmingly statistically in favor of rotation

Inflection Points = Key Reference Areas

- KRAs are based on Value (or lack thereof) in the market.
- Remember: Price + Time = Volume (VALUE)

Composite Profiles

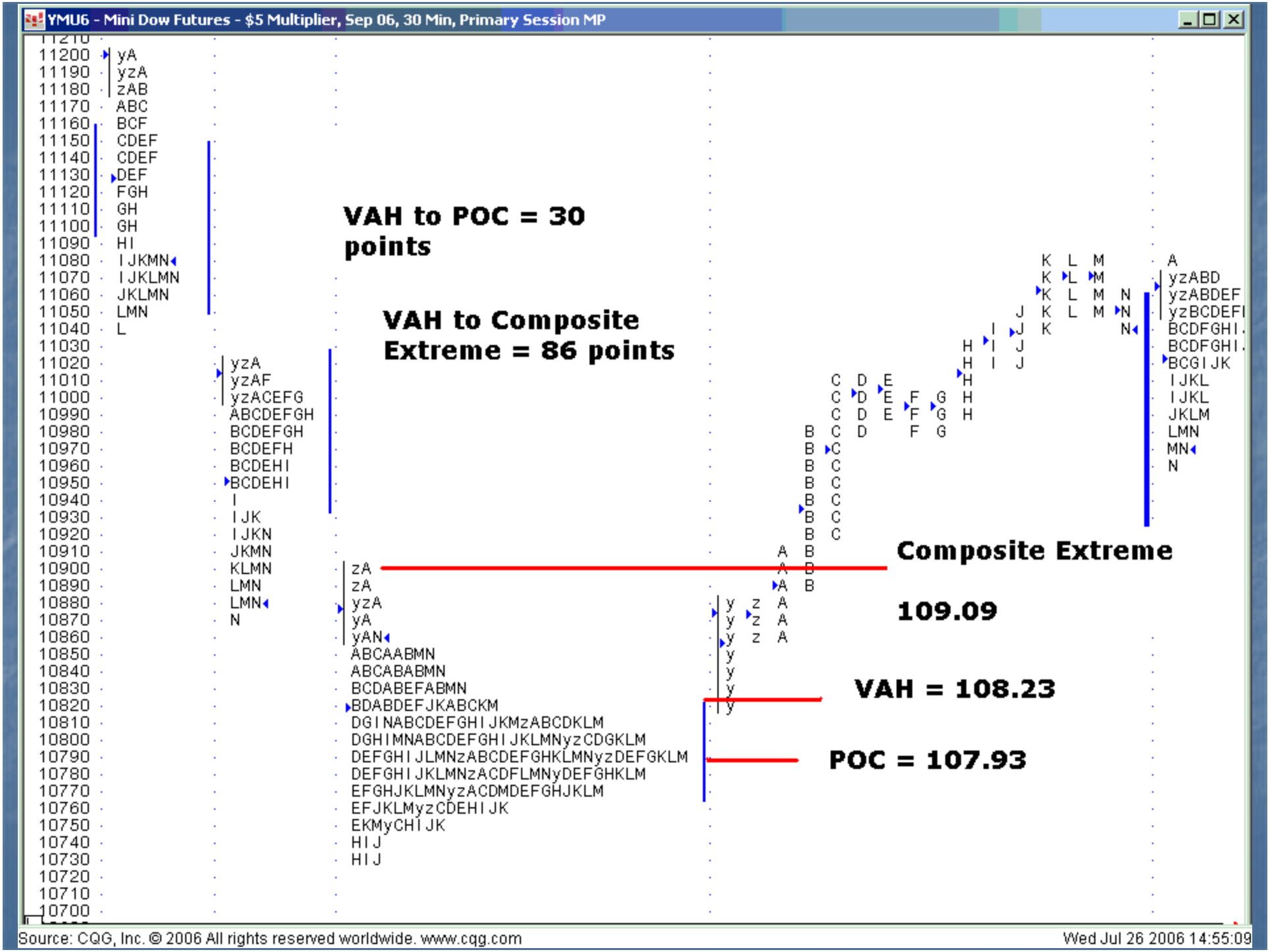
Help to define Value outside the day timeframe

This can help us make better trade decisions while trading the present day timeframe.

Each day is merely a piece of larger market development

Key Reference Areas

KRAs in the present day timeframe can be "lined-up" with KRAs of developing market structure to help define trades – location and risk/reward.


YMU6 - Mini Dow Futures - $5 Multiplier, Sep 06, 30 Min, Primary Session MP
VAH to POC = 30 points
VAH to Composite Extreme = 86 points
Composite Extreme
109.09
VAH = 108.23
POC = 107.93
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Benefits of Trading Market Structure

- Helps remove randomness from trade decisions
- Provides an objective means to quantify risk AND reward
- Allows for more structured, less stressful trading

Benefits of Trading Market Structure

- Provides important context for “entry gimmicks” at the execution level
- Makes understanding short-term market internals even more valuable and practical tp use – volume, TICK, breadth, intra-market divergences

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- Seminars: Atlanta, August 12-14; San Diego, Sept. 30-Oct. 2
- Mentoring

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