

# Tracking “price acceptance” with Market Profile

Merging profiles can reveal price levels a market is likely to gravitate toward.

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If any form of analysis is going to be effective, it has to account for all the information being generated by the market. Most conventional technical approaches focus only on price, which essentially leaves out a significant element of the available market information — *how long* a market trades at a given price level.

Examining how much time a market spends at a certain level shows price action naturally organizes itself into a series of bell curves. The bell curve’s structure emerges out of the basic nature of the auction process, where the negotiation between buyers and sellers explores extremes before gradually settling on a consensus price.

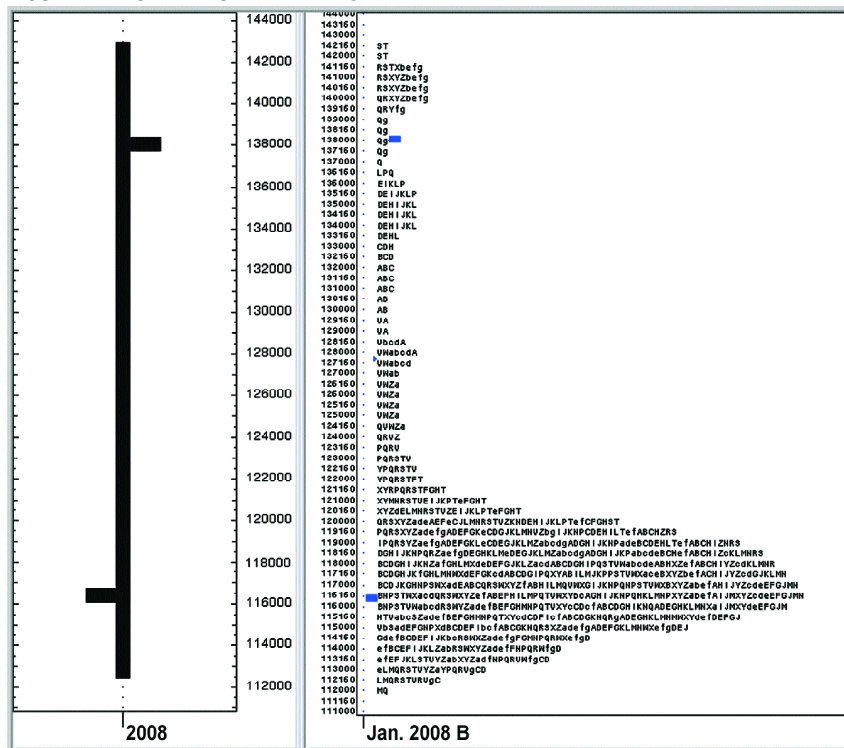
Market Profile charts illustrate how bell curves form and evolve — a process that offers useful insights into price action and potential trading opportunities. For background information on this charting technique, see “Understanding Market Profile” on p. 34.

## Not all prices are created equal

Figure 1 shows the 30-year T-bond futures (US) in two very different formats. The left-hand chart is a one-year price bar that displays 2008 in terms of an open, high, low, and close. In this format, you can’t see whether any price along the vertical scale is more accepted as fair value than another.

The Market Profile chart on the right shows the prices at which the market

**FIGURE 1: PRICE BAR VS. MARKET PROFILE**



A standard price bar doesn’t indicate how much trading occurred at different levels within the bar’s range. A Market Profile chart (right) highlights the prices at which the 30-year Treasury bond futures (US) spent the most time.

Source: COG

spent the most time, not just the overall price range. Clearly, not all price levels are created equal. If you consider “price usage,” or how much time the market spends at any given price, critical information emerges: Traders’ willingness to use price reveals their level of acceptance of various price areas and where they perceive value. In Figure 1’s Market Profile chart, it is clear those areas are in the lower end of the year’s range.

A market goes through phases of searching for value and working toward acceptance of value. The more market participants “use” a price level, the more they accept it as fair. In this process, value is based on perception of fairness. The bell curve tracks the process of price negotiation and acceptance. 📍

*This is an excerpt. For the complete article, see the Nov. 2009 issue of Active Trader.*