

Market Profile: A Simple Way to Successful Trading

1. Introduction and Core Philosophy

- The primary goal in trading is to **make money** consistently and in the long run, rather than knowing everything about the market or market profile.
- It's not about how many times you are right, but how much money you make when right and how much you lose when wrong.

2. Understanding Market Movements and Common Misconceptions

- The market moves up and down daily, providing opportunities to profit by buying low and selling high.
- Many people struggle because they are unable to capture these moves or lack the necessary skills.
- What Market Profile is NOT:
 - Not an indicator: It does not give signals to buy or sell.
 - Not a strategy: It's not a set of rules for entry, exit, or stop-loss.
- The sole purpose of any market, including the stock market, is to facilitate trade.
- Trade facilitation involves buyers and sellers meeting to conduct business for goods and services.

3. The Purpose of a Market and Value Establishment

Why market?

The only purpose of market is to facilitate trade!!!

Product



Buyers



Seller



Buyers

- Buyer starts thinking that, I-phone price is too high, and he refrains from buying.
- Think if there is no buyer is ready to buy at the present offered price???
- Seller moves price lower or starts advertising lower price for the product, until the buyers responds by purchasing.
- Think If seller moves price too low?
- buyers take an advantage and starts aggressive buying.
- Finally Price will balance between two extremes, Where value is established.

The marketplace facilitates trade with dual auction process.
Basically, the market auctions up until there are no more buyers. Then it reverses and moves down until there are no more sellers. The end of an up auction is the beginning of a down auction and vice versa...

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- **How Price and Value are Established (Auction Process):**

- If sellers offer a product at a price considered too high, buyers will refrain from purchasing.

- Consequently, sellers must lower the price to attract buyers.

- If sellers lower the price too much, buyers will take advantage and start aggressive buying.
- Ultimately, the price will balance between two extremes (high and low), where value is established.

Why Market Exists

- The market exists for one main purpose → to facilitate trade
- It connects buyers and sellers

How Price Moves

- If price is too high → buyers stop buying ❌
- If no buyers at that price → sellers reduce price ⬇️
- If price becomes too low → buyers rush to buy ✅
- If too many buyers → price starts going up ⬆️

Balance Concept

- Market always tries to find a fair price (value)
- This happens between:
 - Too high price ❌
 - Too low price ❌
- Final result → balanced price where buyers & sellers agree

Auction Process (Core Idea)

Market works like an auction

Up Auction:

- Price keeps rising

- Until buyers stop buying

Down Auction:

- Price falls
- Until sellers stop selling
- Market continuously moves between:

👉 Up Auction ↔ Down Auction

🧠 Key Learning (Very Important)

Market is not random ❌

It is a constant negotiation between buyers and sellers

Price = result of supply vs demand

Your job as a trader:

👉 Identify where value is forming

👉 Identify imbalance (buying/selling pressure)

📱 iPhone Example (Market Profile Logic)

👤 Step 1: Seller Sets Price High

Seller (shop) puts iPhone at ₹1,00,000

Buyers think 👉 “Too expensive” ❌

Result → No buying

📈 Step 2: Seller Lowers Price

Seller reduces price to ₹90,000

Some buyers show interest 👁️

But still not enough buying

📉 Step 3: Price Reduced More

Seller drops to ₹80,000

Now many buyers feel 👉 “Good deal!” ✅

Buying increases 🌟

🚀 Step 4: Buyers Become Aggressive

More buyers jump in

Demand increases

Now seller realizes 👉 “I priced too low!”

📈 Step 5: Price Starts Going Up Again

Seller increases price to ₹85,000–₹88,000

Buyers still willing to buy

⚖️ Step 6: Balance is Found (Value Area)

Final price settles around ₹85,000

At this level:

Buyers are comfortable buying ✅

Sellers are comfortable selling ✅

👉 This is called VALUE

🔄 What This Means in Market Profile

High price → No demand

Low price → High demand

Market keeps adjusting until:

👉 Fair price (Value) is discovered

🧠 Trading Insight

When price is too high → expect fall 📉

When price is too low → expect rise 📈

When price is fair → market moves sideways ↻

🏁 One-Line Understanding

👉 Market is just a continuous negotiation between buyers and sellers to find the fair price (value).

4. The Dual Auction Process and Market Participants


Market Participants

Two types of participants

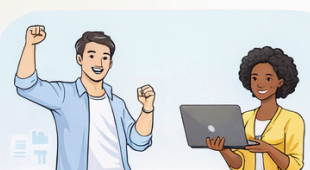


- 🕒 **Short Term Traders** Look for fair price to trade today
 - ✓ Short-term buyers and sellers trade with each other here.
- 🚩 **Long Term Traders** Look for advantageous prices for future
 - ✓ Short-term buyers and sellers since they don't have to trade today.
 - ✓ Long term traders objectives are different they don't trade with or time trader at time and same price.

💡 Focus on what time frame is in control, it shapes the day's range!



Short Term Traders



Long Term Traders

- The market operates through a dual auction process:
 - It auctions up until there are no more buyers.
 - It then reverses and moves down until there are no more sellers.
 - The end of an up-auction signifies the beginning of a down-auction, and vice versa.

- There are two major types of participants in the stock market:
 - Day Time Frame (Short-term Traders):
 - Objective: To find a fair price to trade today.
 - Behavior: They trade with each other at the same time and price because the fair price is acceptable to both.

 - Other Time Frames (Long-term Traders / Smart Money):
 - Objective: To find an advantageous price.
 - Behavior: They can wait and do not have to trade today, so they do not trade with other long-term traders at the same time and price.

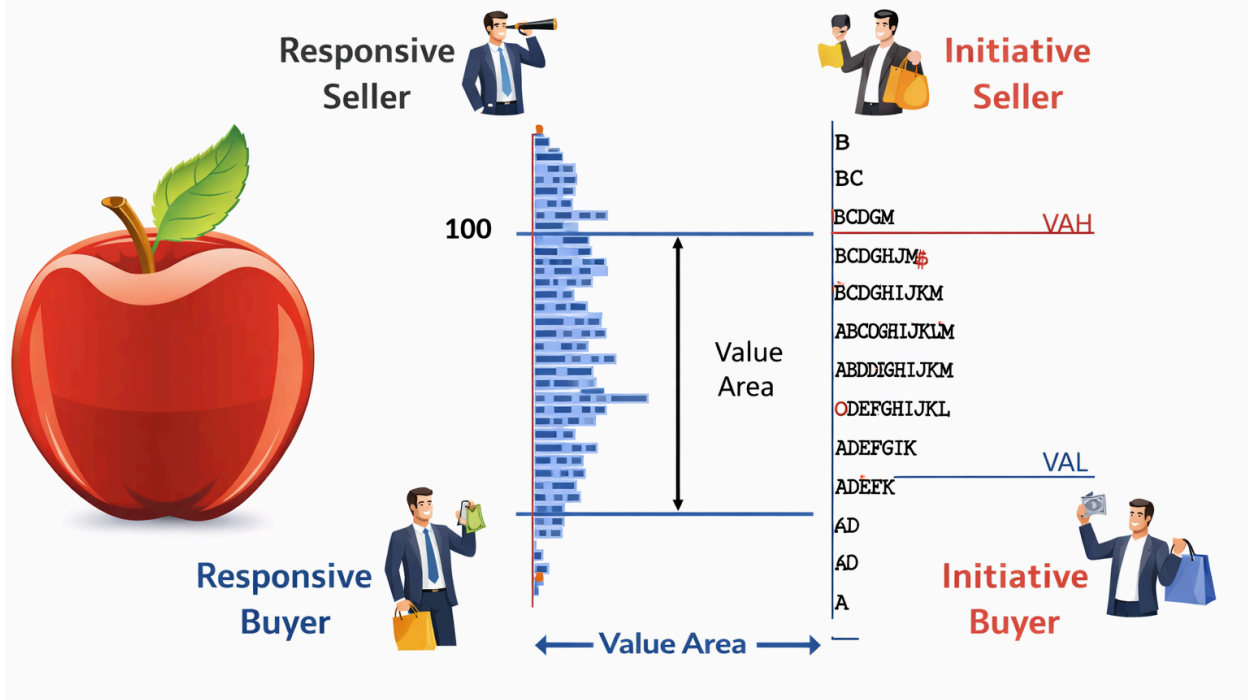
 - Short-term traders provide liquidity for long-term traders.

- The Other Time Frame traders (Smart Money) are crucial because their interests influence the day's range development and the duration of longer-term trends.

- A fundamental concept to understand is the difference between price and value.

5. Price, Value, and Market Profile Basics

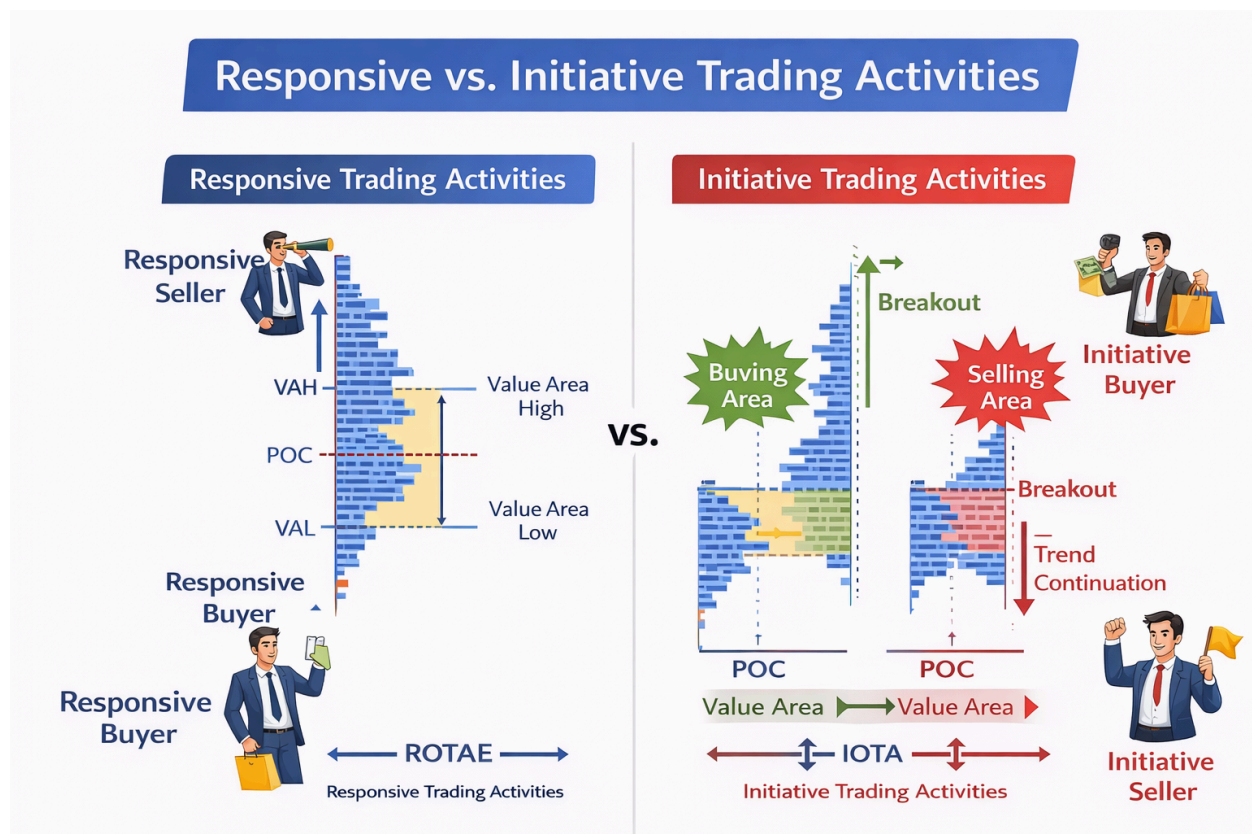
Price v/s Value



- Price and Value are crucial dimensions in any transaction.
- Value Area Definition (Apple Example):
 - If an apple traded between a lowest price of 80 rupees and a highest price of 100 rupees over a month, the area between 80 and 100 rupees is the value area.
 - The 100 rupees is the "high" and 80 rupees is the "low".
- Market Profile Chart:
 - Displays overall day activities using TPOs (Time Price Opportunities), which indicate market activity.
 - The market's 13 sessions (6.5 hours) generate data.
 - This data is plotted in the shape of a bell-shaped curve.

- For any given day, there is a high and a low, and the area between them is the value area.
- Calculating Value Area:
 - Market Profile uses the concept of 2 standard deviations (2 SD).
 - The maximum 70% of the activity area (typically 68%) is designated as the value area in Market Profile.
 - The Value Area High (VAH) is the high price of that value area.
 - The Value Area Low (VAL) is the low price of that value area.
- Knowing the market's value for the day helps in effectively trading the price. Trading price without knowing value is akin to gambling.

6. Responsive vs. Initiative Trading Activities



- Responsive Trading:

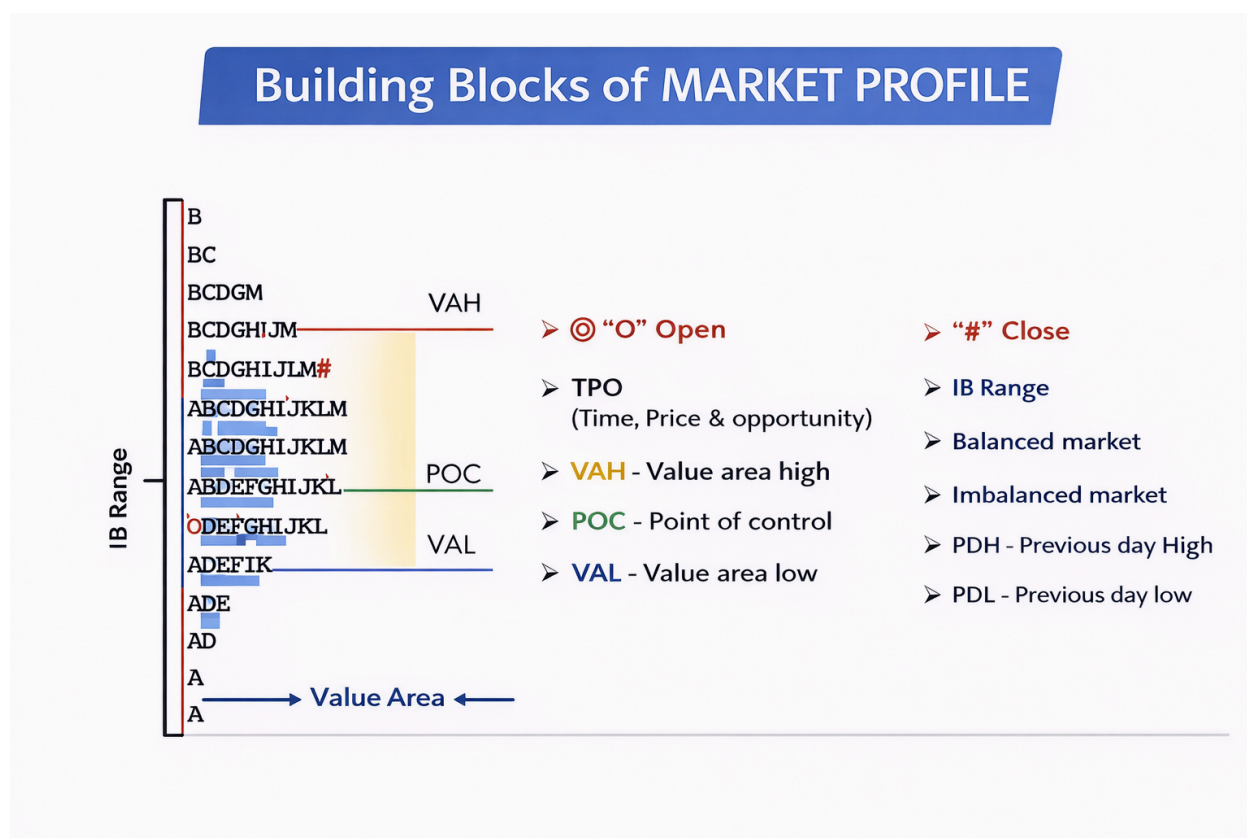
- This involves responding to lower prices as a buyer and responding to higher prices as a seller.
- You buy when the price reaches the Value Area Low (VAL) and sell when it reaches the Value Area High (VAH).
- This is based on historical transactions and the calculated 70% activity area of the day.

- Initiative Activity:
 - Occurs when there is strong demand or supply that shifts the market's value.
 - Initiative Buying:
 - Happens when buyers accept to buy a product above the Value Area High (e.g., Apple above 100 rupees).
 - This indicates a bullish sentiment and a shift in demand.
 - The price may move significantly higher, and the value area will shift to higher prices.
 - Initiative Selling:
 - Occurs when sellers start to sell a product below the Value Area Low (e.g., Apple below 80 rupees).
 - This indicates that supply is more than demand.
 - The price may move significantly lower, and the value area will migrate to lower prices.
 - In both initiative buying and selling, the price is looking for a better or new value.

7. Market Profile Chart Elements

- A Nifty 15-minute chart example on August 27th showed a significant up move.

- Key lines on a Market Profile chart:
 - Red Line: Indicates the Value Area High (VAH).
 - Green Line: Represents the Point of Control (POC), which is the price level where the maximum number of activities happened on that particular day.
 - Sky Blue Line: Indicates the Value Area Low (VAL).



Note: The parameters discussed (VAH, VAL, POC) are important building blocks of Market Profile that will be further explained in subsequent lessons.