

## **Market Profile Overview by Charles Cochran**

Since my introduction to the Profile some 22 years ago, its application and verity have only grown in my experience. The Profile's display of market activity and data organization covers it all for the trader – time, price, volume, overall market activity, as well as the specific activity of impact players.

Once you understand the Market Profile and its nuances, some of which admittedly are subtle, your market understanding and trading prowess will be taken to new levels. The profile enables you to see who is doing what and to whom. You will also be able to recognize when the market is about to pause, as well as when it is on the brink of moving. The market's structure for any time frame is revealed to the Profile trader and is empirically confirmed as it occurs. You will not get this advantage with any other trading methodology, period.

The Profile provides you with tradable setups and insights before the fact, giving you the time to profit from the market-generated information. The Profile includes all studies and factors affecting the market, moment to moment. Therefore, there is no need to rack every technical possibility your current software offers when using the Profile. And finally, those segments of the market – the locals, market makers and the large institutions, which can turn the market the fastest, adopted the Profile from day one and have not abandoned it since.

If you do not recognize this potential market changing activity from its initiation, what these major players are doing or who is in control of the market, you can miss the next move or get caught on the wrong side of the market. The Profile reveals the major players' activity, and therefore, their intentions. Because large players cannot execute size orders instantly at favorable prices, the Profile reveals their entry into the market and gives you time to trade accordingly. Such telegraphed information gives you almost the same advantages possessed by the initiating player. This is a powerful advantage over most technical signals that are almost always two bars late.

### **Efficiency**

The efficiency of the Profile stands out as the primary reason to adopt this methodology. You can eliminate most of the screens and the numerous considerations necessary to evaluate and assimilate prior to entering a trade. Think of the infinite number of permutations possible technically to analyze the market. What to use and what not to use? How does this impact your confidence and emotions while trading?

Trading deals with the correct interpretation of reality and its effect on the future. Your internal bias leads you to select those studies and/or analyses that support your current opinion/perception about the market. You then assign a probability to that perceived expectation. Now the rule of large numbers is imposed on your trading decision and you are presented with a process that cannot have a certain solution except over a large number of events and time. This can only lead to two outcomes: 1) A frustrated departure from the trading arena by most novices or 2) Acceptance of a less-than-perfect methodology with a rate of return far below the trader's expectations from his analysis and back-testing.

The Profile minimizes and can even eliminate many of these frustrations and dilemmas. The Profile is a method of collecting and organizing data based on the scientific rules of observation and statistics. The Chicago Board of Trade rigorously back-tested and scientifically proved the Profile before introducing it to the public. It is not some formula touted by its originator as the latest, greatest way to wring millions out of the market. It is simply a way of organizing the data and looking at the market scientifically.

The Market Profile is not a system. This scientific approach to the market yields a methodology that is both valid and reliable mathematically. It is based on raw data that is not manipulated, therefore reflecting reality. It is what it is, and not a manipulation or forced fit imposed by formulas the trader has selected.

The Profile shows you what has happened and identifies the bias of that collected information. This snap shot of reality is power, in and of itself. Just think about the differences between dealing with what is, versus what might be.

The Profile is based on time, price and volume – all the various studies you currently monitor and interpret all come together singularly in the Profile.

## **Market Understanding**

The market's bias, its participants and operating time frame become easy to see and act upon. The Profile's rules for trading are hard and not subject to interpretation. There is an elegance and efficiency in the Profile's approach to the market found nowhere else. Combine this inside knowledge with the actual structure of the market and you have an approach that is simplicity itself. You can execute at the market's edges. You can reliably forecast the market's direction.

When mastered, you will enter a trading world where you can be right over 70% of the time. Think about that number – 70% correct as opposed to the 35 – 40% rate that most technical approaches yield.

The players are the final market component the Profile reveals. If you know how the various market players trade, what interests them and where they are likely to enter the market, you will know how to vary your strategies to anticipate and accommodate their forays. A locally controlled market requires a different approach than one driven commercially. A local's market is a 'fade' market with limited opportunity, while commercially driven activity yields a 'go with' market with increased opportunity. The wrong strategy for either market leads to losses. The correct reading of market conditions and who is in control of the market minimizes your losses and increases your profits – a hard combination to beat over time.

## **In Summary**

Once mastered, the Profile is the best way to frame the market and its activity developed to date. Furthermore, the CBOT endorses the Market Profile. The Profile is based on the laws of statistics. Early complaints that the Profile was too complicated, only suitable for large institutions or that it took too long to understand and master cannot stand today. The Profile was certainly all of those things at its introduction, but a lot of understanding about the rules and trading strategies has been developed within the trading community over the last 17 years.

The number of rules and the attendant analysis of such have been greatly reduced, yielding a methodology that now lives up to its original billing. The Profile remains the approach of choice for those influential players you trade against – the locals, the market makers and large institutions. Their impact is most easily seen through the Profile. Once you master the Profile, trading will become that experience you envisioned when you first contemplated entering the trading arena. Good trading.

## **Market Profile Educational Resources**

<http://www.cbot.com/cbot/docs/handbook.pdf>

This is the Market Profile handbook straight from the CBOT web site. It's a sizable download at 346 pages. Adobe Acrobat required. If you don't have it, you can get it for no charge here:

<http://www.adobe.com/products/acrobat/>

<http://www.iiedge.com/Home/Software...61/Default.aspx>

This link will take you to an explanation of the software utilized in Trademaven's 3-2-1 methodology.

<http://www.amazon.com/Steidlmayer-M...g/dp/0471621153>

J. Peter Steidlmayer invented the Market Profile. This link takes you to his most comprehensive book about the Market Profile

<http://www.cbot.com/cbot/pub/market...ion/Anatomy.htm>

[http://www.cbot.com/cbot/docs/Anatomy\\_Handout.pdf](http://www.cbot.com/cbot/docs/Anatomy_Handout.pdf)

This is a video and handout given by Jim Dalton, author of the books "Mind Over Markets" and "Markets In Profile".

<http://www.cisco-futures.com/>

This web site, owned and operated by Don Jones, has a ton of free background information about the Market Profile as well as a downloadable book "Value Based Power Trading".

[http://www.amazon.com/Enhancing-Tra...d\\_sim\\_b\\_title\\_4](http://www.amazon.com/Enhancing-Tra...d_sim_b_title_4)

Dr. Brett Steenbarger is a brilliant psychologist, author and trader. Psychology is a big part of trading and Dr. Steenbarger is an expert. This is his latest book. He also offers an extremely informative free blog at:

<http://www.traderfeed.blogspot.com/>