

BUILDING A TRADING STRATEGY WITH MARKET PROFILE

ROBIN MESCH

MESCH CAPITAL
MANAGEMENT, INC.

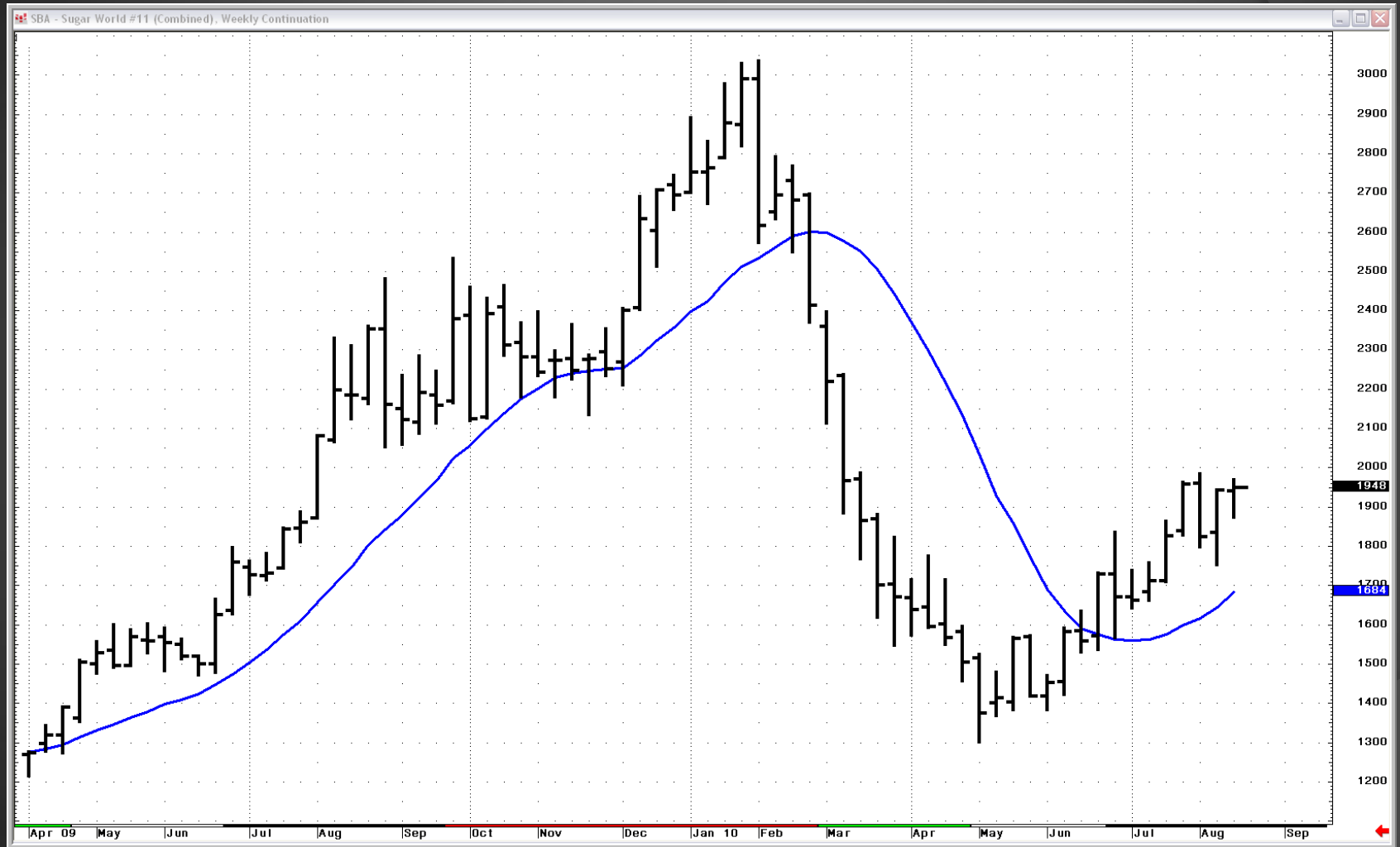


Overview:

- 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

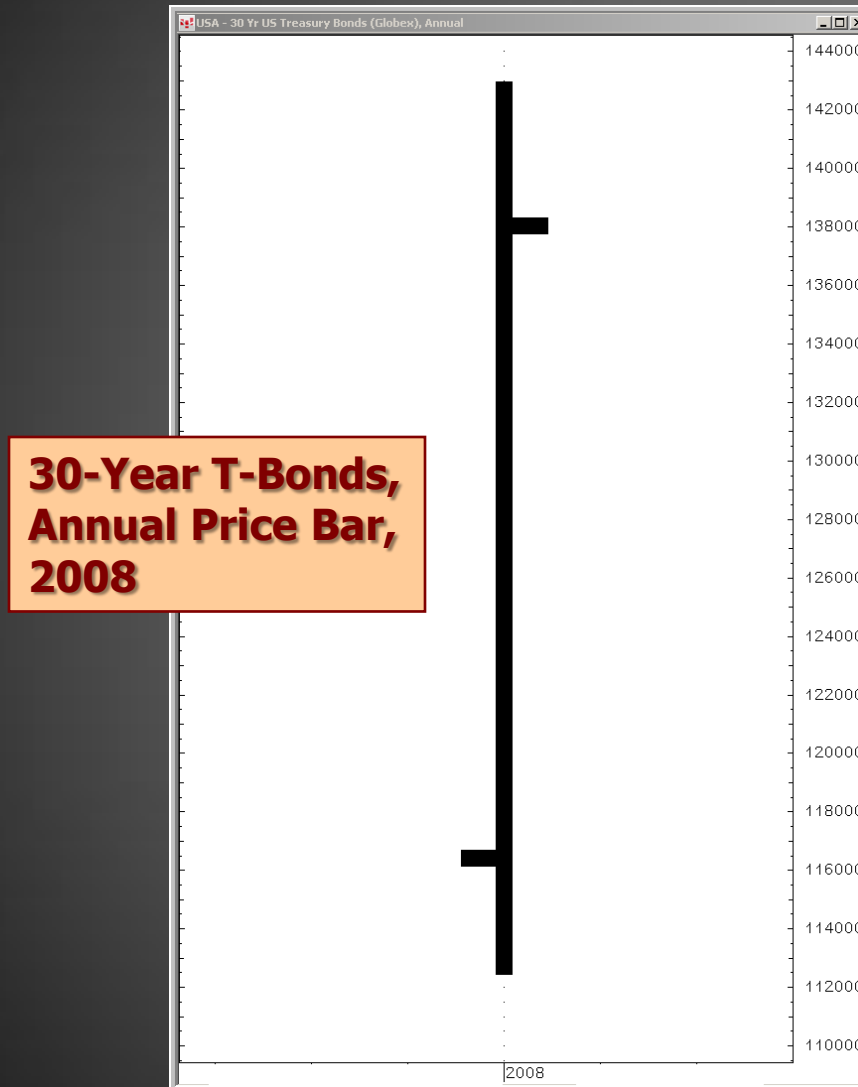
Data Representation: Price Bars



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

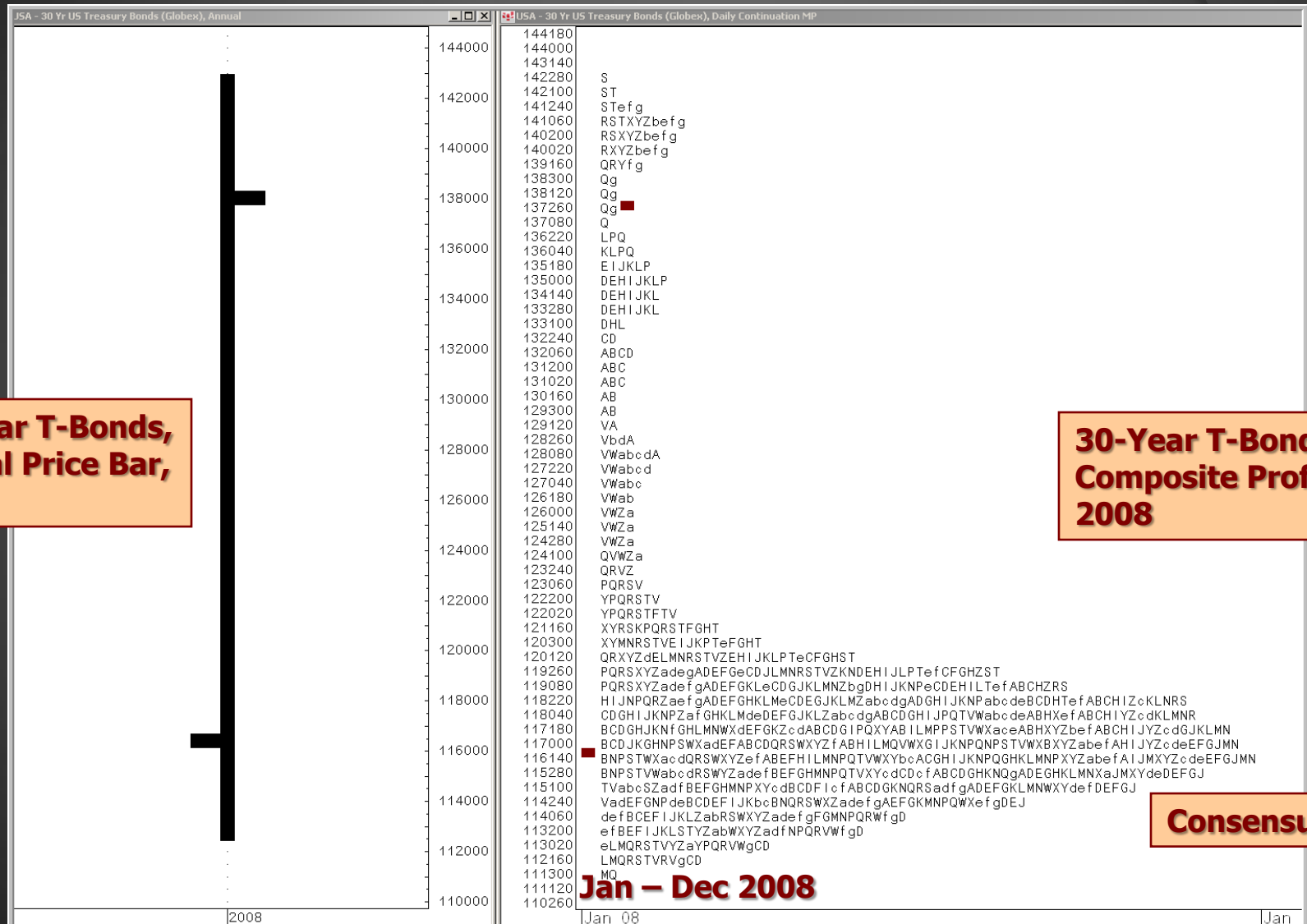
How We Organize the Market Determines How We See It.

Data Representation: Price Bar



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

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

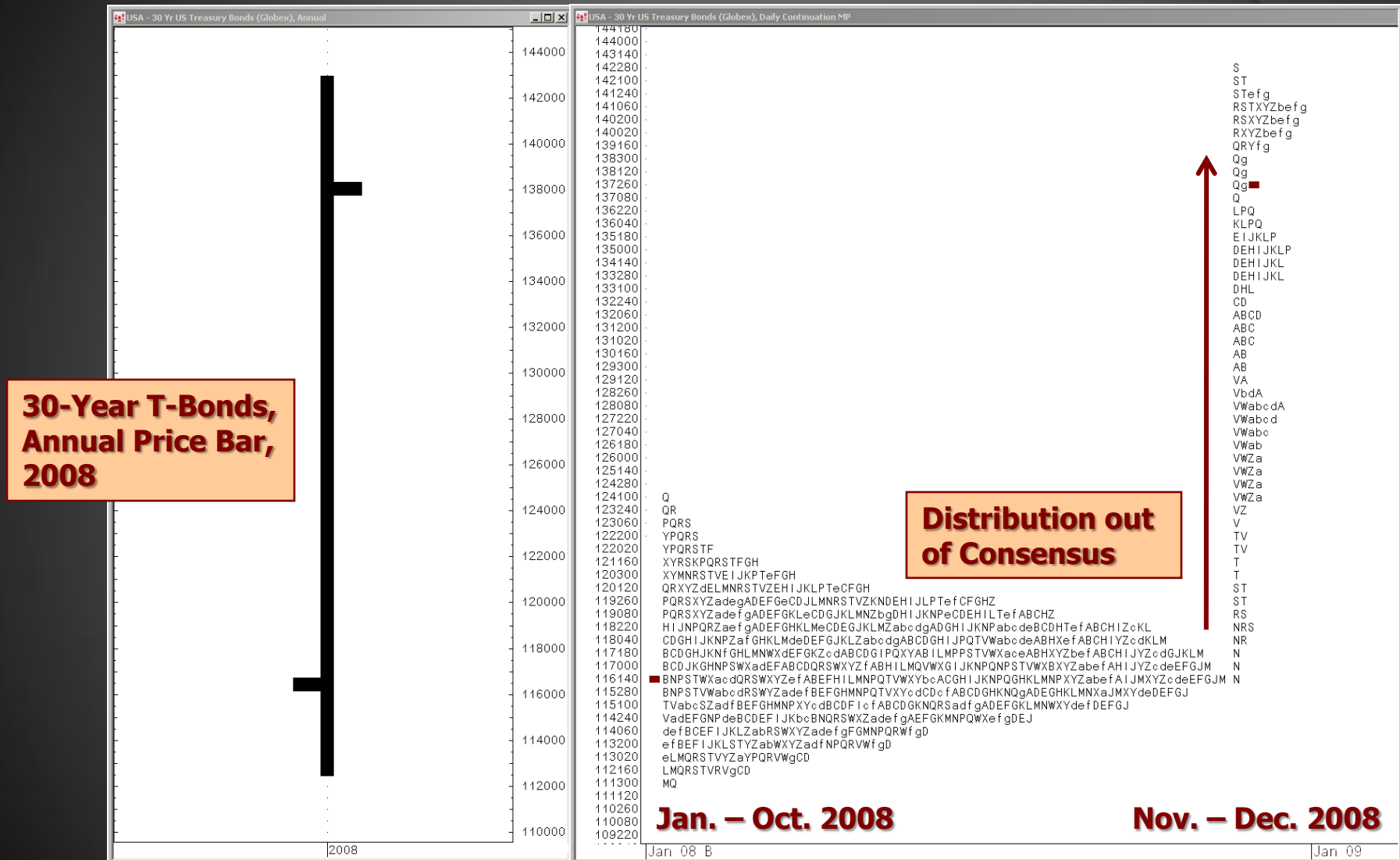
30-Year T-Bonds, Annual Price Bar, 2008

30-Year T-Bonds, Profile, 2008

Usage = Acceptance

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

Data Representation: Price Bar vs. Bell Curve



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

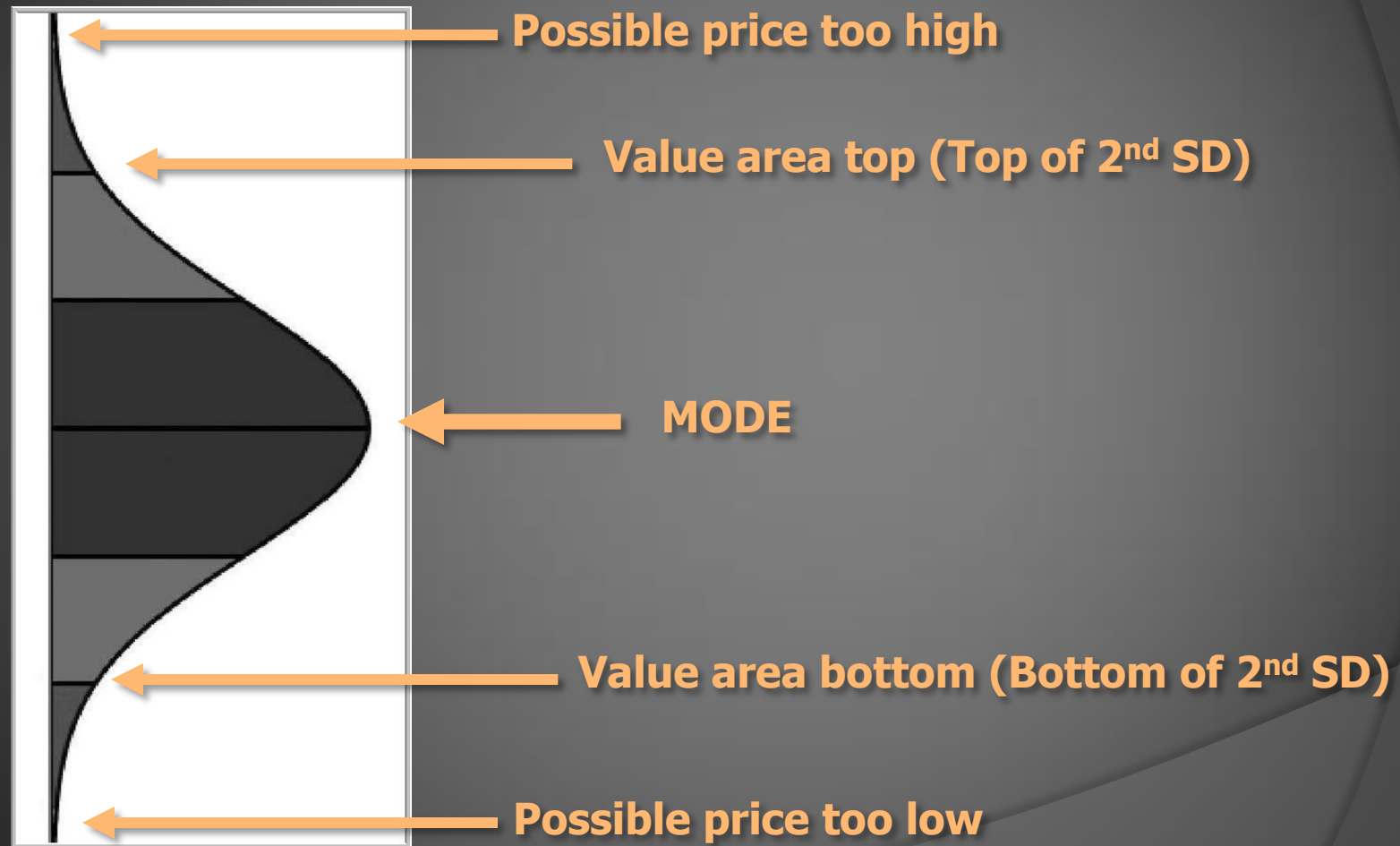
Seeing Determination of Value

CAA - Canadian Dollar-All Sessions, Daily Continuation MP		CAA - Canadian Dollar-All Sessions, Daily Continuation MP	
Canadian Dollar			
9828	P	9828	LPQ
9816	P	9816	LPQ
9804	NP	9804	LPQ
9792	NP	9792	LP
9780	MNPV	9780	JLP
9768	MNPV	9768	IJKLP
9756	MNPV	9756	NPNT
9744	MNPV	9744	NPKNPT
9732	MNPV	9732	MNPVKNPT
9720	MNPV	9720	MNPVHKNPT
9708	MNPV	9708	MNPQTVGHKMNP
9696	MNPV	9696	MNPQTVFGHKMNP
9684	MNPV	9684	MNPQTVFGHKLMNP
9672	MNPV	9672	MNPQTVFGHKLMV
9660	MNPV	9660	MNPQTVDEFGHKLMV
9648	MNPV	9648	MNPQTVDEFGHLMV
9636	MNPV	9636	MNPQTVDEFGHLMVX
9624	MNPV	9624	MNPQTVDEFGHLMVXY
9612	MNPV	9612	MNPQTVDEFGHLMVSTXY
9600	MNPV	9600	MNPQTVXAEDEFLMVQSTXY
9588	MNPV	9588	MNPQTVXLADEDEVQSTXY
9576	MNPV	9576	MNPQTVXKLQABDdefDVQSTXY
9564	MNPV	9564	MNPQTVXKLQASacABDZdefgDVQSTXY
9552	MNPV	9552	MNPQTVXKLQASacABCDYZdfgDVQSTXY
9540	MNPV	9540	MNPQTVXKLQASacABCDGJYZdfgDVQSTXY
9528	MNPV	9528	MNPQTVXKLQASacABCDGHJKYZdfgDVQSTXY
9516	MNPV	9516	MNPQTVXKLQASacABCDGHJKYZdfgDVQSTXY
9504	MNPV	9504	MNPQTVXKLQASacABCDGHJKYZdfgDVQSTXY
9492	MNPV	9492	MNPQTVXKLQASacABCDGHJKYZdfgDVQSTXY
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9396	MNPV	9396	MNPQTVXKLQASacABCDGHJKYZdfgDVQSTXY
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9108	MNPV	9108	MNPQTVXKLQASacABCDGHJKYZdfgDVQSTXY
Determining Value		Acceptance – New Direction	
October to November 2009		October 2009 to March 2010	
Oct 09 A		Oct 09 A	Mar 10 A

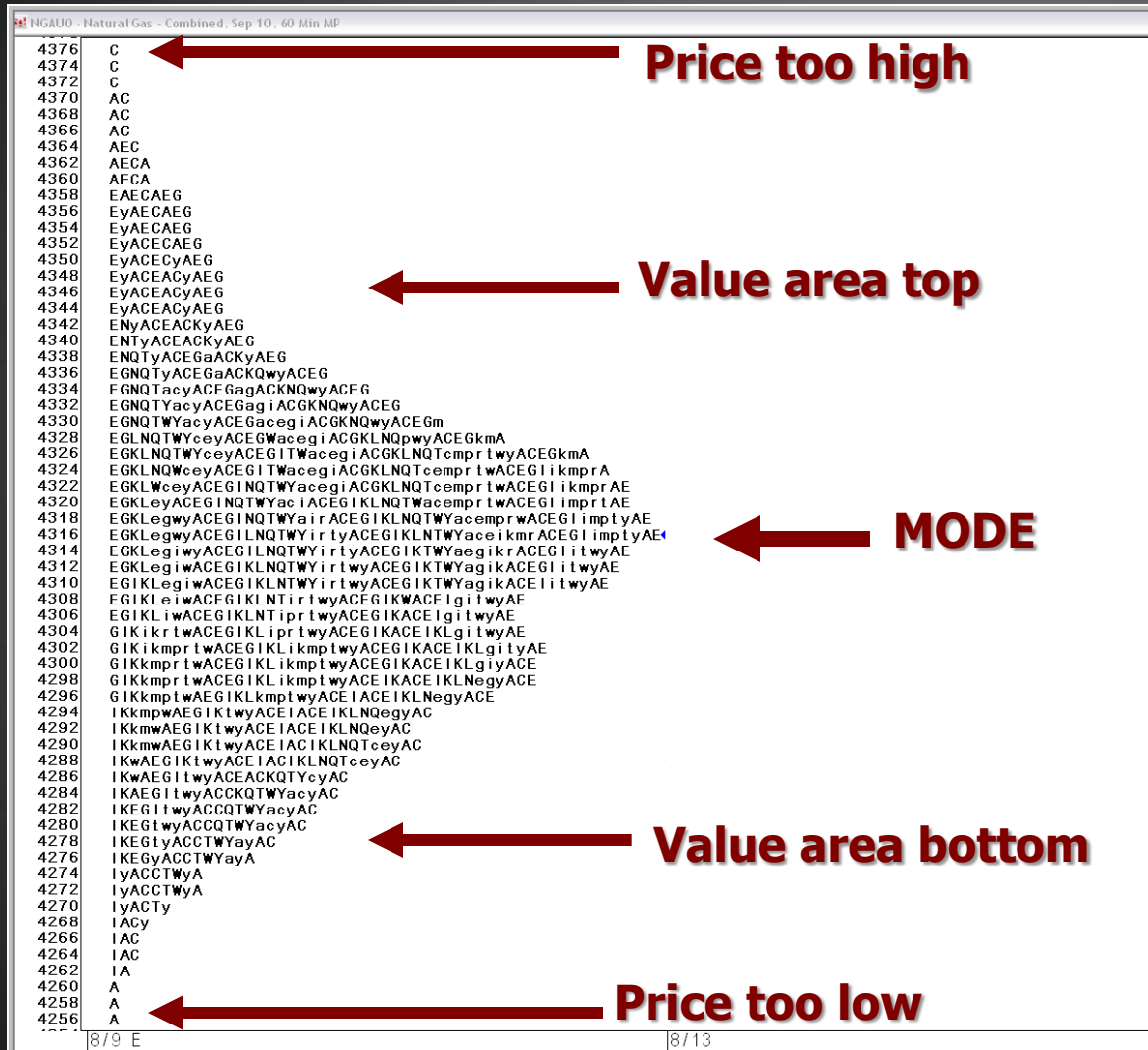
Market Profile Tracks Market Consensus

- 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.**

Profiles are Bell Curves that are vertically oriented



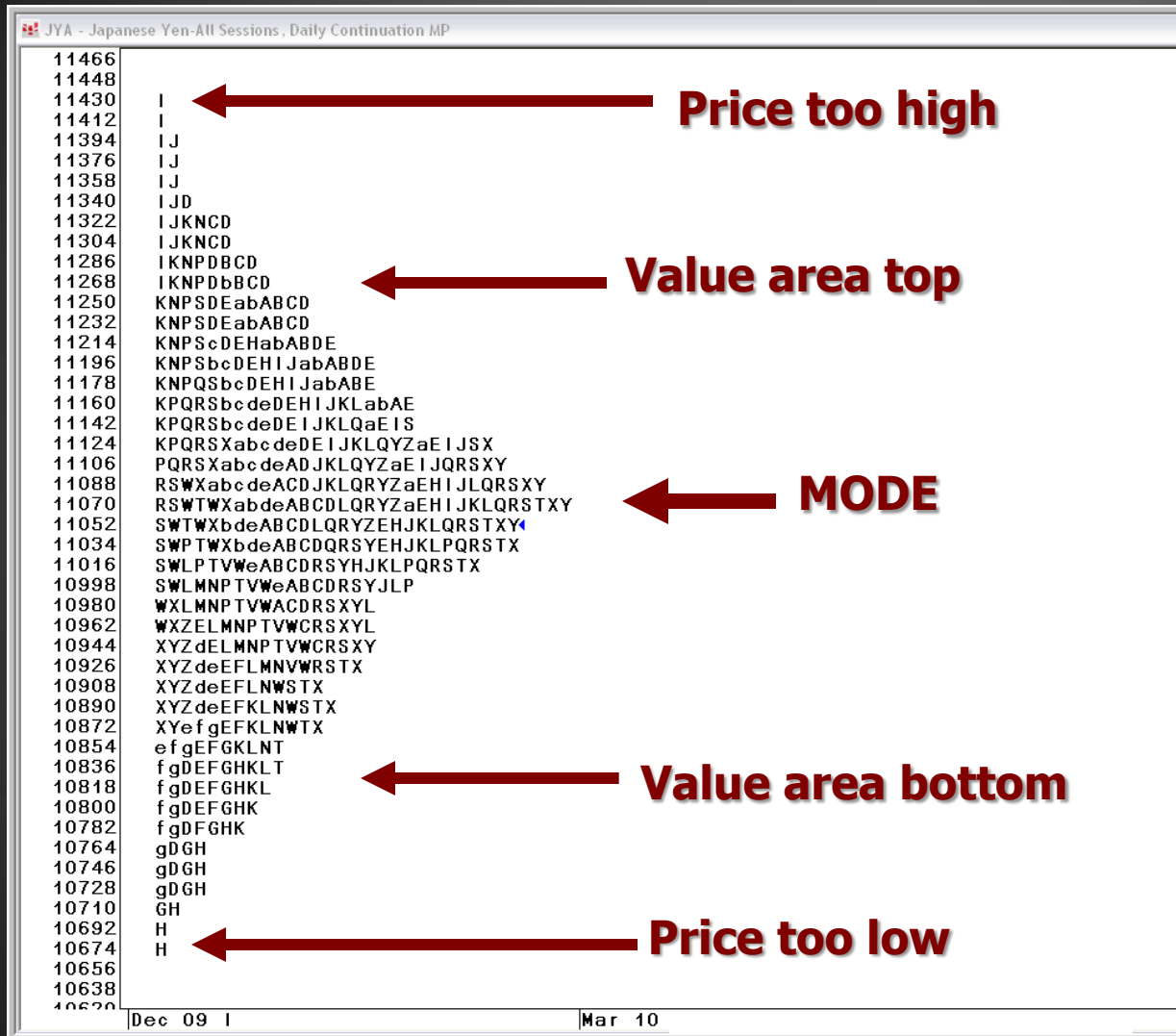
Profile Structure



**1 Week of
Market Activity**

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

Profile Structure

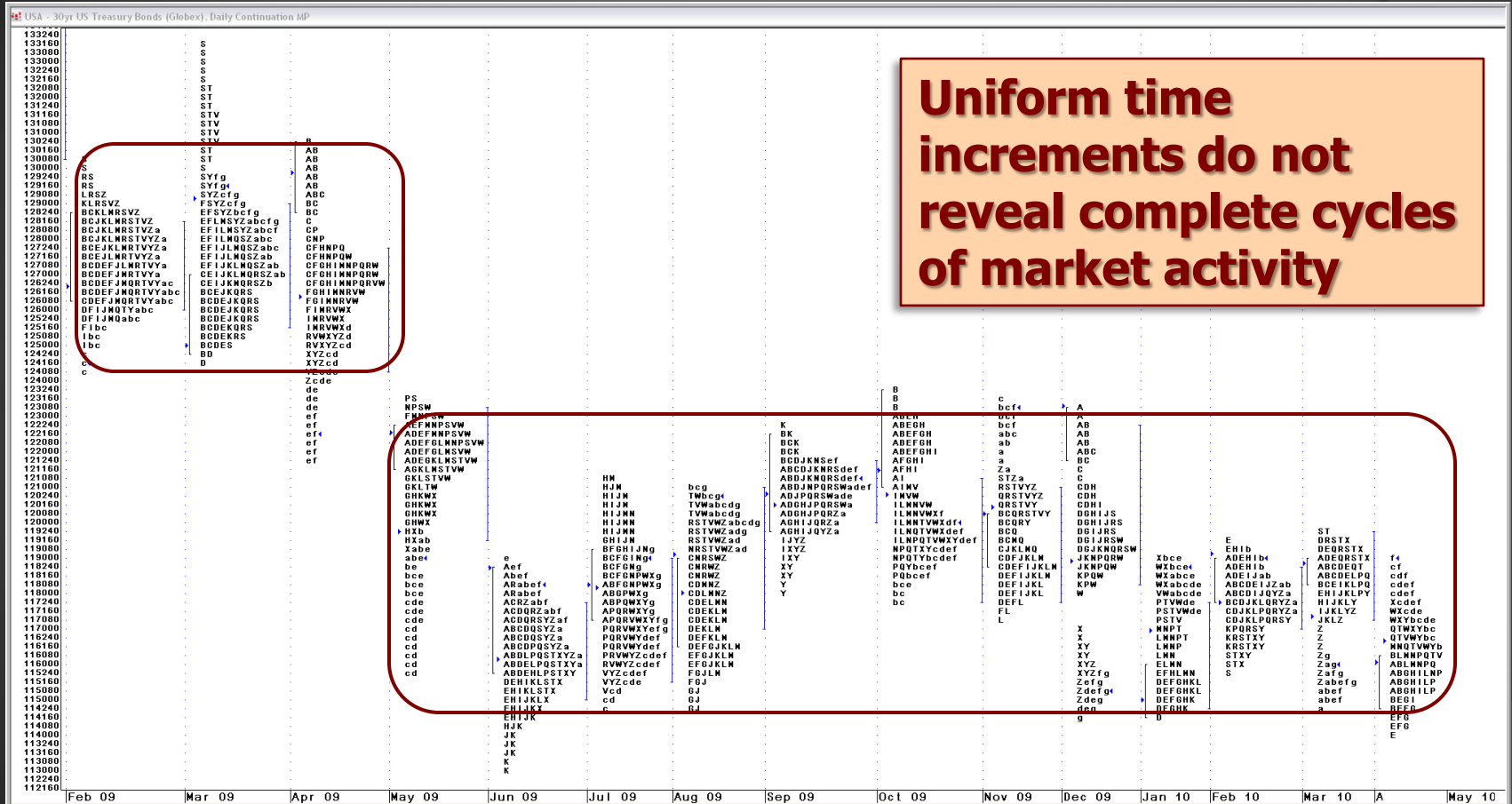


**Over 3 Months of
Market Activity**

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

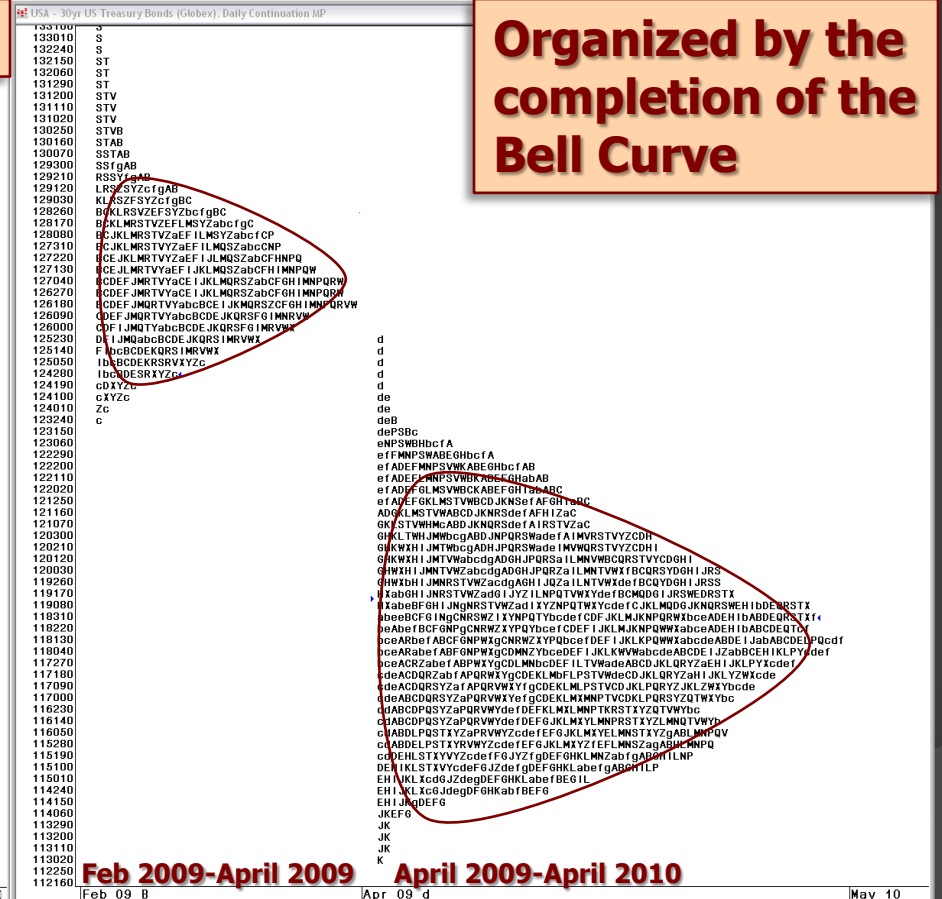
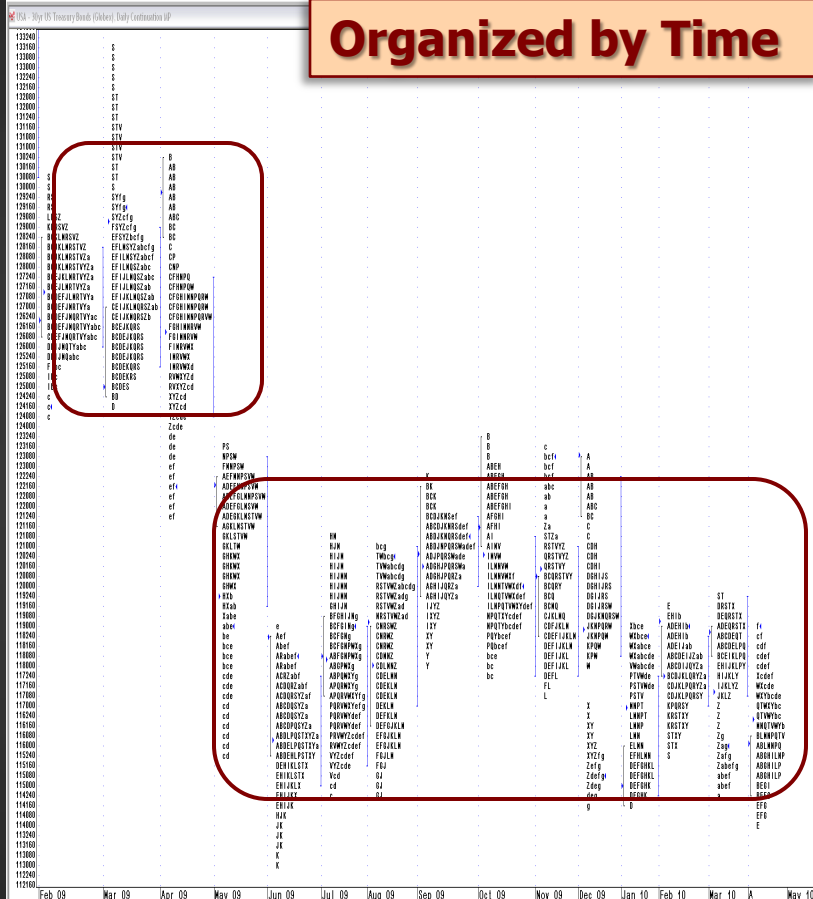
How do we organize the Data to see the progress toward Consensus and Determine the new Direction?

Organizing the Data into Bell Curves



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

Organizing the Data into Bell Curves



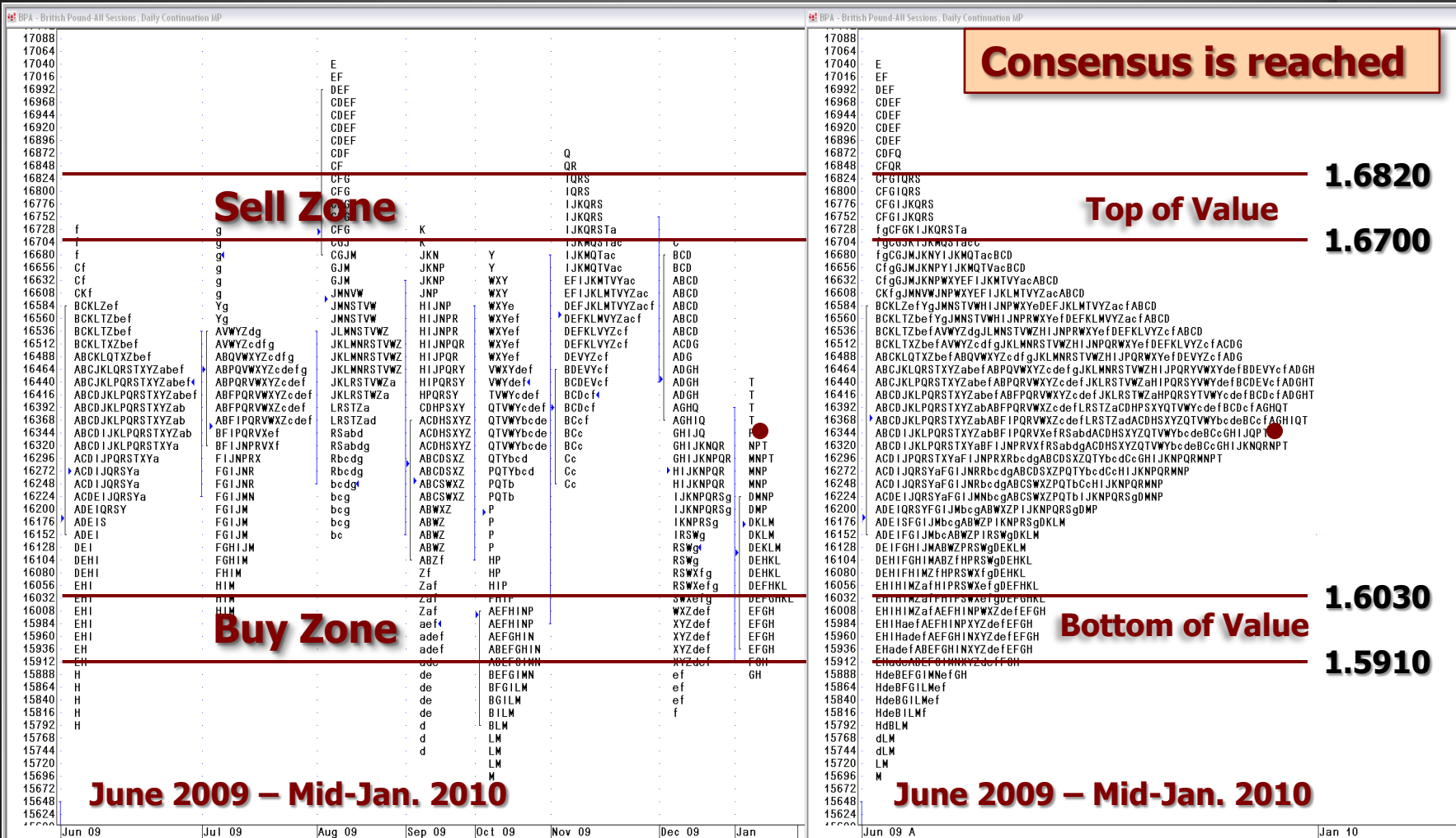
30-Year T-Bonds, Monthly Profiles,
Feb. 2009 – April 2010

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

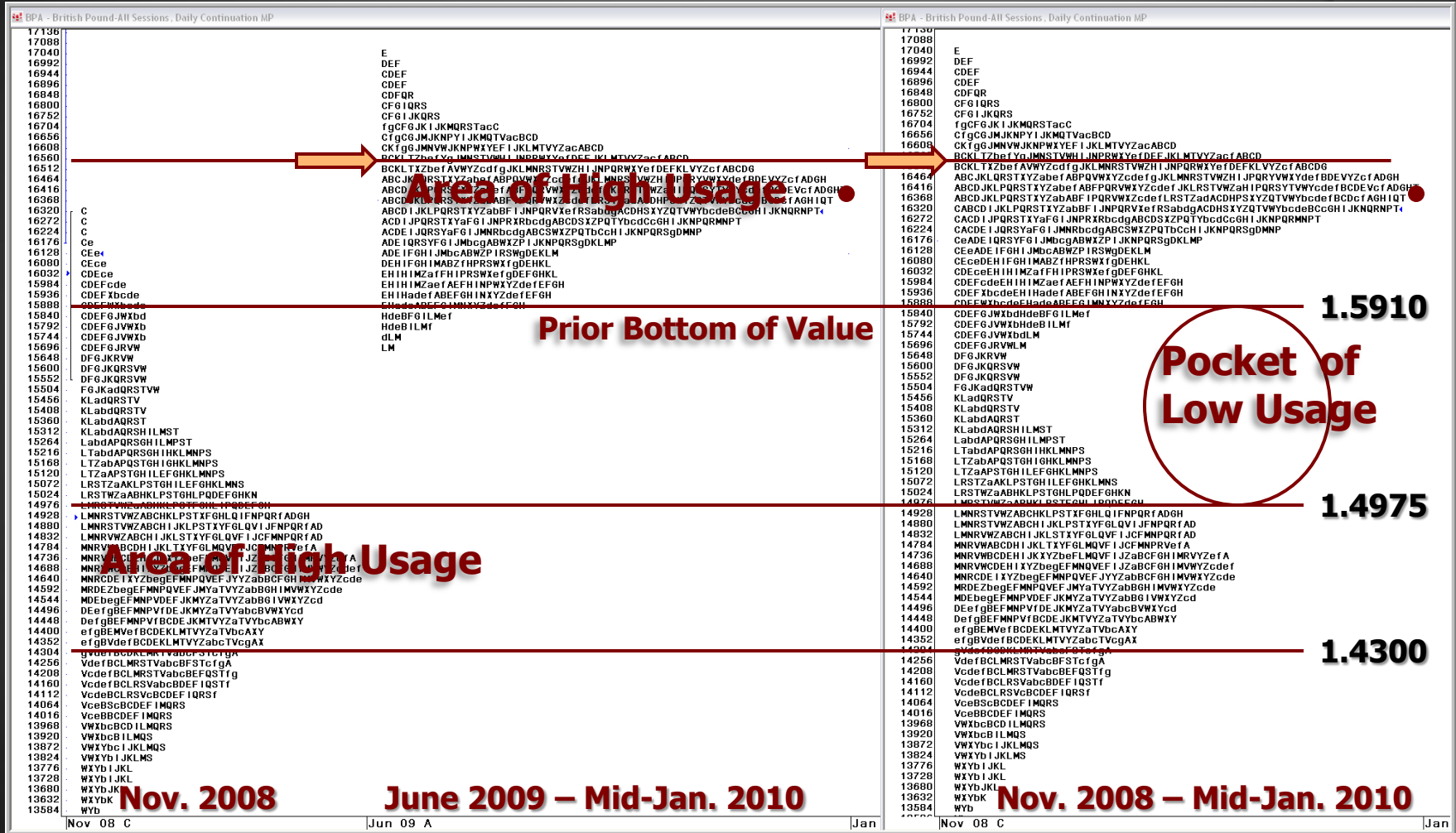
Organizing the Data into Bell Curves

British Pound

(1 of 3)



Putting the Bell Curve into Context British Pound



British Pound, Nov. 2008 – Jan. 2010

British Pound, Nov. 2008 – Jan. 2010

Recognizing Pockets of Low Usage British Pound

(3 of 3)

BPA - British Pound-All Sessions, Daily Continuation MP	
17040	E
16992	DEF
16944	CDEF
16896	CDEF
16848	CDQR
16800	CFGIQRS
16752	CFGIQRS
16704	fgCFgJKIJKMQRSTacC
16656	CfGCGJMKNPYIJKMQTVacBCD
16608	CkfGJMNWJKNPWYEF IJKLMTVYZacABCD
16560	BCKLTZbefYgJMNSTVWH IJNPRWYefDEFJKLMTVYZacABCD
16512	BCKLTZbefAVWYZcdfgJKLMNRSTVWZHIJNPQRWYefDEFKLVYZcfABCDG
16464	ABCJKLQRSTXYZabefABPQVWYZcdfgJKLMNRSTVWZHIJNPQRWYefBDEVYZcfADGH
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15696	CDEFJWxbddHdeBILMeF
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15600	DFGJKRVW
15552	DFGJKRVW
15504	FGJkaQRSTVW
15456	KLadQRSTV
15408	KLadQRSTV
15360	KLadQRSTV
15312	KLadQRSTV
15264	LabdAPQRSgHILMPST
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15168	LTabdAPQRSgHILMPST
15120	LTabdAPQRSgHILMPST
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13584	MNRVWBCDEHIJKXYZbeFLMQVE IJZaBCFGHIMRVYZefA
13536	MNRVWBCDEHIJKXYZbeFLMQVE IJZaBCFGHIMRVYZefA
Nov 08 C	
Nov. 2008 – Mid-Jan. 2010	Mid-Jan. – May 2010
Jan 10 V	May 10

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

Pocket of Low Usage

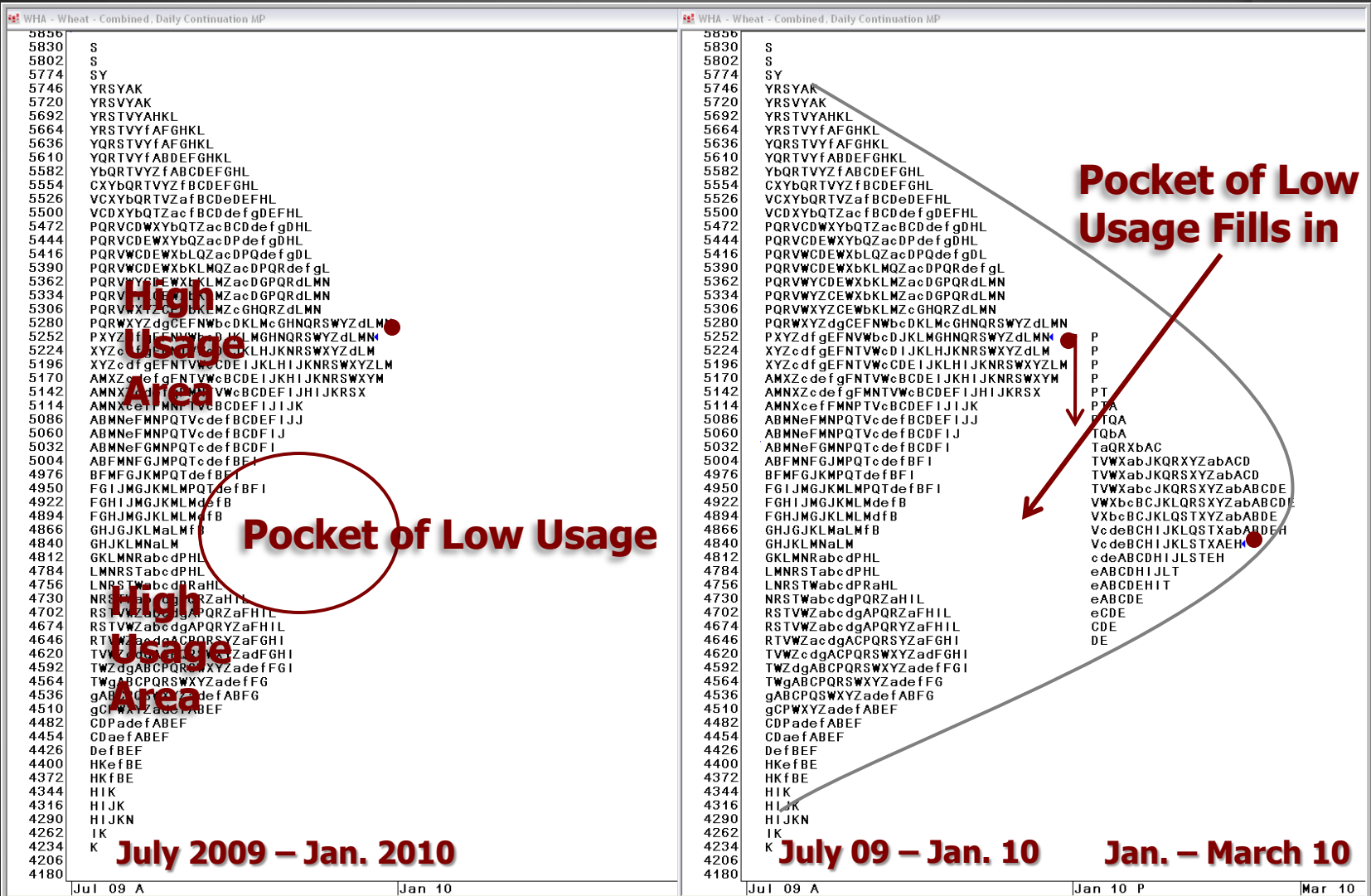
1.5930

1.4975

1.4300

British Pound, Nov. 2008 – May 2010

Recognizing Pockets of Low Usage



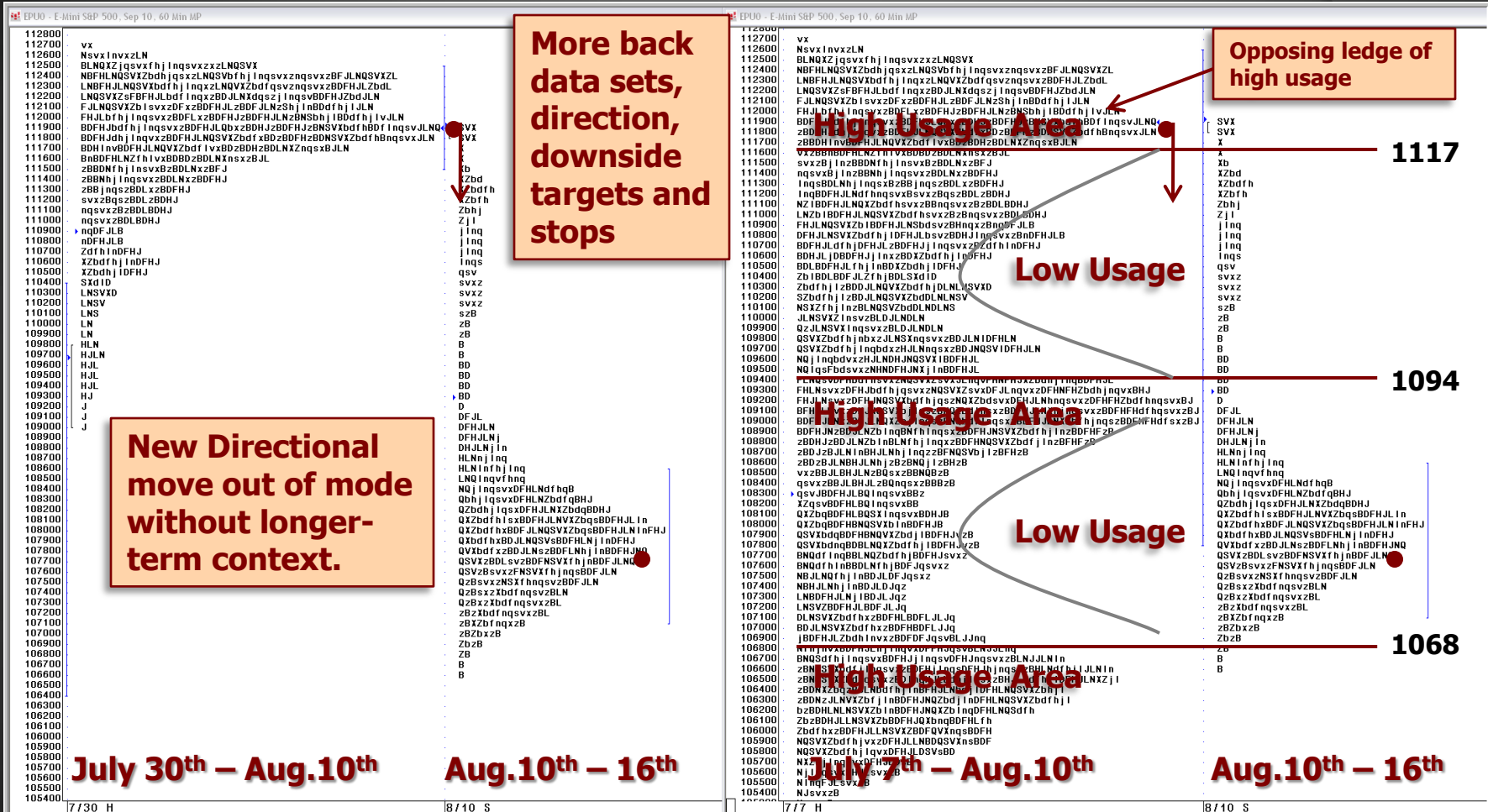
Wheat, July 2009 to Jan. 2010

Wheat, July 2009 to March 2010

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

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

Using Market Profile to Build a Strategy

Elements of the Method:

- Range Trade underdeveloped Bell curves until they 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

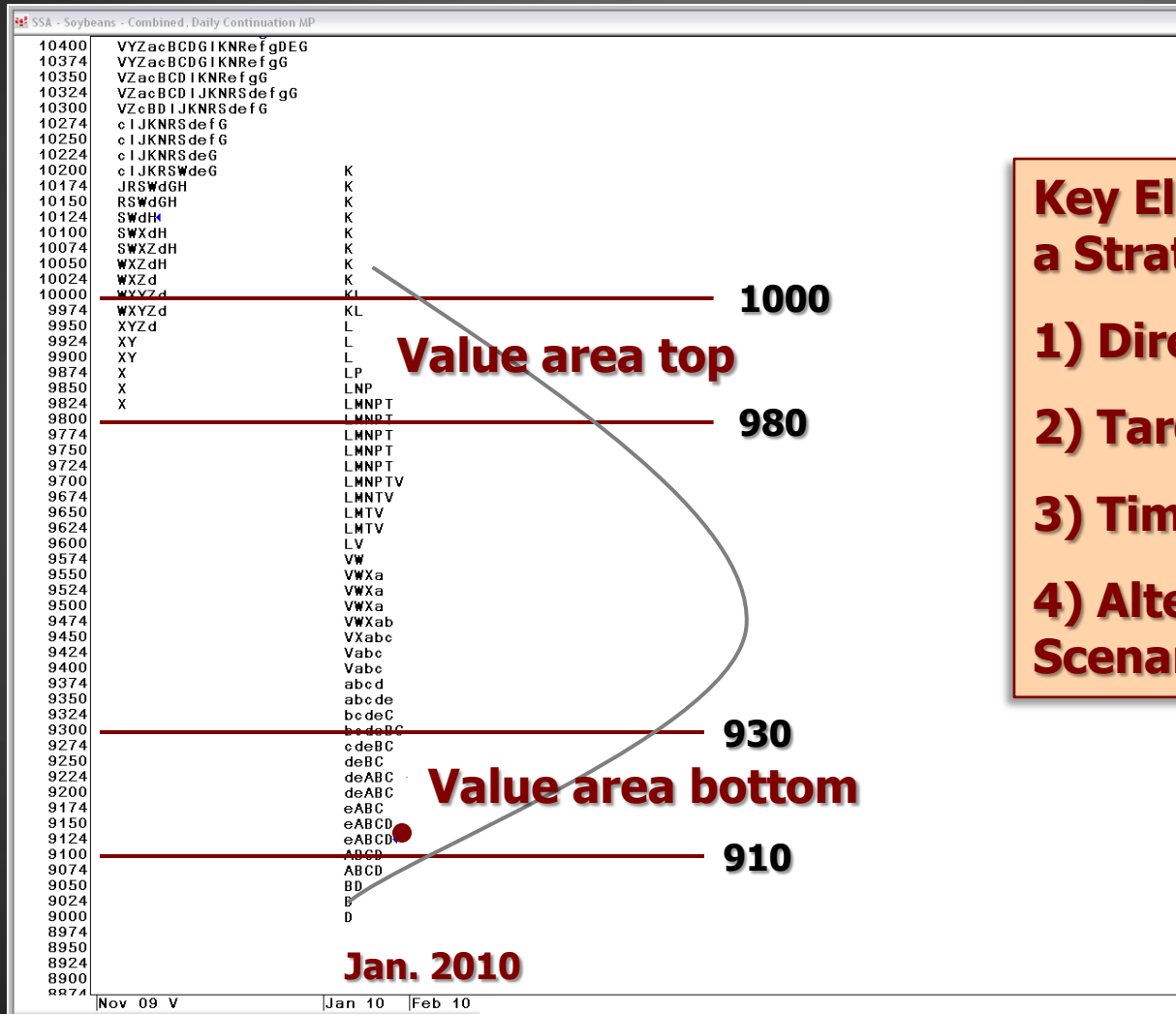
Market Example

Soybeans

January – July 2010

Market Profile Trading Strategy Soybeans

(1 of 4)



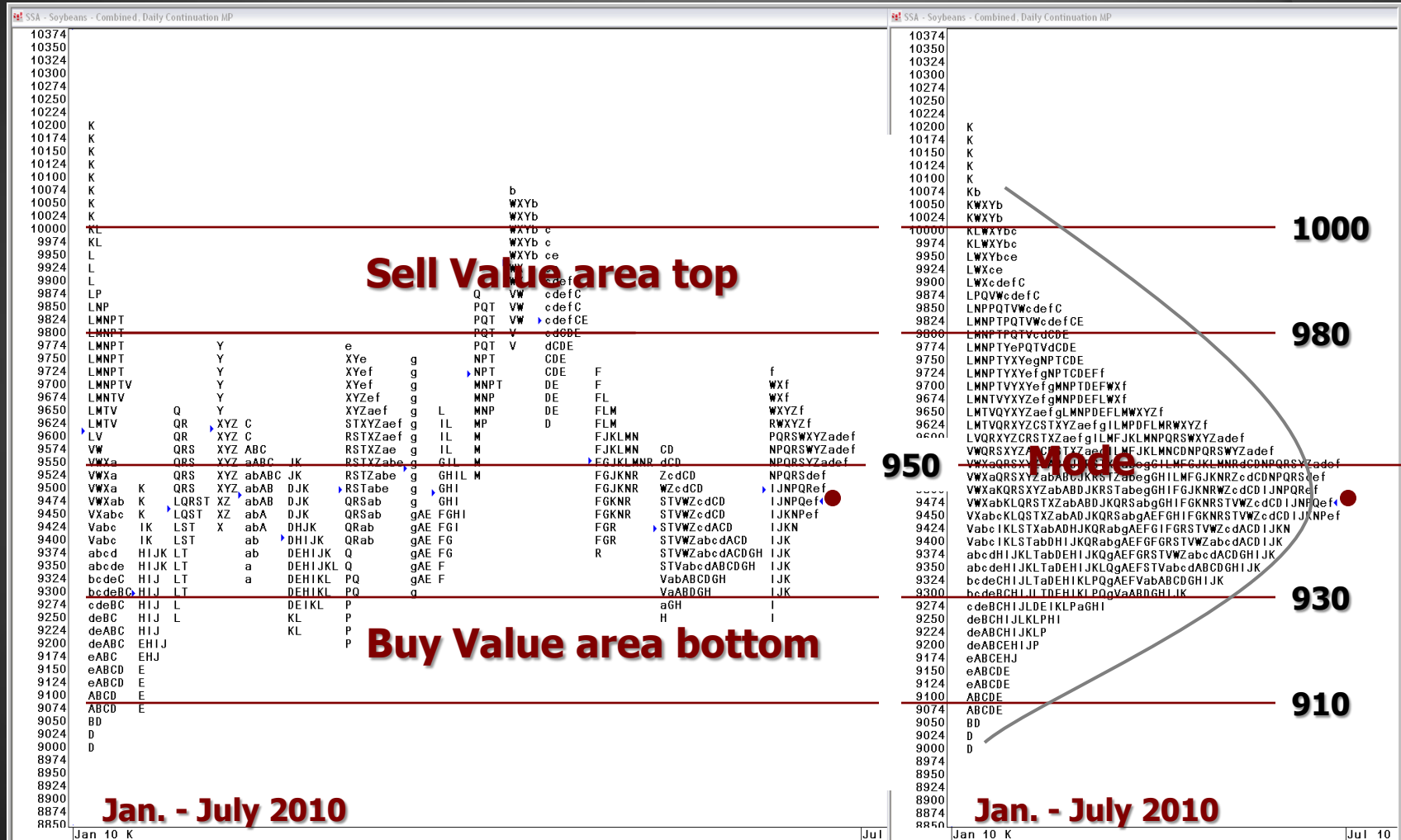
Key Elements of a Strategy:

- 1) Direction
- 2) Target
- 3) Timeline
- 4) Alternative Scenario

Soybeans, Nov. 2009 – Jan. 2010

Market Profile Trading Strategy Soybeans

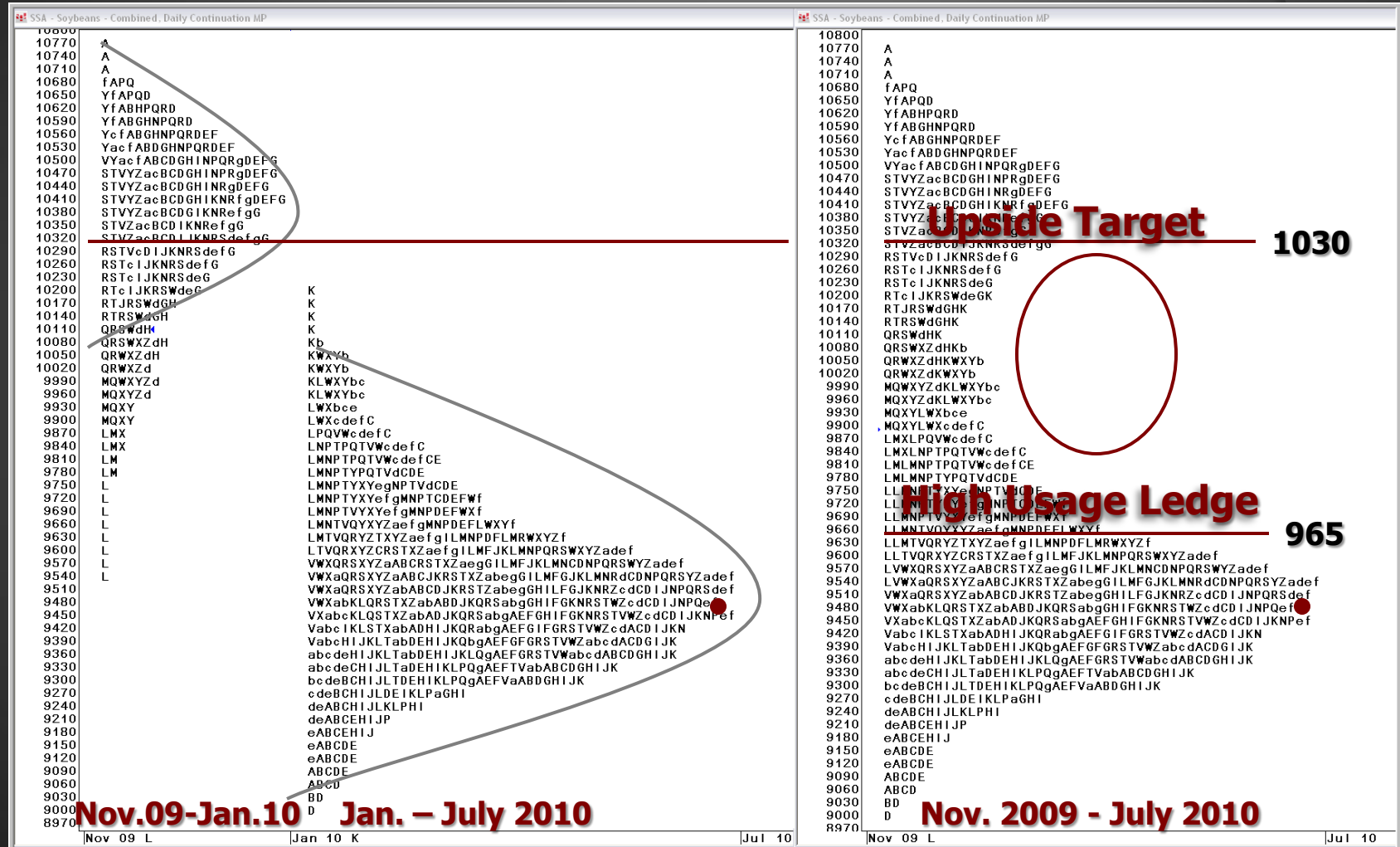
(2 of 4)



Soybeans, Jan. – July 2010

Market Profile Trading Strategy Soybeans

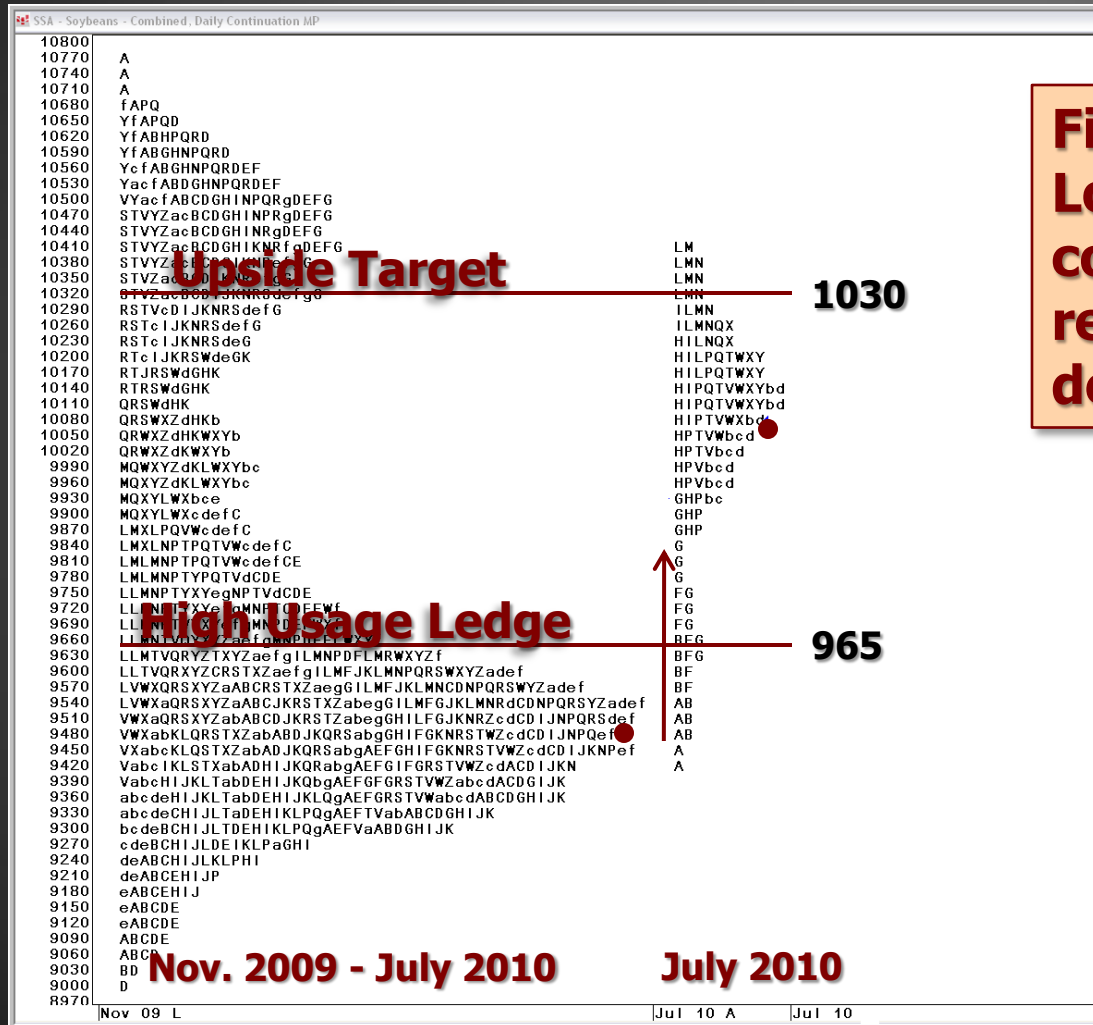
(3 of 4)



Soybeans, Nov. 2009 – July 2010

Market Profile Trading Strategy Soybeans

(4 of 4)



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

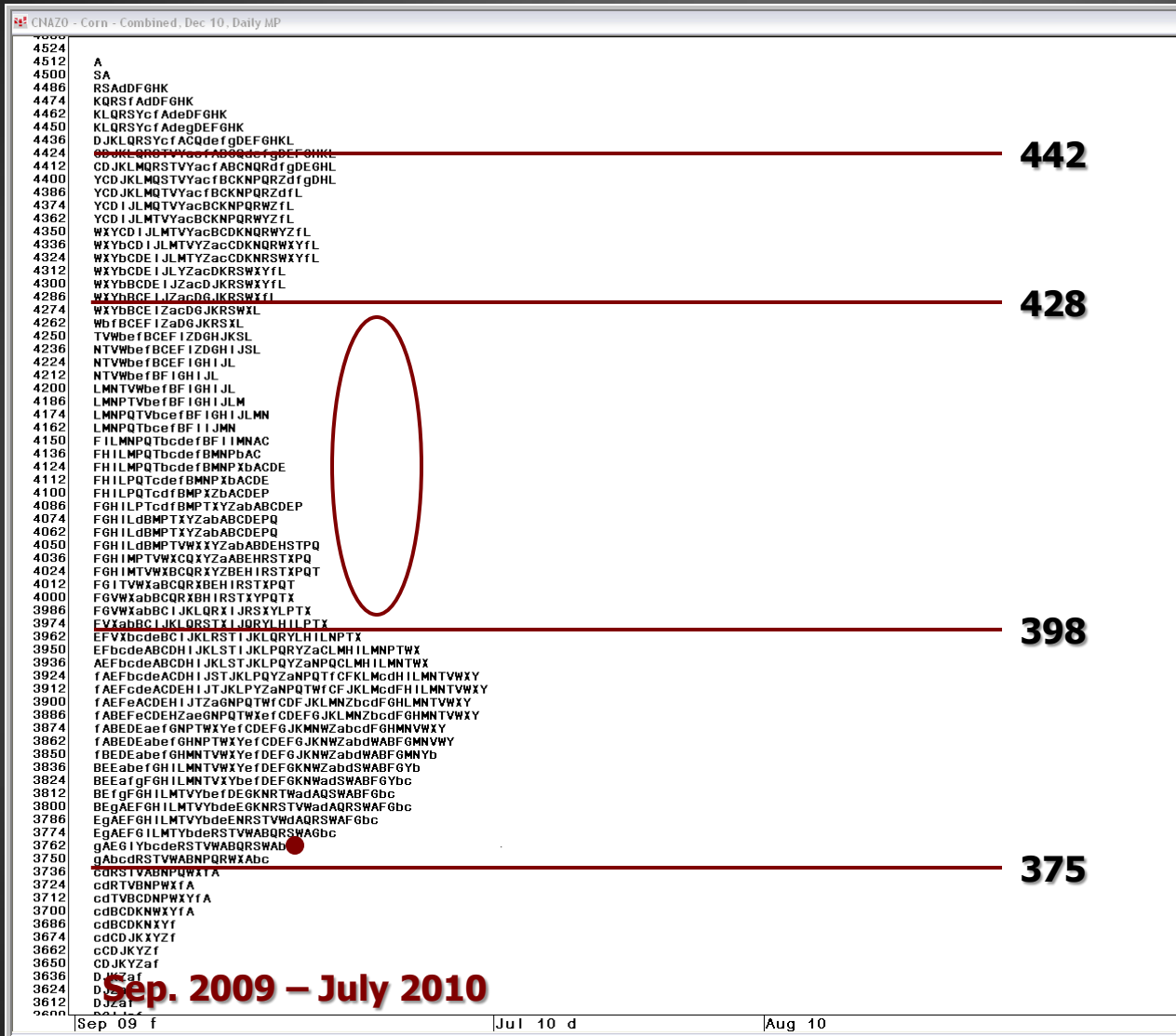
Soybeans, Nov. 2009 – July 2010

Market Example

Corn

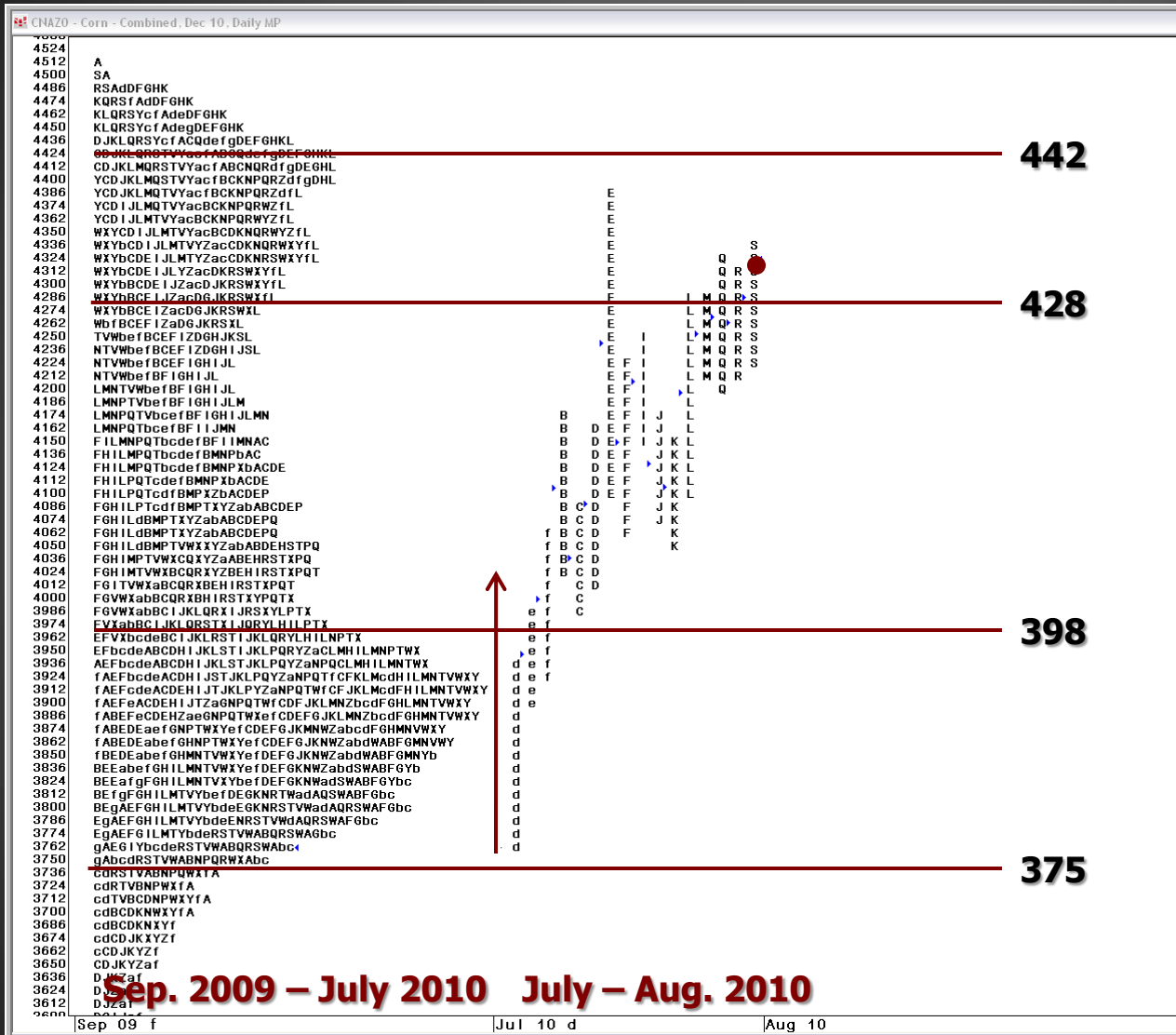
July – Aug. 2010

Market Profile Trading Strategy: Corn



Corn, Sep. 2009 – July 2010

Market Profile Trading Strategy: Corn



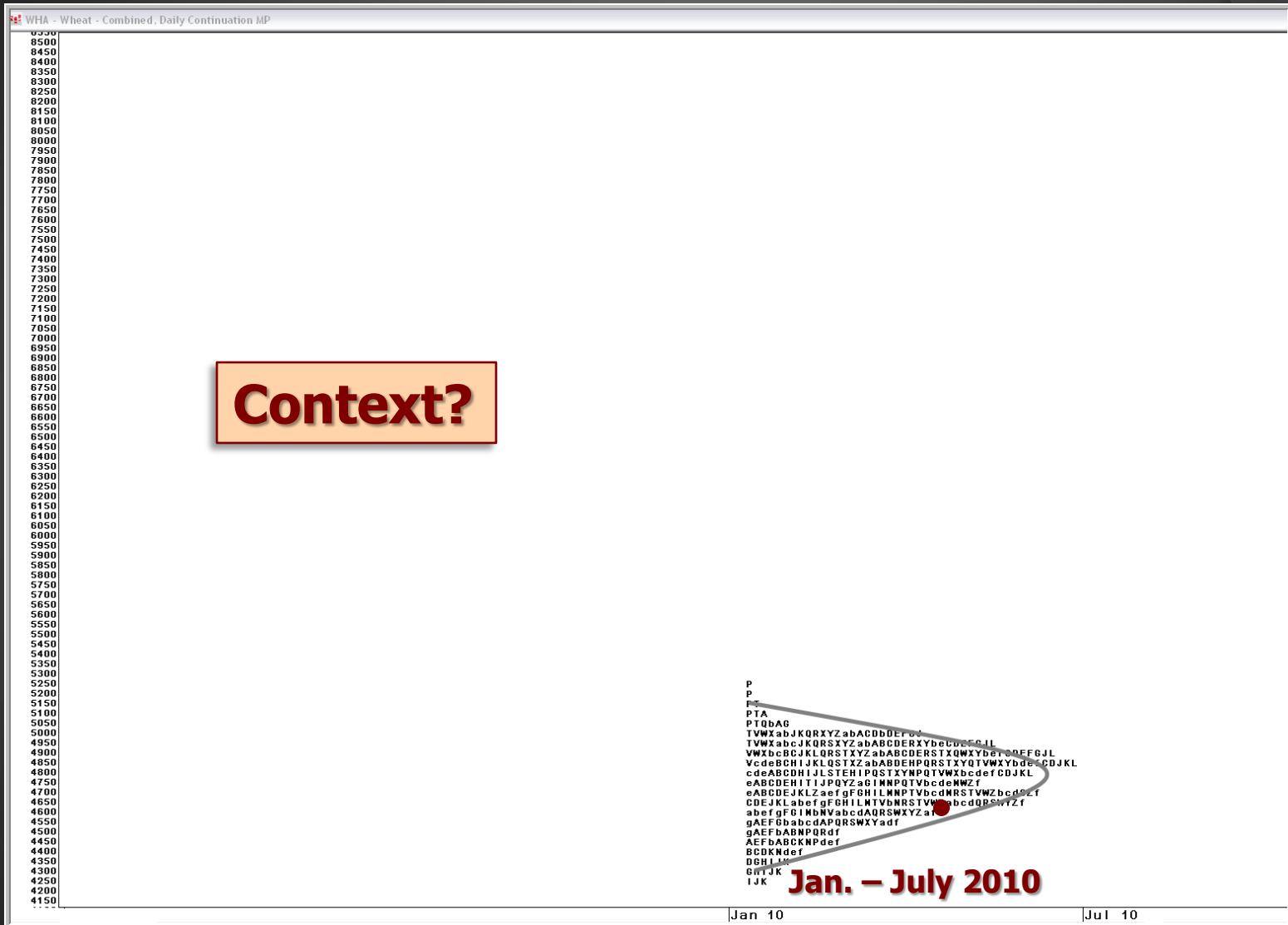
Corn, Sep. 2009 – Aug. 2010

Market Example

Wheat

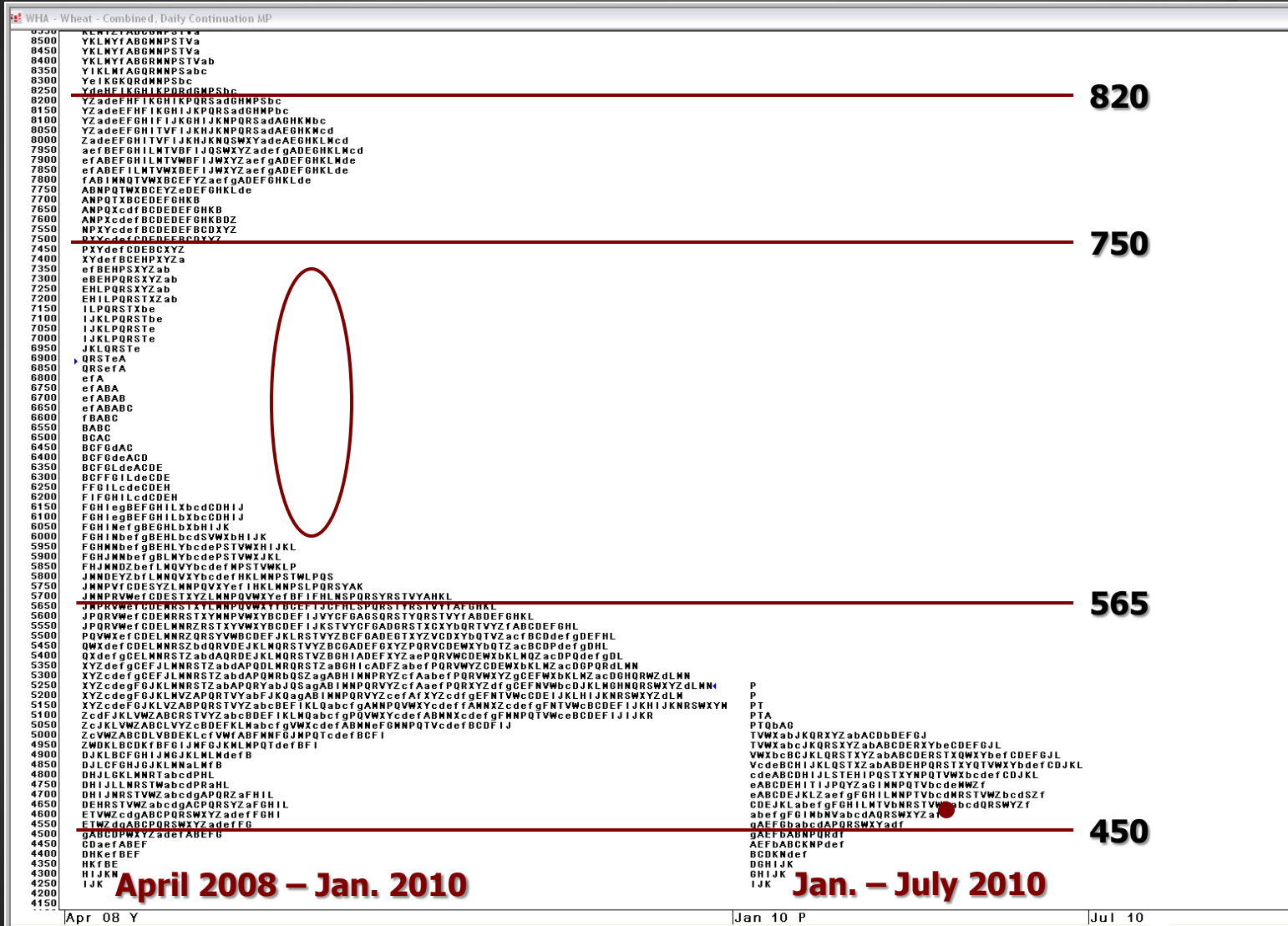
Jan. – Aug. 2010

Market Profile Trading Strategy: Wheat

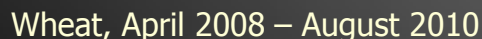


Wheat, Jan. – July 2010

Market Profile Trading Strategy: Wheat



Wheat, April 2008 - July 2010

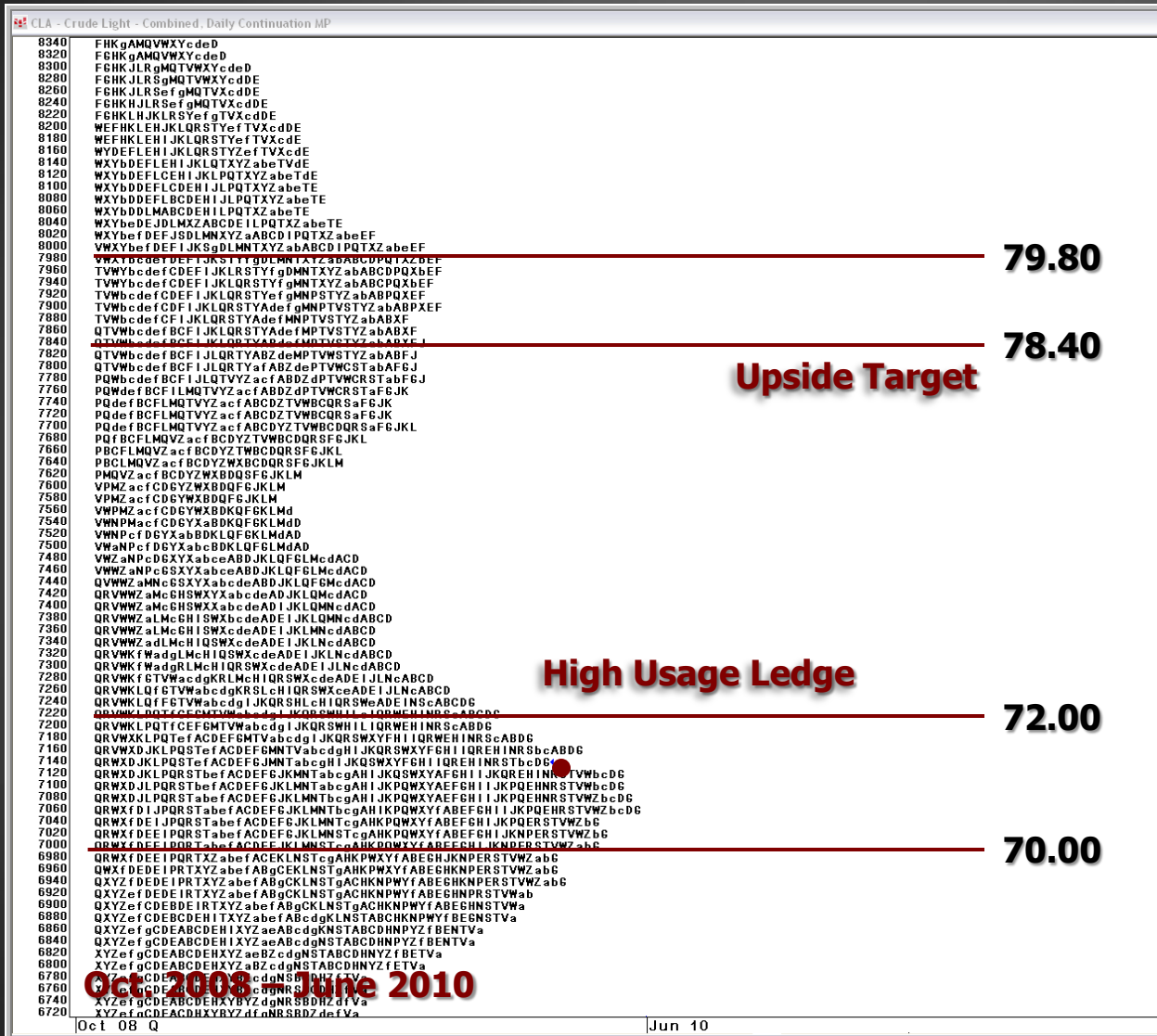


Market Example

Crude

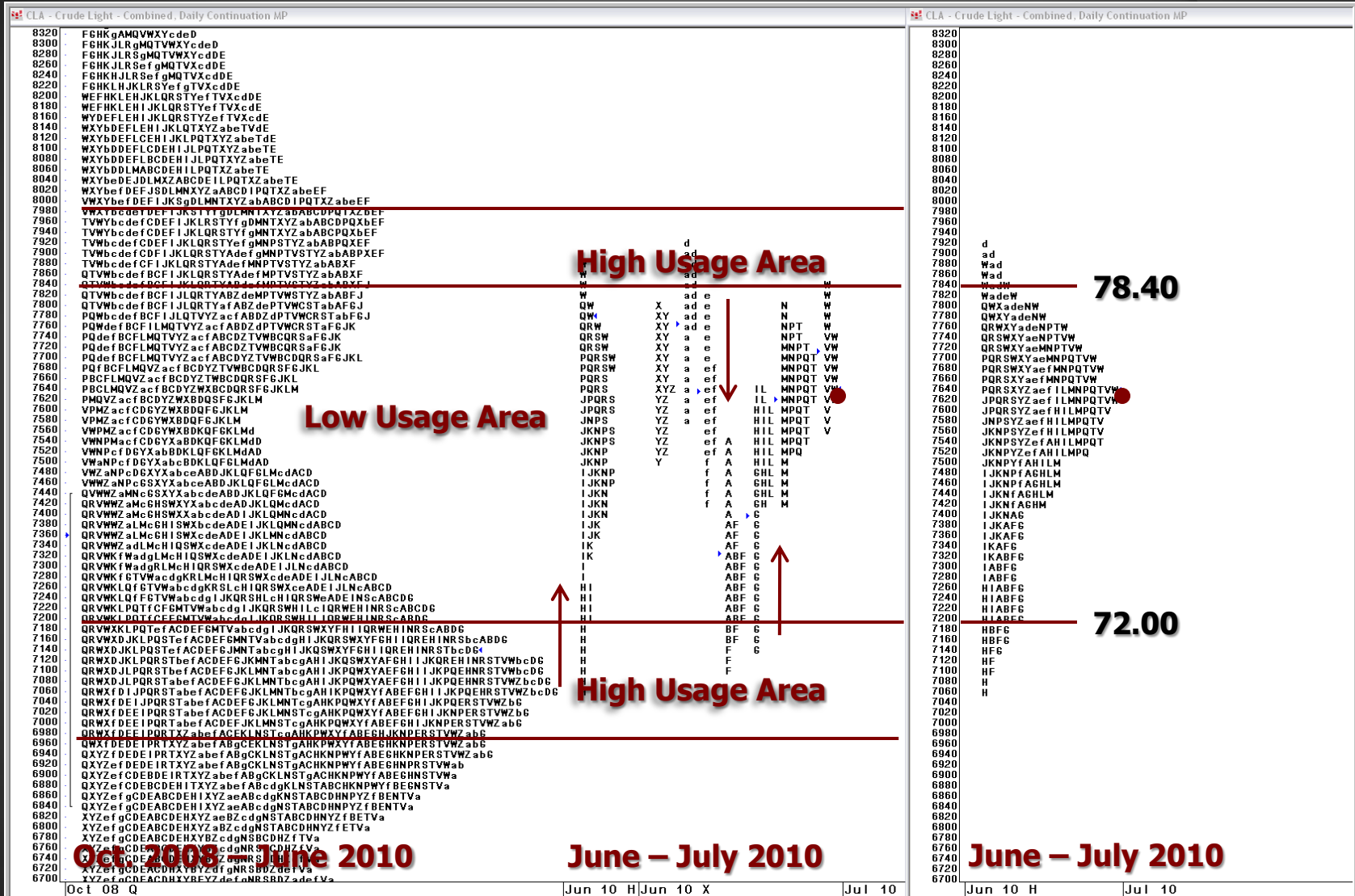
June – Aug. 2010

Market Profile Trading Strategy: Crude



Crude Light, Oct. 2008 to June 2010

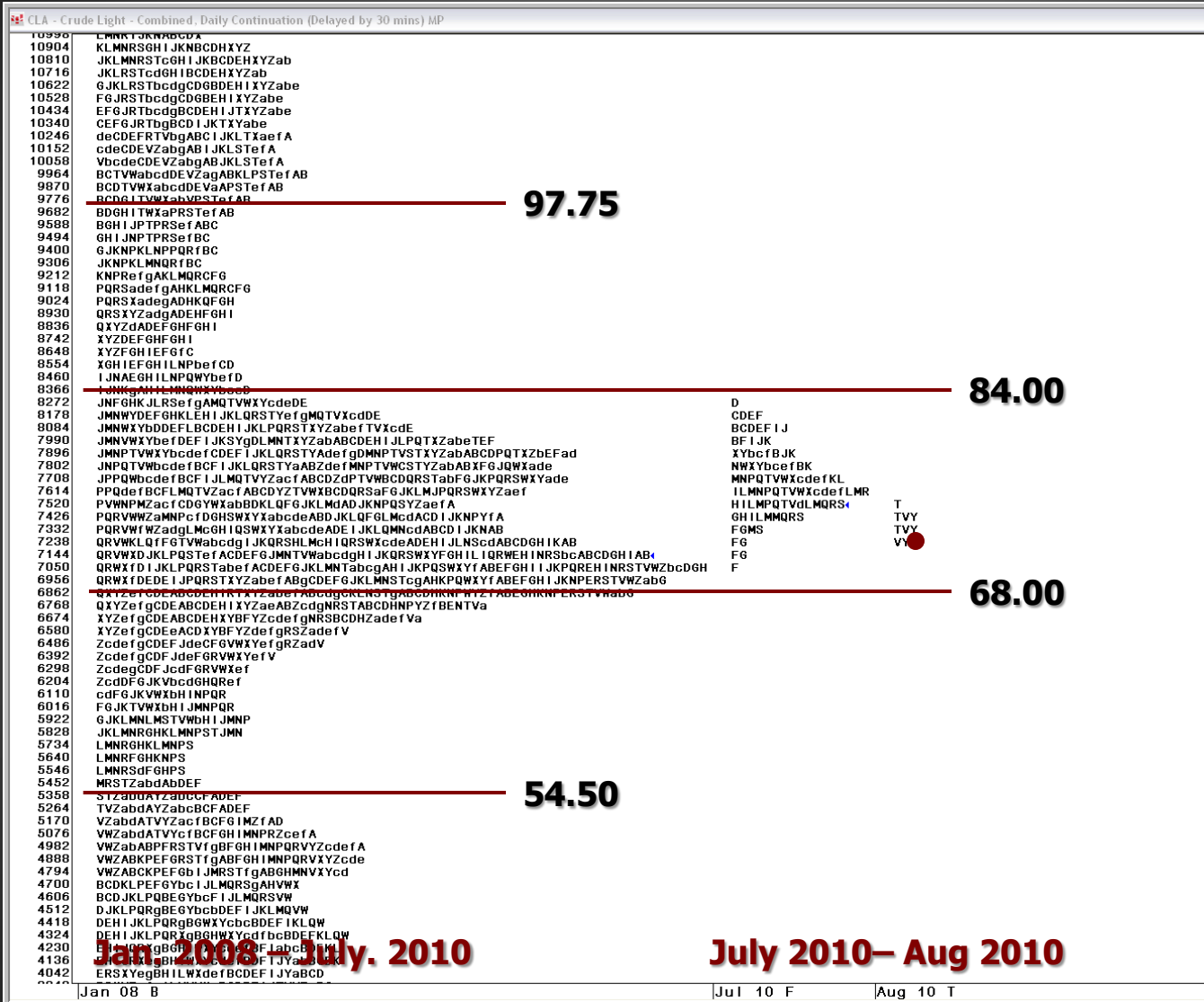
Market Profile Trading Strategy: Crude



Crude Light, Oct. 2008 to July 2010

Market Profile Trading Strategy

Crude: Current Read



Crude Light, Jan. 2008 to Aug. 2010

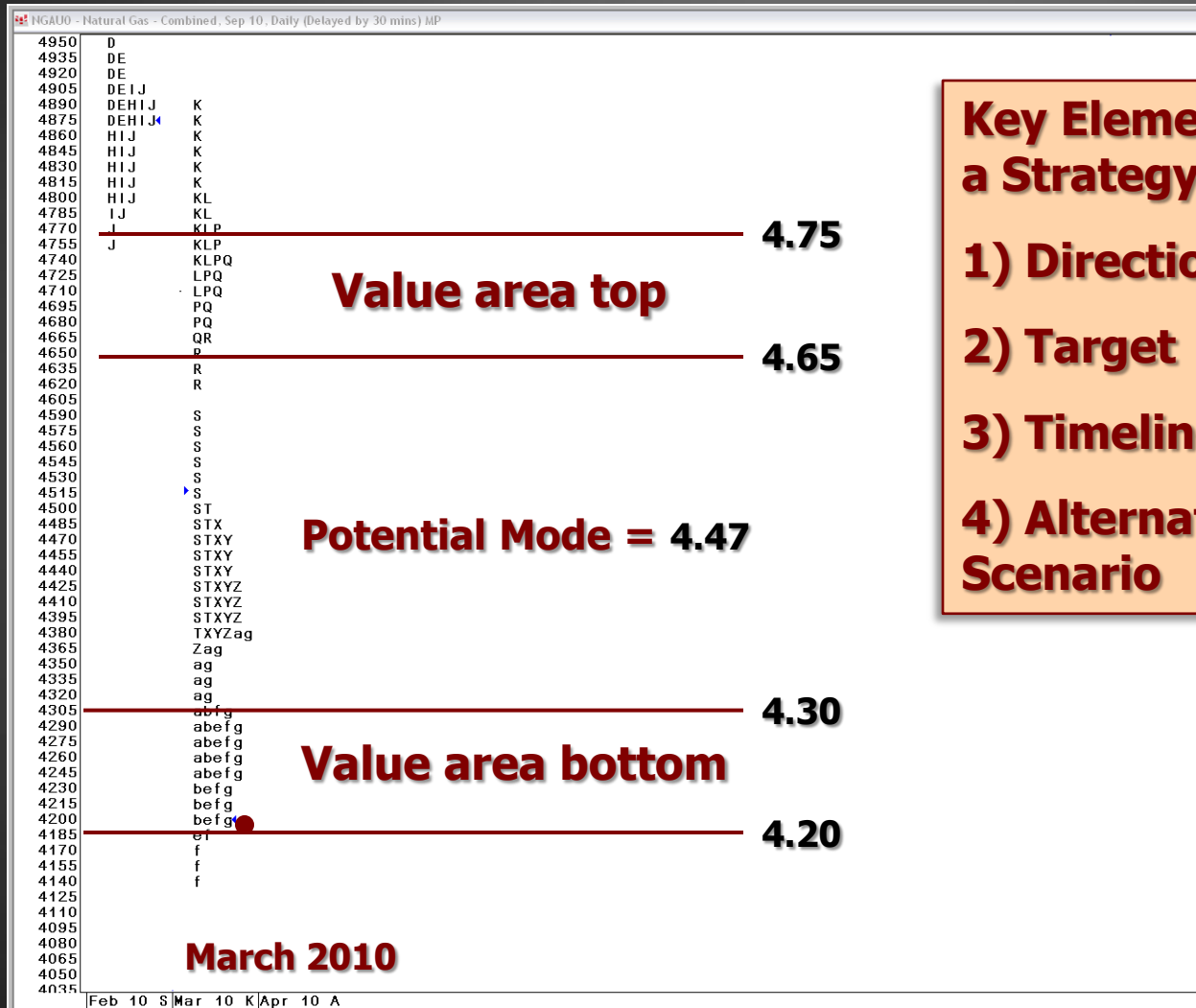
Market Example

Natural Gas

March – August 2010

Market Profile Trading Strategy Natural Gas

(1 of 5)



Key Elements of a Strategy:

1) Direction

2) Target

3) Timeline

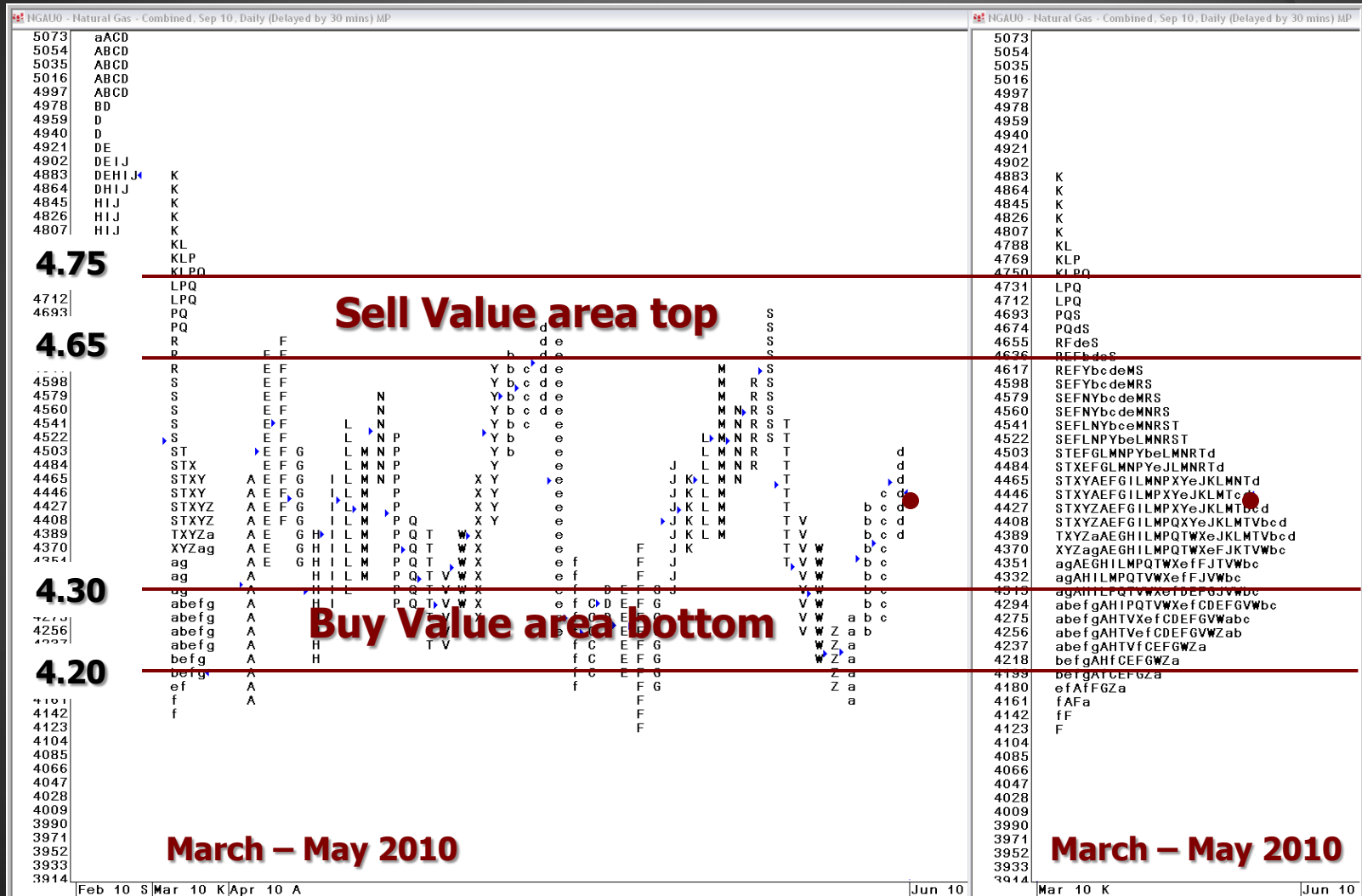
4) Alternative Scenario

Natural Gas, March 2010

Market Profile Trading Strategy

Natural Gas

(2 of 5)



Natural Gas, March – May 2010

(3 of 5)

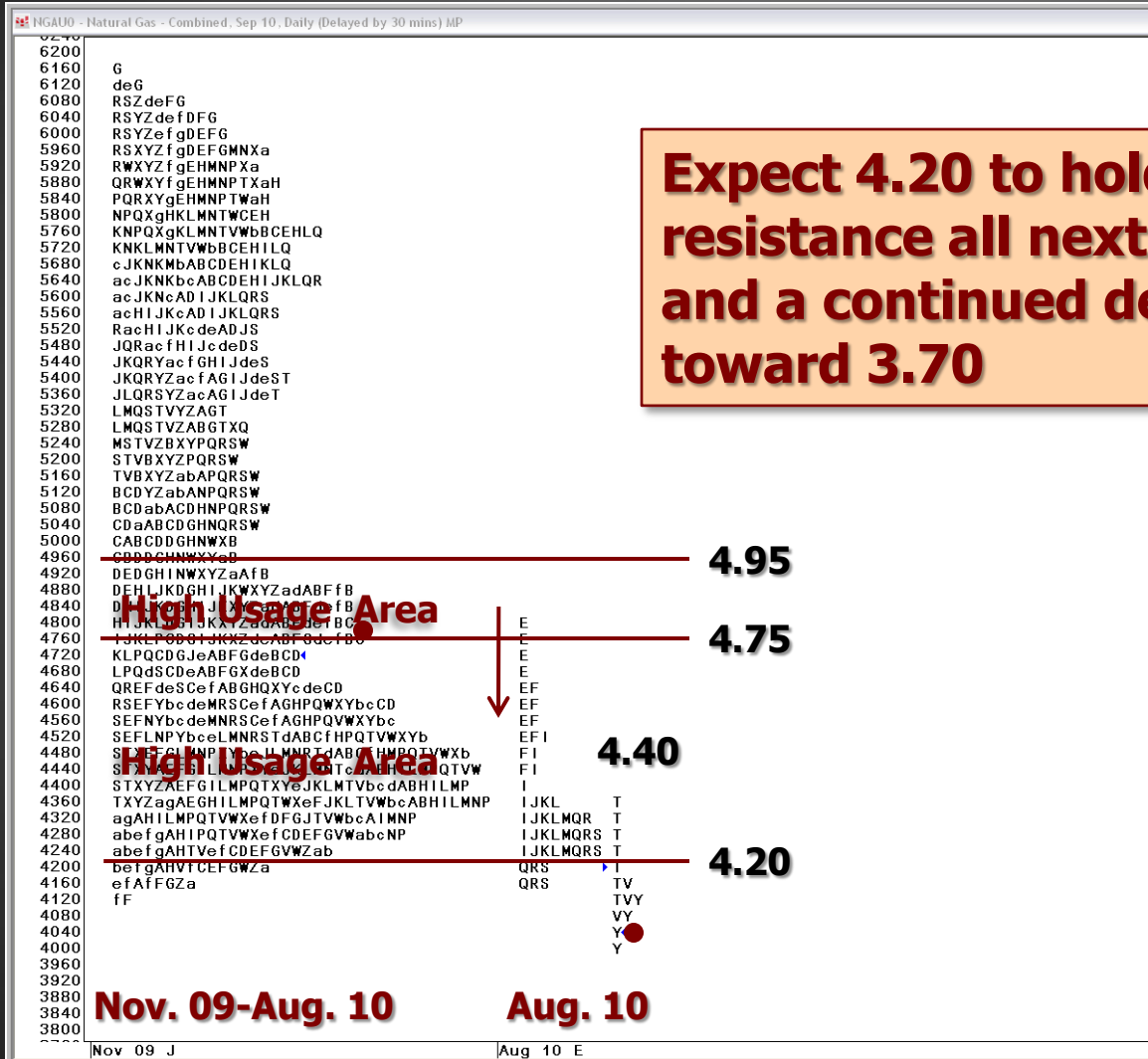


(4 of 5)



Market Profile Trading Strategy

Natural Gas: Current Read



Expect 4.20 to hold resistance all next month and a continued decline toward 3.70

Natural Gas, Nov. 2009 – Aug. 2010

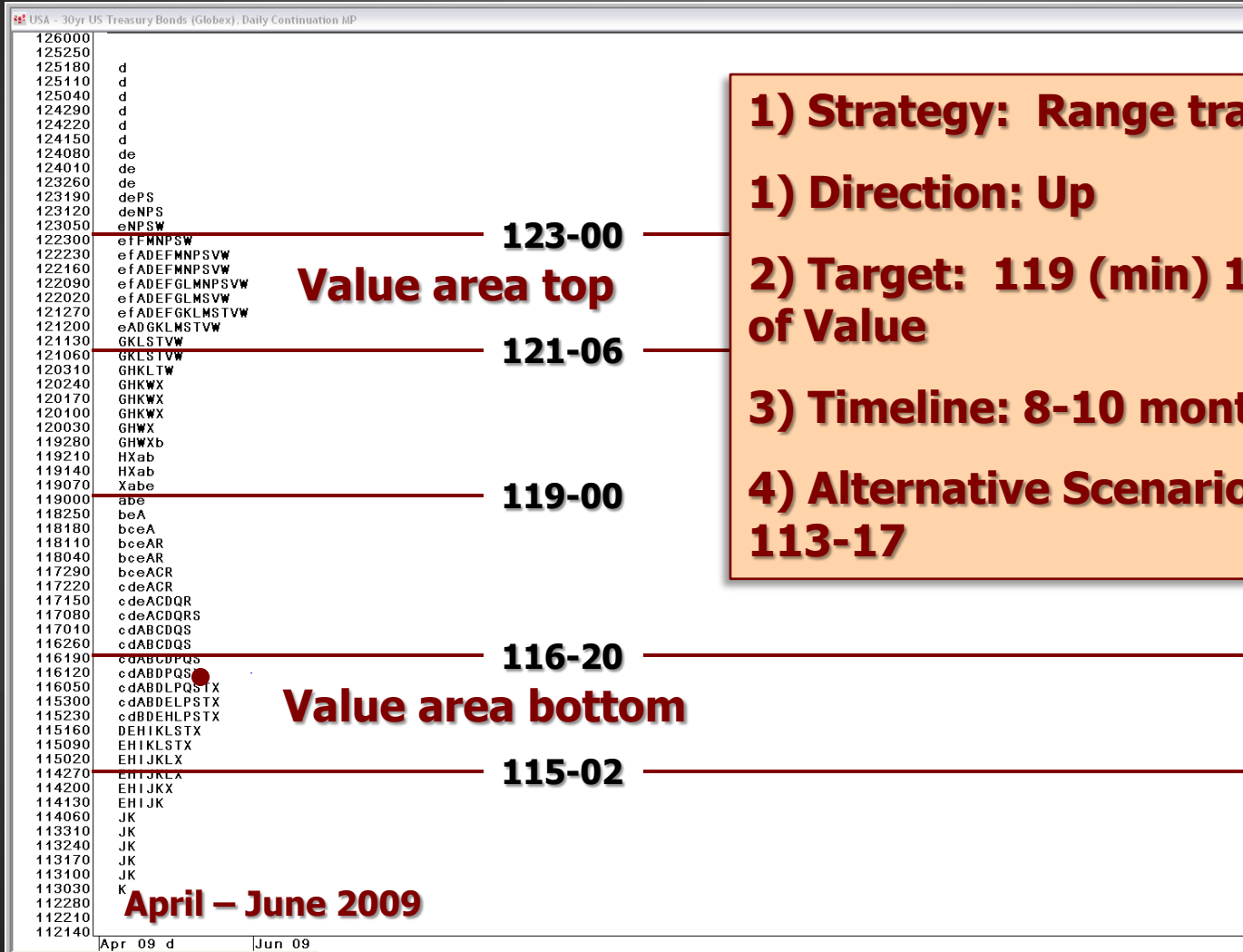
Market Example

30-Year

June 2009 – June 2010

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

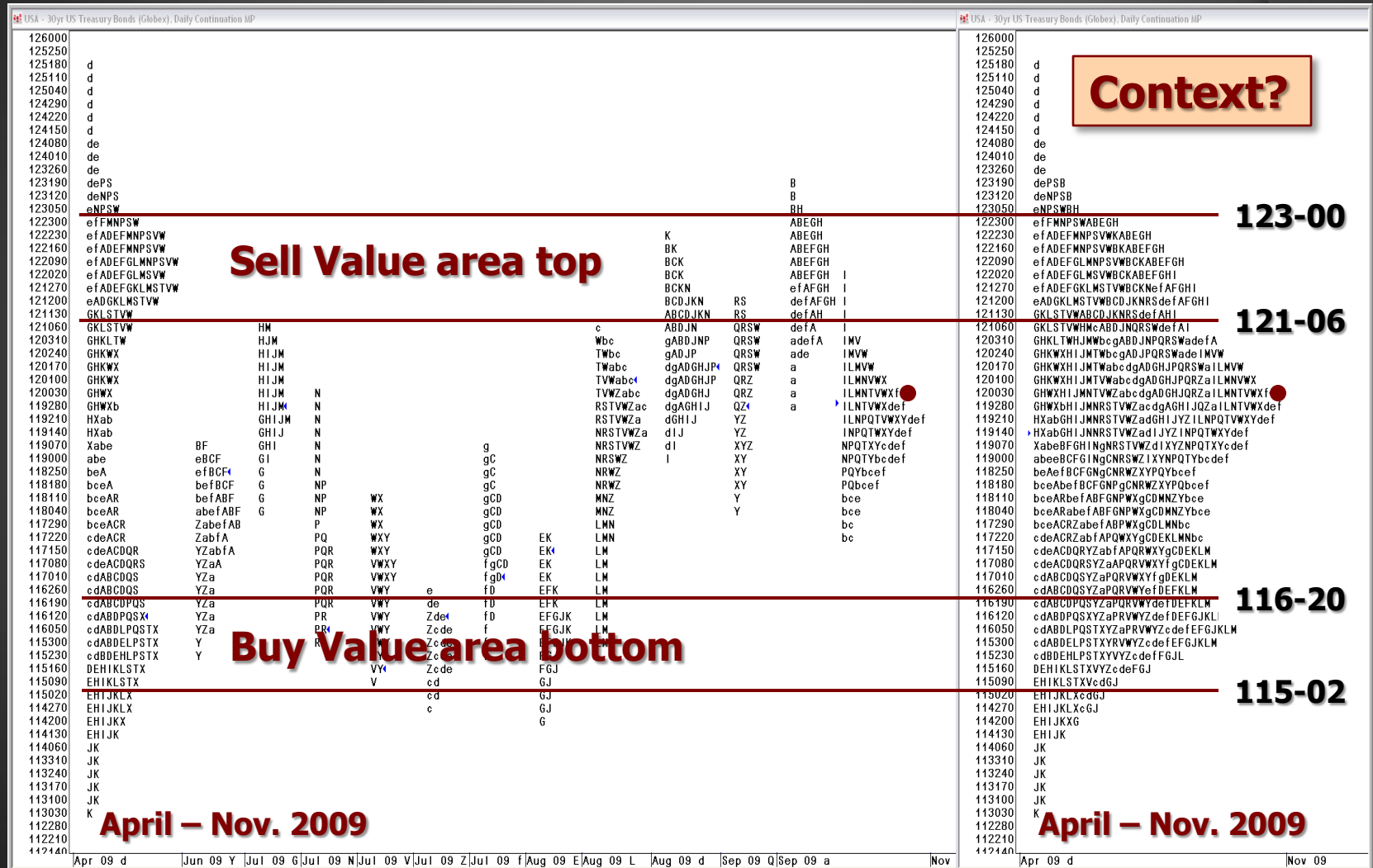
4) Alternative Scenario : Under 113-17

30-Year T-Bonds, April – June 2009

Market Profile Trading Strategy

30-Year T-Bonds

(2 of 5)

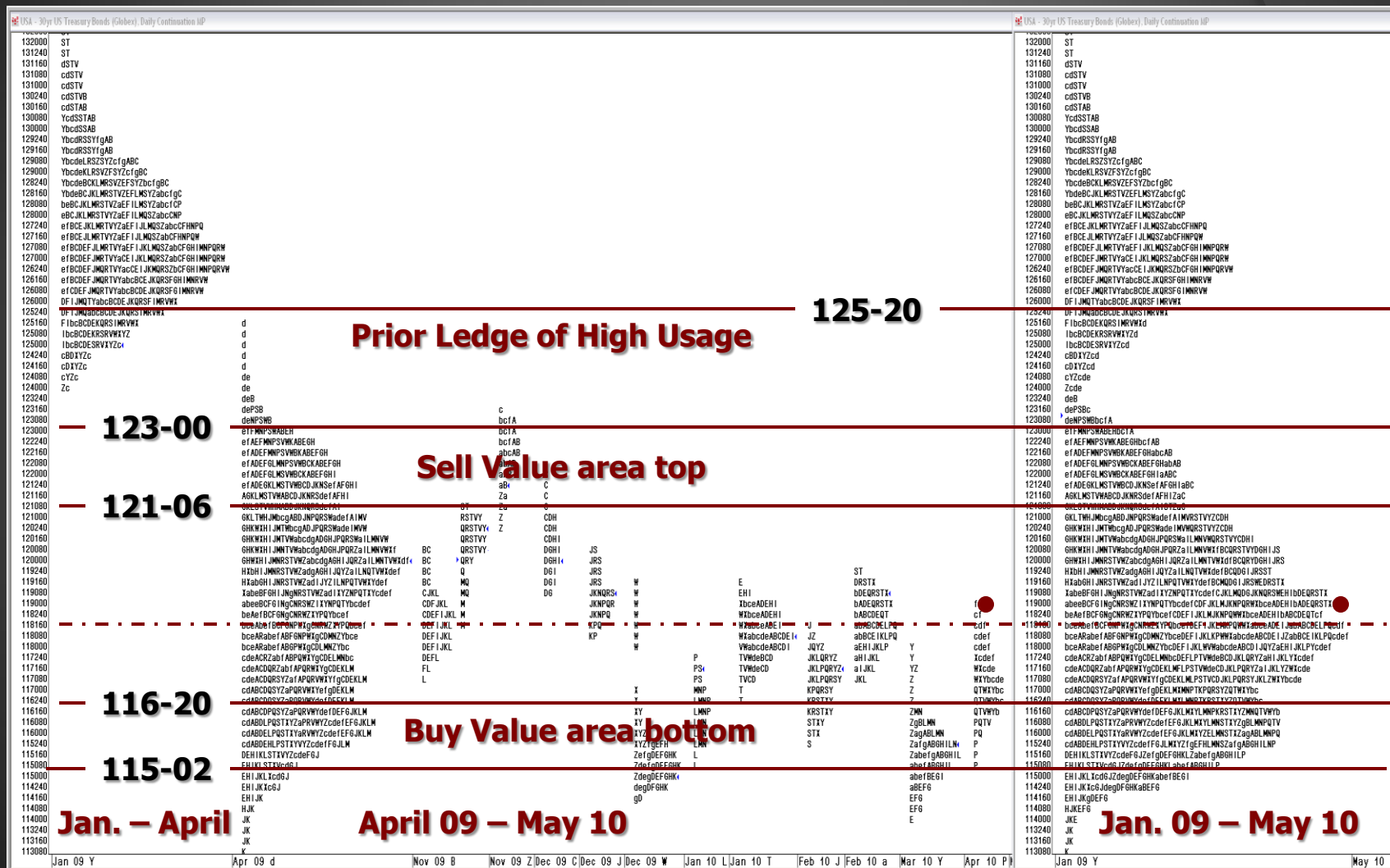


30-Year T-Bonds, April – Nov. 2009

Market Profile Trading Strategy

30-Year T-Bonds

(3 of 5)



30-Year T-Bonds, Jan. 2009 – May 2010

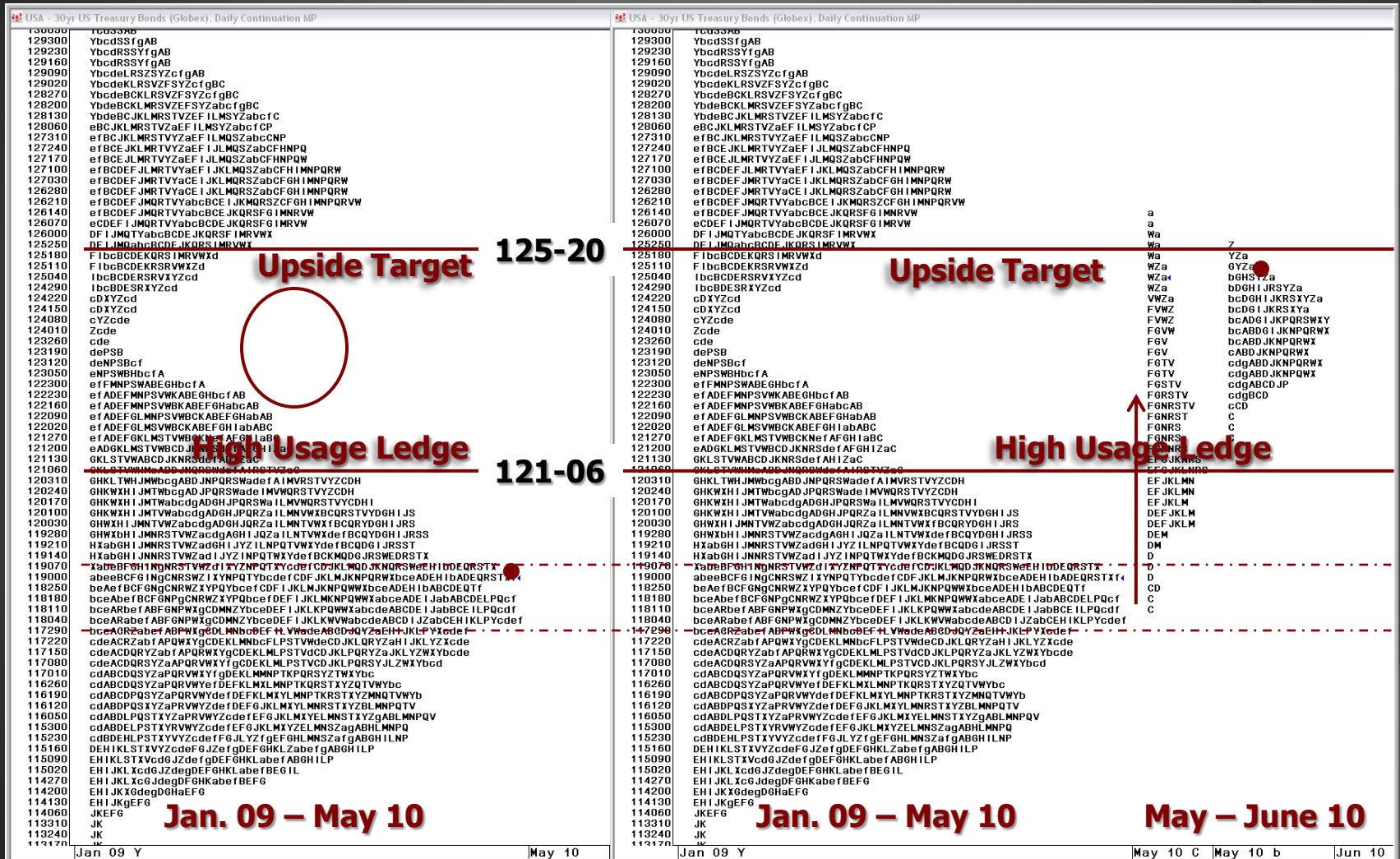
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Market Profile Trading Strategy

30-Year T-Bonds

(4 of 5)



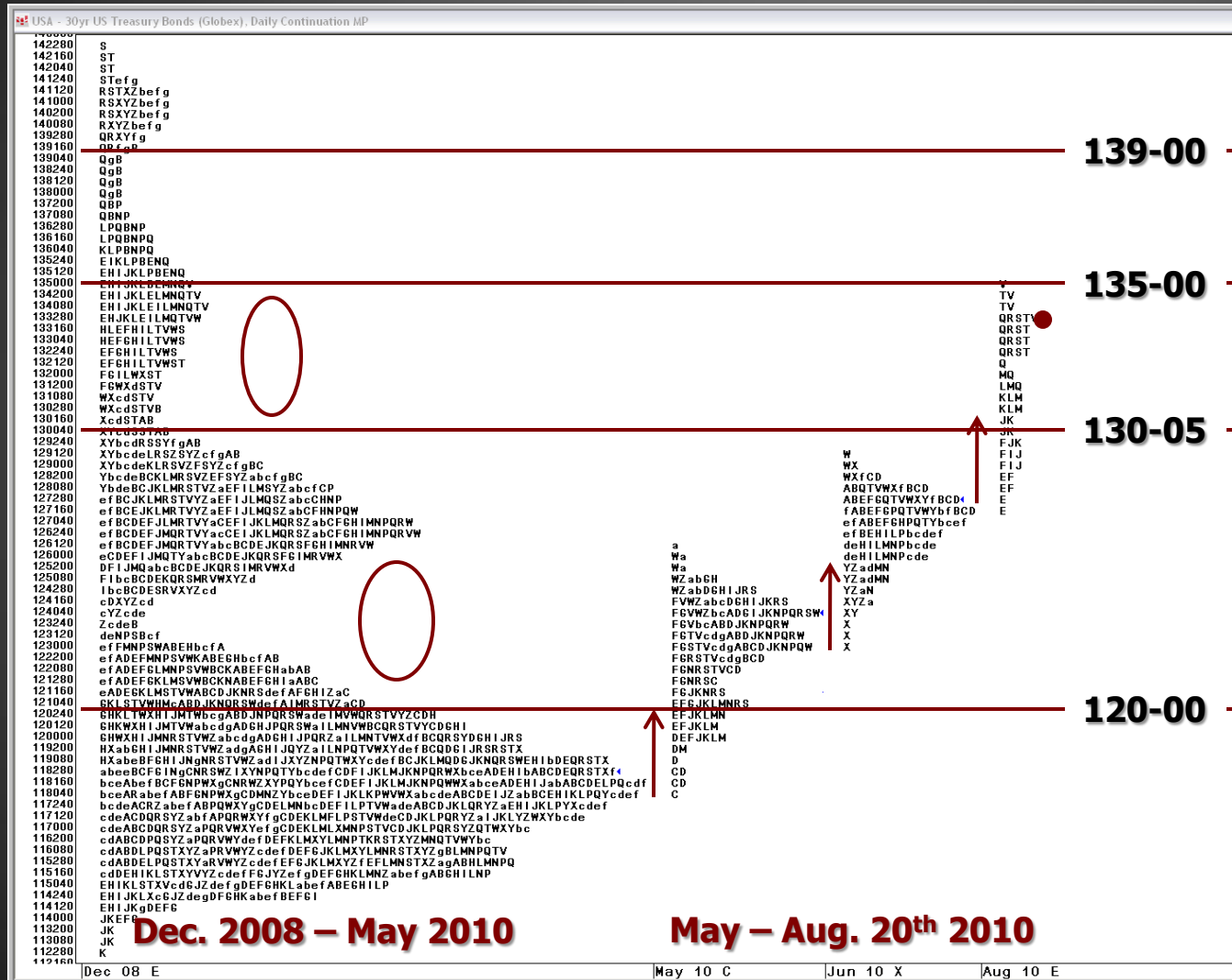
30-Year T-Bonds, Jan. 2009 – June 2010

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Market Profile Trading Strategy

30-Year T-Bonds: Current Read



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

Market Example

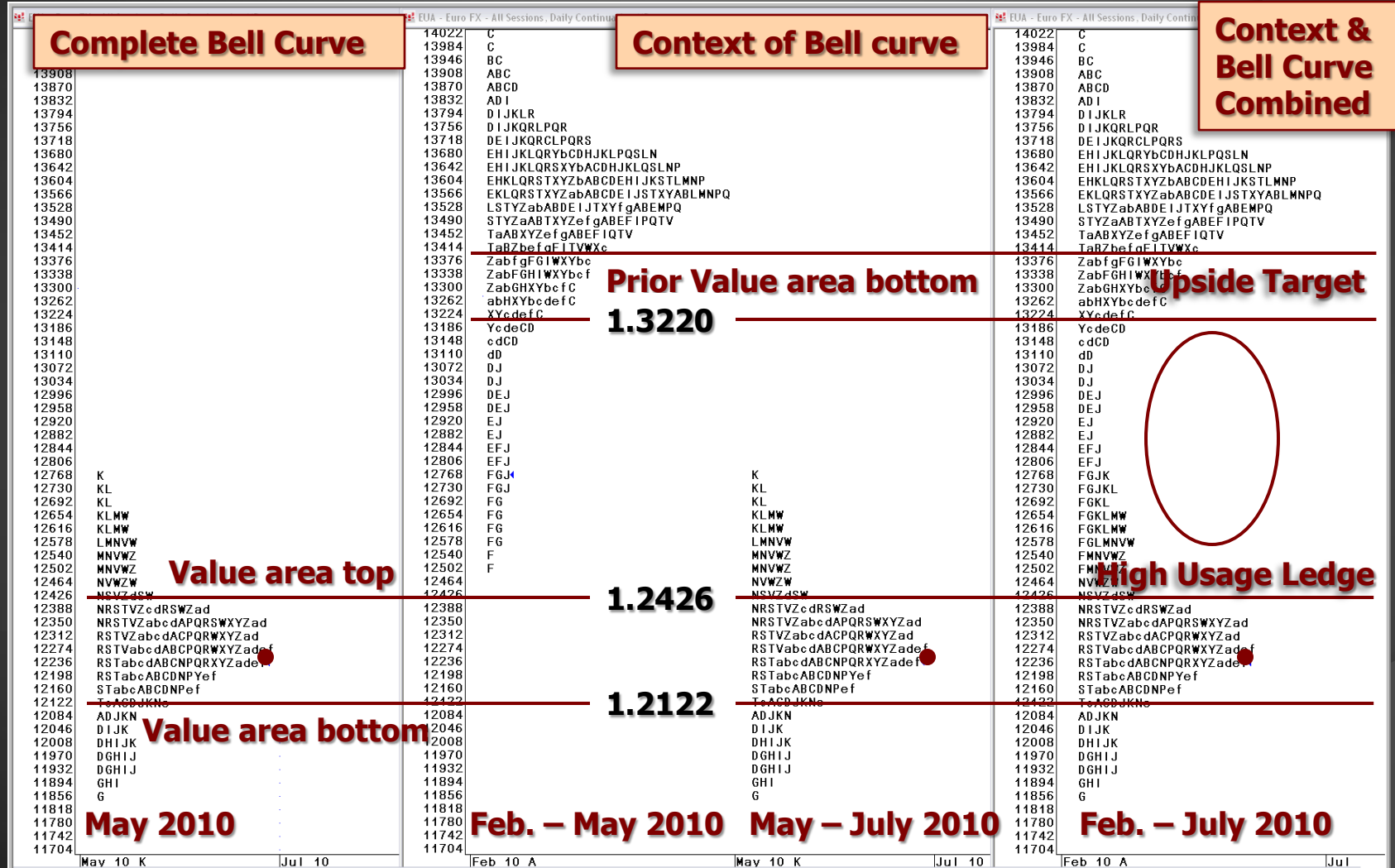
Euro

May – August 2010

Market Profile Trading Strategy

Euro

(1 of 2)

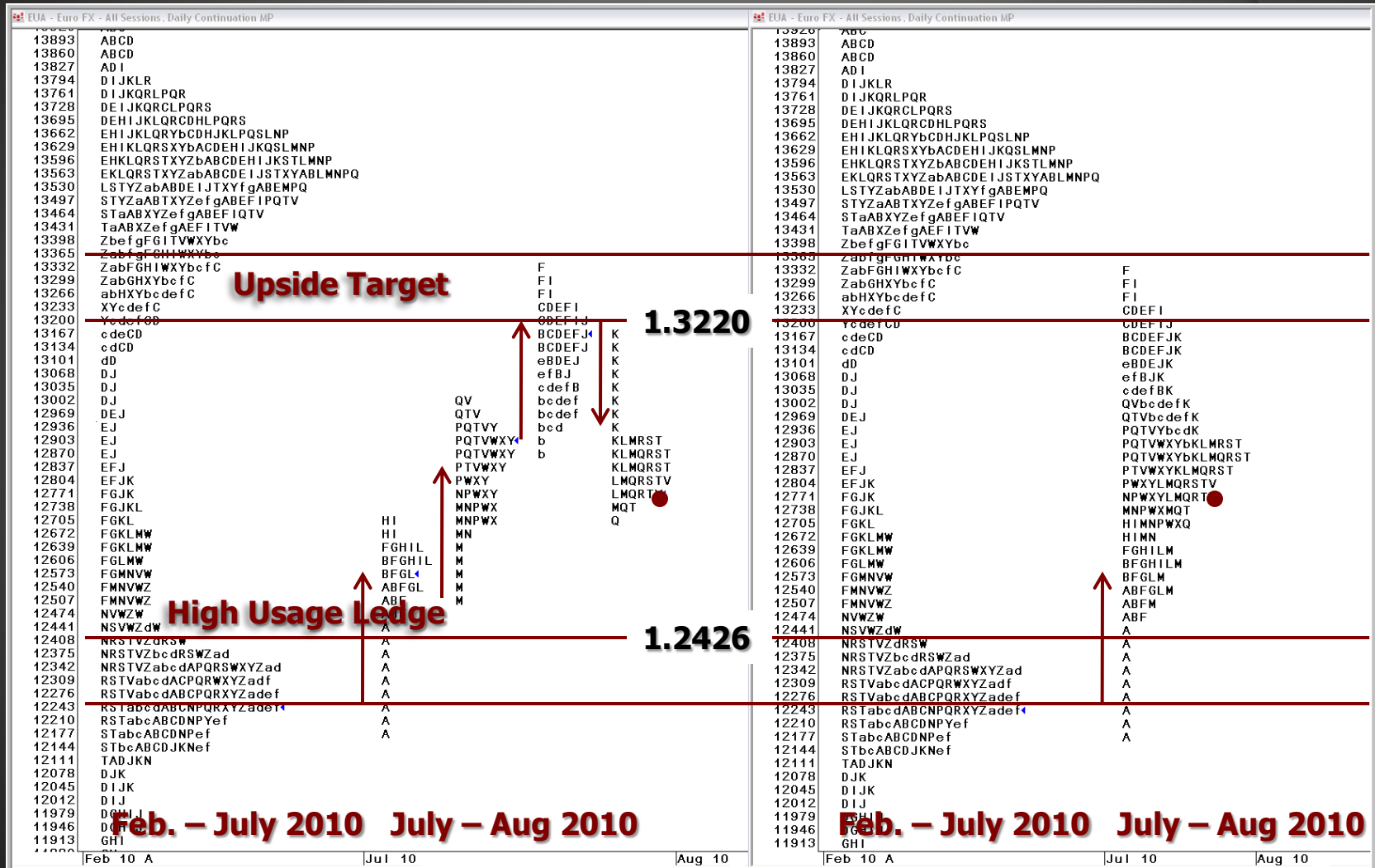


Euro, Feb. - July 2010

Market Profile Trading Strategy

Euro: Current Read

(2 of 3)



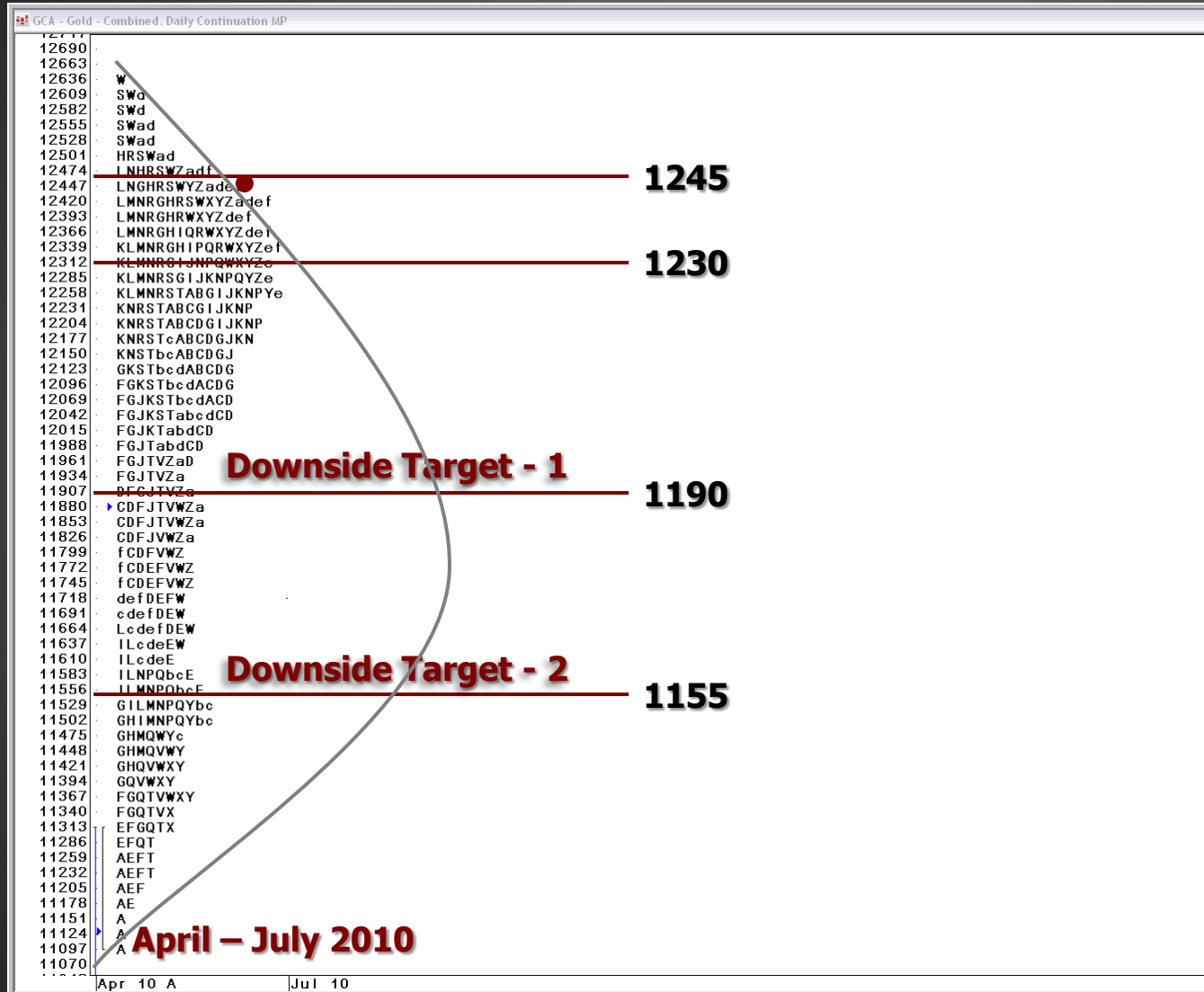
Euro, Feb. – Aug. 2010

Market Example

Gold

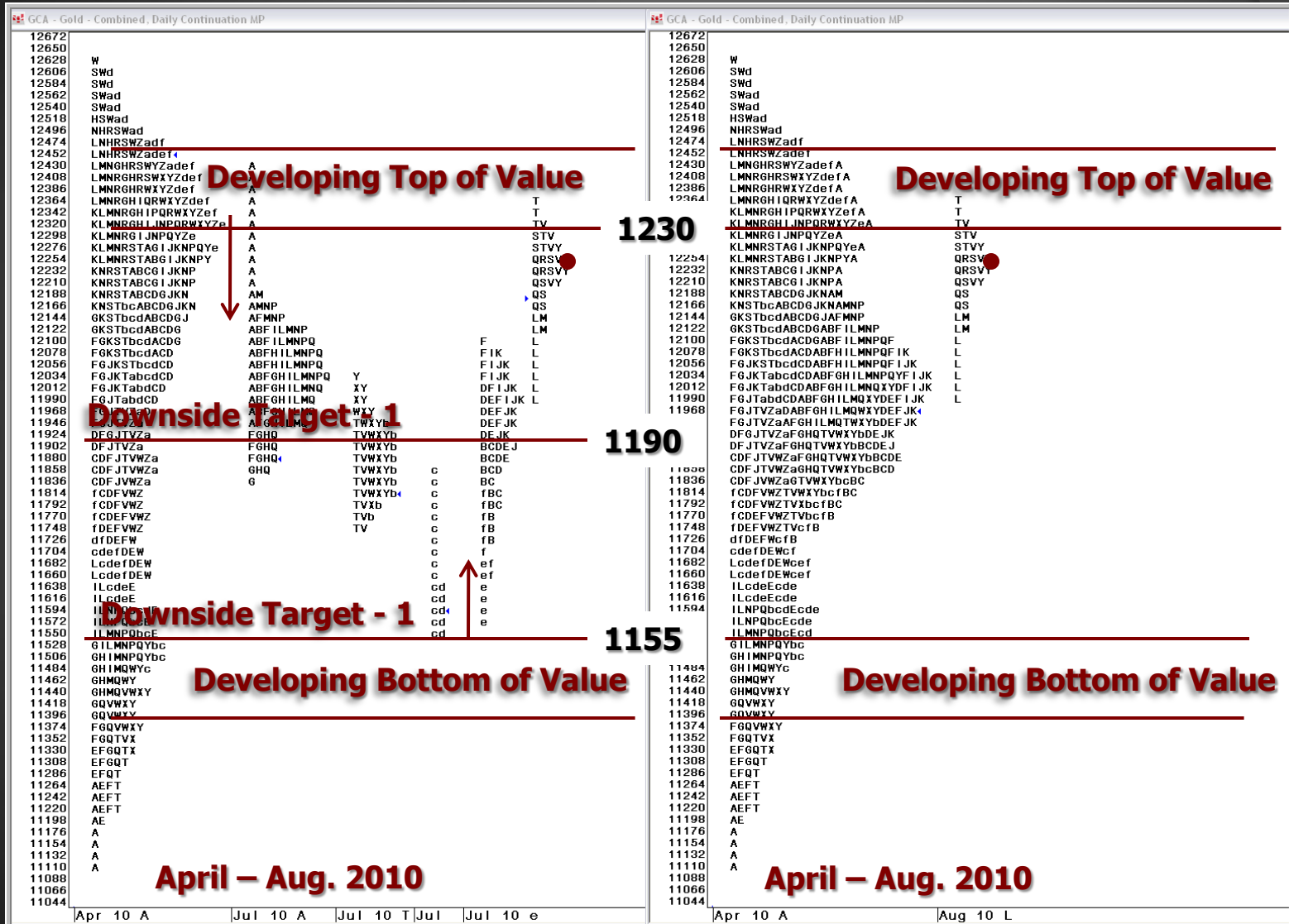
July – August 2010

Market Profile Trading Strategy: Gold



Gold, April – July 2010

Market Profile Trading Strategy: Gold Current Read

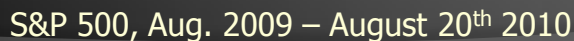


Gold, April – Aug. 2010

Gold, April – Aug. 2010

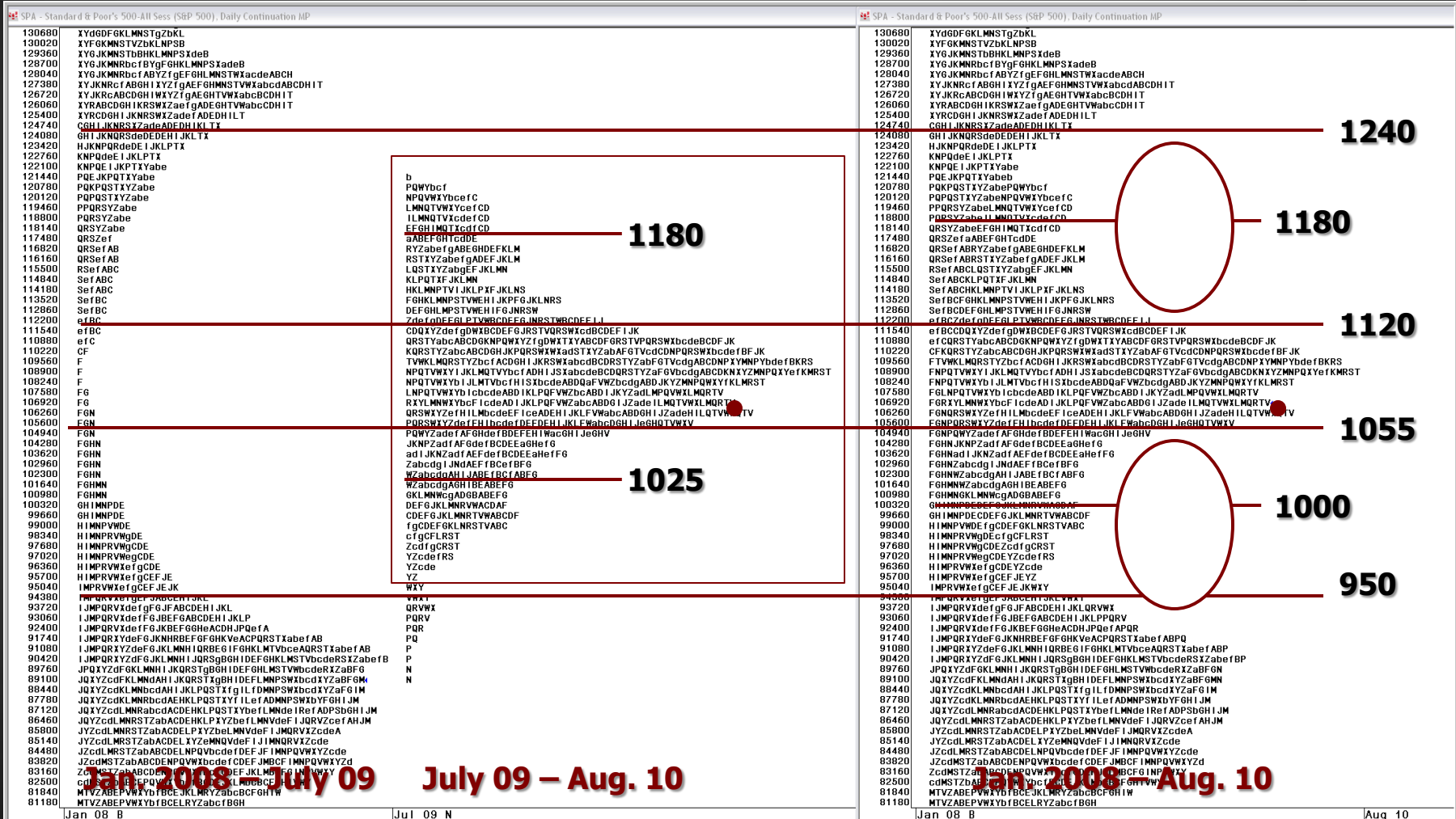
S&P 500

Current Outlook



Market Profile Provides Context

S&P 500, Jan. 2008 – Aug. 20th 2010



S&P 500, Jan. 2008 – August 20th 2010

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

A large, glowing green circle with a soft, ethereal light effect, centered on the left side of the slide.

ROBIN MESCH ASSOCIATES