BUILDING A TRADING STRATEGY WITH MARKET PROFILE

ROBIN MESCH

MESCH CAPITAL MANAGEMENT, INC.

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Overview:

- Representing and Organizing the data with Market Profile
- Practical Application: Using Market Profile to build a trading strategy & Current outlooks on Key Markets

All Charts Courtesy of CQG

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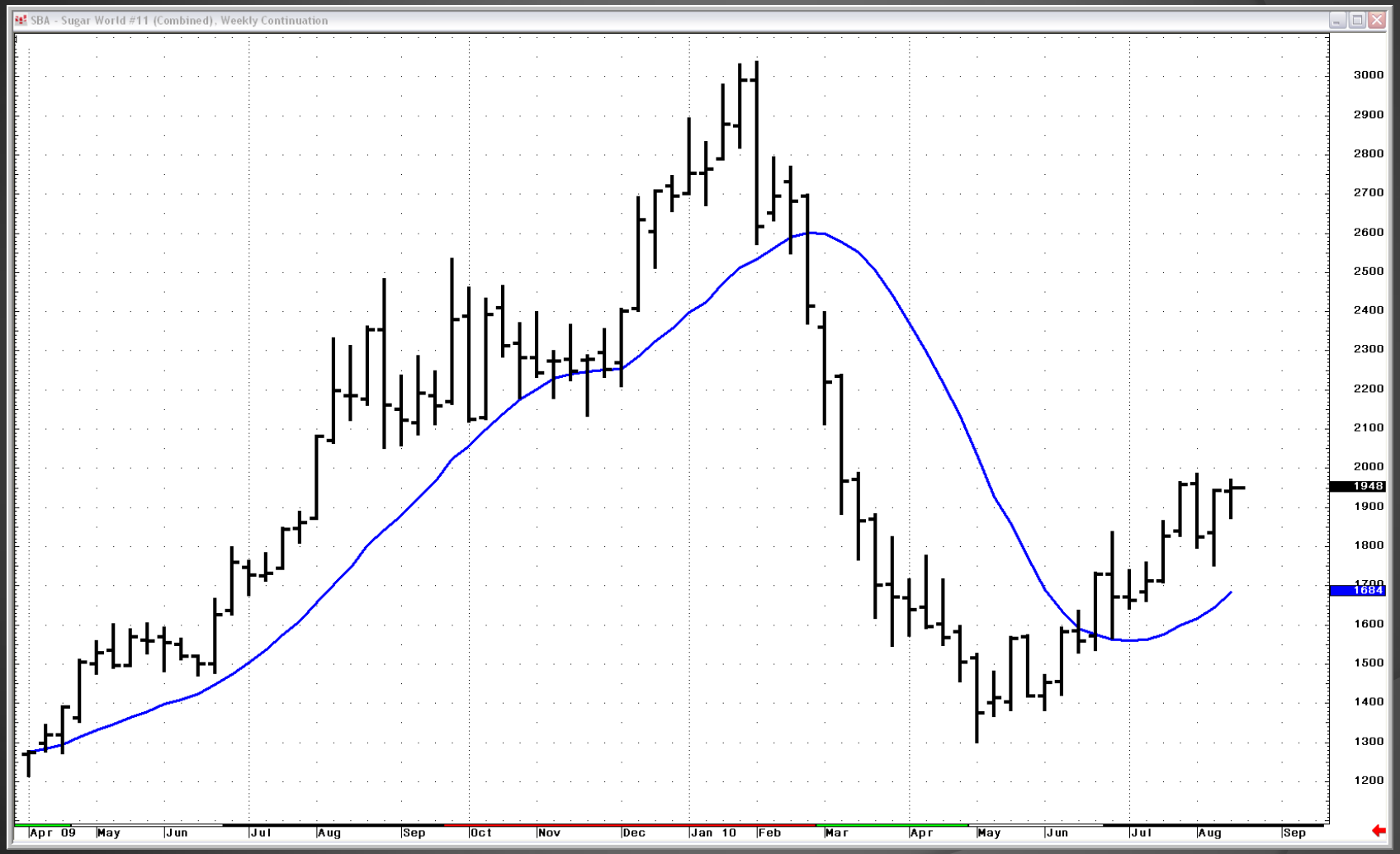
Data Representation: Price Bars



Sugar #11, Weekly Price Bars, April 2009 – August 2010

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How We Organize the Market Determines How We See It.

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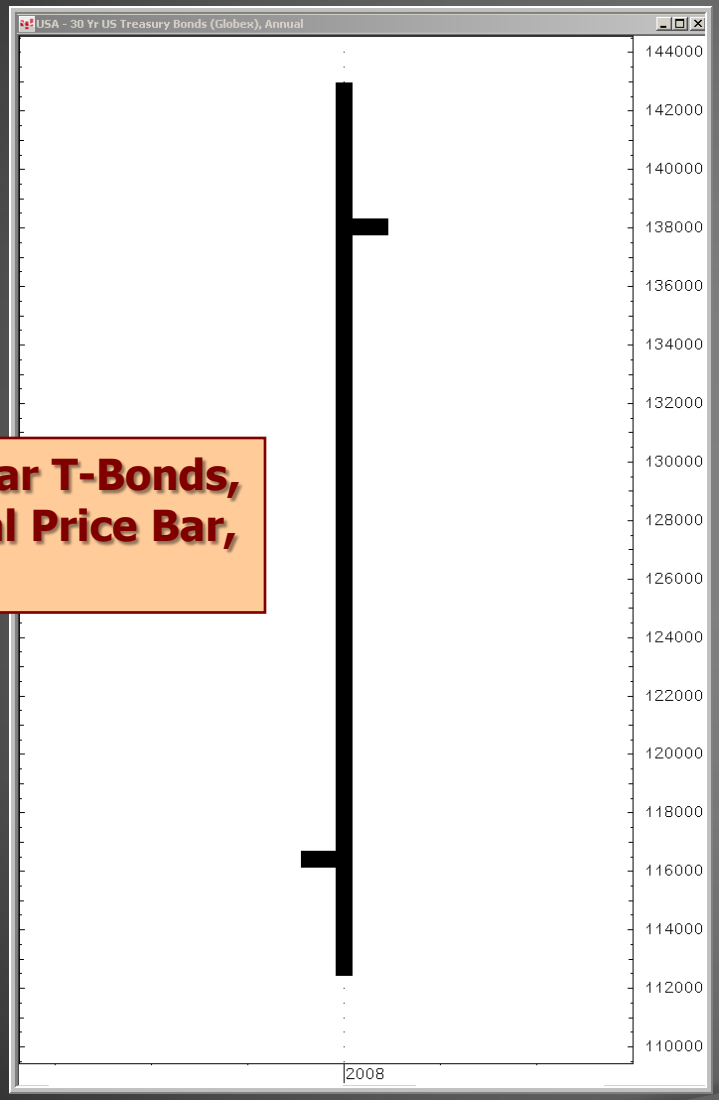
Data Representation: Price Bar



30-Year T-Bonds, Annual Price Bar, 2008

30-Year T-Bonds, Annual Price Bar, 2008

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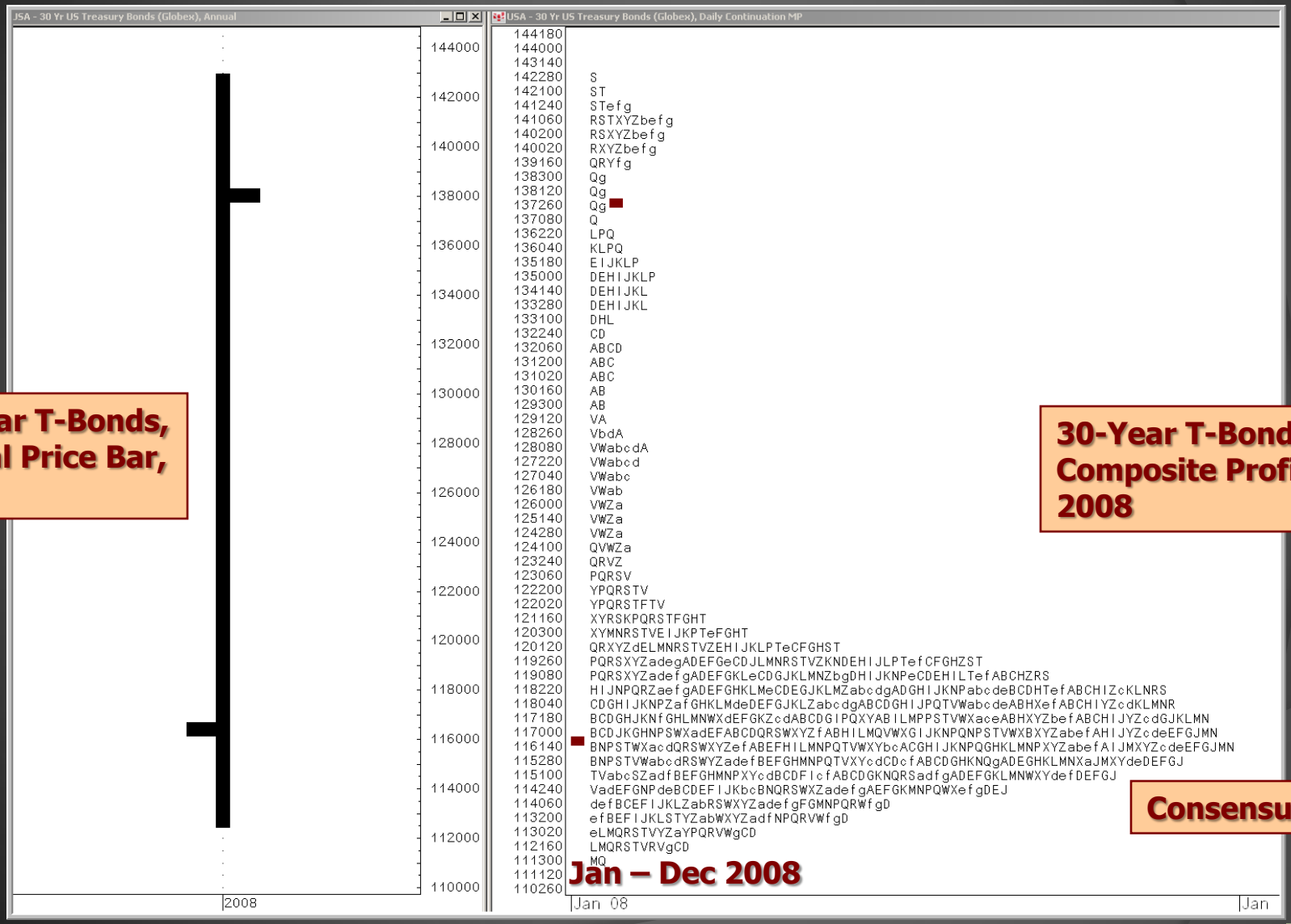
Data Representation: Time Spent at Price



30-Year T-Bonds, Annual Price Bar, 2008

30-Year T-Bonds, Composite Profile, 2008

Consensus

Jan – Dec 2008

30-Year T-Bonds, Annual Price Bar, 2008 30-Year T-Bonds, Profile, 2008

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Usage = Acceptance

The process of building Price Acceptance naturally organizes into a bell curve

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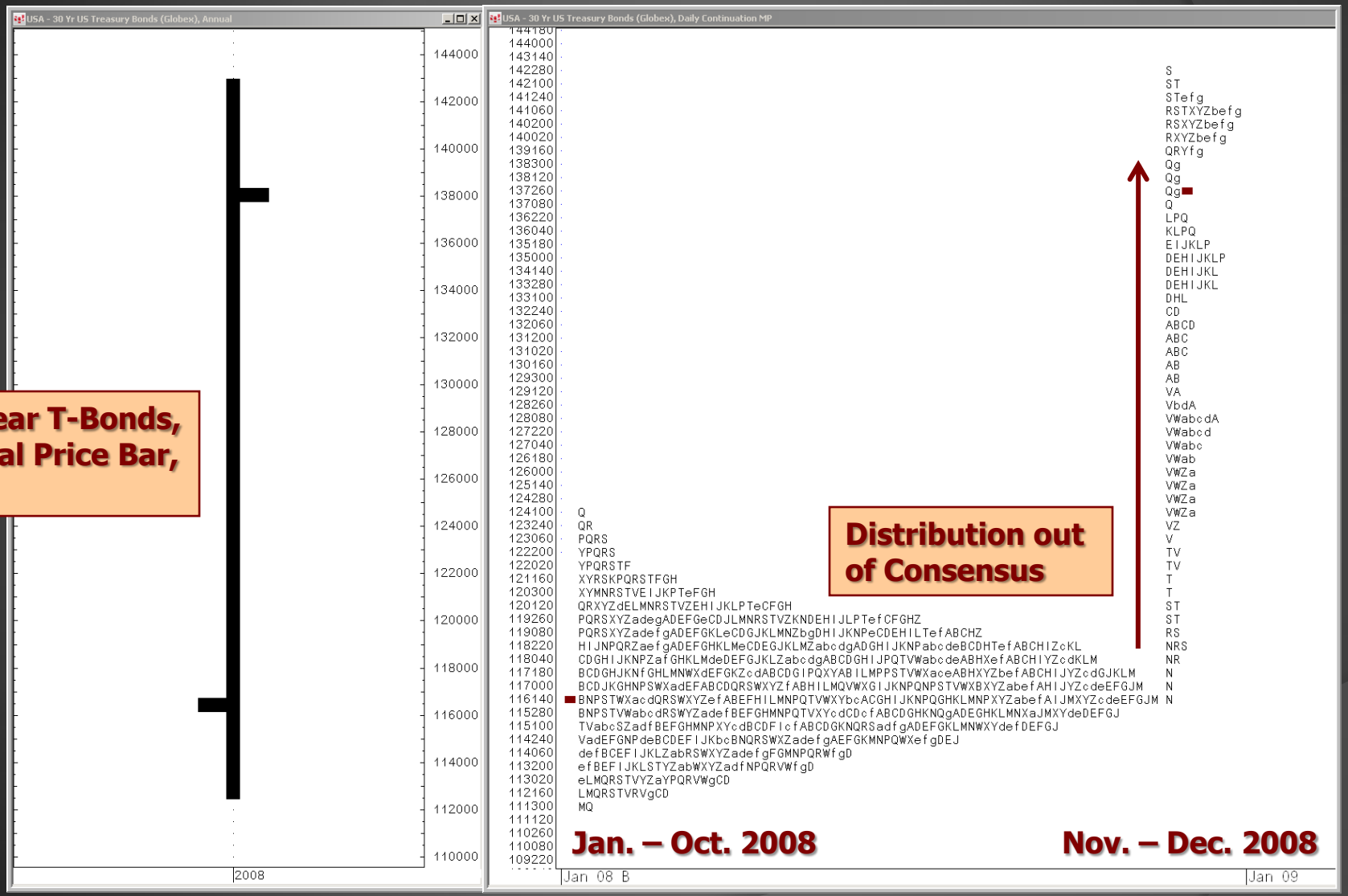
Data Representation: Price Bar vs. Bell Curve



30-Year T-Bonds, Annual Price Bar, 2008

30-Year T-Bonds, Annual Price Bar, 2008 30-Year T-Bonds, Profile, 2008

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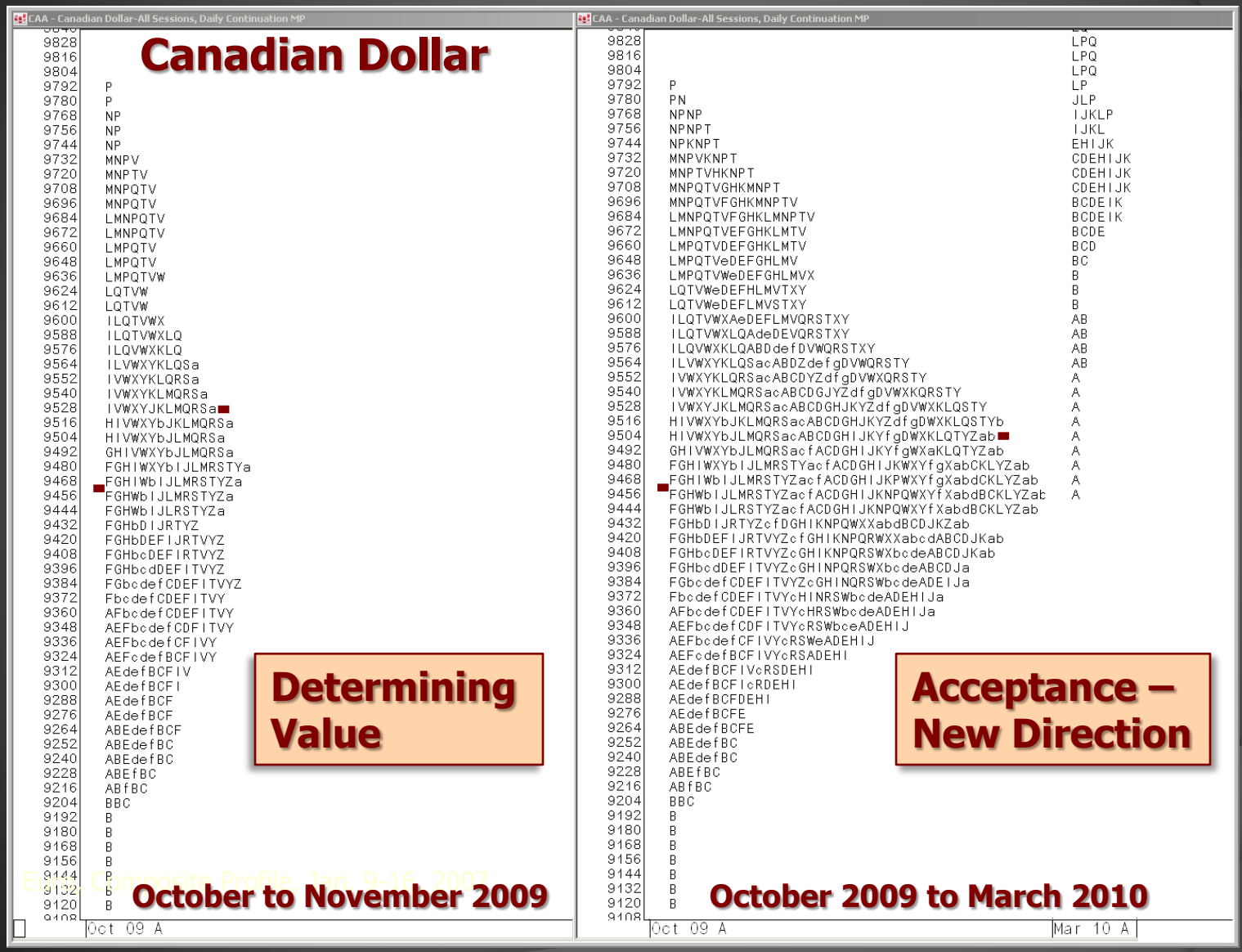
Seeing Determination of Value



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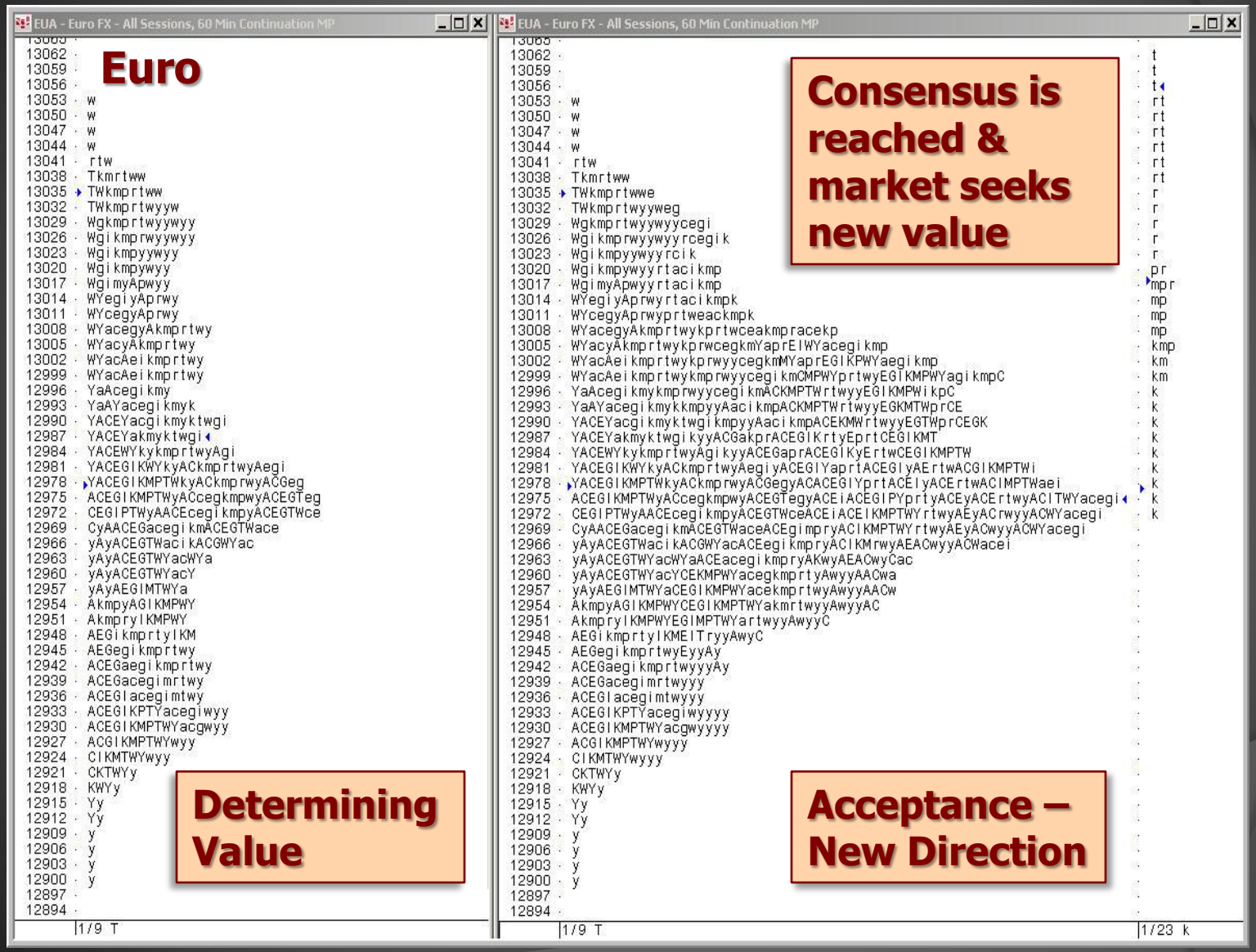
Seeing Determination of Value



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Market Profile Tracks Market Consensus

- The beginning of the auction represents a **determination** of value
- The completion of the auction marks the **acceptance of value**
- **Market consensus** looks like a **completed Bell curve**.

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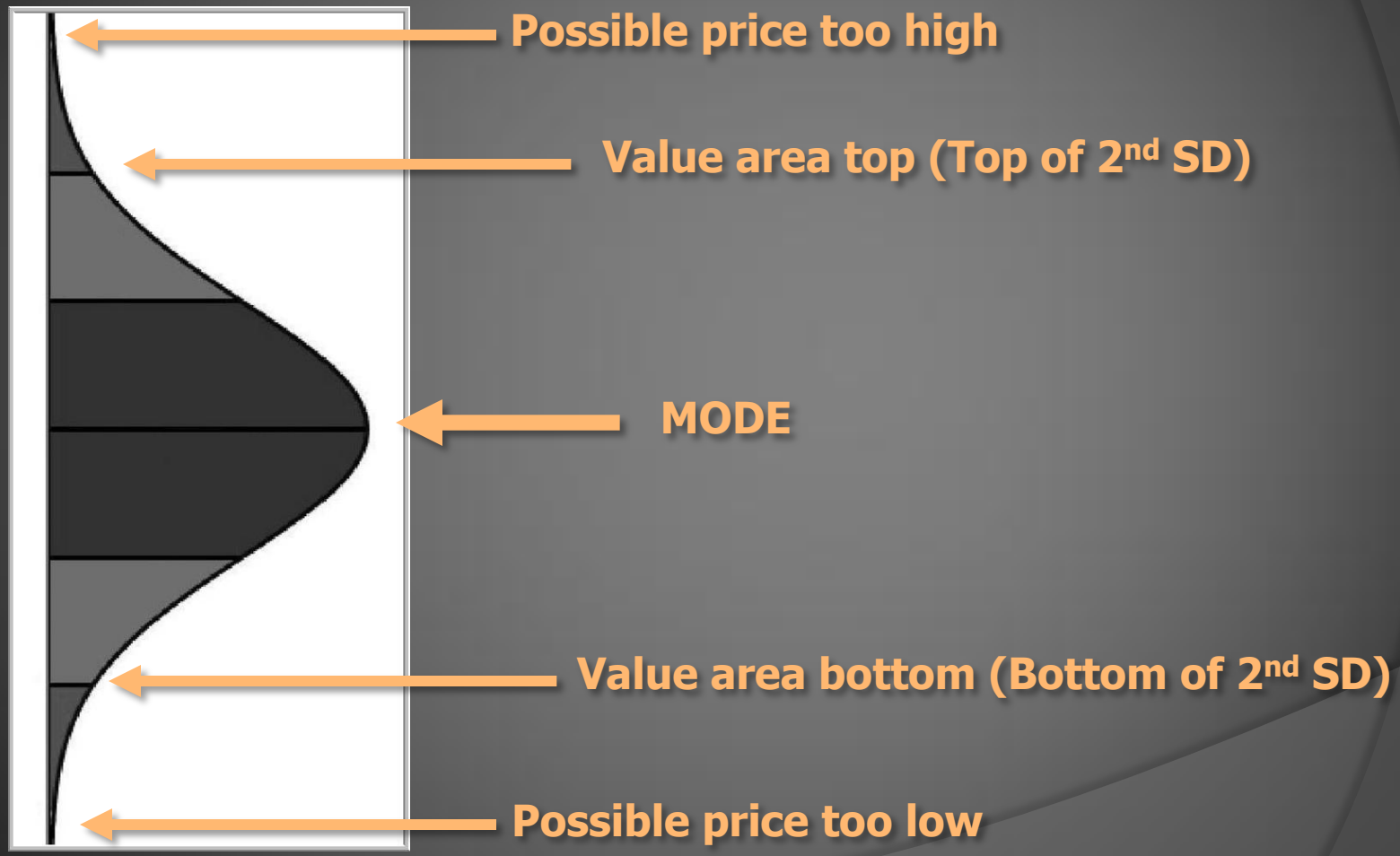
Profiles are Bell Curves that are vertically oriented



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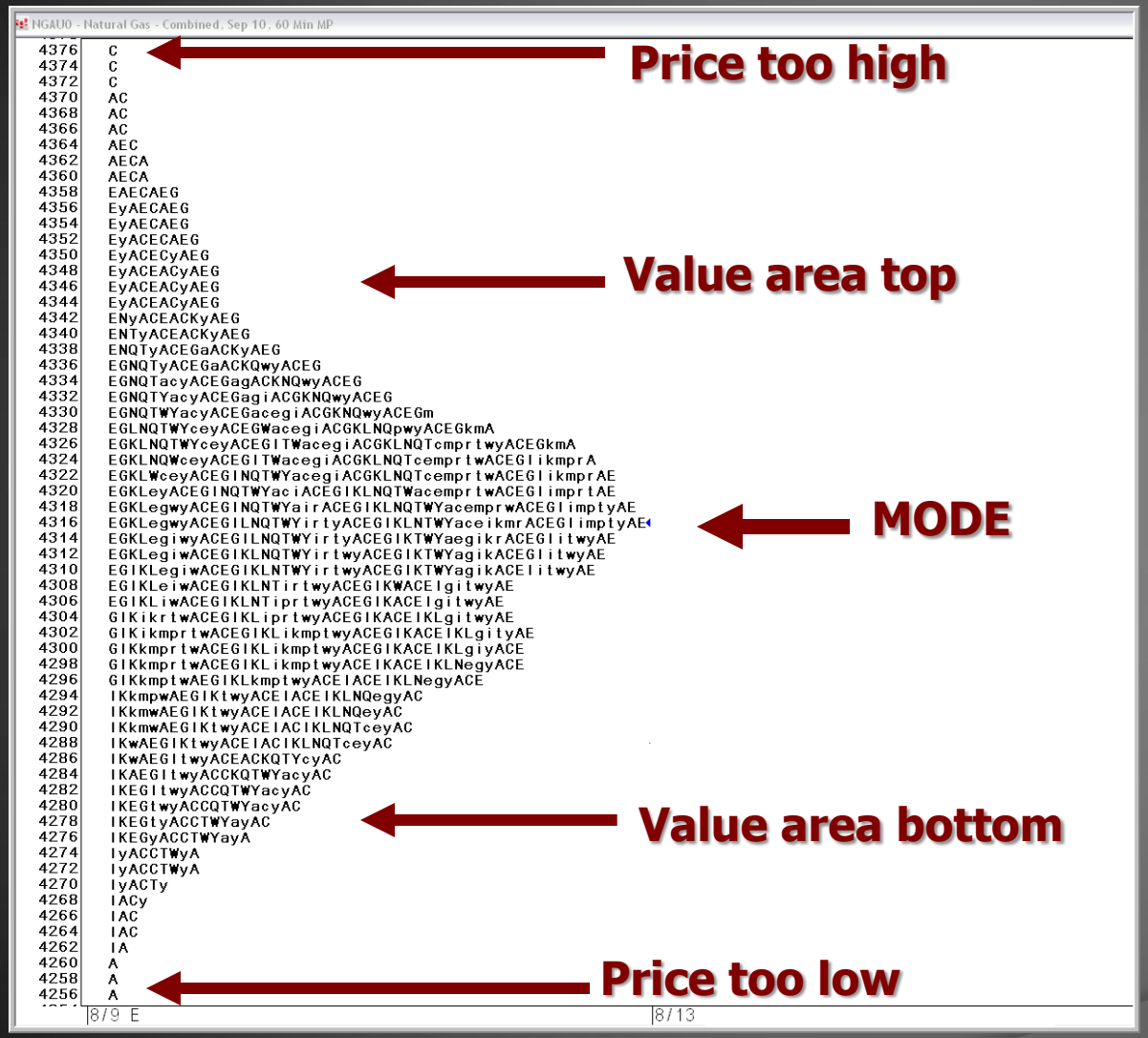
Profile Structure



1 Week of Market Activity

Natural Gas, Composite Profile, August 9th – 13th 2010

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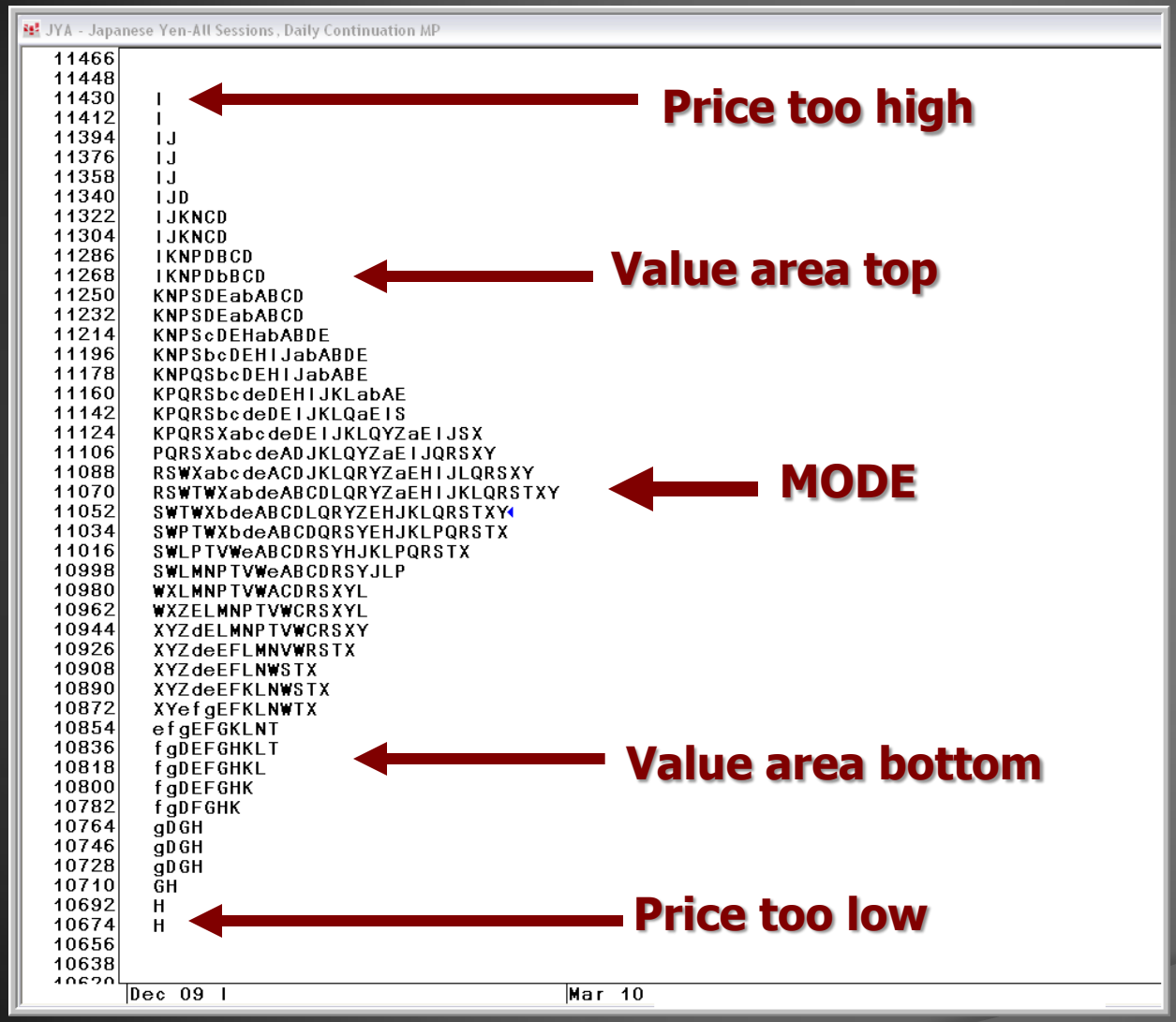
Profile Structure



Over 3 Months of Market Activity

Japanese Yen, Composite Profile, Dec. 2009 – March 2009

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How do we organize the Data to see the progress toward Consensus and Determine the new Direction?

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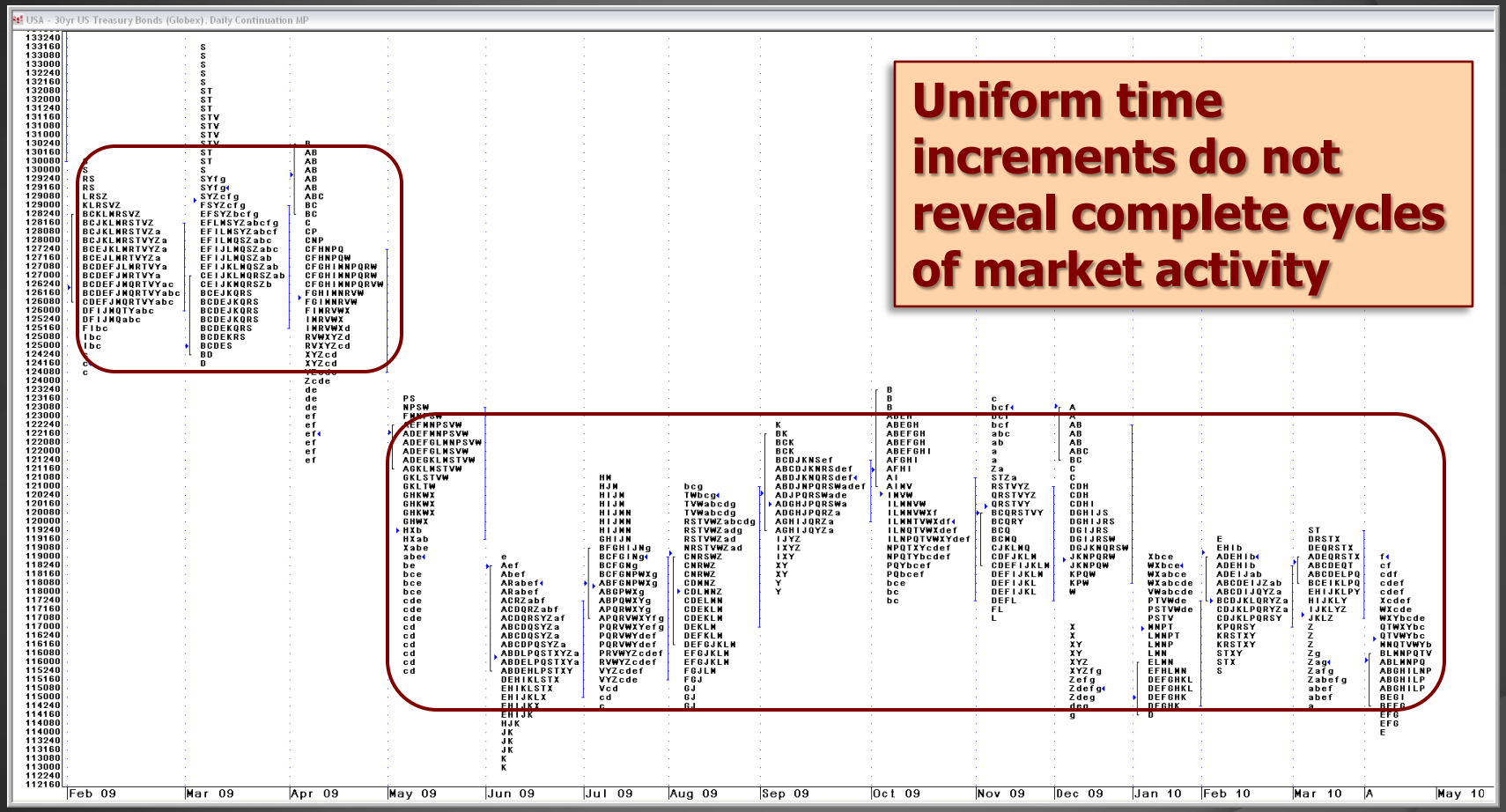
Organizing the Data into Bell Curves



30-Year T-Bonds, Monthly Profiles, Feb. 2009 – April 2010

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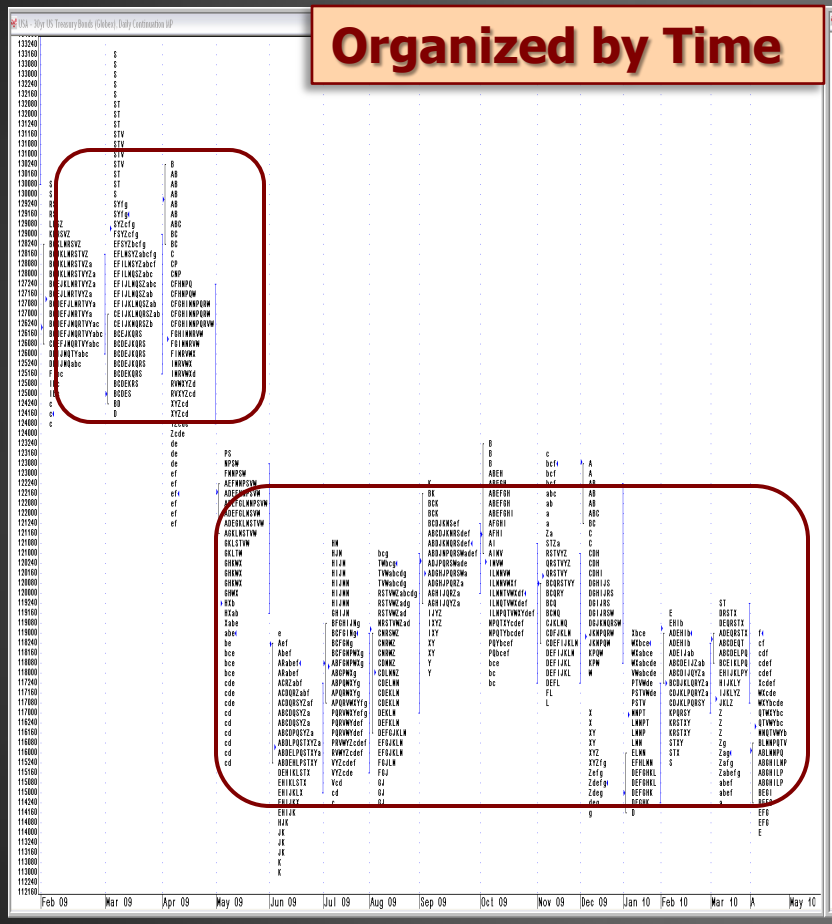
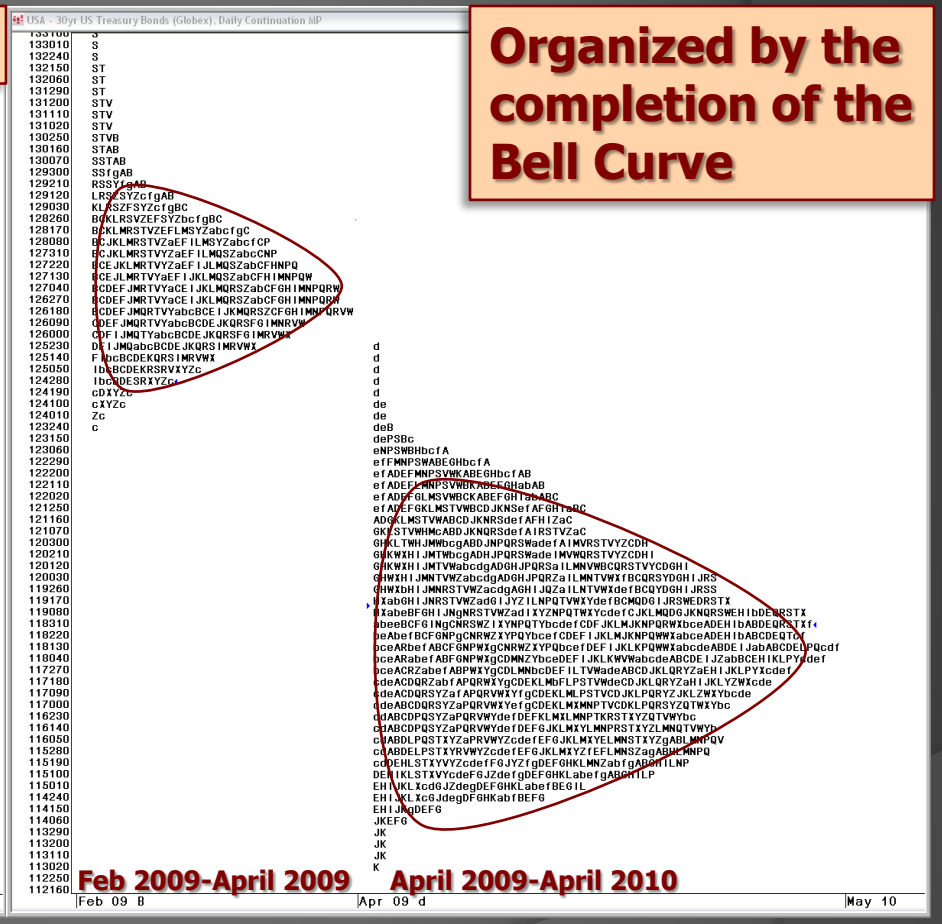
Organizing the Data into Bell Curves



30-Year T-Bonds, Monthly Profiles,
Feb. 2009 – April 2010



30-Year T-Bonds, Profiles Organized by Usage,
Feb. 2009 – April 2010

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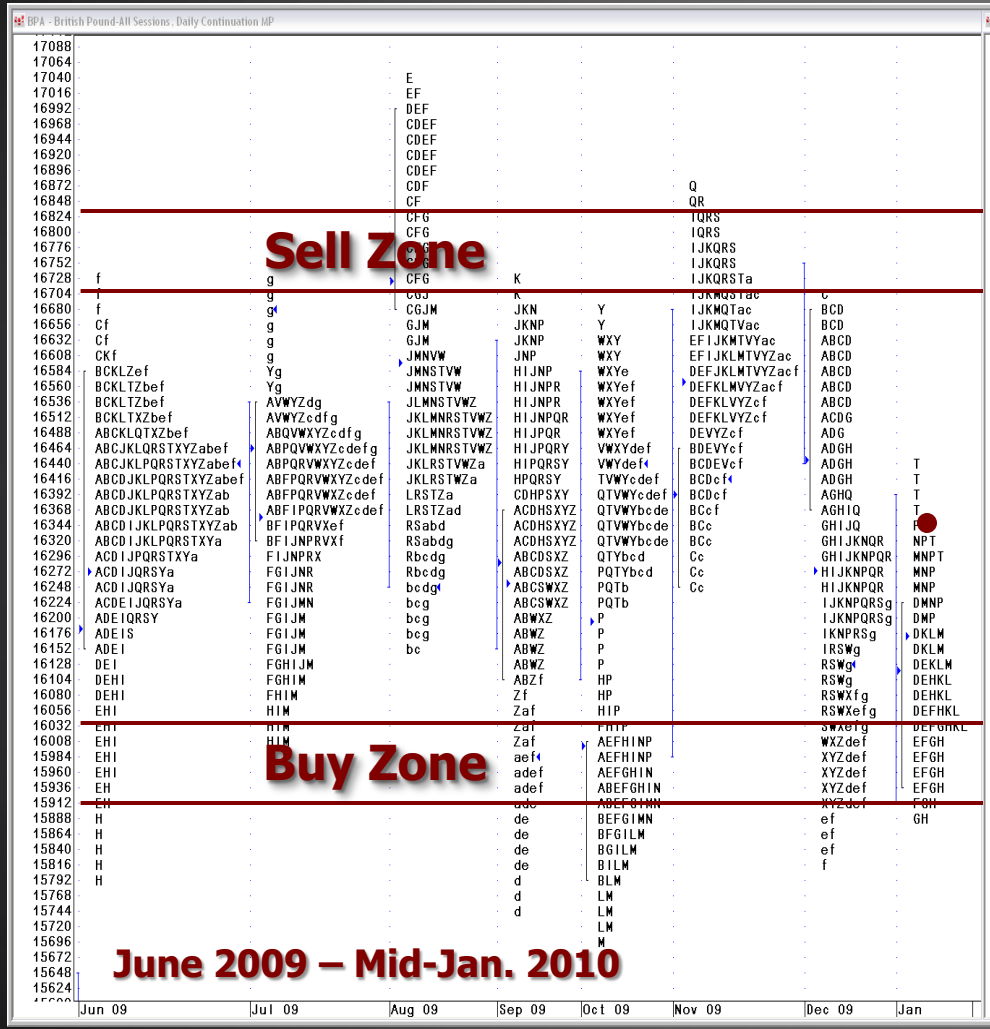
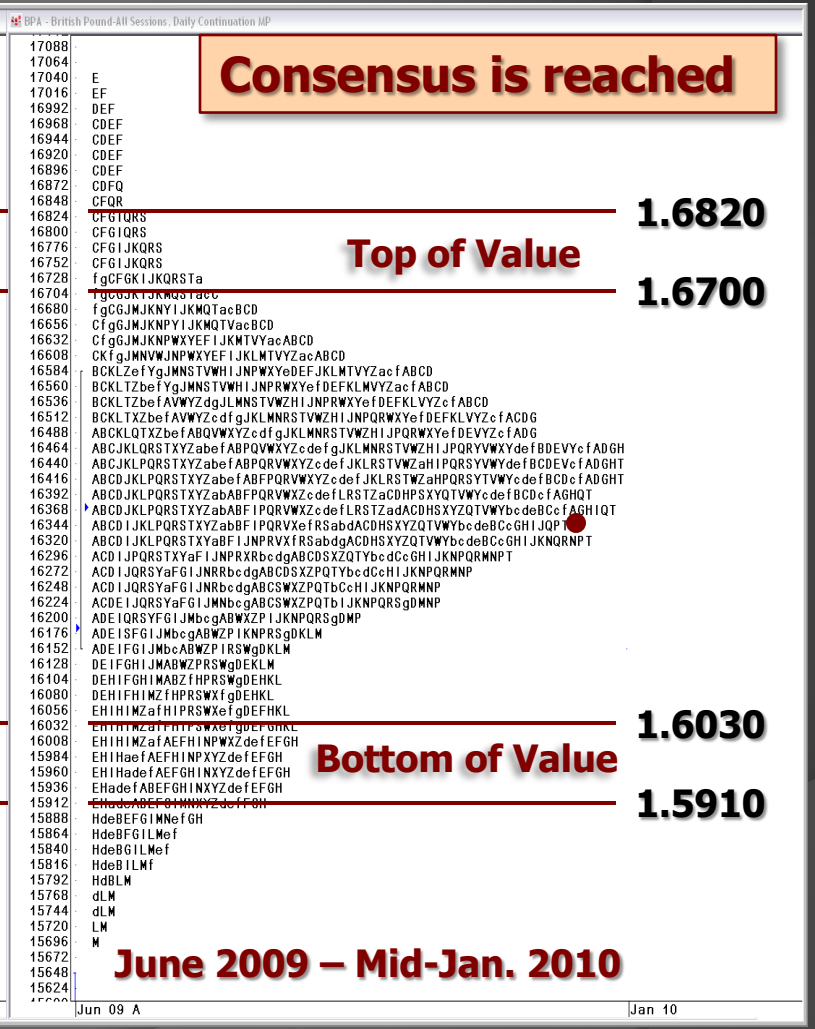
Organizing the Data into Bell Curves
British Pound



British Pound, June 2009 – Jan. 2010



British Pound, June 2009 – Jan. 2010

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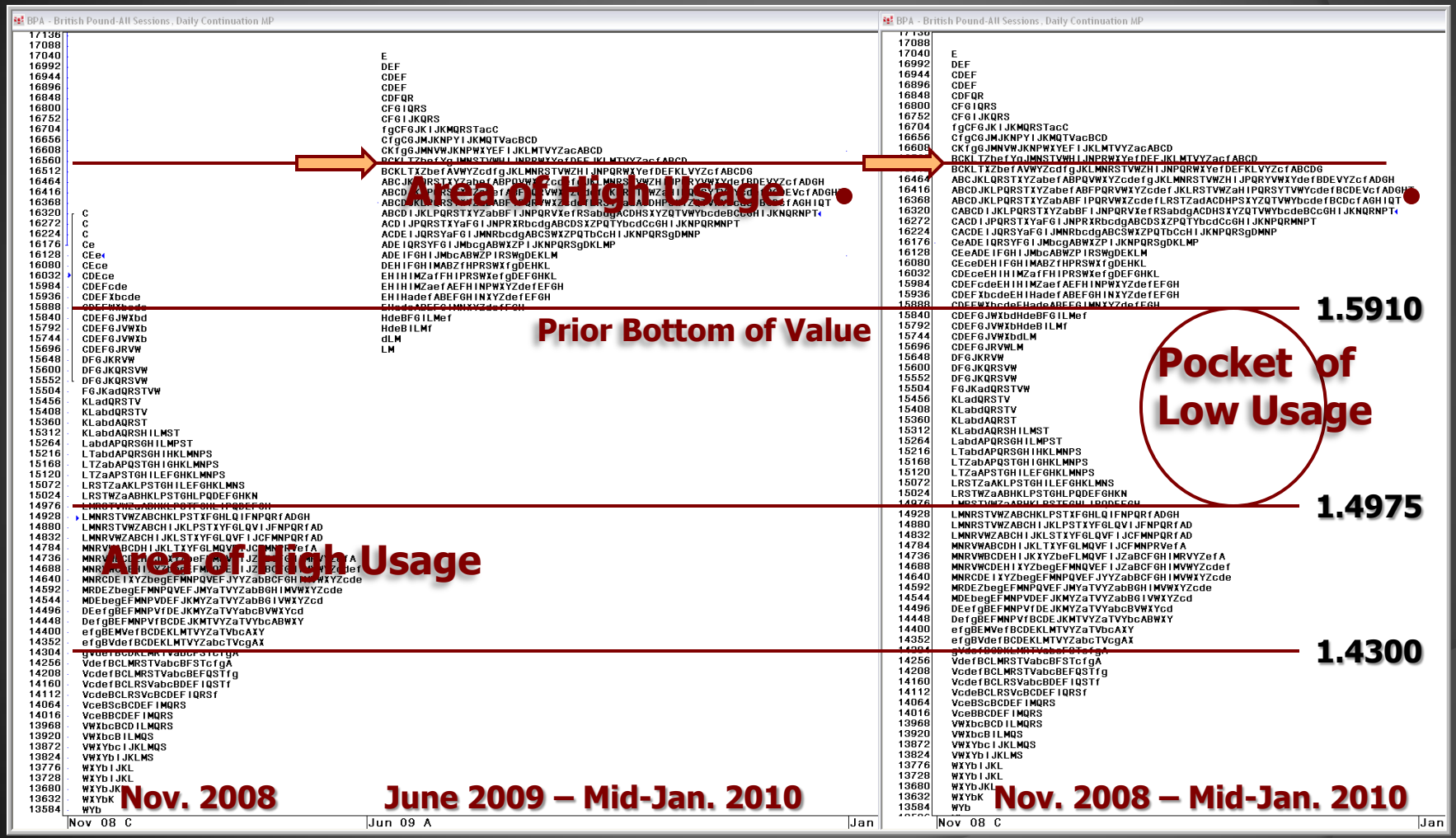
Putting the Bell Curve into Context British Pound



British Pound, Nov. 2008 – Jan. 2010

British Pound, Nov. 2008 – Jan. 2010

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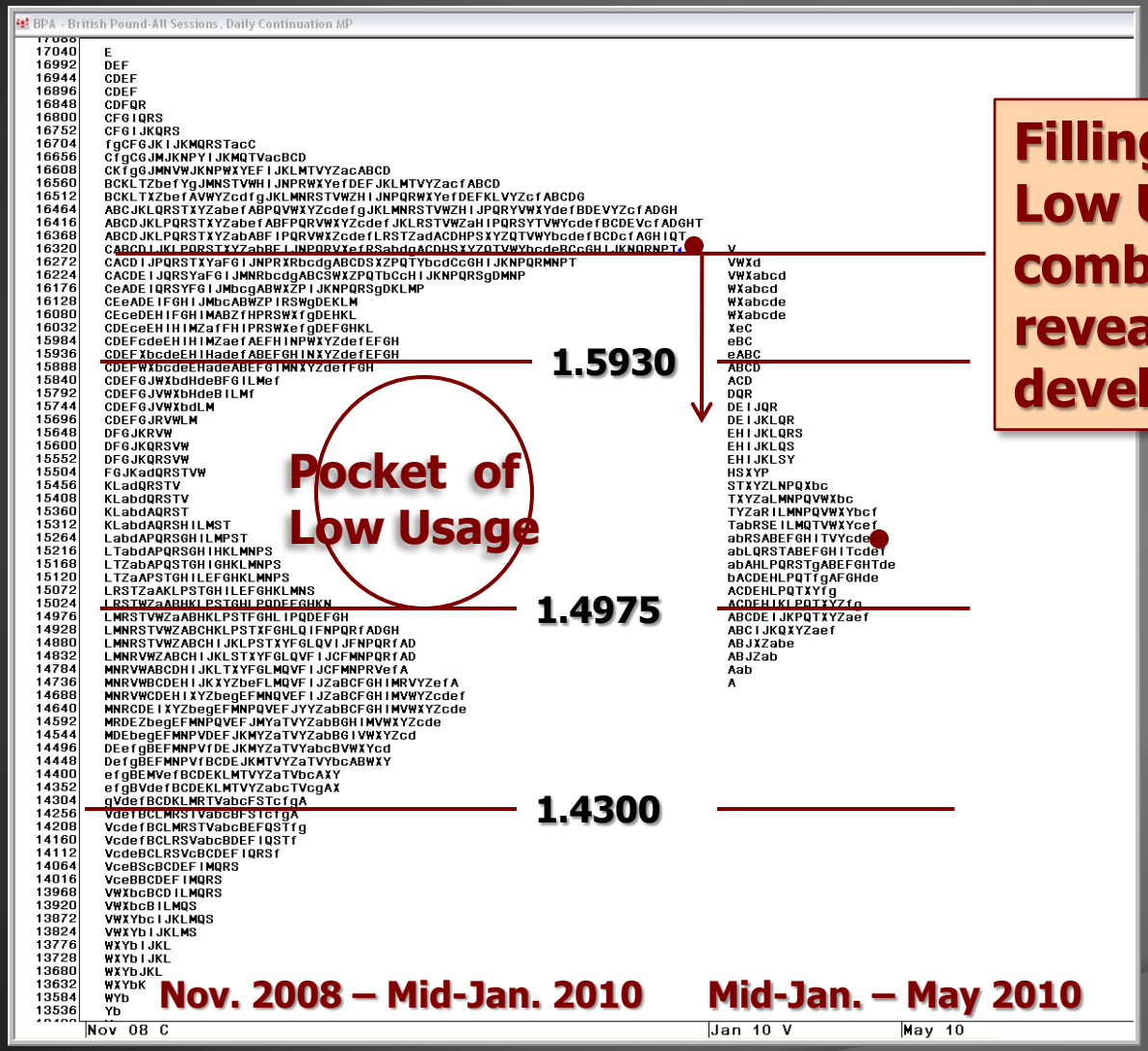
Recognizing Pockets of Low Usage British Pound



British Pound, Nov. 2008 – May 2010

Filling in the Pocket of Low Usage created by combining prior data to reveal a context for development.

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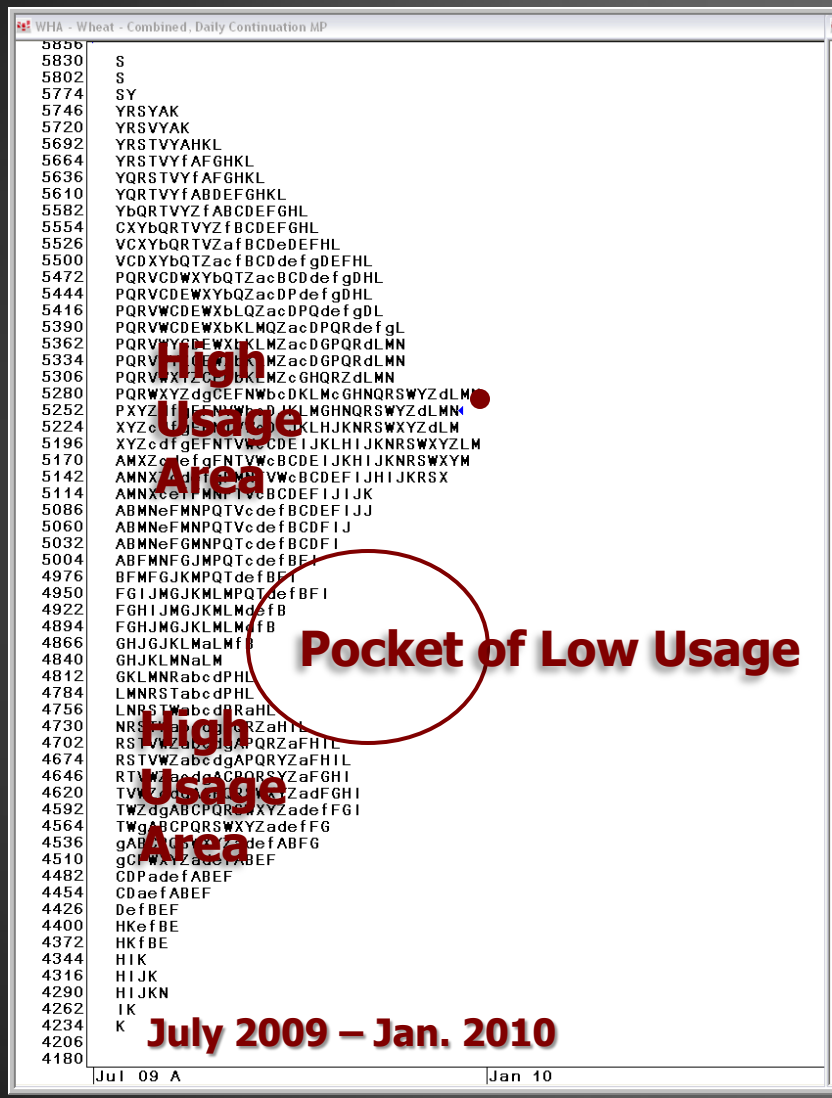
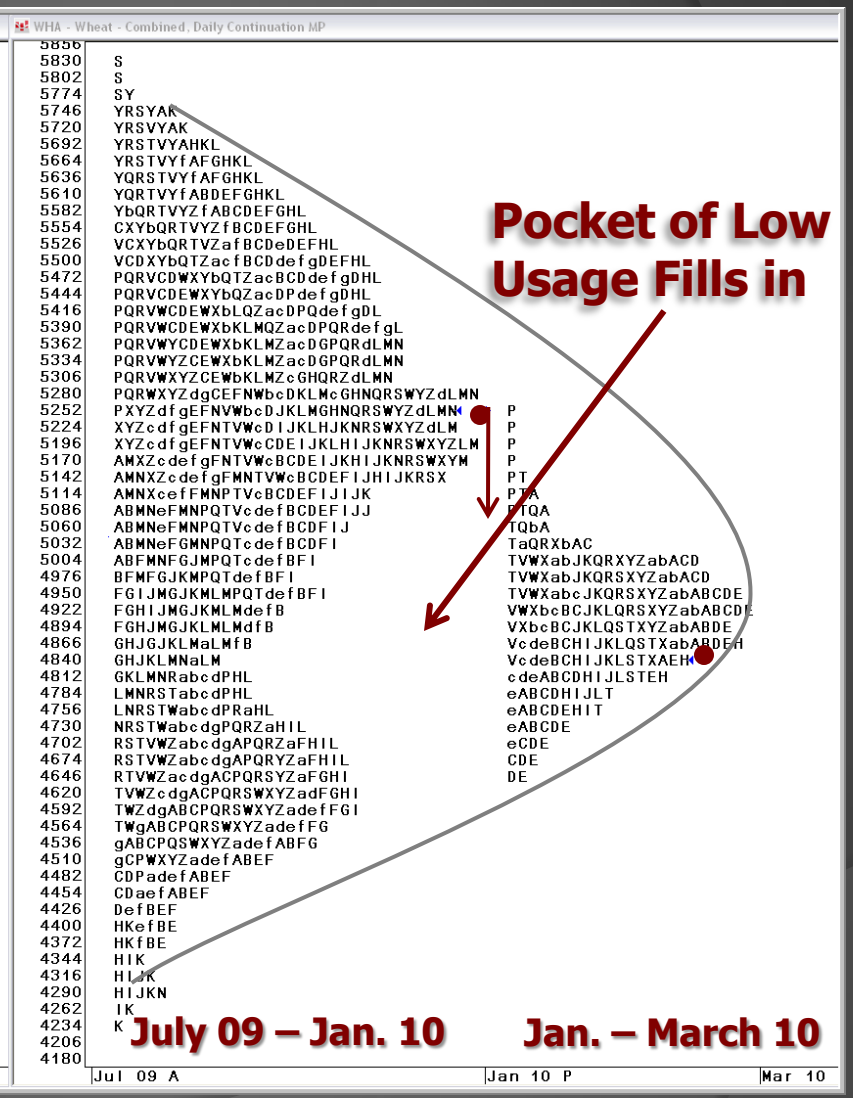
Recognizing Pockets of Low Usage



Wheat, July 2009 to Jan. 2010



Wheat, July 2009 to March 2010

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Organizing the Data

- "Cycle of Market Activity" is when the market completes a Bell Curve
- Once the Bell Curve is complete, a new directional move begins in search of new value
- In order to anticipate the new direction, the complete "Cycle of Market Activity" must be put into context of a larger incomplete cycle
- We look for where low usage areas exist either above or below the completed bell curve to determine the next directional move

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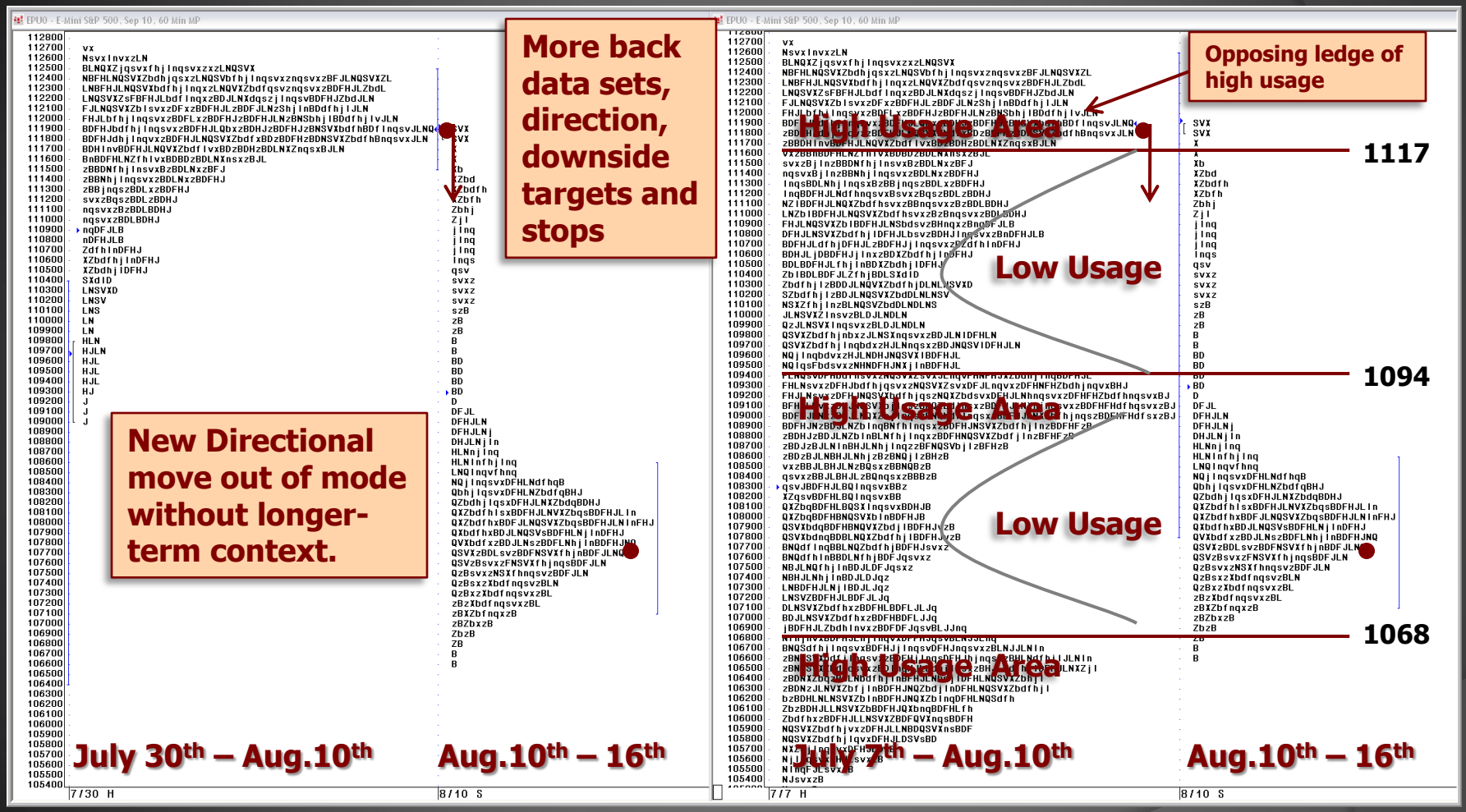
High & Low Usage Determine Context



E-Mini S&P 500, July 30th - August 10th 2010

E-Mini S&P 500, July 7th - August 10th 2010

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Using Market Profile to Build a Strategy

Elements of the Method:

- Range Trade underdeveloped Bell curves until the are complete
- Put small completed bell curves into a larger under-developed context
- Trade for Development of low-usage areas until the larger under-developed context is integrated into a completed bell curve

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Market Example

Soybeans

January – July 2010

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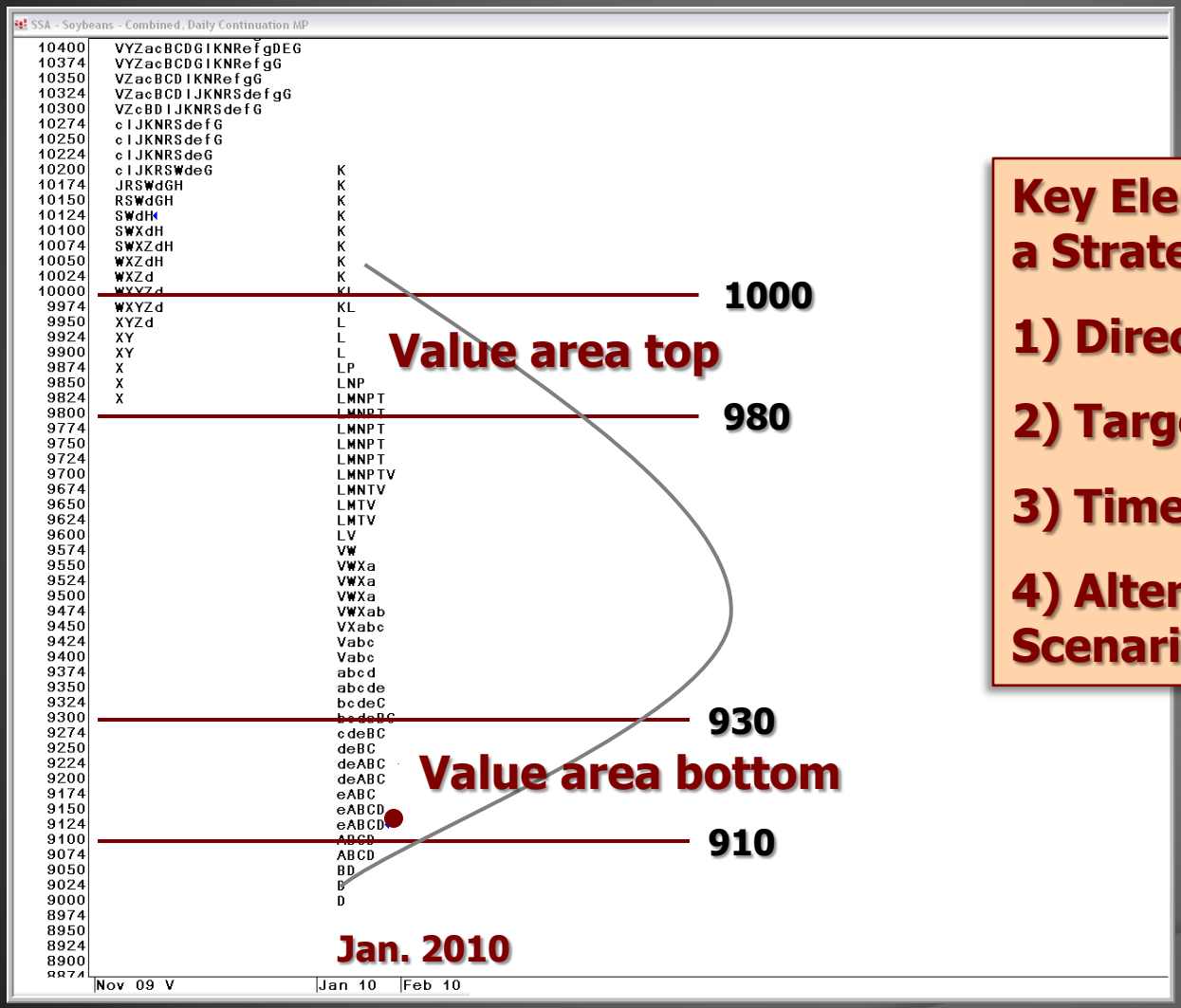
Market Profile Trading Strategy
Soybeans



Key Elements of a Strategy:

1) Direction

2) Target

3) Timeline

4) Alternative Scenario

Soybeans, Nov. 2009 – Jan. 2010

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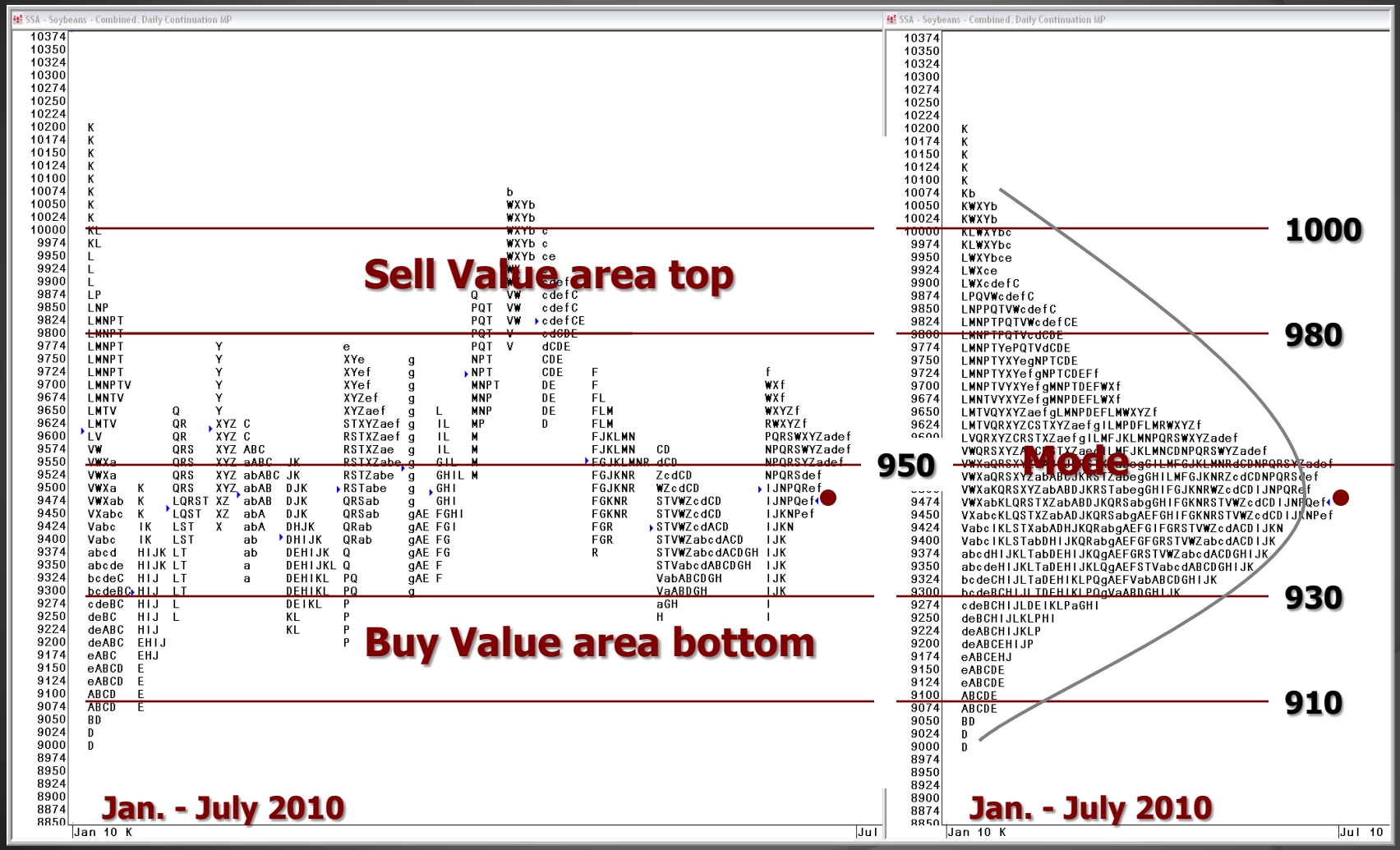
Market Profile Trading Strategy
Soybeans



Soybeans, Jan. – July 2010

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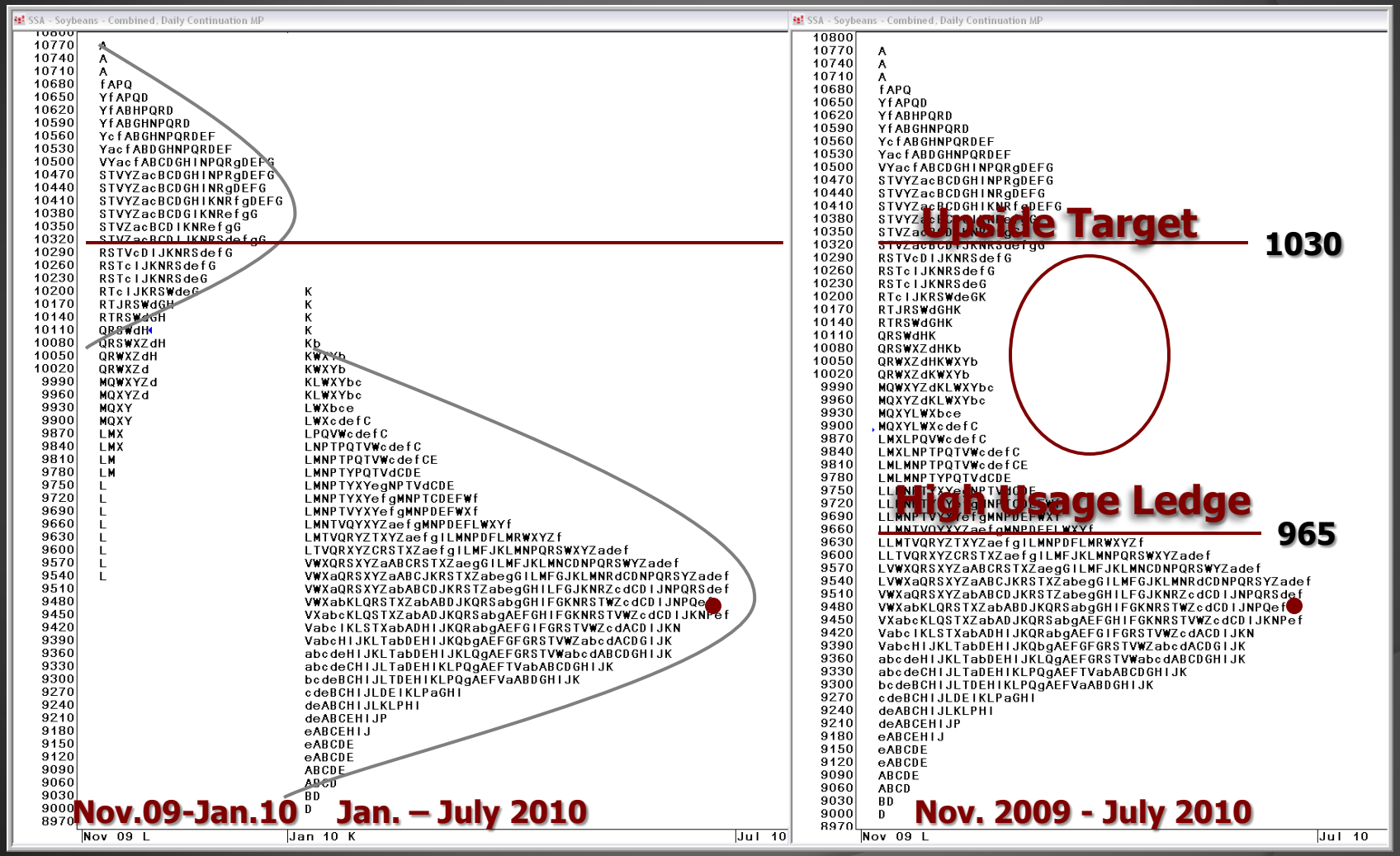
Market Profile Trading Strategy
Soybeans



Soybeans, Nov. 2009 – July 2010

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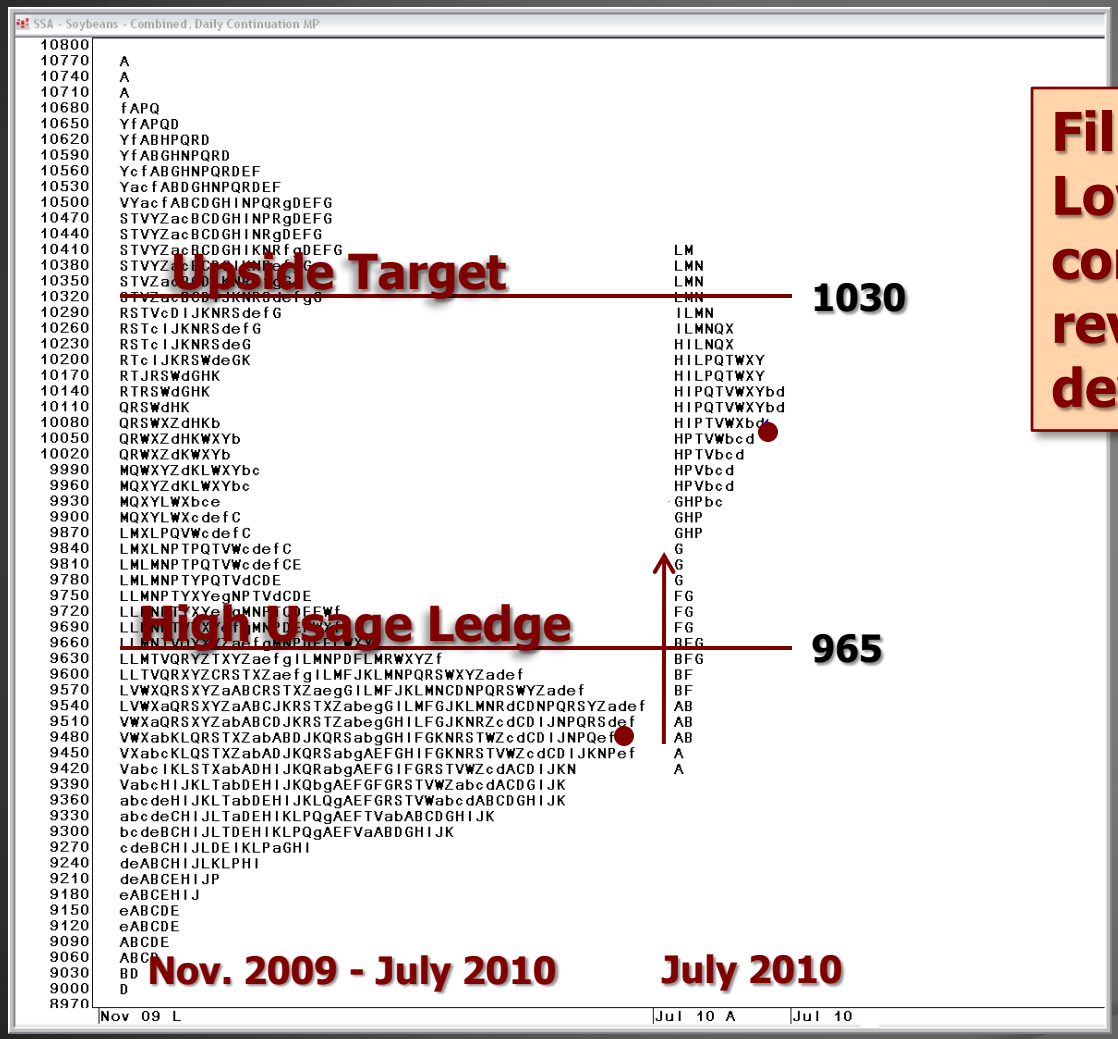
Market Profile Trading Strategy
Soybeans



Filling in the Pocket of Low Usage created by combining prior data to reveal a context for development.

Soybeans, Nov. 2009 – July 2010

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Market Example

Corn

July – Aug. 2010

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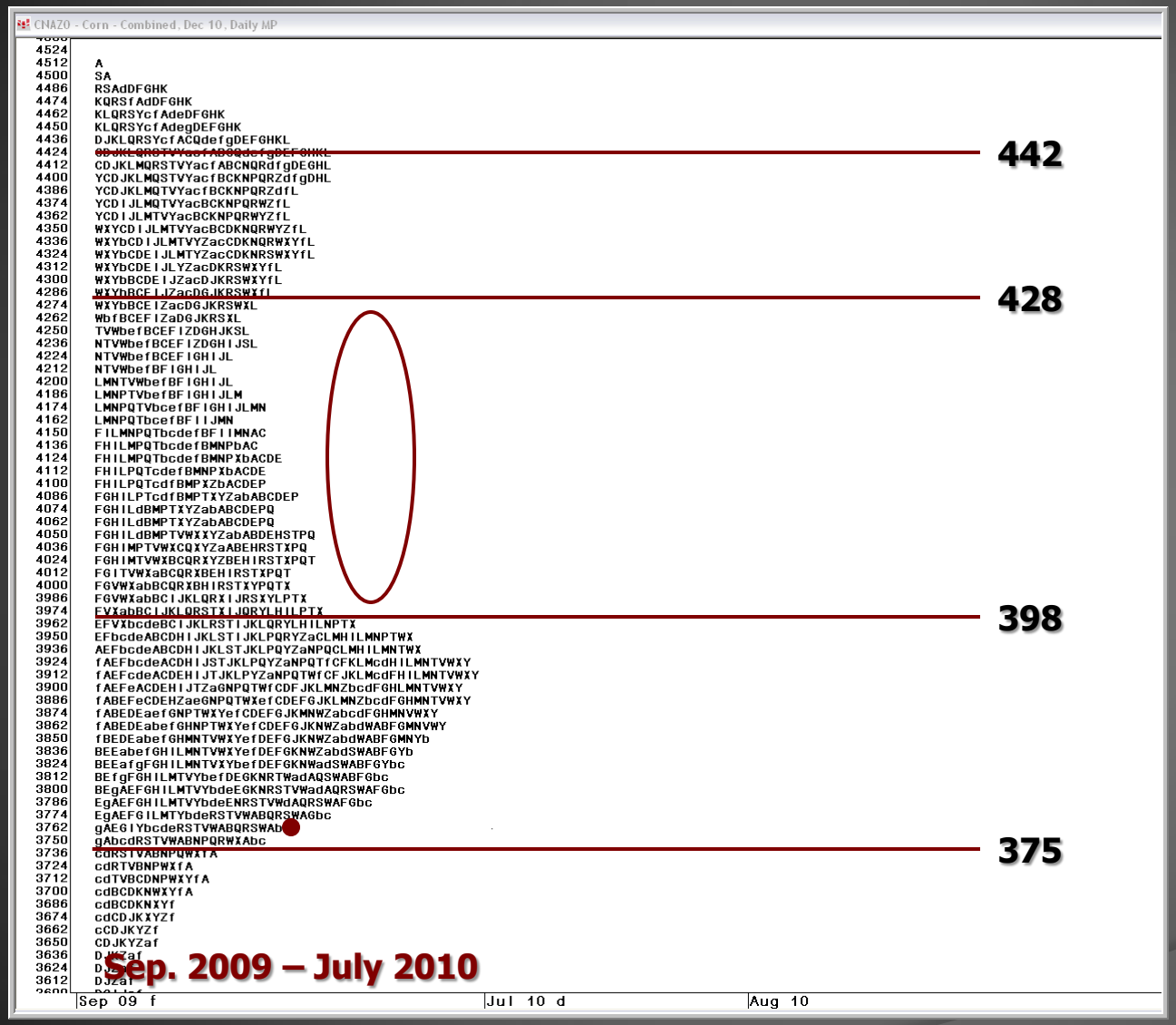
Market Profile Trading Strategy: Corn



Corn, Sep. 2009 – July 2010

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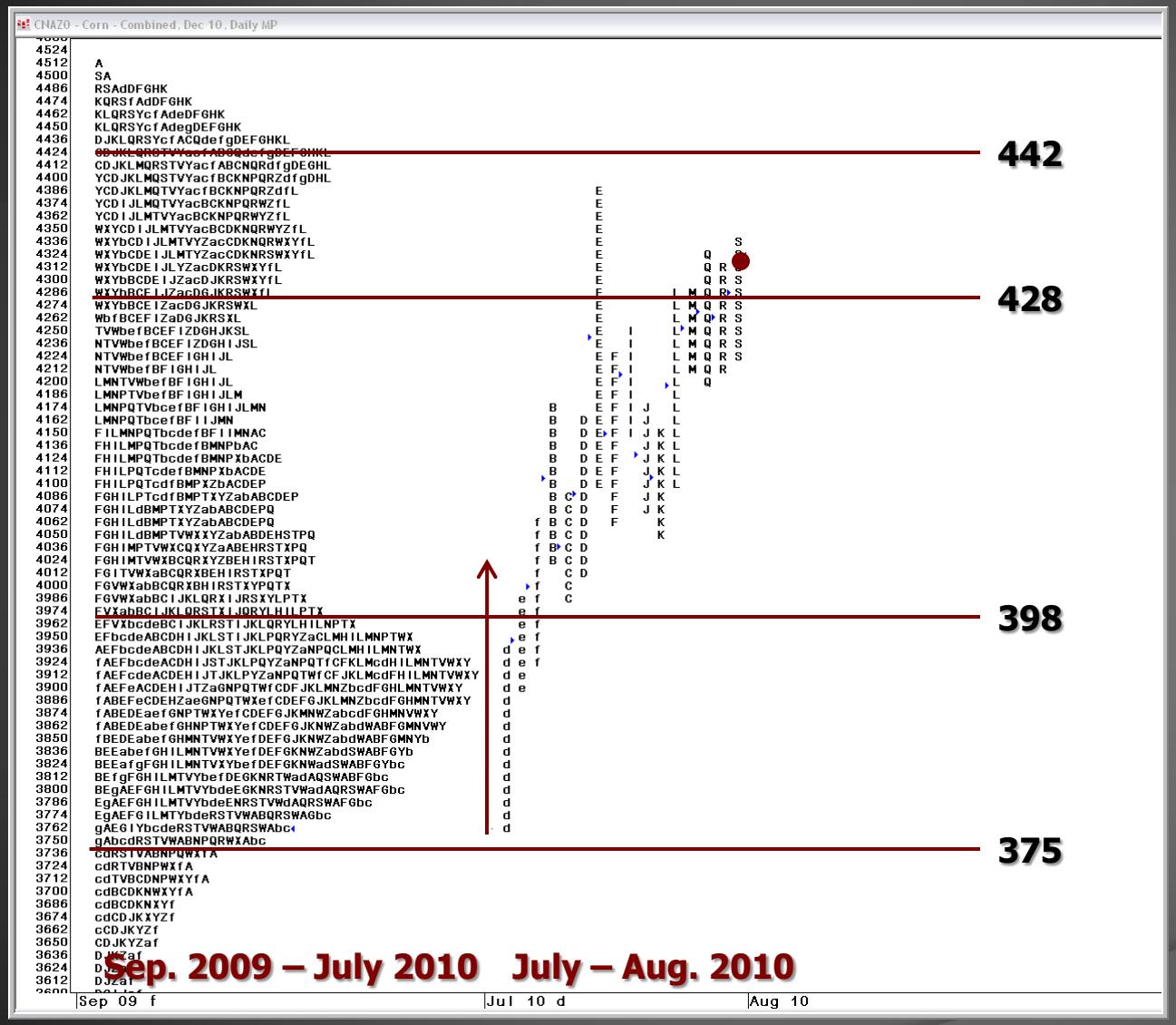
Market Profile Trading Strategy: Corn



Corn, Sep. 2009 – Aug. 2010

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Market Example

Wheat

Jan. – Aug. 2010

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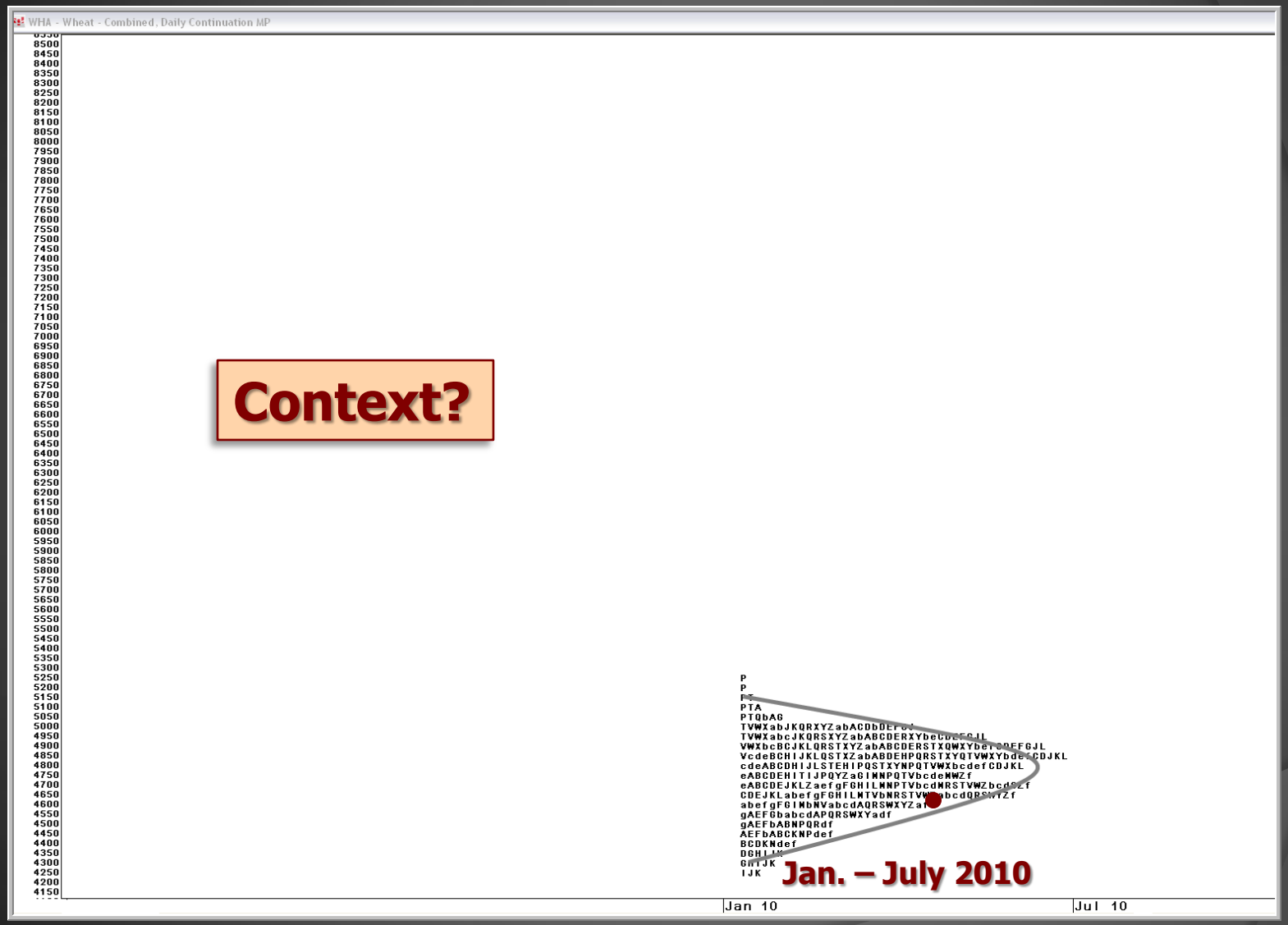
Market Profile Trading Strategy: Wheat



Wheat, Jan. – July 2010

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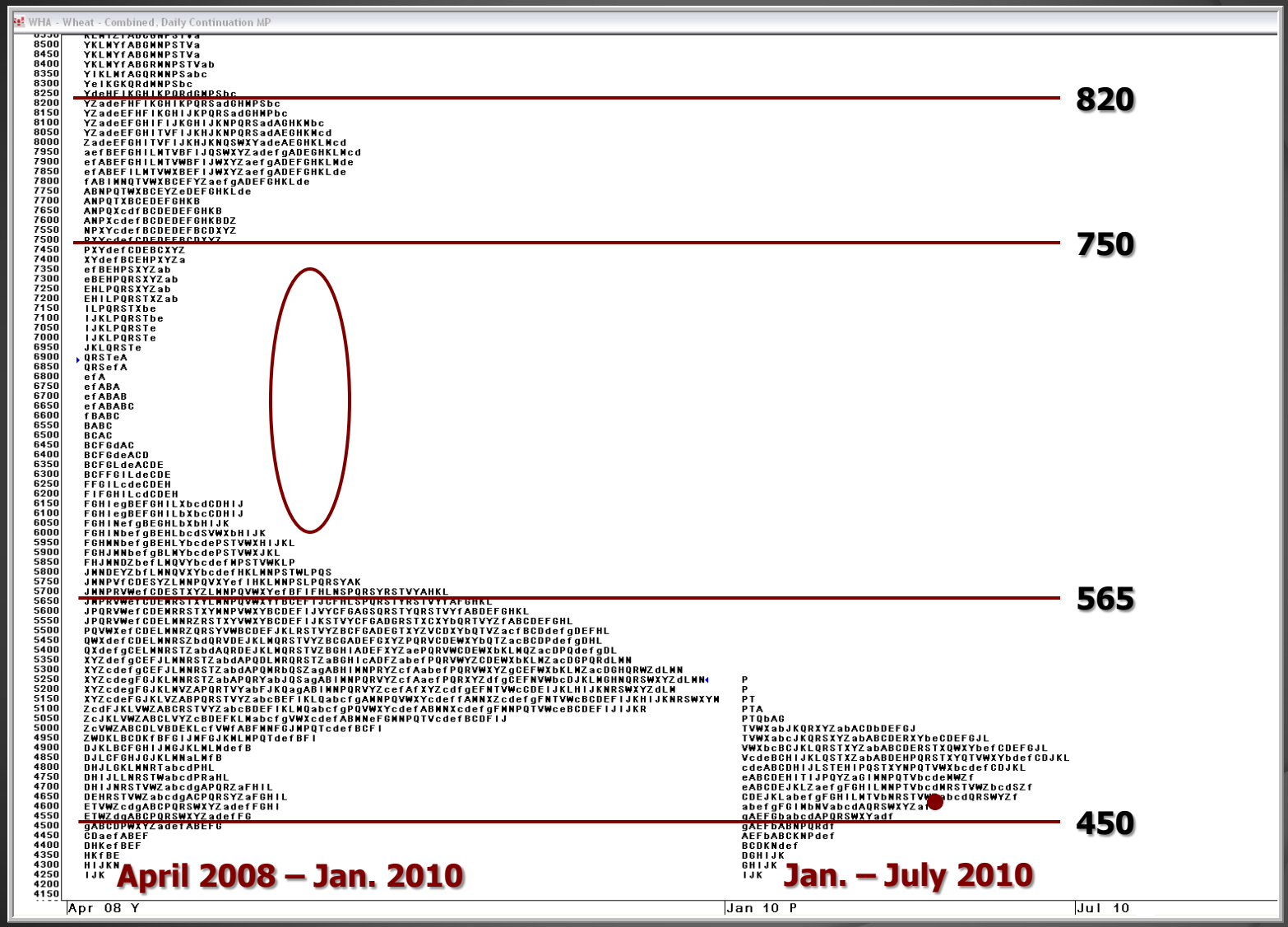
Market Profile Trading Strategy: Wheat



Wheat, April 2008 – July 2010

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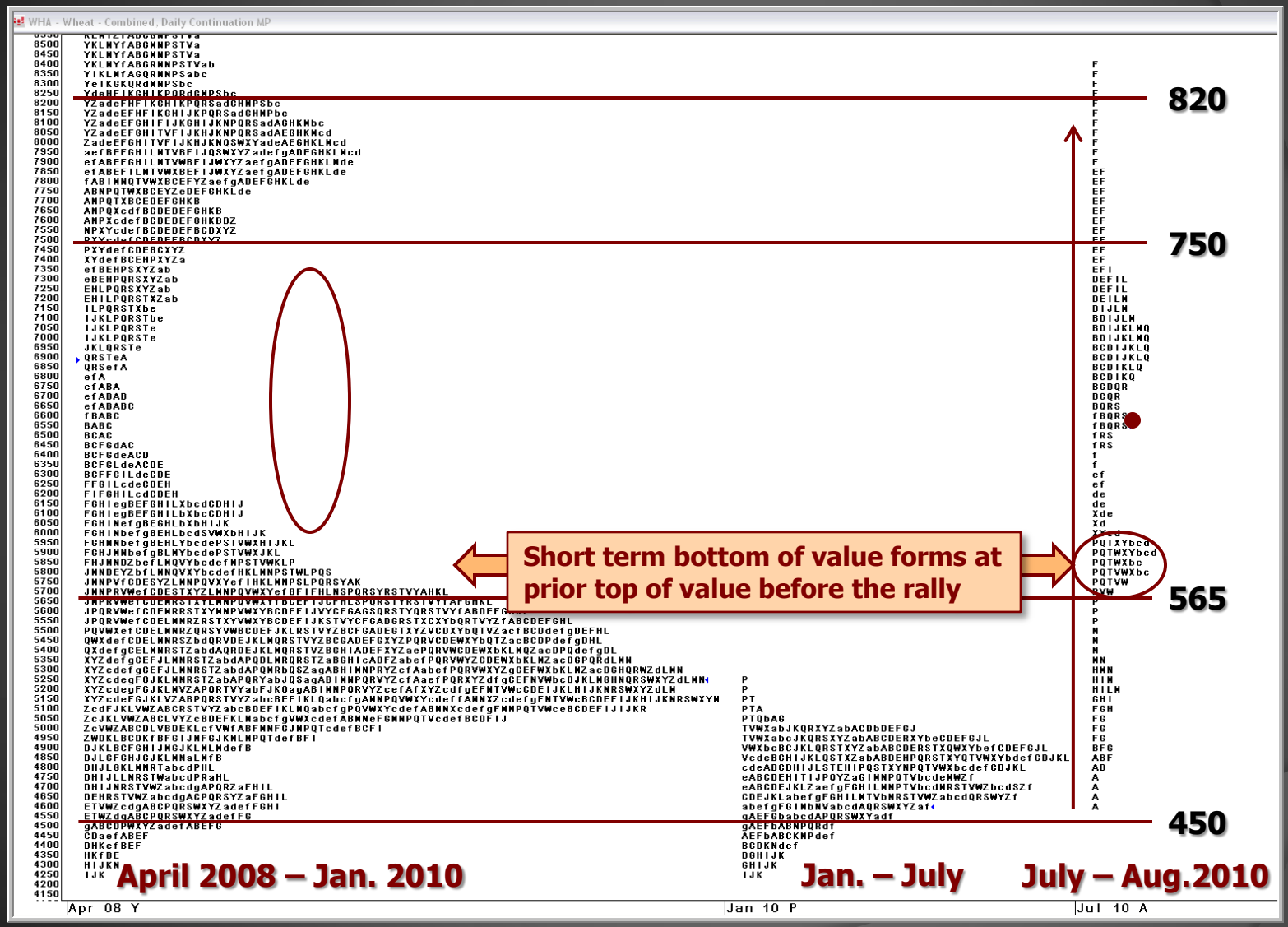
Market Profile Trading Strategy: Wheat



Wheat, April 2008 – August 2010

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Market Example

Crude

June – Aug. 2010

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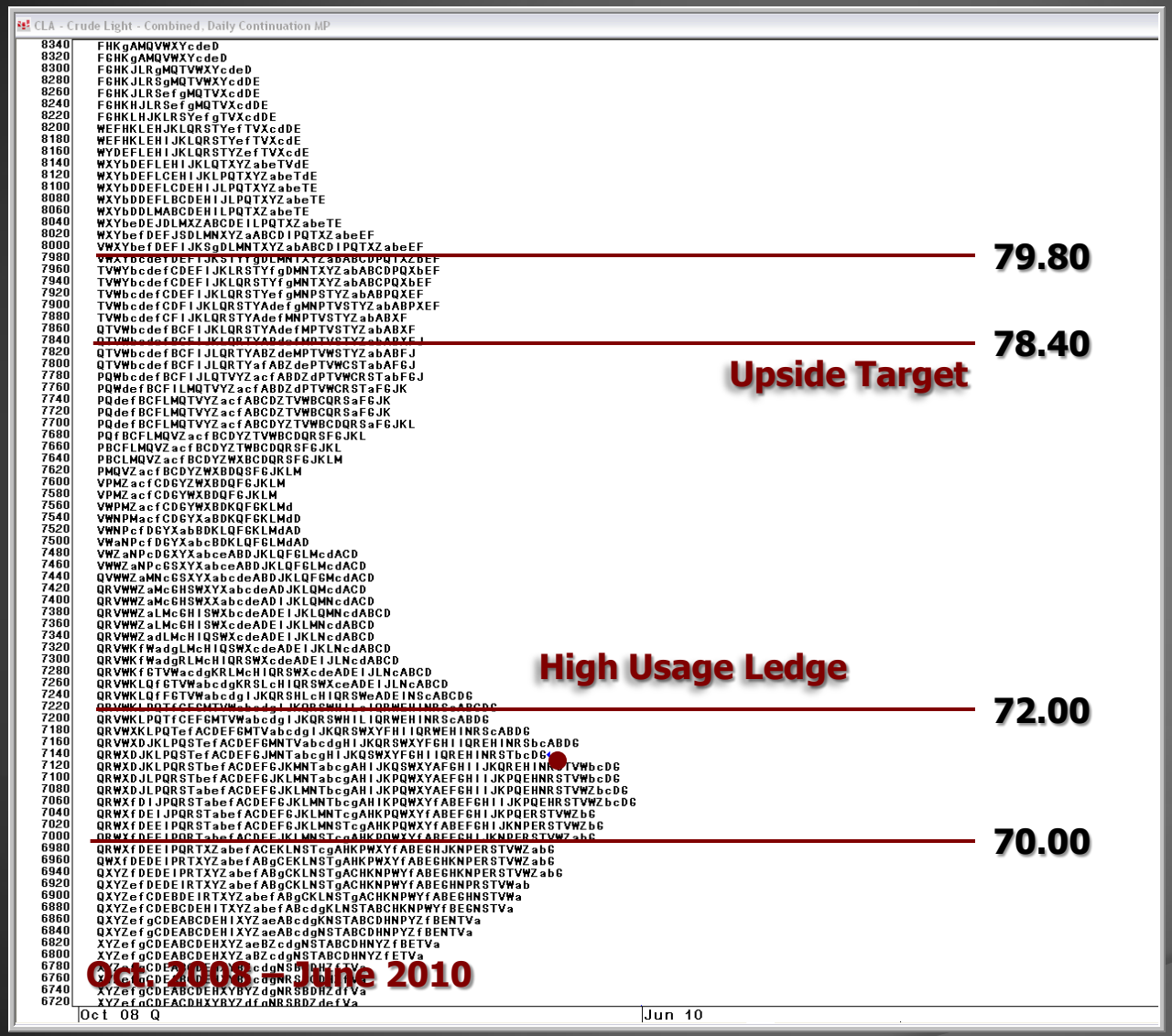
Market Profile Trading Strategy: Crude



Crude Light, Oct. 2008 to June 2010

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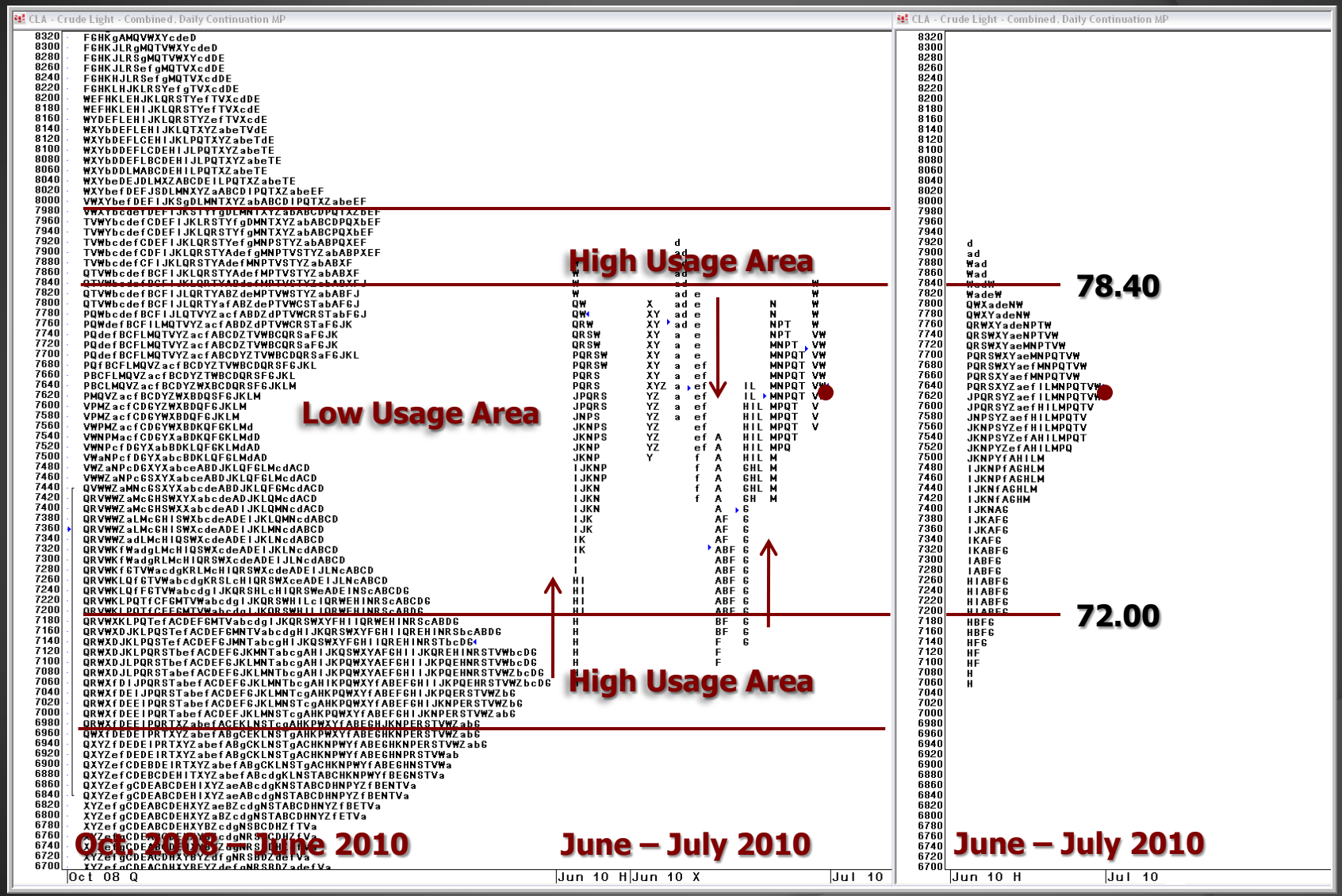
Market Profile Trading Strategy: Crude



Crude Light, Oct. 2008 to July 2010

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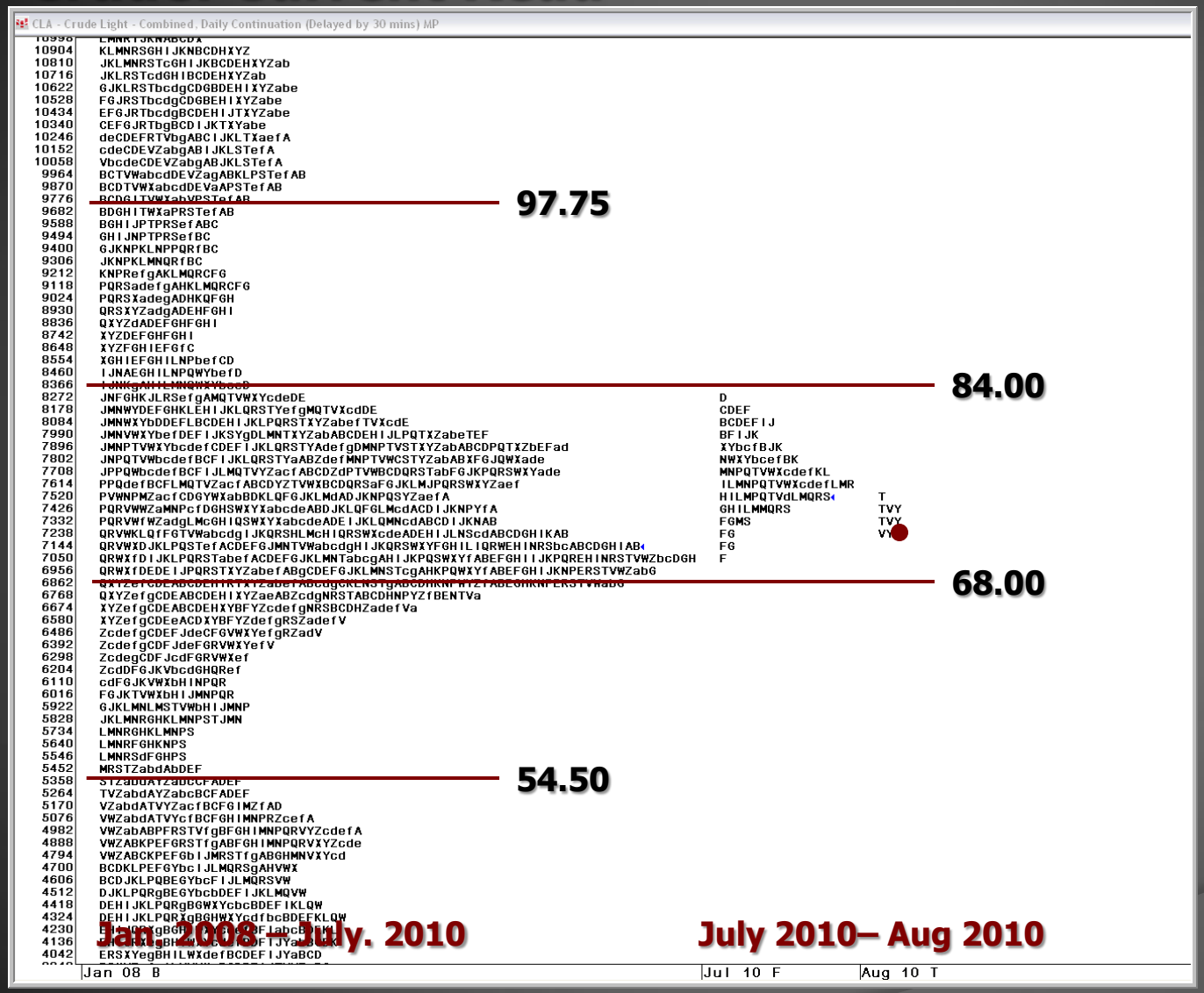
Market Profile Trading Strategy
Crude: Current Read



Crude Light, Jan. 2008 to Aug. 2010

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Market Example

Natural Gas

March – August 2010

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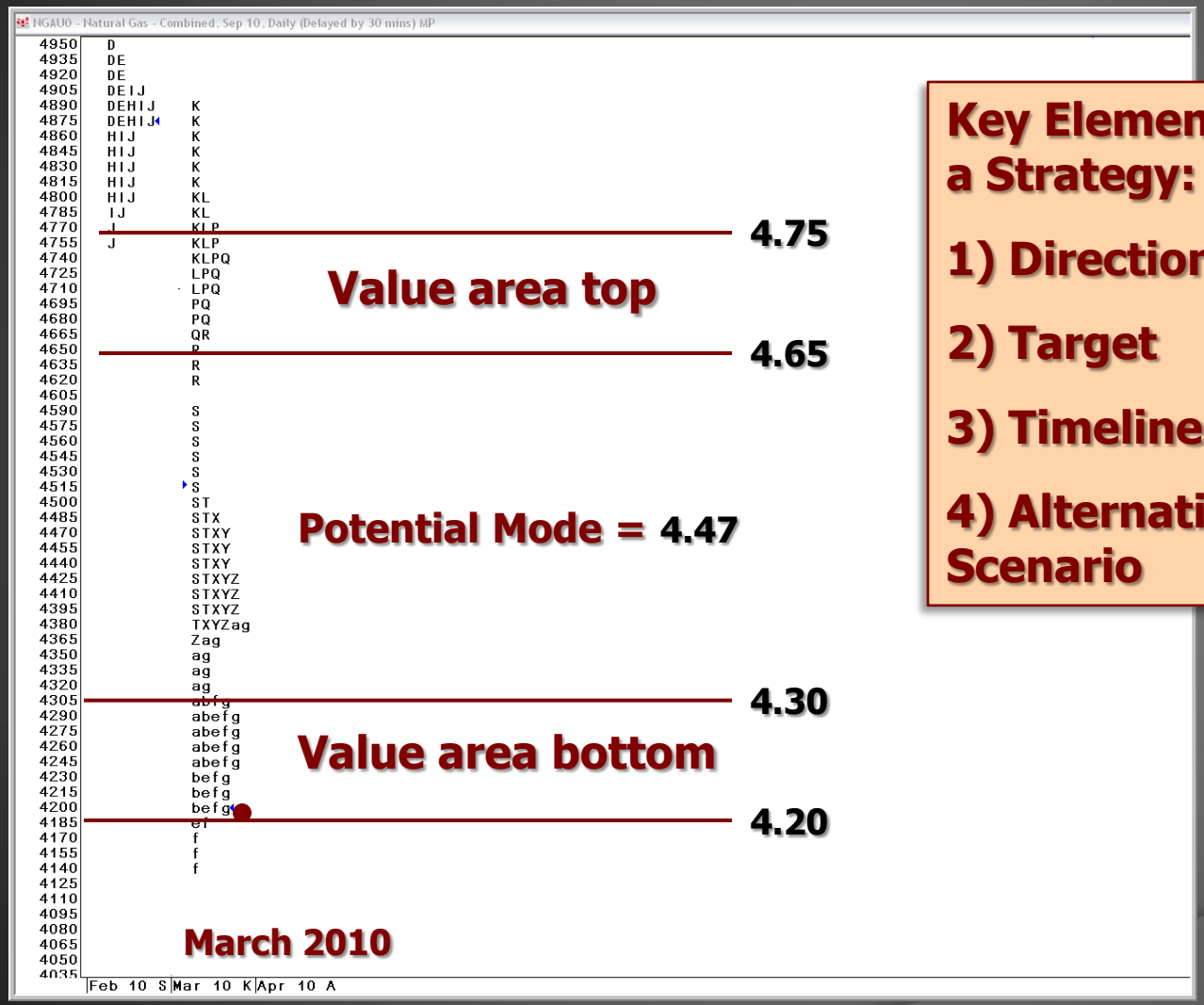
Market Profile Trading Strategy
Natural Gas



Key Elements of a Strategy:

1) Direction

2) Target

3) Timeline

4) Alternative Scenario

Natural Gas, March 2010

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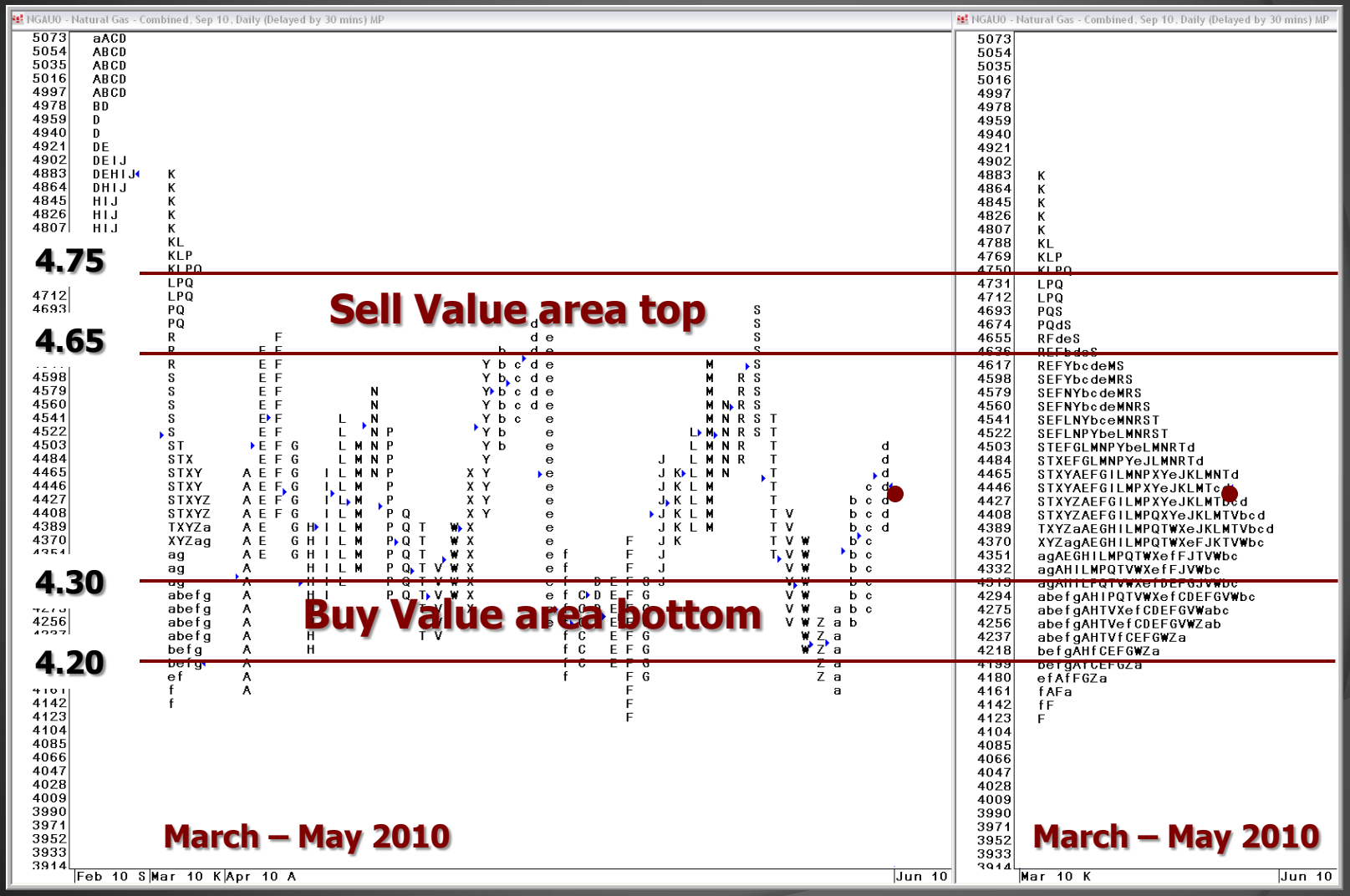
Market Profile Trading Strategy
Natural Gas



Natural Gas, March – May 2010

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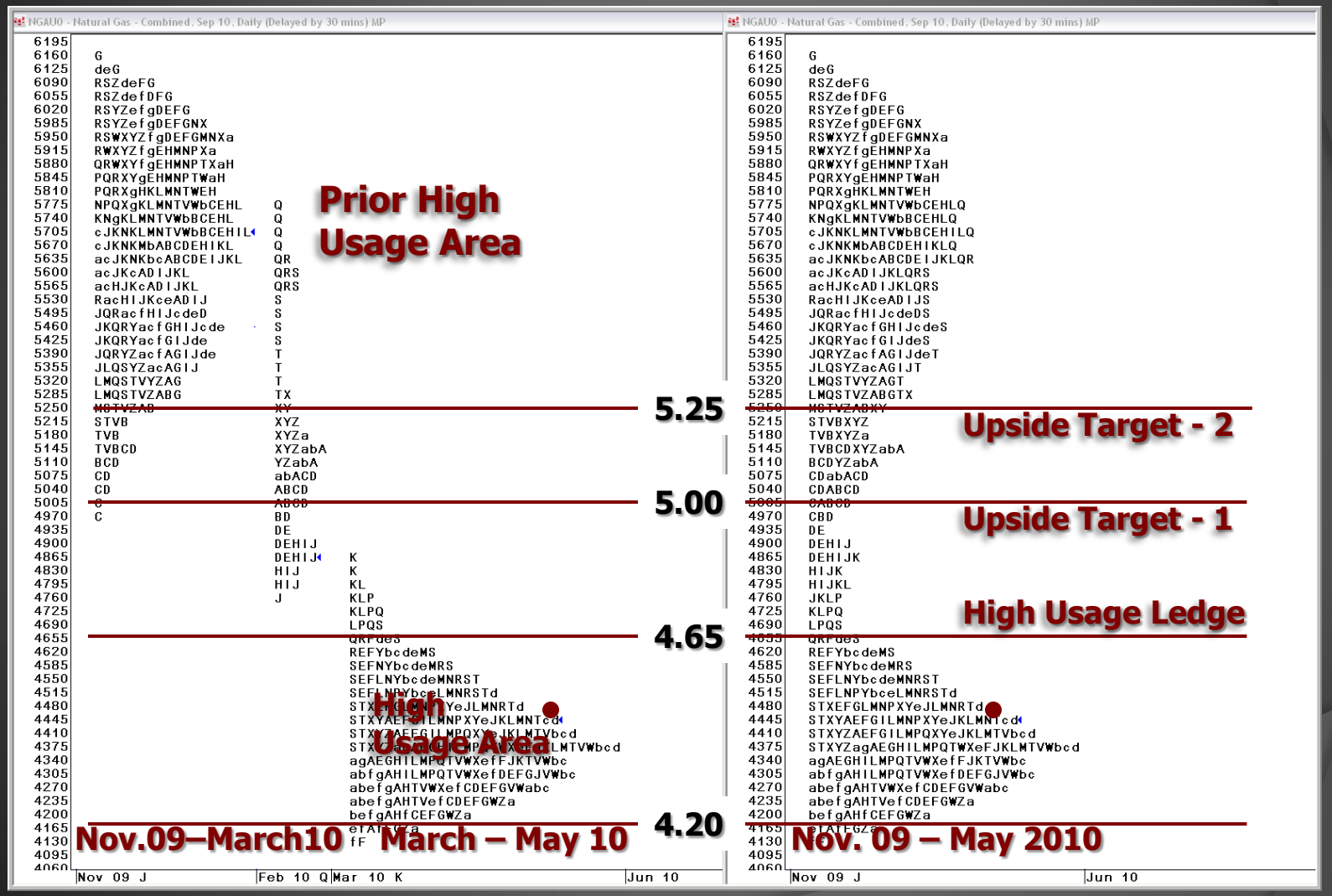
Market Profile Trading Strategy
Natural Gas



Natural Gas, Nov. 2009 – May 2010

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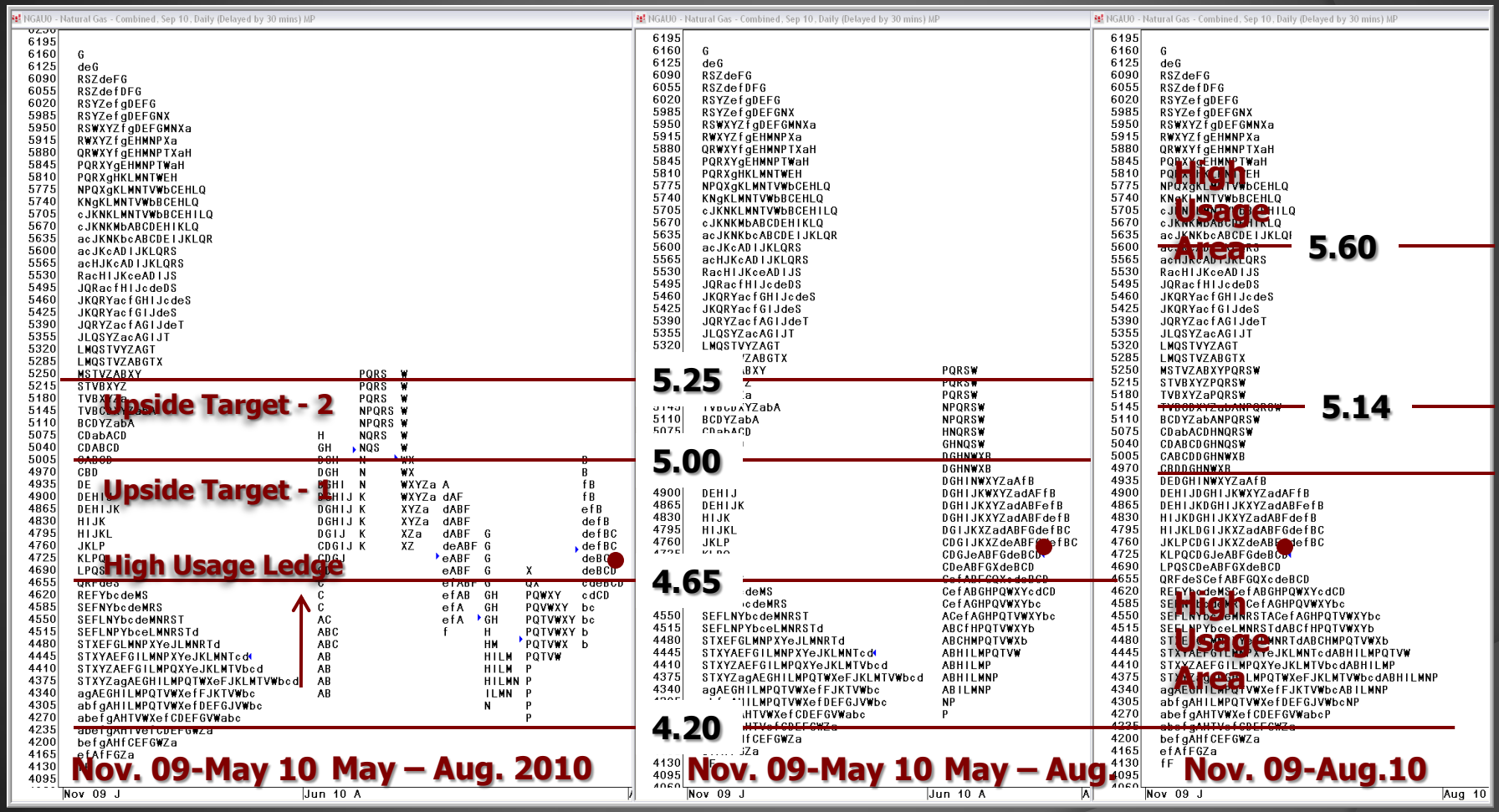
Market Profile Trading Strategy
Natural Gas



Natural Gas, Nov. 2009 – Aug. 2010

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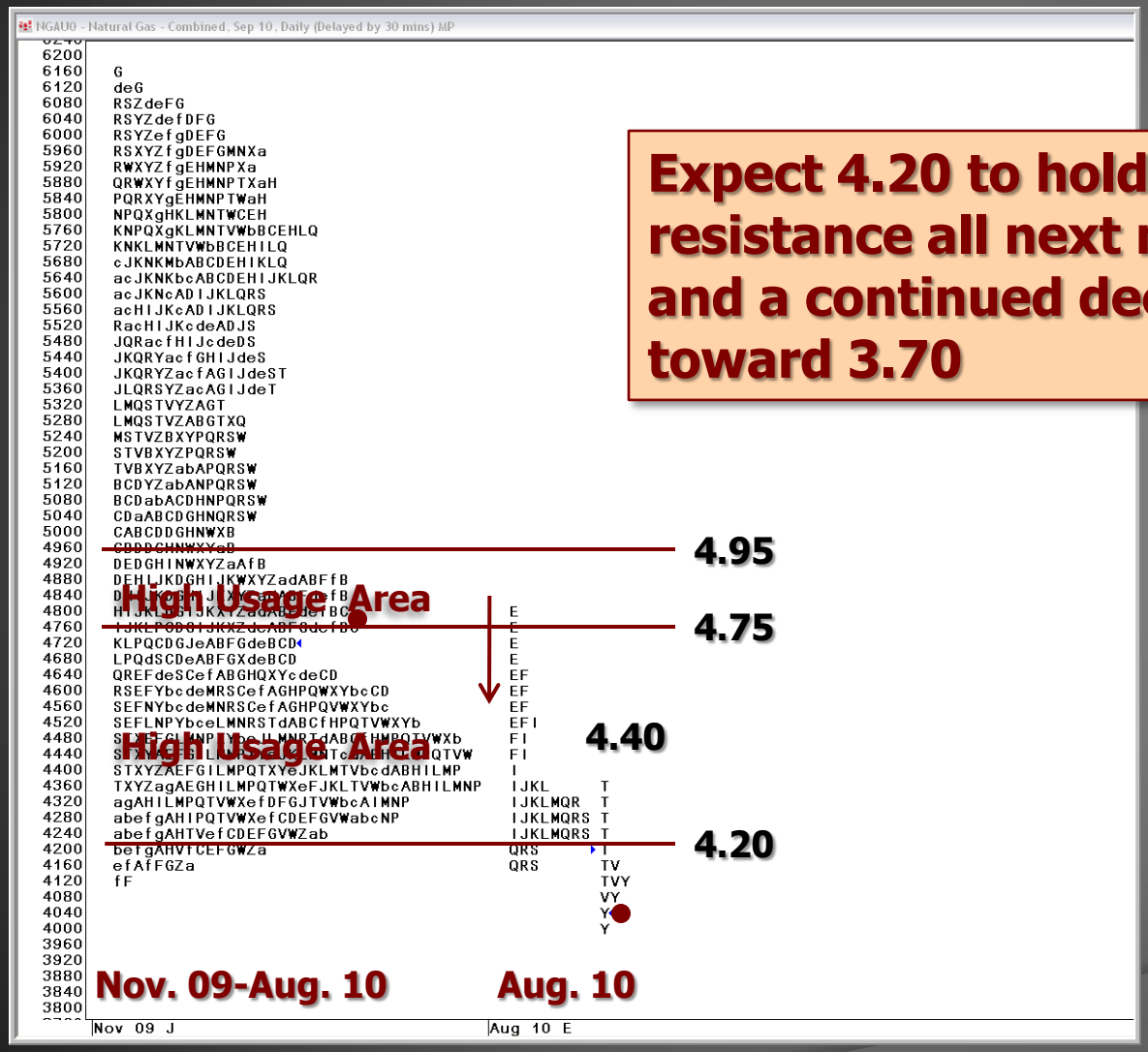
Market Profile Trading Strategy
Natural Gas: Current Read



Natural Gas, Nov. 2009 – Aug. 2010

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Market Example

30-Year

June 2009 – June 2010

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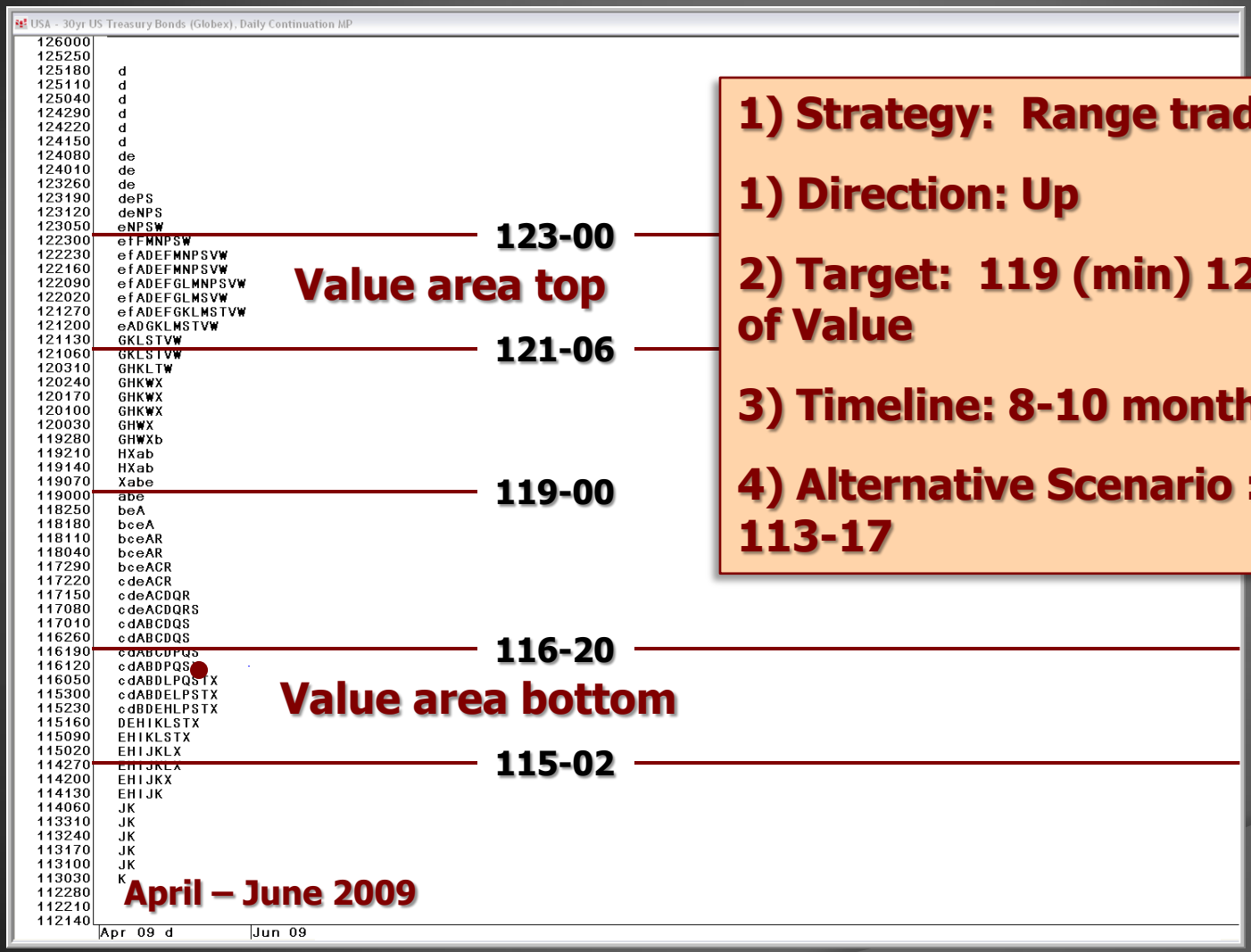
Market Profile Trading Strategy
30-Year T-Bonds



1) Strategy: Range trade

1) Direction: Up

2) Target: 119 (min) 121-06 Top of Value

3) Timeline: 8-10 months

4) Alternative Scenario : Under 113-17

30-Year T-Bonds, April – June 2009

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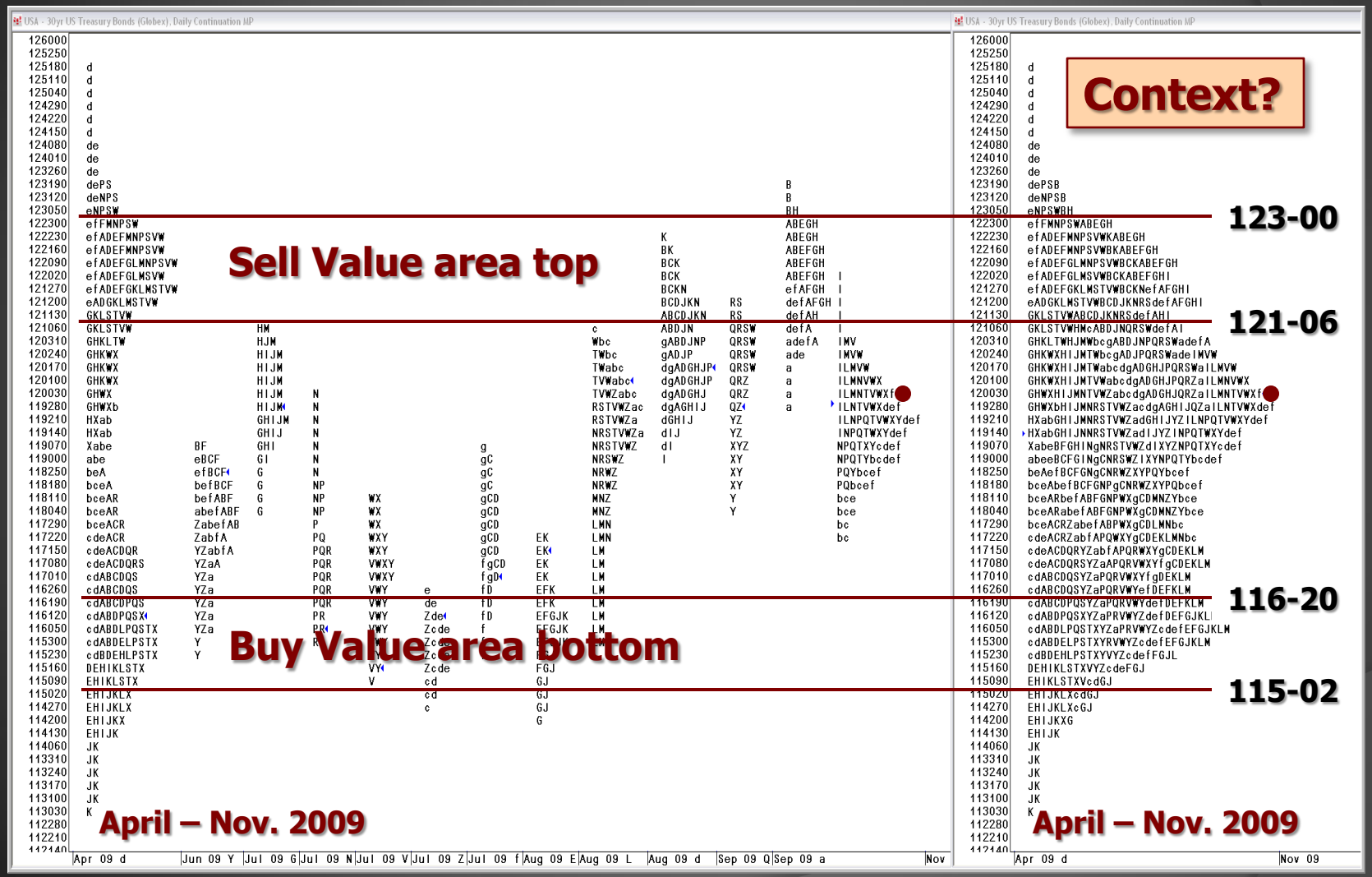
Market Profile Trading Strategy
30-Year T-Bonds



30-Year T-Bonds, April – Nov. 2009

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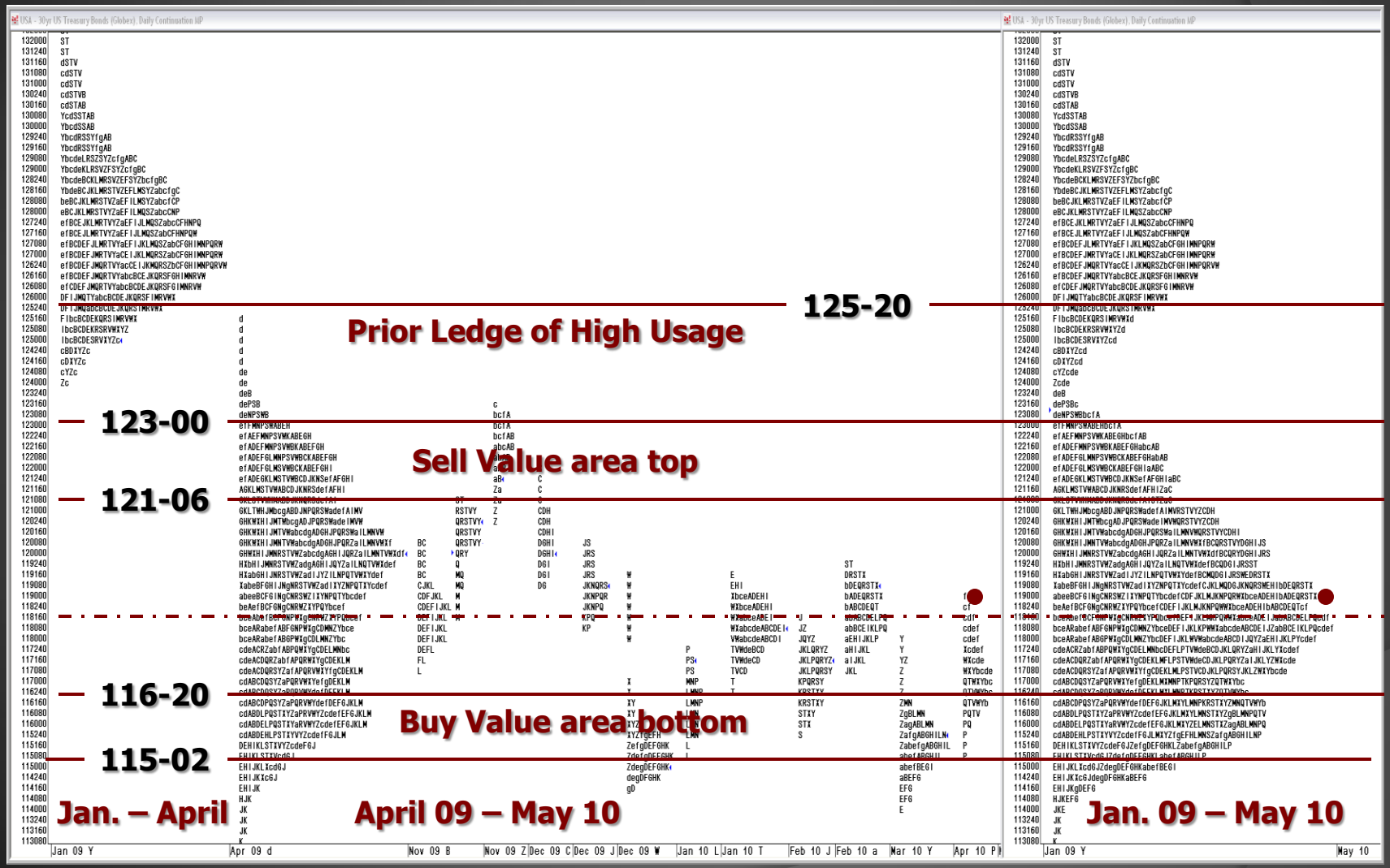
Market Profile Trading Strategy
30-Year T-Bonds



30-Year T-Bonds, Jan. 2009 – May 2010

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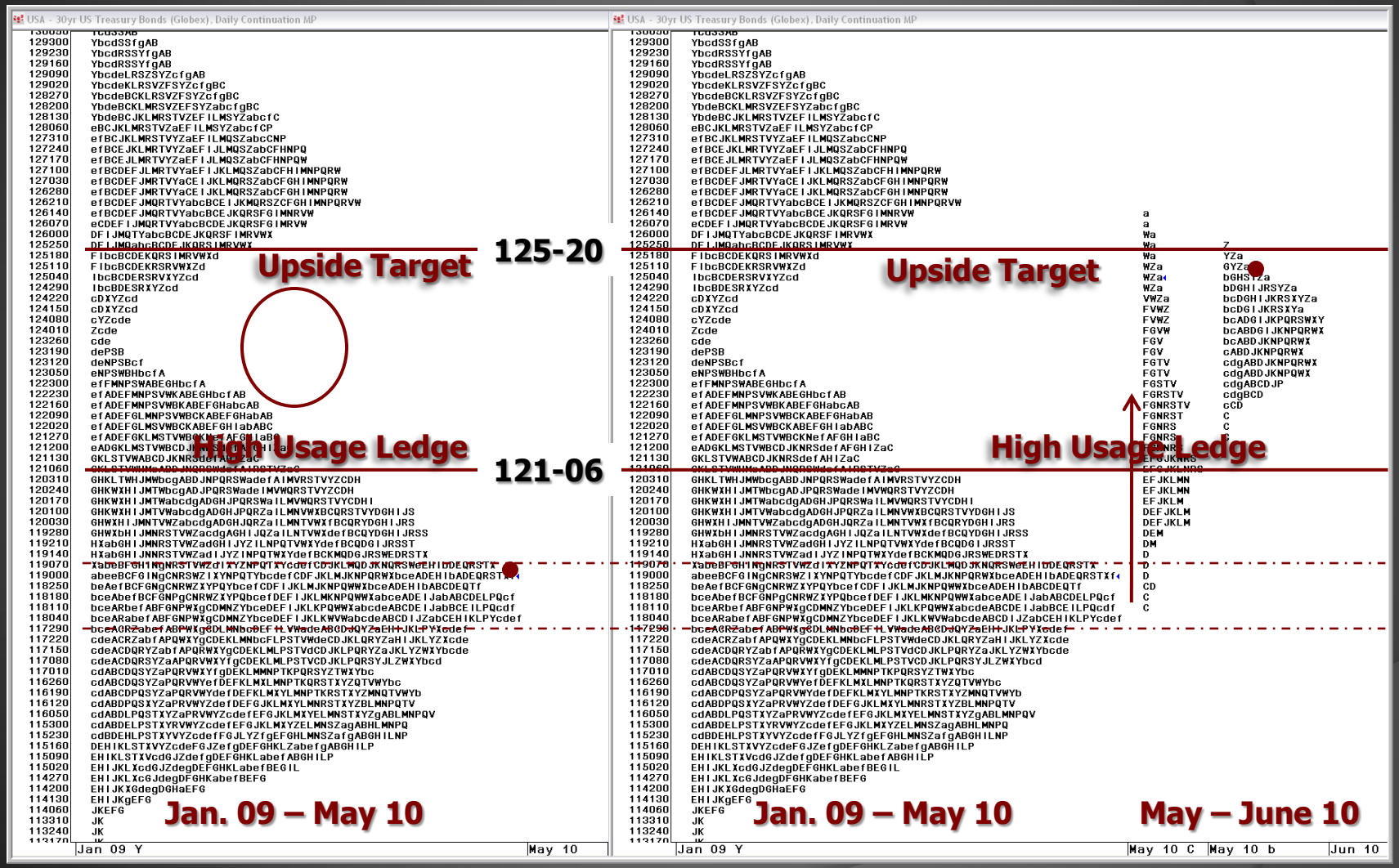
Market Profile Trading Strategy
30-Year T-Bonds



30-Year T-Bonds, Jan. 2009 – June 2010

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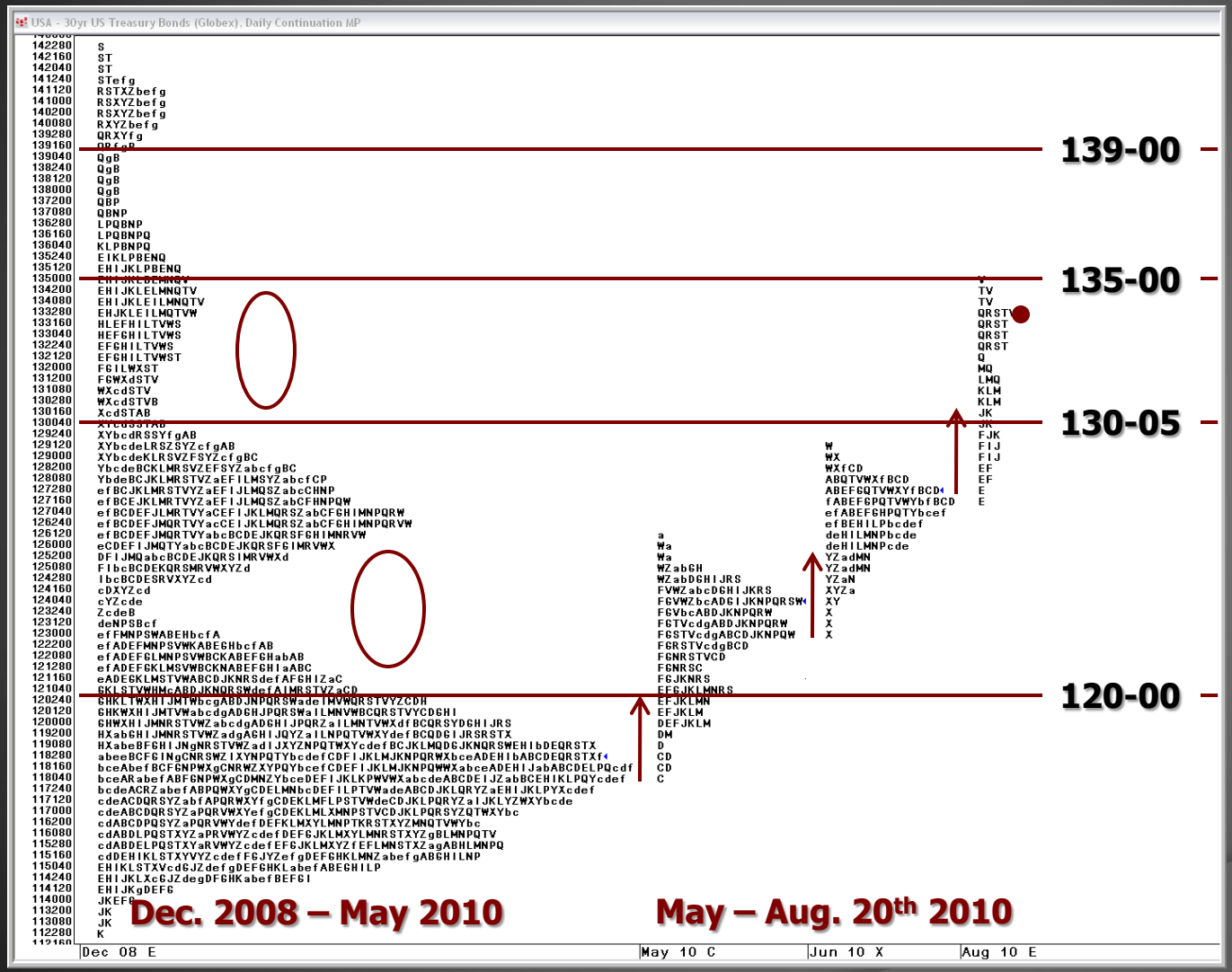
Market Profile Trading Strategy
30-Year T-Bonds: Current Read



30-Year T-Bonds, Dec. 2008 – August 2010

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Market Example

Euro

May – August 2010

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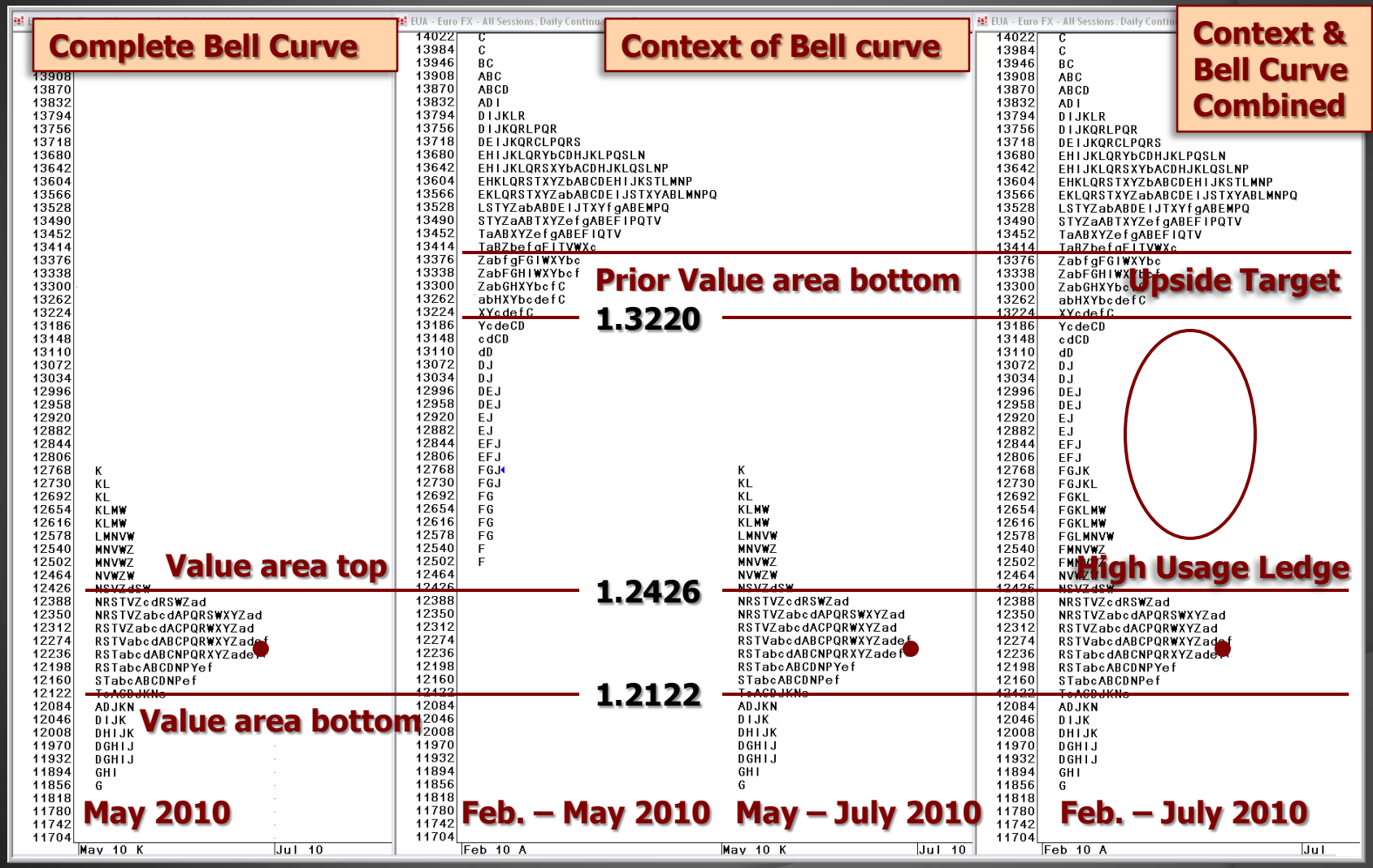
Market Profile Trading Strategy
Euro



Euro, Feb. – July 2010

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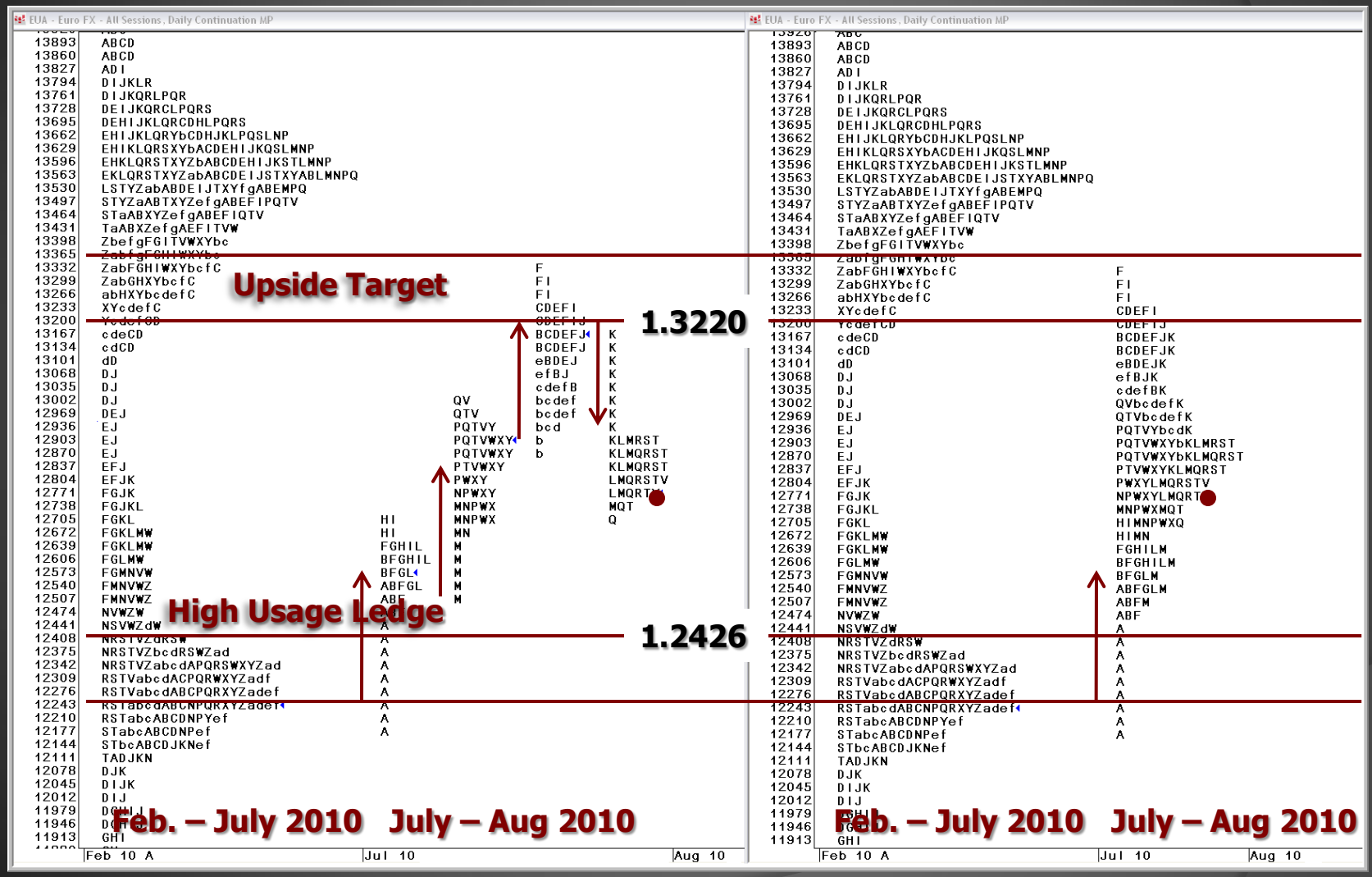
Market Profile Trading Strategy

Euro: Current Read



Euro, Feb. – Aug. 2010

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Market Example

Gold

July – August 2010

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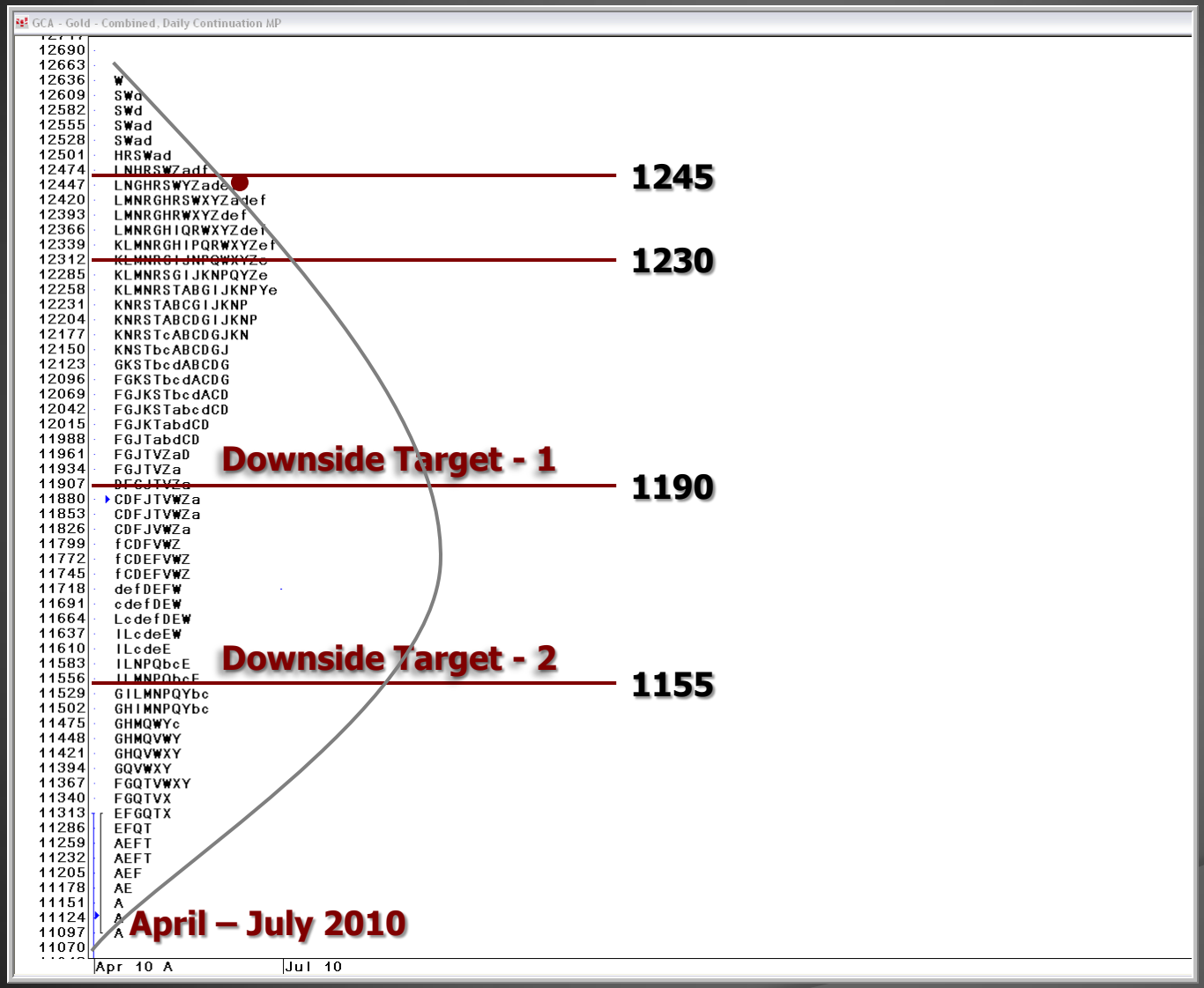
Market Profile Trading Strategy: Gold



Gold, April – July 2010

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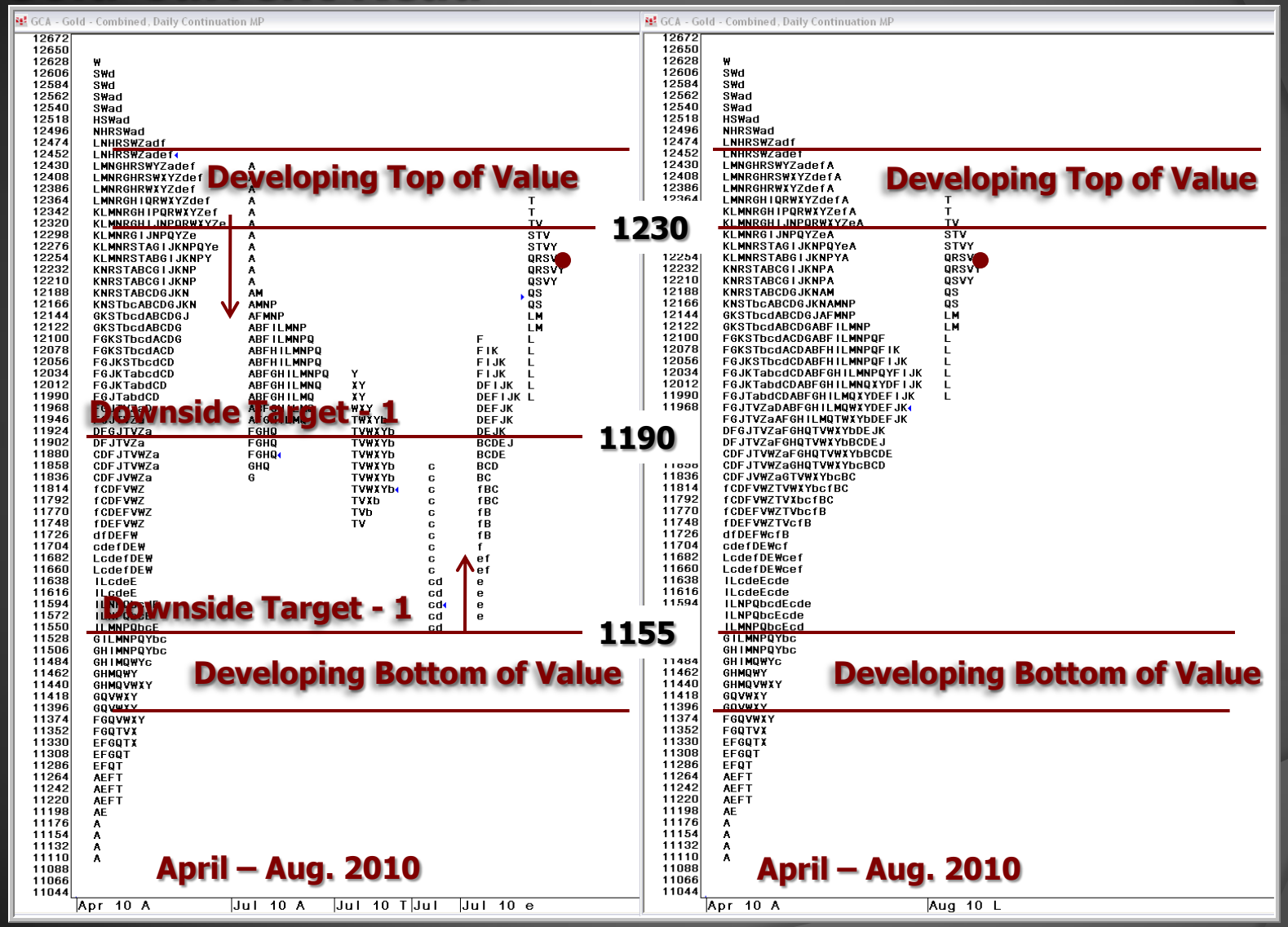
Market Profile Trading Strategy: Gold Current Read



Gold, April – Aug. 2010

Gold, April – Aug. 2010

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S&P 500
Current Outlook

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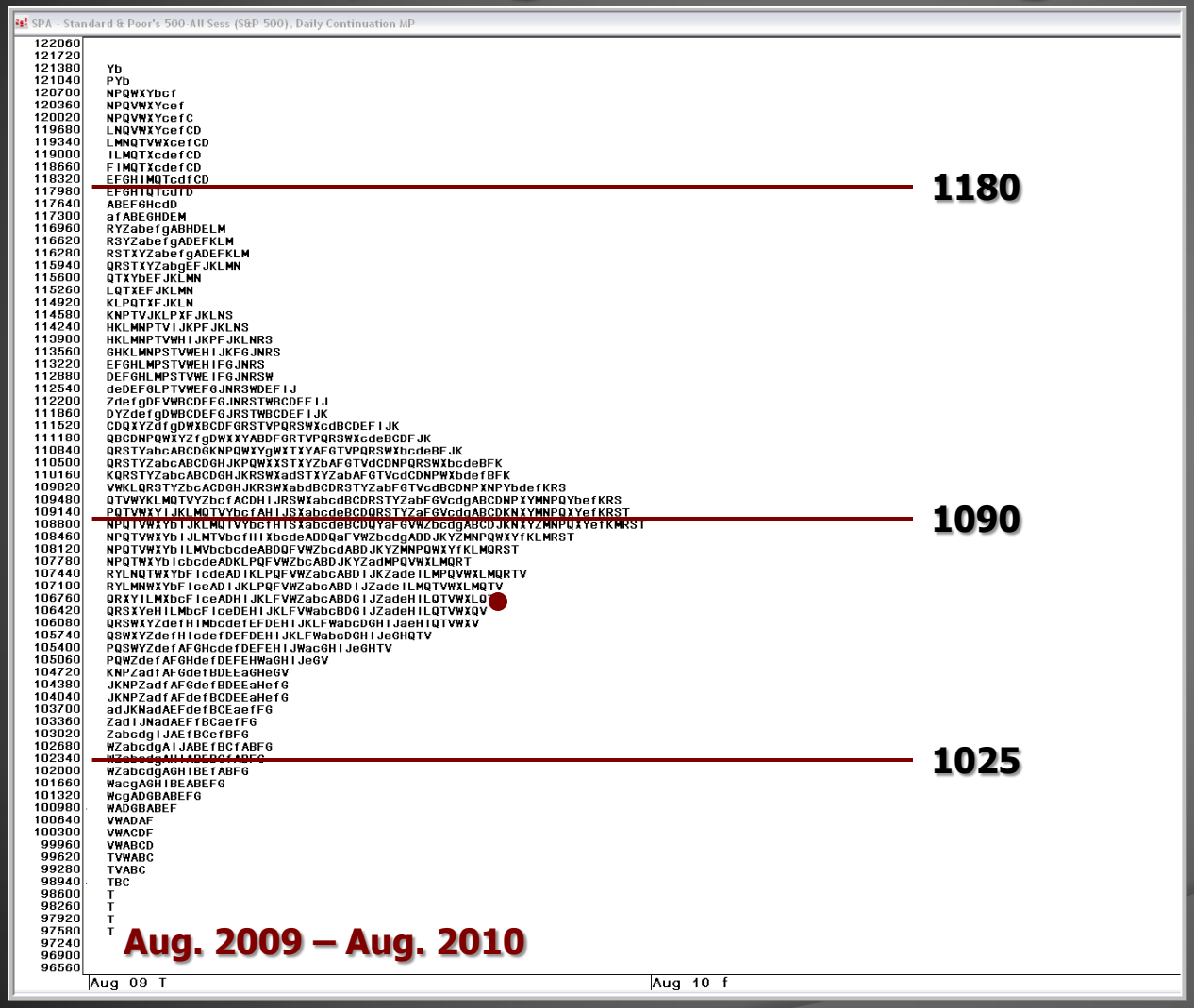
Market Profile Provides Context
S&P 500, Aug. 2009 – Aug. 20th 2010



S&P 500, Aug. 2009 – August 20th 2010

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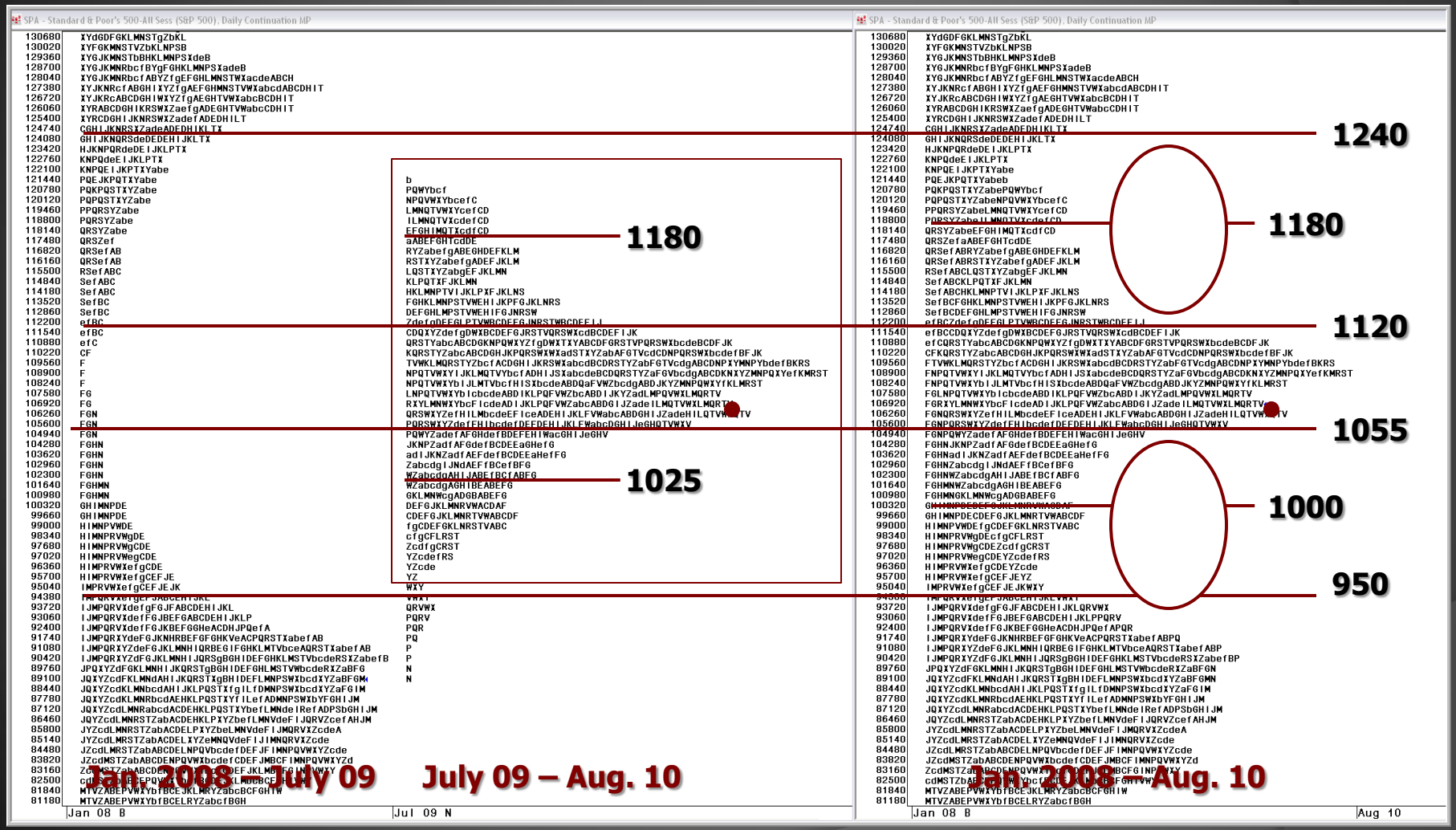
Market Profile Provides Context
S&P 500, Jan. 2008 – Aug. 20th 2010



S&P 500, Jan. 2008 – August 20th 2010

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Summary

- Market Profile:
  - Represents and Organizes the data so that you can see how Market Participants are using price.
  - Tracks the negotiation process toward consensus
- A completed negotiation forms a Bell Curve
- Our Method is to put completed Bell Curves into larger contexts
  - Allows us to create a strategy:
    - Trend or Congestion
    - Direction
    - Targets
    - Time
    - Stops

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