THE MARKET PROFILE

By :

PHIDIAS PROPFIRM

Introduction

The Market Profile is a market finance tool used to analyze and anticipate movements. It is based on an in-depth analysis of market dynamics, taking into account price organization, the time factor and auction rotation. This presentation aims to explore the principles, strategies, and applications of the Market Profile.

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PHIDIAS PROPFIRM

History and Presentation

The concept of the Market Profile was officially introduced by J. Peter Steidlmayer in 1984. This innovation radically transformed the analysis of financial markets by providing a graphical way to represent the acceptance or rejection of prices over time. The Market Profile is based on a profile-shaped graph that allows one to decipher crucial information about market activity.

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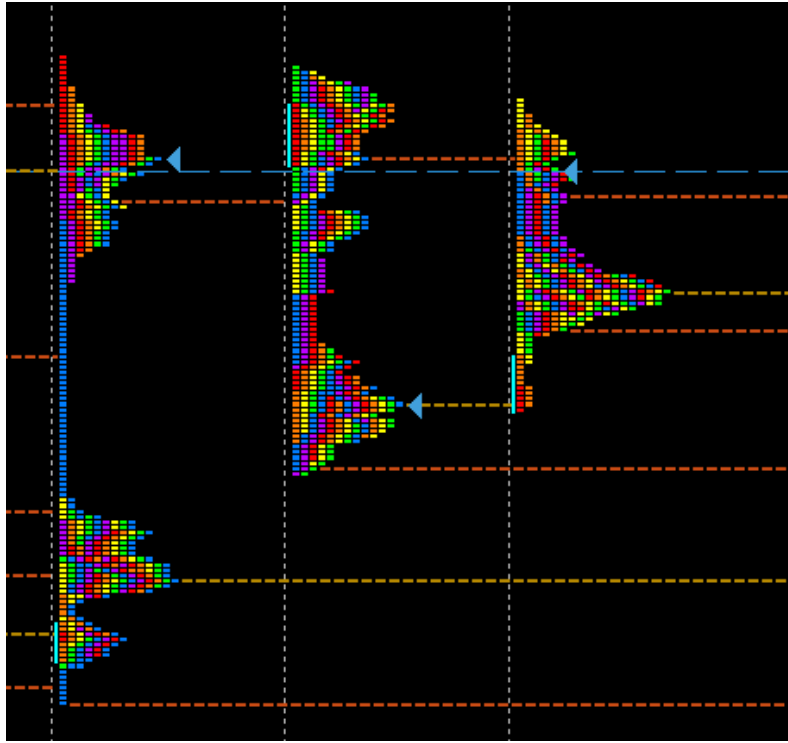
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FUNDAMENTAL PRINCIPLES

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Price x Time = Value:

The foundation of the Market Profile is this equation, which suggests that value is created when prices spend time at particular levels. In other words, the Market Profile helps us identify price levels that the market values. Its primary purpose is to graph the acceptance or rejection of prices over time.

Reference Time Unit (TPO):

A typical time frame is 30 minutes. Each time frame is called a Time Price Opportunity (TPO), representing a price level at a given time. In the Market Profile, each group of letters corresponds to a specific time period, such as 30 minutes. This means that the Market Profile divides the trading session into equal time segments, with each segment represented by a letter. The letters are stacked vertically to form a profile. This profile looks like a distribution of letters that extends horizontally along the price axis. Each column of letters represents a time frame and shows where trades occurred at that time. The Market Profile is constructed with blocks of letters from A to Z in uppercase and then lowercase. It shows the most traded price levels during the session using a calculated "TPO Value Area", indicating where the majority of trades occurred.

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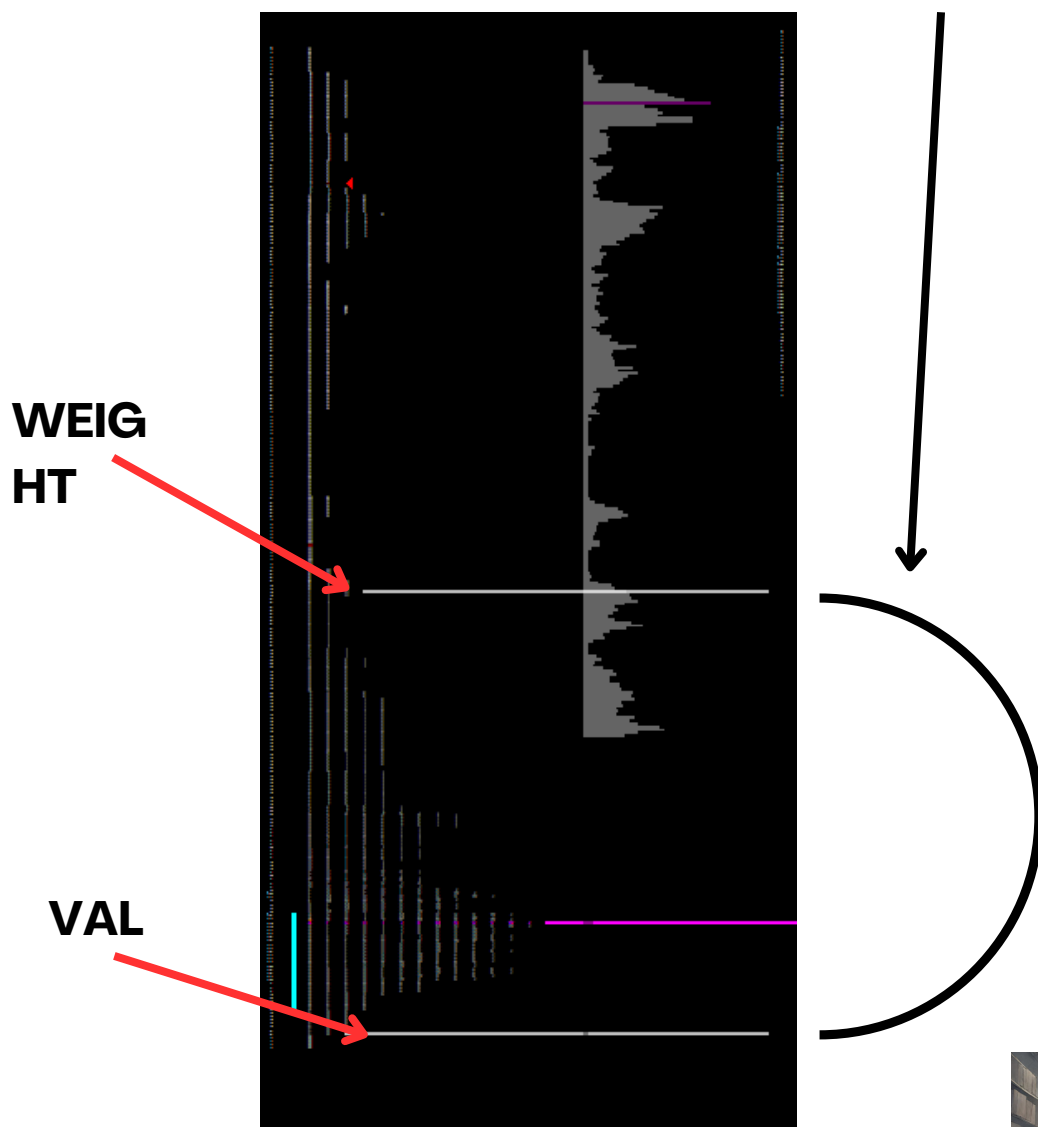PHIDIAS PROPFIRM

TPO upper and lower case
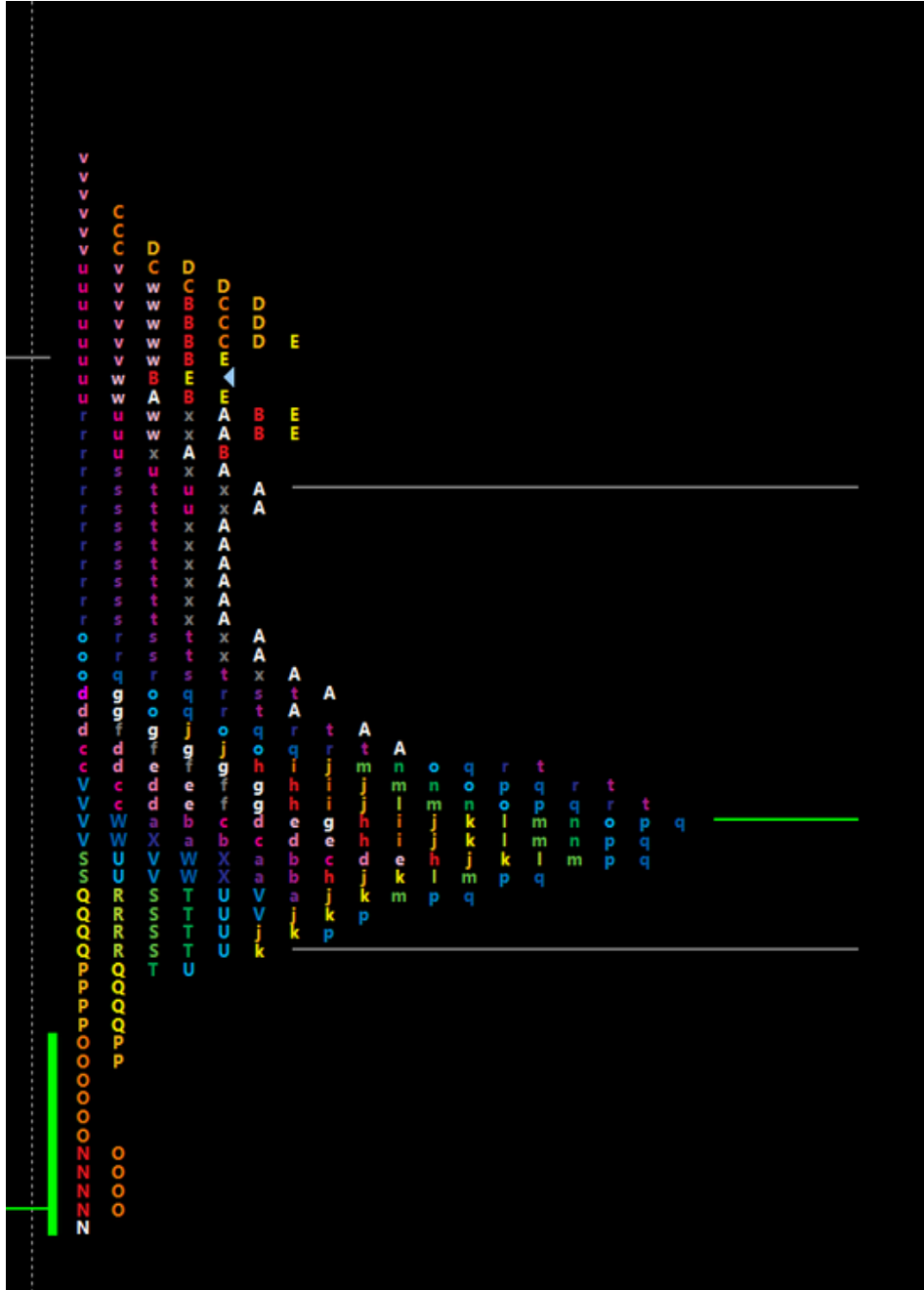
Value Zones:

The Market Profile identifies two key value areas: the Value Area High (VAH) and the Value Area Low (VAL). These areas, which typically cover 70% of the time, are surrounded by price levels where the market has spent less time.
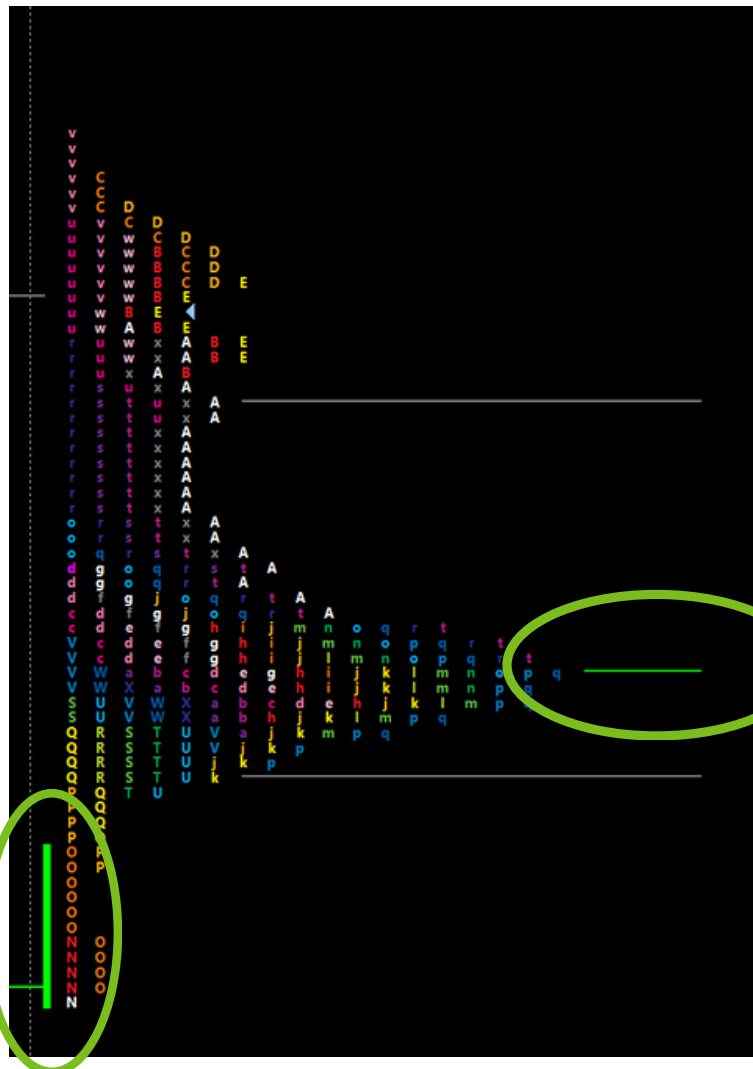

WEIGHT

VAL

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Point of Control (POC) :

The POC is the price level within the value zone where prices have spent the most time. It is often considered an equilibrium point.

POC TPO

Initial Balance (IB)

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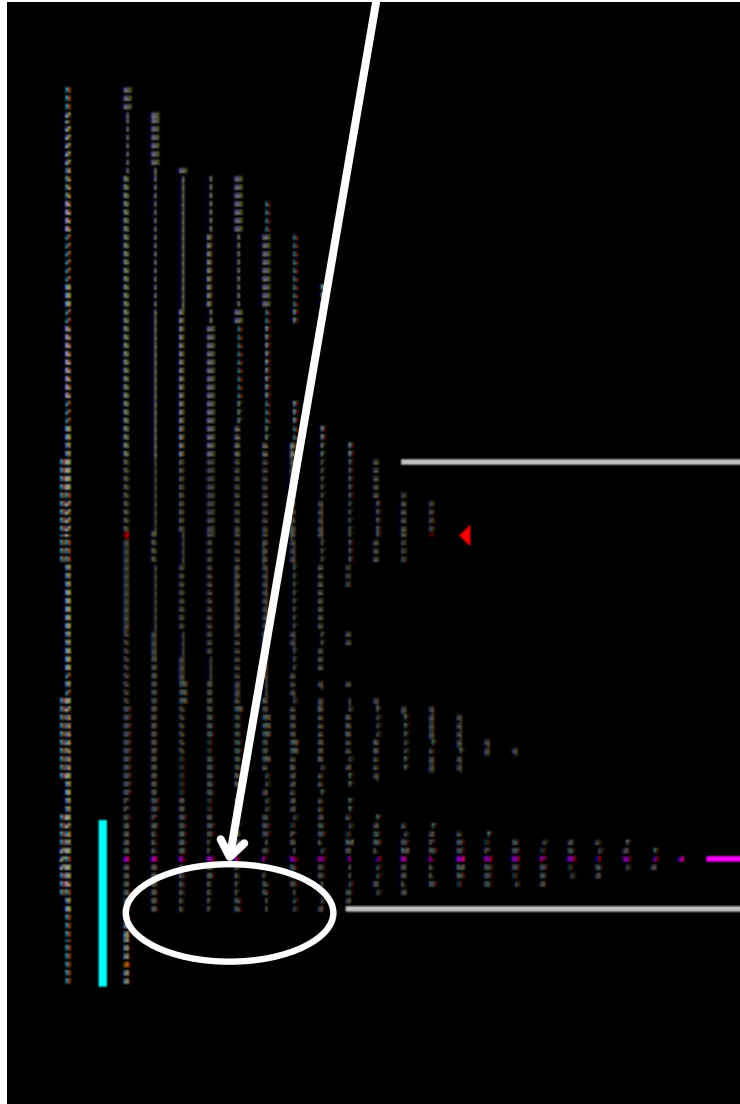
Poor Hight et poor Low

The "extreme limits" of the Market Profile can form Poor Low // Poor High. This configuration often indicates many stop orders placed beyond these levels. It is imperative to exercise increased vigilance, especially in contrarian trading (contrary to the inherent force movement of the market at time T). The market will find itself in a directional extension phase and can deploy a lot of inertia in one direction or the other, with possible trend reversals or on the contrary a strong aggression to continue the trend.

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Exemple de poor Low

Single Print Zone (Strong rejection from past days)

A Single Print zone is characterized by a succession of price levels where there has been only one TPO print. In other words, it is a rejection zone. For a Single Print zone to be considered valid, there must be at least two consecutive price levels without an intermediate TPO print. Traders watch them closely!!!

Developed in the Strategies and Interpretations section
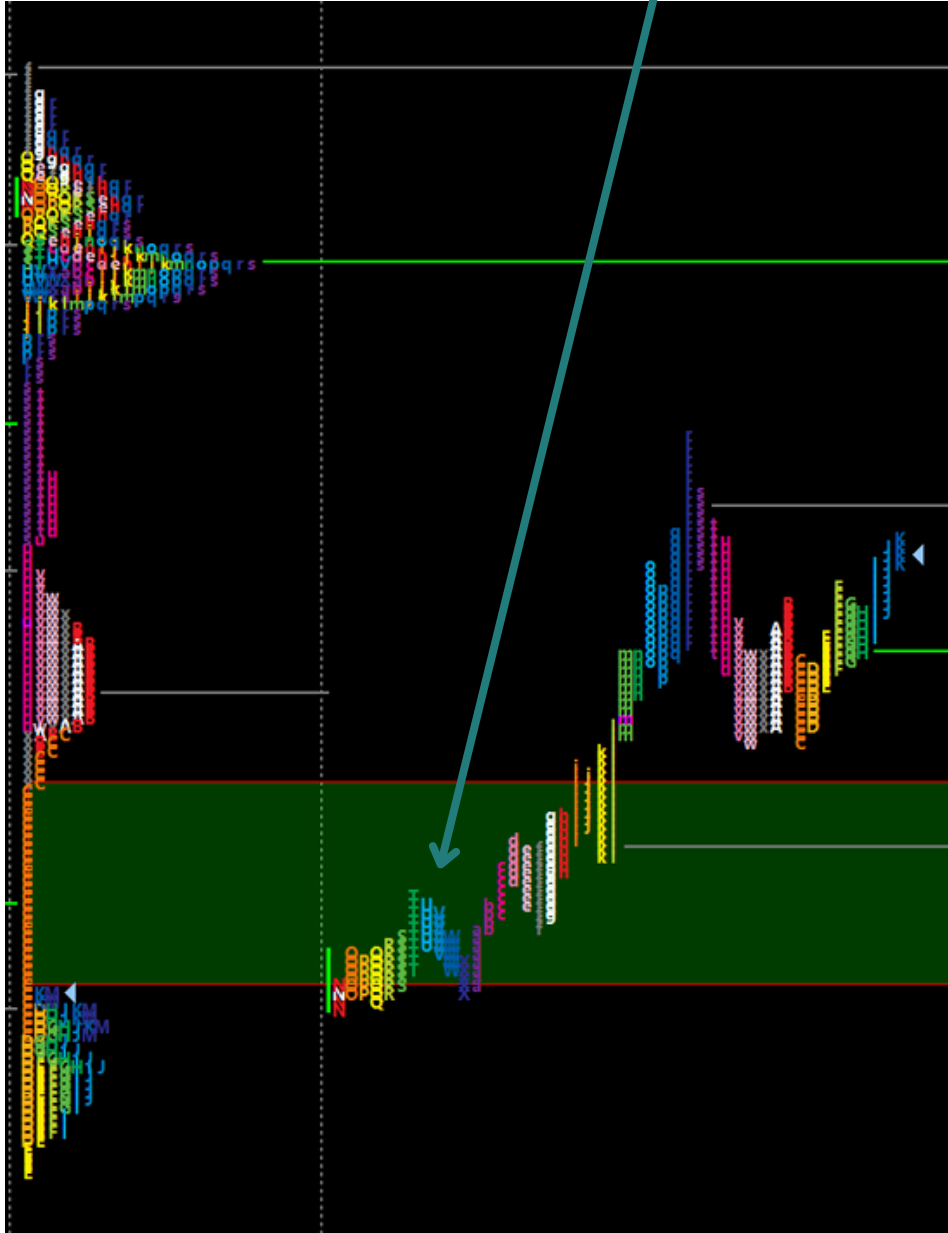
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Single Print Zone (Strong rejection from past days)

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Mid-profile Single Print Zone

MARKET PROFILE HIGHLIGHTS

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La "TPO Value Area" et le "Point of Control TPO" (POC TPO)

are important elements. The first indicates the market comfort zone, where prices are generally more stable. The POC TPO is the control point of the value zone, around which prices often gravitate. A thorough understanding of these concepts is essential.

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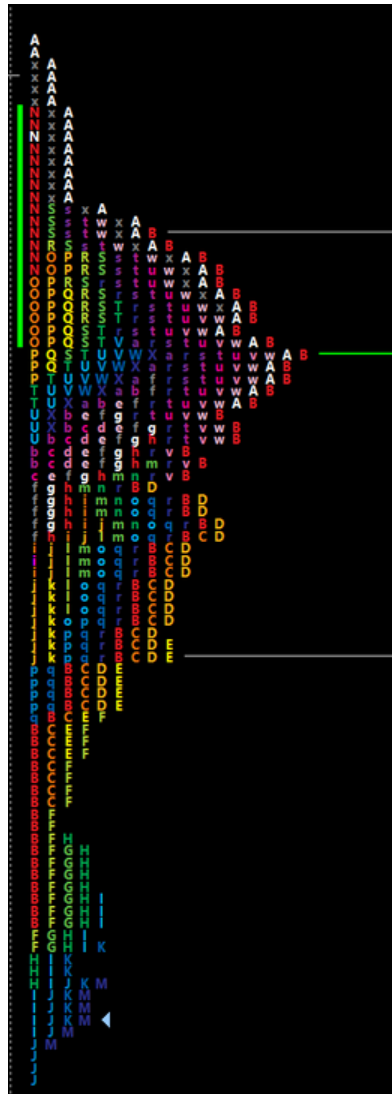
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Market Profile VS Volume Profile
The Market Profile becomes even more interesting when combined with the Volume Profile

More info in our Volume profile explanation PDF

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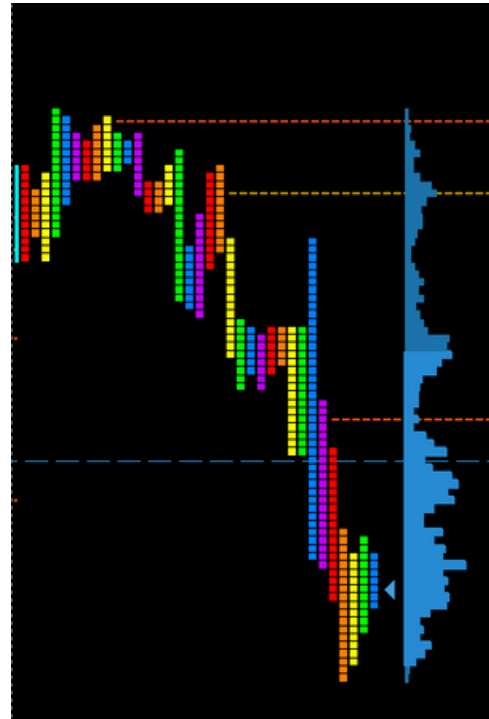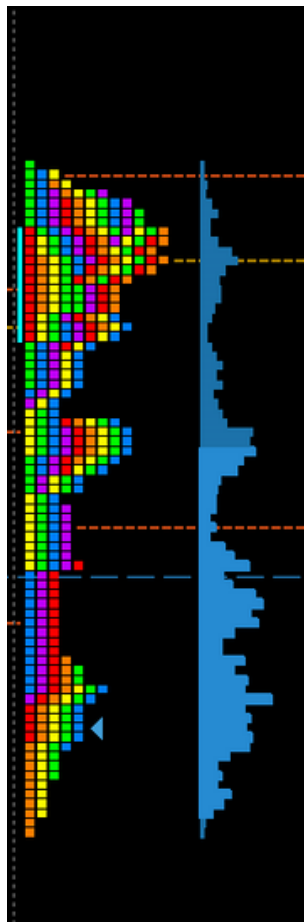
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Different types of assets and time frames

Market Profile can be applied to different types of financial assets including futures, foreign exchange (**Forex**), stocks, cryptocurrencies etc. It allows traders to interpret data to understand market behaviors and anticipate price movements. It can also be viewed on shorter or longer time frames such as monthly or yearly or compared between the RTH session (**cash session**) and the ETH session (**Globex session**) of your asset.

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STRATEGIES AND INTERPRETATIONS

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PHIDIAS PROPFIRM

VAH and VAL Strategy: Traders look to buy near VAL and sell near VAH, using the POC as a reference.

Breakout Strategy: Traders identify areas of value and wait for significant breakouts to the upside or downside to take a position.

Zones de Single Print :

-As explained in "The Fundamentals" these areas signal price rejection these areas often indicate a market reaction and can be exploited to identify opportunities.

-A Single Print zone remains valid until it is fully filled with new TPO impressions. If a zone is partially filled, it can continue to be tracked as long as there are at least two consecutive price levels without an intermediate TPO impression.

-To maintain relevant data, it is recommended to check your Single Print areas regularly, preferably every morning. This way, you can remove areas that have become invalid from your analysis. This practice will help you avoid incorrect interpretations of Market Profile data and allow you to make more accurate trading decisions.

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Opening and Closing Strategies

Traders use the Market Profile to develop opening and closing strategies:

Open in Value Area: An initial TPO print inside the Value Area typically indicates a balanced day. Traders look to buy near VAL and sell near VAH, watching the POC.

Open Outside Value Area: An initial TPO print outside the Value Area may indicate a directional bias. Traders are looking for significant breakouts.

Close in Value Area: The last TPO print inside the Value Area may indicate a balanced end to the day.

Close Outside Value Area: The last TPO print outside the Value Area may suggest an imbalance.

TPO Change Strategy

Changes in the profile, including significant new TPOs, can indicate a change in market sentiment. For example, a new TPO above VAH can indicate increased buying pressure. The Market Profile is based on the market auction, where buyers and sellers compete for prices. The auctions alternate between rising and falling, allowing traders to anticipate reversals and opportunities.

L'INITIAL BALANCE (IB)

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PHIDIAS PROPFIRM

Initial Balance (IB) is an important concept in Market Profile trading. It represents the range established by the market during the first hour of trading. IB can be used to develop trading strategies, including:

If the IB is followed by a clear trend, traders can look for trading opportunities in the direction of that trend.

The IB can be used as a support or resistance level. For example, if the IB is broken to the upside, it becomes a potential support level, and if it is broken to the downside, it becomes a potential resistance level.

IB breakouts can indicate a change in market dynamics. Traders should monitor these breakouts to adjust their strategies accordingly.

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TYPES D'OPEN

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Open types are key elements in using the Market Profile. Here are some open types and how they can be interpreted:

Open Drive: The Open Drive is a type of opening where the market takes a clear direction within the first few minutes of the session. Volumes are usually high, and the IB is wide. This indicates a strong conviction on one side over the other. Traders can look for trading opportunities in the direction of the trend established during the Open Drive.

Open Test Drive: The Open Test Drive is characterized by the market testing an important technical point, such as the Point of Control (POC), Value Area High (VAH), or Value Area Low (VAL), before reversing and taking a direction. The reversal often occurs within the first half hour of trading. Traders may consider reversal trading strategies when the Open Test Drive occurs.

Open Rejection Reverse: This type of opening is similar to the Open Test Drive, but with less conviction and a reversal that occurs in the second half hour of trading. The Open Rejection Reverse can indicate uncertainty about the direction of the market. Traders can remain cautious and wait for confirmation signals before entering into positions.

Open Auction This type of open indicates little conviction and distributes around the opening. There are two types of Open Auction depending on their position relative to the value zone of the previous session.

-Open Auction within the previous value zone suggests a lackluster market, which may result in non-trendy, normal or neutral days.

-Open Auction outside the previous value zone may indicate strong market conviction, predicting trending or double-dealing days.

CONCLUSION

By :

PHIDIAS PROPFIRM

In conclusion, the Market Profile is a powerful tool for traders and market finance professionals. It offers a unique insight into the dynamics of financial markets by focusing on the combination of price and time. Understanding the basic principles of the Market Profile, the associated trading strategies, as well as the importance of the Initial Balance and the types of open, is essential to understand the market environment in which we will operate.

If you want to use and include the Market Profile in your trading, you will find it available in different versions on the Phidias PropFirm store and ready to be incorporated into your favorite trading platform.
In addition, we offer mentoring and advanced trading training several times a year for those who wish on the use of these tools.

Please do not hesitate to contact us if you encounter any difficulties in understanding and using these tools.

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PHIDIAS PROPFIRM

FAQ MARKET PROFILE

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<u>What is a single print zone in the Market Profile?</u>

A single print zone, often abbreviated as SP, is an area where multiple consecutive price levels have only one TPO print. These zones signal a price rejection by the market, which can have significant implications for traders.

<u>How is a single print zone determined?</u>

A zone is considered an SP zone if it includes at least two consecutive price levels without any intervening TPO impressions. This means that the price levels are directly adjacent, with no significant activity between them.

<u>How long does a single print zone remain valid?</u>

An SP zone remains valid until it is completely filled by new TPO impressions. If the zone is only partially filled, you can keep it in your analysis as long as it contains at least two consecutive price points with a single TPO impression.

<u>How to manage single print zones in Market Profile?</u>

It is recommended that you regularly check your SP zones, preferably at the beginning of each trading session. If a SP zone is no longer valid due to being completely filled by new TPO prints, it is essential to remove it from your analysis. This helps prevent misinterpretations of Market Profile data, ensuring that your information remains up-to-date and relevant to your trading decisions.

What is the role of Point of Control (POC) in the context of single print zones?

The POC is a key price level in the Market Profile, representing where the market has spent the most time. When a SP area coincides with the POC, it can indicate a particularly important price level. Traders watch these situations closely, as they can trigger significant market moves. If a SP area is located near the POC, it can further reinforce its importance.

What benefits do traders get from identifying single print areas?

Single print areas provide traders with critical information about price levels that have not been accepted by the market. This can indicate potential rejection or opportunity areas for traders. By identifying these areas, traders can develop trading strategies, including looking for breakouts or trend reversals. SP areas can also serve as support or resistance levels, increasing their relevance for trading decisions.

How can Market Profile help anticipate market movements?

Market Profile helps traders understand market dynamics by analyzing the organization of price, time, and volume. By identifying single print areas and monitoring key price levels, traders can anticipate market reactions at different levels and develop strategies accordingly. This can help them make decisions about entry and exit points.

What are the common opening types in Market Profile and how do they influence trading strategies?

Common opening types in the Market Profile include Open Drive, Open Test Drive, Open Rejection Reverse, and Open Auction. Each of these opening types offers clues about market conviction and can influence trading strategies. For example, an Open Drive followed by an uptrend can encourage trend-following strategies, while an Open Rejection Reverse can encourage a more cautious approach.

How is the TPO count used to assess the relative strength of buyers and sellers?

The TPO count is a tool to assess the relative strength of buyers and sellers in the absence of obvious signals. By comparing the number of TPOs above and below the Point of Control (POC), traders can gain insights into the imbalance in market forces. For example, a high POC with a significantly higher number of TPOs above it can indicate buyer dominance.

What is the importance of Initial Balance in Market Profile and how is it used in trading strategies?

The Initial Balance (IB) represents the range established by the market during the first hour of trading. It can provide insight into the potential direction of the market for the day. Traders use the IB to develop trading strategies, including using its breakout as a buy or sell signal. The size of the IB, the timing of the breakout, and the volume associated with the breakout are important factors in IB analysis.

How do Market Profile and TPOs help traders adapt to changing market conditions?

The Market Profile is a dynamic tool that evolves in real-time with the market. Traders can use information from the Market Profile to adapt to changing market conditions. This can include making quick adjustments to strategies based on opening types, IB, and identified support and resistance levels. Constant analysis of the Market Profile is essential to remain responsive to market developments.

Sources:

"Markets and Market Logic." J. Peter Steidlmayer, "Mind Over Markets: Power Trading with Market Generated Information." James F. Dalton "Le Market Profile" James F. Dalton // Eric T.Jones // Robert B. Dalton Graphiques fournis par Sierra Chart

IF YOU HAVE ANY QUESTIONS OR NEED MORE INFORMATION, PLEASE DO NOT HESITATE TO CONTACT US. WE ARE HERE TO HELP YOU PROGRESS IN YOUR TRADING. TO STAY UP TO DATE WITH OUR LATEST NEWS, TIPS AND PROMOTIONS, FOLLOW US ON OUR SOCIAL NETWORKS.

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