

ANYONE CAN LEARN MARKET PROFILE

BETTER TRADING DECISIONS
REDUCE MISTAKES
INCREASE PROFITABILITY



DEAN
(ANIRUDDHA DESHPANDE)



ANYONE CAN LEARN MARKET PROFILE

BETTER TRADING DECISIONS
REDUCE MISTAKES
INCREASE PROFITABILITY

DEAN
(ANIRUDDHA DESHPANDE)

 **notionpress**
.com
INDIA • SINGAPORE • MALAYSIA



Notion Press

Old No. 38, New No. 6
McNichols Road, Chetpet
Chennai - 600 031

First Published by Notion Press 2019
Copyright © Aniruddha Deshpande 2019
All Rights Reserved.

eISBN 978-1-64587-948-0

This book has been published with all efforts taken to make the material error-free after the consent of the author. However, the author and the publisher do not assume and hereby disclaim any liability to any party for any loss, damage, or disruption caused by errors or omissions, whether such errors or omissions result from negligence, accident, or any other cause.

While every effort has been made to avoid any mistake or omission, this publication is being sold on the condition and understanding that neither the author nor the publishers or printers would be liable in any manner to any person by reason of any mistake or omission in this publication or for any action taken or omitted to be taken or advice rendered or accepted on the basis of this work. For any defect in printing or binding the publishers will be liable only to replace the defective copy by another copy of this work then available.

“This book is dedicated to...

My Parents whose expectations I could not meet...

My Wife whom I could not understand better...

And

The only real MAN in my life, my son, Raghava...

Thanks for bearing with me...”

Contents

Testimonials

Acknowledgements

Chapter 1 Losses, Losses and More Losses

Chapter 2 Well-Meaning Advice

Chapter 3 The Encounter with a Completely New Way of Looking at the Markets

Chapter 4 Re-Discovering Market Profile (MP)

Chapter 5 Deep Dive into Market Profile

Chapter 6 How to Trade with Market Profile?

Chapter 7 LCTR Framework

Chapter 8 Risk Management

Chapter 9 Trading Psychology 101

Testimonials

Testimonials from Facebook

Dean's teaching method of AMT (Auction Market Theory) is one of the best. Once I realized how the success of every indicator, every tool, every technique including Market Profile depends on a firm understanding of AMT, Dean's insights seem so much more valuable to me.

Long way to go for me, but he's truly fast-tracked my understanding of markets.

– **Guruprasad S, Facebook**

Dean is a very committed and passionate trainer. His knowledge over Market Profile and Order Flow Analysis is top notch. I'm glad to learn these concepts from him.

– **Srinivas Muchharla, Facebook**

For a fresher to become an experienced trader this is a positive turn here. Only the right knowledge here.

– **Kumar Keshav, Facebook**

Dean's analysis and training webinars are excellent. For anyone wanting to learn about Auction Market Theory for trading, there is nothing better. Dean not only teaches you how to analyse but also at a psychological level where you learn how he thinks and something which if you keenly observe will only keep making you better. Thanks, Dean.

– **Nakul Bajaj, Facebook**

I have never seen a person like Dean who has his own paid course but still never hesitate to help newbies to learn the technicalities of Market Profile without any Greed.

– **Pankaj Kumar, Facebook**

Annirudha is democratising the use of auction market theory and order flow trading. I trade crude oil on NYMEX and ICE. These principles are used widely by traders across the globe. Highly recommend going through the webinars.

I hope he continues to teach trading enthusiasts.

– **Abhijit Selukar, Facebook**

The right place to learn Market profile and Order Flow Analysis.

– **Rohit Ramanna, Facebook**

Aniruddha is an excellent teacher and a selfless person. Glad to be part of his training and I wish him all the very best.

– **Kumaranand Palaniappan, Facebook**

Aniruddha is doing a yeoman service for anyone who wants to understand MP/AMT and day trading in Nifty/BankNifty. A must follow from a trading perspective as well as MP/AMT.

– **Ashish Agarwal, Facebook**

Testimonials from Twitter

Auction Market Theory is really an eye-opener. And as u say it helps u to understand the market context in a very different way. Thank you and your webinar. GBU

– **Hardik Kanitkar, Twitter**

Market Profile made easy by DEAN – Thanks a lot.

– **Raja Shekar, Twitter**

[@aniruddha4tew](#) you have been doing some great work on MP for the Indian market. #MP is still very subjective to one's interpretation but your usages of volume nodes were a revelation for me (along with some concepts on delta divergence). That's been a great help me for #emini using OF.

– **Manish, Twitter**

[@aniruddha4tew](#) we should take a bow for you sir...what a lucid and sharp analysis... Hats off..

– **Mohammed Mohaideen, Twitter**

In the past one year, many so-called “experts” in market profile study crept into the trading world.....but all I can say is u are d only undisputed, logical, genuine one among the lot.

– **Troll Market, Twitter**

[@aniruddha4tew](#) What the webinar! Just watched the recording! Speechless, till the time of watching, I didn't know where I stand. Your points are well organized and always helpful for us! Love to get mentored by you.

– **Vijay Mane, Twitter**

Dean is a gold in the dust... Those who know him.....get the edge...Logic is the term a many do not understand... But dean explains it in a simple way...

– **Vijai Kumar, Twitter**

Acknowledgements

Writing your first book is always an overwhelming experience. Right from how readers will accept your book, how critics will see it to how you will be perceived by your near and dear ones once they know you have written a book.

Writing a book has some sort of an aura attached to it. And I hope to enjoy every moment of it. From praises and appreciation to criticism and trolling I am excited and ready for everything. But I must acknowledge a few people who have made it possible for me to reach this stage.

As per the norm, first and foremost I would like to appreciate my family. My parents, my wife and my son for bearing with me in this treacherous journey. Its not a pretty thing, the struggle. They stood behind me in everything and they have equal share in the progress I have made over the years.

I would like to make a special mention of my friend and partner Vishal, who has been a pillar of strength for me during my struggle. He has seen me grow over the years and it has been as much his struggle as it has been mine. Its very rare to find people who stand with you in your bad times.

The second half of my career started when I began my journey as a mentor. Thanks to Vinod from www.belltpo.com who pushed me always to aim for more. I must also thank him for providing all the charts that are shared in this book. If not for his software the strides I have made in the field of Market Profile and Order Flow would not be possible.

Then come probably the most important people in my life. People who showed faith in whatever I offered, who appreciated every little tweet, even my early videos (which were far from good). Who stayed with me all through my journey. Who suggested improvements in my work as if it was their own. And who genuinely felt

happy with every small milestone I crossed. Like a proud parent they watched me go from crawling and stumbling to standing tall on my feet to running hard after my goals. No amount of appreciation is enough for what you have done for me.

People often refer to them as fans, followers, subscribers. But let me make it very clear, they are not my fans, I am theirs, an ardent one, right until the last breath I take...

Lastly, and it may come as a surprise, (but I think everyone should do this), I would like to thank me. For staying the course when the storms hit. For not giving up on myself as well as people around me, no matter how tough it was at times. For believing in my dream despite not seeing results for years on end. For staying true to my purpose.

I would like to take this opportunity to say this to my old self who is struggling with some trading concept, either staying late in the office or reading books till the wee hours of the morning, the one with dark circles under his eyes, the one who is still trudging along despite all the adversities and despairs...

“I am proud of you!”

Chapter 1

Losses, Losses and More Losses

“We only learn through failure, success only makes us complacent.”

– Dean Market Profile

The clock was striking 15:30. I had skipped lunch again. It was making me cranky and angry, but missing lunch was not the reason behind it.

It was another day with losses; it was I think, my 5th day of straight losses.

Nothing I try to was working. I started feeling as if I was not cut out for this profession.

“Maybe trading is not for me” I murmured to myself.

That’s when I felt a hand on my shoulder. It was a reassuring pat on my shoulder, suggesting, everything is not lost, I will come back and make even more money than I have lost.

“It’s all about the right timing,” said a fellow trader.

I was sitting at my broker’s office contemplating what went wrong again and this gentleman maybe in his late thirties, was teaching me that successful trading was all about timing as if I did not know that.

“But the RSI was below 20 and was turning back up, we were also close to a support” I protested.

Then came the response which sent me on a long and hard journey, a journey of self-discovery as much as it was an endeavour to find the right trading tool for

me.

“It’s not about RSI or any other indicator, you need to find the one that suits your personality,” he said as he walked out of the broker’s office.

I kept staring at the door and wondering to myself what that gentleman actually meant.

Whether these indicators that I was using not good enough?

Do I need to find even better indicators?

What does he mean by finding the one that suits my personality?

One thing was clear even after 3–4 years of trading; the art was still eluding me. I could not feel my grip tightening on the subject, in fact with every loss I was feeling as if I was losing my grip on trading. To the point that I started feeling I may lose out on my dream forever.

But despite doing a lot of hard work I could not seem to figure out what exactly was wrong with my trading. The reason was not in my hard work but it lied in my background. It was not in what I was doing but it had to do everything with the way my thinking process was shaped. Shaped by my education.

Let’s go further back into the past. Let me share with you a little something about who I was when I first decided to take on trading, in short of course.

Ok, so I was a straight ‘A’ student as they call it, well maybe a ‘B+’, in school. Then I pursued my engineering and did fairly well in college, academically I mean.

I was good at studies and never had a problem understanding the engineering subjects. I particularly liked subjects that dealt with the physics of things and maths too.

In college, every subject I studied had a fixed causal relationship. What I mean by that is, every action had a specific and often times a fixed consequence.

For instance, If you drop a pen it was supposed to fall on the ground (on account of gravity) and it always did, without fail. Or if you did not complete your

assignments and projects your teacher would suspend you or punish you.

All these things were very certain. It did not take much to understand the fixed rules of physics and the strict rules of the college. I thrived in that environment.

Once I graduated (with distinction) I had a job waiting for me with a leading auto manufacturer. Actually, I got a job even before I finished my final year exams, through campus placements.

Everything was going great.

After finishing college I went on to work for the “leading auto manufacturer” and there too the rules were fixed. You mess things up at your job your boss will shout at you, berate you. There would be a promotion at the set number of years. You were expected to socialize with pay grades and job titles similar to yours, and all the regular things that go on in a big company with crystal clear hierarchy.

Everything seemed to be on autopilot, I did well in college, got a job in a reputed company with a bright future, etc. But inside I was missing something. I wanted more. So after tolerating the gruesome “routine” with “nothing new” happening of 3 years I finally quit my job.

I wanted to become a full-time trader, at least which is what I thought. I don't know what was it, the boring routine at the company or the glamour of becoming a full-time trader, but I pulled the trigger, much to the dismay of my family.

The reason I told you my brief history is that until the day I left my job I had never encountered the word uncertainty. Every action had a predictable outcome.

You study you get good grades.

You get good grades you get a good job.

You get a good job, people (including your family) respects you.

Your younger siblings look up to you.

All in all, you are a welcome member of the society with firm control on your future.

And when I left my job, suddenly I found myself in a completely different world. First and foremost the behaviour of people around me completely changed. They started looking at me as if I had committed a crime.

Secondly, when I finally started buying and selling stocks I discovered that it did not work the way it was written in the 20 or so books I had read by the time on “how to trade?”.

Every time I followed the advice from those books and my own learning on the job (screen time) something else would happen and I would lose in the markets.

I had read books from reputed authors, prepared a trading regimen, watched videos on YouTube but still I would make losses consistently in the markets.

The first year I thought, I will get the knack of it soon. I will start making money soon enough. But markets almost always had a different idea than me. If I bought it went down and if I sold it went up.

No matter what I tried, no matter which indicator I used, no matter I traded intraday or swing I made losses. The only thing I was consistent in was making losses.

That was a big shock to me because until that point in my life I had always received results commensurate with my efforts. But in trading no matter how hard I tried the results were always losses.

Once in awhile I would make a profitable trade, I would think long and hard about what I did right in this trade. But the same actions would yield a loss on another day.

I could not figure out what exactly was wrong, that was my first brush with uncertainty.

There began my journey into finding an answer. I wanted to know what I was doing wrong, why I was not making money. And the path I selected was the one of even more hard work.

I drowned myself into a mountain of books. I read everything from the classics

like “Technical Analysis of Stock Trends – Edwards and Magee” to the famous interview series books “Market Wizards – Jack Schwager”.

I did everything from maintaining a trade journal to writing my emotions during the trade to doing unimaginable amounts of backtesting of different strategies.

Every time I would find a strategy with promising results I would start trading with it, only to realize that the strategy would stop working as soon as I started using it.

It was so frustrating that I even started thinking of markets as my personal nemesis. I felt that the market was out to get me. The brilliant solution I had on this problem was to do the opposite of my first instinct about any trade.

So if my system was telling me to buy and I also felt good about it, I would go and short. Funny thing is on more than a few occasions I did make money using this strategy. But I guess markets found out what I was doing and then even this strategy stopped working.

I was too hung up on my cause and effect mentality from my school and college days that I failed to realize what I was doing wrong.

A special mention to the current schooling system we have been through and sadly putting our kids through. It will give our kids the same problems that we are facing today. But then again if you are happy to put your head down and wait patiently for your next promotion, all the while collecting your next paycheck by the end of the month, it is the best schooling system ever, more on this later.

I did not realize the uncertain nature of markets. I did not realize that the simple cause and effect relationship that holds true in almost all areas of life, does not work in markets.

That brings us back to the day at the broker’s office, where I was sitting exasperated and lost, wondering whether I will be able to become a profitable trader ever or not.

But like a good detective, who explores every single lead right till the end, where it either helps him nail the culprit or helps him reject the lead as a valid one, I was prepared to explore to the deepest depth the new advice I had received.

I set out to find the trading method or tool that was suitable to my personality. I also had to understand what exactly my personality was before I even tried to find the method or tool that was suitable for me.

Chapter 2

Well-Meaning Advice

“Everyone will tell you what to do, but you learn best from your own experiences. Keep the risks small in these early stages of your trading career. The longer you stay in the game the better you get.”

– Dean Market Profile

“Find a trading system that suits my personality, that’s what you said, right” I caught the gentleman the very next day and asked him.

“What exactly do you mean by that?” I demanded an answer as if he owed it to me.

“Well that is not the only thing,” he replied.

“There are many more things in addition to finding a trading system that suits your personality,” he said almost mocking my newbie status as a trader.

I was taken aback by his answer and also a little confused. I thought about it overnight and felt this may be a solution to my problems, finding a suitable trading system, as if finding a suitable bride for the groom.

By the time I gathered my thought, the gentleman had found a comfortable seat near the dealer. This is in the early 2000s, so the discount brokerage concept was not yet prevalent.

I went and grabbed a chair right behind his chair. I asked him in a polite voice, whether he was willing to share his wisdom with me. I was so beaten so badly by the markets that I did not even think twice before making that person my mentor,

forcibly.

The gentleman agreed reluctantly and said he can spend some time with me each day after trading hours. I was thrilled to bits, I said to myself, “this is the silver lining you were looking for and you are going to make the most of it”.

And so began my training, or at least that is what I thought of it at the beginning.

More Well-Meaning Advice

1. Find a trading system that suits your personality.
2. First, protect what you have, then think about making money.
3. Timing is everything.
4. You can't use only one indicator, you need to diversify.
5. Never trade in front of the news or event.
6. Never listen to your broker.
7. You should use “advice giver's current favourite” trading system instead of “his last favourite” trading system. and on and on.

At first, these statements make an impact on you, especially if you are struggling like I was. But not all of them are as useful as they sound. I wanted to explore them in a little bit of detail so that you can choose your next course of action. You can spend a few minutes reading through this chapter and save a lot of heartburn and pain in your future.

Ok, so let's get through them one by one.

Advise No 1: Find a trading system that suits your personality.

Well, what is your personality? There is no certain answer to this question right. Just try to remember the last time you were angry and reacted to some event or

person. Now try to remember the same event or person in a situation when you were not angry.

Sometimes every living person on the road is trying to keep you from reaching your destination safely, and you end up screaming and shouting at every one of them. Whereas at other times you seem to accommodate even the direst of threats and treat it lightly, just because you are in a good mood.

So how can you be sure what your personality is? Because you are a different person in different situations, and especially those where your emotions run high.

Trading is related to money and that is why our emotions tend to be high while trading. No trader reacts in exactly the same manner to similar trading situations. That is what brings in the variability in your results and that is what makes trading fun and difficult to master at the same time.

Now if you can't be sure what your reaction is going to be to a certain trading situation, how can you be sure of what trading system will be suitable for you. So what does a trader do in this situation?

Solution

A trading system needs to match the market conditions, not your personality. Your personality makes you unique. It also decides how you react to different situations, and your reaction is unique too.

Instead of trying to marry your trading system to your personality, try to find a trading system which is flexible enough to accommodate most of the variations of the market.

Down the line, on this book, we will look at one such trading tool which will help you adjust yourself with the markets, no matter what the markets are doing.

Once you master this tool, you will not have to worry about what the markets are doing ever again. more on that later.

Advice No 2: First, protect what you have, then think about making money.

This may get a bit controversial, but I can't sit on the fence for life, at some point in time one needs to choose one side. And I chose one 14 years ago, and for better or for worse, I am happy with my decision. let's dive in.

This advice resonates with an old adage. "A bird in the hand is worth two in the bush". But I don't agree with it, let me explain to you why.

Trading is a game of growing your capital over time. By reinvesting your profits in your trading account you tend to benefit from the principle of "compounding returns" which Albert Einstein has rightly called the eighth wonder of the world.

If you focus on protecting what you have, you tend to become risk-averse, and trading is a profession which does not reward risk aversion.

Now I am not advising you to jump out of an aeroplane without a parachute and hope for the best, we all know what would follow. But if you want to make it as a trader you need to have a different mind-set.

Risk-averse traders tend to end up fearing losing money. They treat each loss as an end of the world. It definitely screws up your mind-set. So is there a better way of handling this situation, I believe there is, let me give you my version of this one.

Solution

The solution as we will explore in much greater detail later in the book is to take a fresh and different look at the word "risk" and then "risk management".

Traders look at risk in terms of capital protection that is they put in a stop loss and believe that they have controlled their risk. What they have done is limited their downside and it has got nothing to do with the risk. Just by putting in the stop loss does nothing to protect you from the risk inherent in your trade.

If the trade is risky your stop loss will get hit. You may lose only a limited amount of capital, but if you keep taking such risky trades you will end up with a

long losing streak and you will lose a big chunk of your capital if not all, over time.

Now, be honest, how many of you thought that putting in a stop loss means “risk management”? Don’t lie to yourself; it will only make matters worse. This issue has its roots in our psychology; we will explore it in greater detail down the line in this book.

We will also define the words “risk” and “risk management” in a completely different light. This will make managing risk a very natural process for you and it won’t involve the pain of seeing your stop loss hit and not knowing why in the hell it happened.

Note: This in no way suggest that you should stop putting in a stop loss, till the time you completely understand this point later in the book, please use a stop loss as it does help you avoid the risk of ruin. You must survive to fight another day.

Advise No 3: Timing is everything.

By timing, we mean trade timing or better yet, the time when you enter or exit your trades. Before we move on, just ask yourself this question.

Do you believe that in trading timing is everything?

Be honest, it’s only you, no one is going to know what you said.

If your answer is yes, then we have a problem and a serious one at that, because successful trading is not about timing at all.

No soul on this planet can consistently time the trades to perfection, it’s a futile exercise and one that creates a lot of emotional deficit. What do I mean by “emotional deficit” bear with me for a bit?

Let’s say you believe that timing the trade entry and exit right will make your trading better. You select a tool to do that may be an oscillator or something more comprehensive like Elliott Wave Theory.

Now you start trading and you miss out on one trade, your indicator told you

to buy and you didn't. The trade worked out fine, next time you wait for the same signal, you get one and boom, it fails.

Now the pain accumulated in missing the first one and losing on the second trade cannot be overcome even if you get the next two trades right. Also, given that the first two trades did not work out well for you, makes it even more difficult to pull the trigger the third or fourth time.

Trading is a game of probabilities; we all have heard this one. So instead of focusing on the perfect time to enter or exit a trade, you should try to find areas where the chances of your trade succeeding are the highest.

Now I use trade timing as a means to reduce the risk in a trade. First I try to find a good trade, once I am sure of my trade, then and only then I try to find a good time to enter or exit my trades.

The tools used for finding great trades (one with higher chances of turning a profit) and timing those trades are different too.

We will go into this point in greater depth later in this book, so keep reading, as this one will save you a truckload of money over the years.

Solution

You need to separate “finding great trades” from “timing trades to perfection”. Traders often confuse these two and end up paying a stiff price for the same.

You can succeed with not so great timing if you can consistently find great trade opportunities. But the other way round does not work. If your timing is great but your trade ideas are not good, your trading will take a nose dive sooner than you think.

Always remember finding a good trade comes before trying to time it. Later in the book, I will cover techniques for both finding great reward/risk trades and also how to time them to minimise the risk to a minimum.

Advise No 4: You can't use just one indicator, you need to diversify.

This one hit me like a lightning bolt. I could not believe that I did not think about it before. Once I got this idea there was no looking back, I got my hands on as many indicators as I could.

Apart from the usual suspects like RSI, Stochastic, MACD (incidentally this was my first MACD before I learnt about Mc Donalds), I got into some really complicated-sounding indicators like Herrick Payoff Index, Mclellan Oscillator, and whatnot.

It took me a few years of running full steam in this direction, to realise that I have come too far but the direction was not the one I wanted to go in. It was a very painful realisation, learning that whatever you were doing for a better part of the last 2–3 years is nothing but dust.

The realisation set in when I realised something very peculiar about these indicators. There were a few things that struck me over a period of time which finally led to my realisation that what I was doing, diversifying with indicators, was dead wrong.

1. I realised that no matter what complicated math formula is behind an indicator, the two basic components of any indicator was Price and Time. So, if one of the inputs to your formula is going to be price, that indicator will always lag the price. In fact, all indicators are glorified form of averages.
2. Some of these indicators also used volume as an input. But through some painful experiences and some good old screen time, I realised that watching volume with naked eye gave more insights than putting it in a complicated math formula. Later we will look at a novel way of using volume and how it almost end up costing me my favourite tool, which I now use in all my trading decisions.
3. Again, since the price is input in all indicator formulae, I realised that no matter how many indicators I use, they are going to give me one and the same information, one way or another. Sure the graphical representation

could vary, but it's the same damn information all the time. There is no incremental addition to the information I received from these indicators.

4. One more path I digressed on was that of backtesting since these indicators lend so well to backtesting, sometimes I forgot what my original purpose was with backtesting indicators. I ended up tweaking and testing a thousand different parameter combinations. I even used to do it in my mind all the time. All this in the name of passion, led me nowhere.

There are so many things I want to share with you, all will come in due course, but right now let me stop right here and give you a solution to this problem.

Solution

The solution I am offering you is quite simple. Grab all your indicators and throw them out of the window. Maybe once you finish this book you may feel you need one of them back, and you can always get them back later, right.

But for the time being, just go ahead and delete all the indicators you have applied on your charts, make the charts clean and clutter-free. You have to delete the moving averages too. Later in the book, I will disclose that one type of moving average I use and recommend. That's the only one you will ever need.

We are going to see a completely new way of looking at the thing in this book, so trust yourself and let go of these indicators. I will walk with you through to the end of this book, where you can make a decision whether you need them back or not.

Advise No 5: Never trade in front of a new event.

Now there are masters of this craft, but please understand they put in a lot more work and time than you and I do, into it. At the end of the day, no matter what kind of fundamental analysis you do, it is a coin toss on any announcement day, events such as RBI and Policy Meets, speeches, results, etc.

Unless you have some insider information, but we all know that is illegal. Also,

you can't get your hands on any inside information in most of the above cases.

Now the event itself is a coin toss, in slightly more mathematical parlance, the probabilities are 50% of either the markets going up or down.

Now predicting how the market participants will perceive this information, the odds become so stiff that it does not make any sense trying to trade these events.

I agree that the volatility looks so tempting, but remember it looks tradable only after the fact. No matter what you do, what method you use, what indicator you use, it is not possible to predict the markets. The best you can do is to respond to what market is doing and try your best to reduce that response time, that's all. So what is my take on trading the events?

Solution

Simple one-word answer, "avoid". However, I would say that once the volatility dies down, you often get a clear direction in which the smart traders want the markets to move. I know you caught that word 'smart traders' and wondering who they might be. have a little patience, all will be revealed very shortly. This one concept of smart traders, if you can grasp will change your trading forever.

Advise No 6: Never listen to your broker.

This advice was relevant a few years back when discount broking was not available in Indian markets. Somehow traders in those days felt that broker owed them something in exchange of the paltry brokerage they used to pay on their trades. This way of thinking only caused more harm than good to these traders.

A broker's job is not to provide you with tips, he does that only to make you trade more. Also, a broker does not have the required amount of time, nor the mindset to trade the markets correctly.

Traders had this misconception, that since a dealer sits in front of the screen whole day, they actually know what the market is going to do next, believe me, just staring at the screen day in day out does not make you a good trader.

Nowadays these discount brokers have made it so damn cheap to place trades, that anyone with a few thousand rupees can come in and start punching buy and sell orders. Mind you that is not trading; it is much more than just buying and selling.

Solution

Well if you want to make it in this fiercely competitive industry, you need to put in the work. I will give you many ways in this book that will keep you on the right path and maybe reduce your efforts a little, but at the end of the day, it's your trading account, your trading profits and that is why your efforts.

Advice No 7: You should use “advice giver’s current favourite” trading system instead of “his last favourite” trading system.

This one is really funny. Some of the traders, including the gentleman, who said to me, “It’s not about RSI or any other indicator, you need to find the one that suits your personality”. ended with a different trading system, tool, indicator in a few months’ time, sometimes it would be in a few weeks even.

“Why do traders keep changing their tools?” I asked myself. on another day sitting at the same broker’s office.

This time too I received a reply, but it was not that gentleman, it was from an even older man, who was anything but gentle. He must be well over the standard retirement age. His hair completely white and he wore traditional Indian attire daily, a silk kurta and a dhoti, along with his trademark “black toupee”.

“These fuc**rs don’t want to take the responsibility of their own trading” he almost shouted.

“They want the indicators, tools and systems to make money for them, my son, you have to make your own buck here, there are no free lunches in markets” he surmised and walked right past me, murmuring something to himself.

This sudden outburst from an otherwise mute person of his age startled me a

bit. But this time I was left with something that I thought was totally unrelated to trading.

“What has ‘taking responsibility’ to do with becoming a ‘successful trader?’” I asked myself.

Little did I realise then that trying to find an answer to this question was going to take me on a journey so revealing and so profound that I would not believe the changes that were going to happen deep within me.

All this contributed to my becoming the trader that I am today, stay with me friends as I will reveal everything I have been through and I am sure it will help you guys become the traders you always dreamt to be.

Chapter 3

The Encounter with a Completely New Way of Looking at the Markets

“Learning something new is scary, but once you overcome your initial hesitation what follows is always beautiful and in case of trading profitable.”

– Dean Market Profile

A few more years had passed in between, me sitting exasperated at my broker’s office and the day when I was getting a light grip on my trading. I was still a long way from what I wanted to be, but at least I had acquired some basic understanding of how markets work, the folly of using too many indicators and a realisation that it is more important to stay in the game as long as you can.

Trying to make up for your losses will only cause you more pain, but once you become a good trader you can make much more than you have lost in a very short period of time.

I was trading using the Elliott Wave Theory (EWT). I loved it; I even started blogging about it. I also made a few friends online who shared my affection for EWT.

Everything was running smoothly, I was not making money as consistently as I would have hoped, but I started having more good weeks than bad ones. Also realising that I had to unlearn a lot of things from my school and college days and learn the ways of the markets kept me going.

A trader is a funny breed, no matter how good he becomes, he always wants more. I am yet to meet in my almost 15-year trading career a trader who does not feel he can improve his trading, or make slightly more this year than the last one.

So I was the same, I wanted to do better, even better than I was doing at the moment with EWT, so I kept reading, watching videos on YouTube (cut to present I have my own YouTube channel now), researching for things that can help me improve.

That's when I came across Market Profile.

It was a weird-looking chart with letters instead of bars or candles. It looked like a point and figure chart to me. I saw that chart and the first thing that came to my mind was this looks way too complicated. And I promptly dropped the idea of researching it any more.

I went back to my merry ways of trading with EWT. I dug deeper into the EWT subject and discovered a better way of applying the EWT, it was called Neowave. This was a much-disciplined approach designed by Glen Neely. He did the humongous amount of work and found that there exists a precise relationship between the waves in an EW. The simple three impulse wave with two corrective waves in between followed by a three-wave corrective pattern was not the way I looked at EWT anymore.

I dove deep into the Neowave and learnt all the precise relationships between different waves. The relationships were designed based on the magnitude of the waves that is the amount of price each wave covered and the time it took to cover that distance.

Not surprisingly the two basic elements still remained the same price and time; somehow I started feeling this was a central theme of the markets that everything revolved around price and time.

I also used price action along with my Neowave studies. Price action traders focused on price as the single most important factor in making trading decisions.

All was going well but somewhere there was this feeling that I could not shake. I

always felt that no matter what tool I used, I never got the answer to the following question.

“Why does the market does what it does?” I kept asking myself. and as I was talking to myself like a madman, I bumped into Babuji, the same old white-haired old man who startled me with his statement about traders not wanting to take responsibility for their own trades.

I was in a minor shock that I bumped into an old man and was already blaming myself for being too clumsy. But instead of deriding me for my clumsiness, Babuji as he was affectionately called, asked me.

“What are you lost into, son?” and before I could understand what was happening and even before saying sorry to the old man for almost toppling him over at this age, I blurted out what was really going on in my mind.

“Why does the does market what it does?” I said as if I just had a bad dream and woke up shouting.

Babuji had a big grin on his face as if he had found something he was looking for a long time. Or maybe he was laughing at my stupid question, I could not make out which. But by the time I had come to my senses and realised what I had done, so I apologised to the old man.

“Babuji I am really sorry, I don’t know what I was thinking, I did not see you at all” as I was mumbling my apology, Babuji stopped me in between and said.

“It’s alright, that is how a trader should be, consumed by thoughts about trading. Some people call it an addiction, but they will never know. I pity them.” he said looking visibly disturbed as he said the last part of pitying those who don’t know what trading is all about.

I again apologised to the old man and he said, “Water under the bridge, son”.

And he moved on, I also started towards the door of the office to head back home, lost in my thoughts.

But before I could take a couple of steps, Babuji said in a loud and firm voice,

“If you ever want to find the real answer to your question, let me know we can talk over a cup of tea”

I did not know what to say. But I collected myself and said, “Sure Babuji, I am in a hurry today, but will hold you to it.”

“Anytime son” Babuji assured me, and I walked out of the broker’s office.

I was walking home when I got the message on my phone that my book was delivered to my home. I had done some research and got my hands on all the books I could get on the subject of Market Profile. I know I said I was happy with EWT and Neowave, but I could not discard the topic without studying it in detail. That is just the way I was in my college days, I would never read the textbooks, I always preferred good reference books, because they made the subject fun.

As soon as I got home, I grabbed my books and started reading through one of them. I picked the habit of reading in my college days, and have been a voracious reader since then. One of my friends once remarked he wondered whether I read the books or ate them.

Anyways, I read all the books over the next few days. They were the usual suspects for any market profile enthusiast, books by James Dalton and also some by Peter Steidlmayer.

As I read through them I came across a few new concepts, apart from the way these charts were constructed. I was still not very convinced of the power of this new tool I was so casually reading about. But what caught my eye was this new theory called AMT or Auction Market Theory.

Maybe it was because the word “theory” was there in EWT, or something else I found the AMT concept very interesting, little did I know then that this was going to form an integral part of my trading in future. That I would be basing all my trading decisions on this one theory alone. And this theory would take my market understanding to a whole new level.

It was another day at the broker’s office. Babuji was his usual self, shouting orders to the dealer. There were a host of other traders, including the gentleman

sitting around the dealer. The gentleman also had a laptop on which his charts were displayed; he had signals plotted on his chart, little green and red arrows. He said his system would tell him when to buy and sell.

The market that day was trading near a resistance; it was a multi-week high. It was 5 straight trading sessions that the markets were trading near that high. I was observing these different traders closely, sometimes I even coat tailed some of them if I was not sure of what the markets would do.

It was not until much later that I realised both my approach and my question were wrong.

Ok, back to markets, a tight range was forming around the resistance; I knew Babuji was buying for the last two days. He thought the resistance would hold and markets would come down at the start of the week, but for last two days he had changed his stance and not only did he cover the shorts he also bought, and everyone knew how heavy Babuji used to trade.

So I bought some too.

The gentleman's indicators were in the overbought zone, he had a bunch of red arrows on his chart over the last few days. He was confident that his system would not go wrong and he had shorted the markets.

I was a curious why Babuji changed his stance, and it was almost closing bell, so I pulled my chair next to him and asked him in a soft voice.

“Babuji you were short at the start of the week, why are you long now” I almost whispered to him.

He turned to me in surprise; maybe he did not expect I was watching him so closely.

“Sharp eye, son! Well, the sellers have nothing to show for their efforts at this level. And if they are not here wonder where the markets will go to find them?” I managed to make zero sense out of his statement.

The markets closed near the high for the day, in fact, it was very close to the

upper boundary of the 5-day range we had that week.

“Monday, fireworks!” Babuji said to me with the same old grin on his face, as if he knew something that others in that office had no clue about.

I too went home; it was that part of the week which I hated the most. The weekend! Add to that what Babuji said about Monday and I could barely wait till the opening bell on Monday.

It was Monday finally! I had been thinking about what Babuji said to me on Friday. I was travelling to my broker’s office with the same thoughts in my head. I am a bit like that, once I have something on my mind I can’t rest till the issue is resolved.

Something else was also on my mind. Remember AMT? Well, I could not pinpoint it but I felt there was some similarity between what Babuji said to me that day and this AMT thing.

AMT is pretty simple; it only has two statements to it.

The market goes up to find sellers.

The market goes down to find buyers.

That’s it. Little did I know then that these two statements will change my trading forever, and change me as a person too?

It was just a few minutes to opening bell; I could not see Babuji in the room. The gentleman was there well before the opening bell, already with his system and signals. Babuji too arrived just a few seconds to the opening bell. Markets opened with a big gap up, the gentleman was red in face, he did not expect such a big gap.

Babuji was watching the markets like a hawk. I asked him how much more the markets can go, and he looked at me with anger and frustration on his face and said, “How would I know?”.

I did not understand on Friday he was almost certain of a higher opening but now that the markets opened higher he was not sure what to do.

The gentleman had to throw his short position, he incurred heavy losses. The system had failed him.

The markets closed right at the highs once again, but today we were up quite a lot, even after the gap just kept going up and up. I had gone to get me a glass of water after the markets and came back to the trading room to talk to Babuji.

As I entered the dealing room, I saw Babuji and the gentleman talking.

“The system had been working fine, I don’t know what went wrong today” complained the gentleman.

“You need to understand when to listen to your system and when not to, my friend,” replied Babuji as if that was the only thing you needed to know to become a successful trader. The gentleman was visibly confused by Babuji’s suggestion and so was I, but being confused was nothing new for me, but the gentleman was having a tough time digesting what Babuji said about his system.

Babuji got up and started to leave the brokers office for the day, when I asked him, with a little bit of jealousy, “made a killing today, Babuji”

“It’s not done yet, son,” he replied with the same old grin.

I knew the trend was not going to stop in a day or two, this was something bigger.

I continued thinking about Babuji’s statement on Friday how it resembled the AMT (but I could not make out exactly how) and what he said to the gentleman about knowing when to listen to your system and when not to.

It was making a hole in my head when I decided to finally ask Babuji about it. I knew he promised to discuss it with me over tea.

That day after the markets closed I asked Babuji if he would like to have tea with me and maybe answer a few questions I had in my mind. He promptly agreed, maybe because he loved tea so much.

At the tea stall, I started asking my questions.

“Markets go up to find sellers, would you agree?” I asked.

“Absolutely, markets would keep going up till they find sellers. That is what is happening in the markets right now, we have been moving up for a few days now,” he answered.

“Why then traders keep saying that markets are going up because the demand is higher?” my second question.

“These idiots know nothing; in most cases, the supplier controls the markets. Also, they are trend followers, so they need a reason to keep following the trend like a sheep in a herd.” Babuji answered.

“How will I know whether the trend will continue or not?” I asked my third question. But I did not get a prompt reply, Babuji instead focused on enjoying his tea, so I re-framed my question.

“Is there a way to understand the strength of the current trend?” I asked again.

“Well, for one thing, you can't know the future, trust me it's no fun. Secondly, there is a way to assess the strength of the trend, you just need to look at what the market has been doing over last few days,” he answered in a matter of fact way.

“I did not understand completely,” I demanded more explanation.

“See, people tend to focus on the exact reversal point, the top or bottom because it is evident after the fact. Anyone can tell a top or a bottom once it has been formed. But the markets don't change tune on the dot, it takes time for one party say buyers to lose their grip on the markets and sellers to step in and start marking the price down. All this happens over a period of few days to weeks, all you need to do is to watch the markets for signs of change. If you can do that, you will start making better trades, almost immediately.” he explained.

It was the first time I heard him talk for so long, usually, his remarks are very short and to the point.

“Babuji, I think I will have to sleep on this one,” I said.

“Yes that is always a good way to think, give these concepts time to sink in,” he said finishing his tea and we left our separate ways.

Then I came back to the books I was reading where I first learnt about the AMT that is auction market theory. Well, what Peter Steidlmyer has done in his books is he compares stock markets to an auction market.

We all have seen auctions taking place in movies, we see the auctioneer announcing the items to be sold with the initial price. If a bidder bids for the item, he may ask for a higher price. If the item is precious we sometimes see bidders bidding up the price for that item well beyond the initial price for that item.

But suppose after announcing the initial price there is no interest in that item by the bidders, the auctioneer will reduce the price and invite bids at a lower price. He may keep lowering the price until he receives a bid.

This is a classic one-way auction we are used to. Markets, according to Peter Steidlmyer, however, work in a slightly different fashion. He says markets are an example of a two-way auction process, let me explain this point further and using an example of a regular trading day.

You come into the office one day, well prepared to handle anything the markets may throw at you. Your analysis tells you the markets should go lower. The markets open gap up.

Your heart starts racing and you ask your friend, “Is there any news, why the f**k did market opened gap up?”

“I have no clue buddy; right now I am more worried about my overnight shorts. At least you did not short yesterday. God only knows where this will stop now.” replies your friend.

After about an hour of trading, you can't take it anymore and you tell your friend, “I can't wait anymore, I wanted to short yesterday, but the trend is looking strong, we better get on board this one.”

Your friend who covered his shorts 15 minutes ago, “I can't trade anymore dude,

this has taken the starch out of me, I guess I am done for the day.”

But you are still out of the markets and it is getting exceedingly difficult to sit on the side-lines, “I think I am going to buy here and put a stop loss just below the gap low, let’s see how it plays out.”

So you muster up some courage and finally put in a buy order, you promptly get filled. You feel good, as the markets were just running away from you, now you hope to enjoy the trend continuing for the rest of the day.

But the market stalls and then starts coming down. At first, the fall looks like a pullback but slowly the pace picks up to the downside. You again feel the pit in your stomach “Is the market turning right after I bought?” you ask in disbelief.

In a short while, “The markets are not stopping at all, already through the day’s low, I think my stop loss is going to go now.”

And even before you can finish the sentence, your stop loss gets hit, and you get out.

The market keeps falling and goes even through the prior day’s range. By the time the markets close, prices are trading at the day’s low and your original idea of going short would have made a killing.

So what went wrong here, you had the right idea but why you could not make any money, in fact, end up losing in the bargain.?

Is there a way to explain this kind of market behaviour. fortunately, there is.

Auction market theory says only two things as we saw earlier.

The market goes up to find sellers.

The market goes down to find buyers.

Let’s decode this traumatic trading experience using AMT.

1. **The market gaps up:** Clearly, the markets were not high enough yesterday

to bring in sellers. Had the sellers come in yesterday, markets had no reason to gap up today. So as per the first statement of AMT, markets went higher to find sellers.

2. **The market keeps moving up:** As the markets opened higher unexpectedly, anyone who was short yesterday, like your friend, felt the heat and needed to manage their shorts. Like your friend, many traders had to buy back their shorts and that pushed the markets even higher.
3. **The market stalls:** Exactly when traders like your friend were covering their shorts, someone with a better understanding of markets used this sudden demand as an opportunity to establish shorts. Remember you too had a bearish view yesterday.
4. **The market starts coming down:** The reason markets were going higher after the initial gap up is because the smart traders wanted to flush out the weak sellers from yesterday. They also wanted to trap traders like you (who bought) into bad positions. Once all the demand old (stop losses) and new (breakout buyers) were absorbed, the markets stalled and reversed.
5. **The markets keep going down:** Once the initial up move was used by smart traders to establish their short positions, all they had to do is wait. The markets fell under their own weight and kept falling. It will stop falling only if smart traders decide to buy again.

So if you have been studying AMT, and as per Babuji's suggestion you have been watching recent market action, you would have done things differently. I am sure you must have been through such an experience, every one of us has. That's the way we learn, isn't it?

But from now onwards just keep the AMT statements firmly in mind whenever you put on your next trade.

Ok, so this AMT and looking at recent market action were my two learning's from my discussions with Babuji and reading Peter's book.

Now my next hurdle was to find a tool that will help me apply my learning to

the real-time market situations. I tried to apply these using EWT and price action, but somehow I could not do it.

It's funny how I was sitting right on the solution I was looking for, Market Profile. let's see if I found what I was looking for and was I able to apply my learning to the markets using Market Profile.

Chapter 4

Re-Discovering Market Profile (MP)

“The best way to understand a book (or a subject) is to read (study) it again and again, every time you will learn something new and your understanding will grow deeper.”

– Dean Market Profile

I finished reading James Dalton’s books, Mind Over Markets and Markets In Profile. But still, nothing dawned on me as to how I can combine AMT and other learning with MP.

Peter Steidlmayer did mention how he discovered that by arranging the price data in a certain format (more on that soon) he can apply the AMT principles to the real-time markets. But I think I still had a lot to learn.

Price and Time, once again the two basic elements of the markets came to my rescue and propelled me further on my path to learning and mastering market profile.

Market Profile as per Peter and Jim’s teachings plots the price data in a certain way that lets us observe so many things which were not visible early on. Once they started doing that they discovered so many new things about the markets, which the best of the traders only knew intuitively. To make it possible for traders like you and me to understand all those observations, they devised a new terminology.

Now many traders shy away from market profile because they feel it is filled with jargon, complicated concepts, lots and lots of rules, and on and on. They think that it will take them years to master the concept.

Add to it the “gurus” who suggest traders new to this concept steer clear of MP (mostly because they haven’t taken the pains to learn it), there is a lot of discouragement for a new trader to take up MP.

But I am going to change all that. If you stay with me till the end of this book you will realize that not only MP is not hard or complicated, once you master it (which is possible if you apply yourself) you can become successful in a business (trading) which has the highest failure rate as well as the biggest of rewards for those few who succeed.

So let us go through the basics of MP quickly, there are many books and resources (my own YouTube channel) to learn the basics, but I will still take you through them once more. Experienced traders can consider it as a revision.

Price and Time, these two basic elements form the market profile chart. To plot an MP chart we fix the time scale to a 30 min time frame. So what an MP chart essentially is, is a 30 in bar or candlestick chart, with a small twist.

We then replace the traditional bar or candlesticks with letters. So the first 30-minute candle will be replaced by a number of letter ‘A’, next 30 min candle will be replaced by a number of letter ‘B’. The wider the range of the candle the higher the number of letters (we will see why it is so in a bit).

If you trade Indian markets which open at 9:15 and end at 15:30, you get 12 full 30 minute periods and one 15 minute period the closing candle. So we need the first 13 alphabets to complete an MP chart, A to M.

You can trade any market in the world the same logic applies. Some markets run 24/7 in electronic format. In such a scenario we use capital letters for the main sessions (also called pit sessions) and small letters for the remaining time (also called the overnight session).

The following illustration shows the point clearly.

Once all the candles are replaced by letters we move on to the next step in the process.

Now we start moving the letters towards the left axis that is price axis. We keep moving the letters to the left till it reaches the opening candle period that is the first bar, or there already is a letter to the left. Since most of the bars overlap during a day's trading, we almost always have a letter to the left.

The following illustration clears the point.

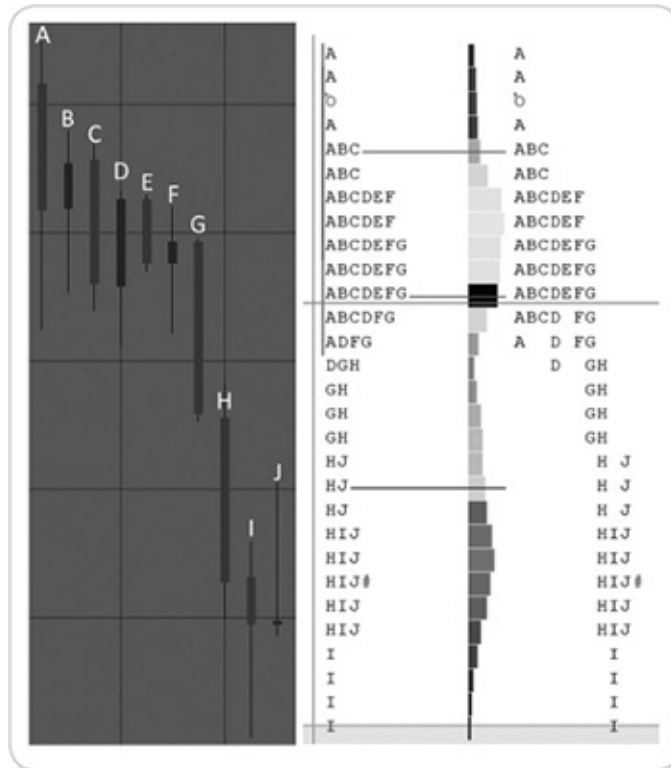


Image 1: Market Profile and Bar Charts

Once we have moved all the letters to the left we end up with a typical shape to the profile. Typically we will see very less or sometimes single letters near the highs or lows with the central part of the profile looks the thickest. Look at the figure below to understand what I mean.

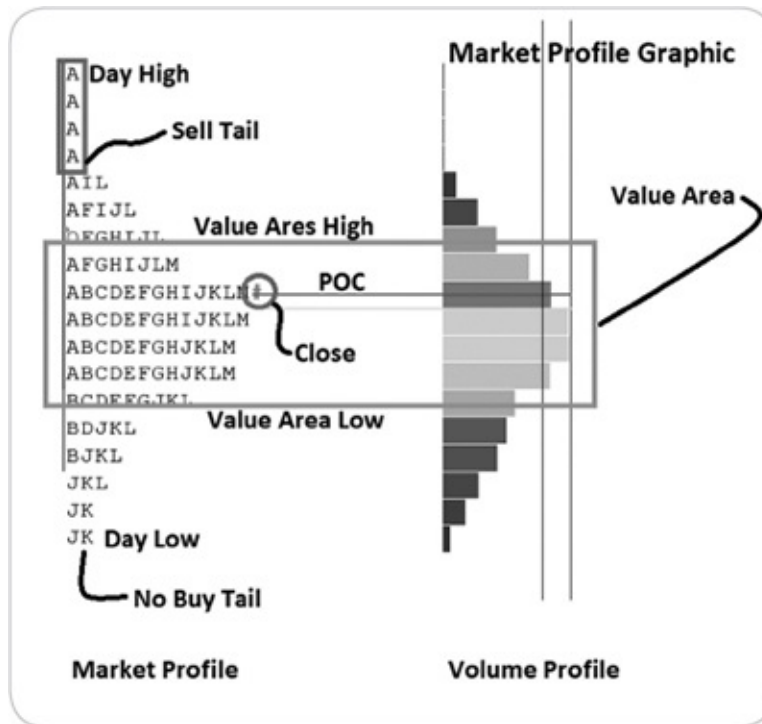


Image 2: Completed Market Profile Graphic

This is how a completed days market profile looks like. if you look closely you will find that it resembles the “bell curve” or “normal distribution curve” (for the more statistically oriented) turned clockwise by 90 degrees.

When Peter spotted the similarities between the two, he also borrowed a few terminologies from the statistics to the trading world. These terminologies are sometimes the reason why traders find MP difficult to understand at first.

But trust me I will make it all easy to understand. I will keep this book in a simple language so that one who hasn't heard of statistics can make sense of MP charts too.

Let's now look at a few commonly used terminologies in MP.

1. Sell Tail
2. Value Area High
3. Point Of Control

4. Value Area Low
5. Buy Tail

These five information points are available to an MP chart user along with the following four traditional points on a simple candlestick chart.

6. Open
7. High
8. Low
9. Close

As you will soon realize that these additional 5 points of information give you so many opportunities to understand the markets better. Better understanding leads to better decision making. Better decisions lead to fewer mistakes and finally, fewer mistakes lead to increased profitability.

So even though you cannot calculate the traditional hit ratios or profit ratios for MP (since it is a discretionary tool) it most certainly leads to improved profitability as you become good at it.

There are many intangible benefits like reduced stress, increased confidence in you as a trader, and liberation from the constant urge to figure out what the markets will do next.

Let us define these terms now, one by one.

1. **Sell Tail:** When you have two or more than two single prints vertically at the upper extreme of the day's range, which is near the high of the day, you call it a selling tail. It denotes that the markets went too high to uncover aggressive sellers. So a big sell tail will point to the presence of aggressive sellers at that level.
2. **Point Of Control:** It is that price level in the day's range that has the highest number of letters (horizontally). It tells us that most of the time

periods throughout the day traded through that particular price level. The wider the POC higher the acceptance of that level by the traders. As we move further into the book many characteristics of POC will come forward, so keep reading.

3. **Value Area:** It is 70% of days range around the point of control. The main objective of MP is to separate value for each day. So as seen from the graphic earlier, the central 70% part of a days profile constitute the value area. It is this value area which gives us much deeper insights into the markets.
4. **Value Area High:** It is the upper boundary of the value area.
5. **Value Area Low:** It is the lower boundary of the value area.
6. **Buy Tail:** When you have two or more than two single prints vertically at the lower extreme of the day's range, which is near the low of the day, you call it a buying tail. It denotes that the markets went too low to uncover aggressive buyers. So a big buy tail will point to the presence of aggressive buyers at that level.
7. **Settle or Close:** usually in candlestick chart we look at the close with reference to prior days close, days open or days high and low. But on the MP chart, we have additional information points like the value area high and low to compare where the markets close with respect to them. It gives us that additional bit of information which lets us decide which party buyer or seller was in control and which of them is under pressure.

These information points help us figure out what the market is trying to do at any given point in time.

Now we will go through another vital concept TPO. This concept is usually presented at the start of an MP terminology. But I believe you needed to go through the above details before you could understand and appreciate the importance of a TPO.

TPO – Time Price Opportunity

We replace the candles with letters in an MP chart as we discussed earlier. But what we do is divide the price range of the bar into a fixed number of parts and then replace each part with a letter. We do this so that the chart remains legible, otherwise, it can become very difficult to even understand which letter is being used.

So for instance, the range of the opening bar of an instrument is 50 points; we may divide it into 10 parts and substitute each 5 point part with a letter. So the first bar of 50 points, in this case, will be replaced by 10 letters 'A'.

Had the range been only 35 points there would be only 7 letters 'A' on the chart.

So each 5 point part on the MP chart represents a TPO. This means on any given 30 min time period at a particular price level you had an opportunity to trade at the TPO. If on the subsequent time periods that level is revisited you will have another TPO. But if it does not revisit you will not get another chance to trade at that price on that day.

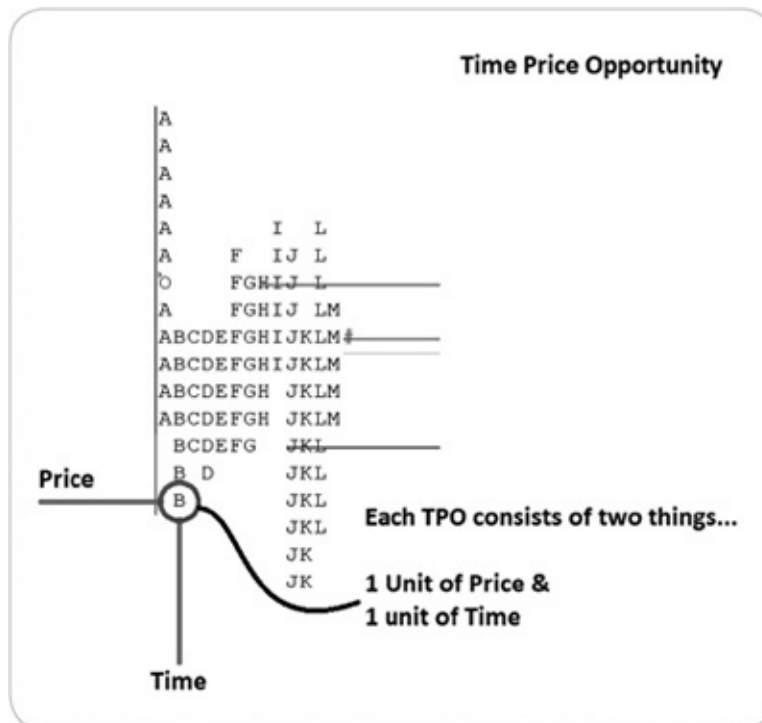


Image 3: TPO

So when you now look at a POC, you can easily understand that there were multiple opportunities for traders to trade at that price. But in a buy or a selling tail, the opportunity was limited to only a single TPO.

So if we have more than one TPO at any price level we can say that the price level was accepted. More the TPOs mean more acceptance. So on any day, the price acceptance is highest at the POC for that day and lowest near the extremes of the day where you usually find the buy and sell tails.

This small concept will prove priceless as we dive deeper into the subject of MP.

If you have understood the basic components of the MP chart, viz, sell tail, buy tail, VAH, VAL, POC, value area and TPO, you are set to begin the next phase in your journey to mastering Market Profile.

So I kept picking Babuji's brains for the good old trading wisdom, I kept reading and applying concepts from Peter's and Jim's books in real-time markets and I also kept an eye on the gentleman as to how the teachings of MP were differing from what he was trying to do with traditional technical analysis.

The next step of my learning came from the varied concepts that were shared in Jim's books. They were fascinating to me as I had never heard of them and they also helped me put the market action in proper perspective.

Somewhere I thought this is what Babuji was referring to when he talked about understanding recent price action. Jim called it context. This word "context" stuck with me and I have never left it for even a second in my trading.

Context is yet another powerful concept which can change your trading forever, I know because it did for me.

As I moved on with my study of Market Profile I discovered many new concepts. Concepts like.

1. Day types.

2. Open types.
3. Opening types.
4. Structural features.
 - a. Poor highs and lows.
 - b. Single prints.
 - c. Anomalies.
 - d. Weak highs and lows.
 - e. Initial balance.
 - f. Failed auction.
 - g. Profile shapes.
 - h. Inventory adjustments.
 - i. Pullback lows and rally highs.
 - j. One time framing.
5. Profile shapes.
6. Value area migration.
7. Value area placements and on and on.

I mean there are a hundred things that can be listed down here. But let's not make this book yet another MP glossary. I wanted to share how I progressed through this interesting topic, how I discovered new things and how my understanding of MP and markets grew deeper with time.

Let's continue to go through my experiences and see how I picked up these nuggets in real-time and improved my understanding of MP.

The first thing a novice trader does when he learns about MP is he learns all the structural features by heart and then tries to find them on the chart. One reason for

this may be because structural features are the easiest to understand and spot on the chart post-fact, which is after they have already appeared on the chart.

I was no different, let's see how I messed it up and then also rectified my mess to come out better on the other side.

It was a tight range over a few days, markets were not doing much, it was a boring market. the trend was up though.

“Babuji, it seems markets will die here, it not budging at all,” I asked in pain, as the boredom was killing me.

“This is how they fool you; they will strike once you fall asleep,” Babuji replied in his own quirky way.

“I did not get, I don't think I will understand anything till the market moves. What do you think will it break out?” I asked Babuji.

“There are no buyers at this level and sellers are not doing anything too,” he replied.

“If there are no buyers and no sellers, then who is trading?” I asked trying to be over smart with Babuji.

“You will know,” he said, and once again it was a classic Babuji response, short and bitter.

That day ended with price closing near the days mid, well within the consolidation, nothing really changed.

The chart below shows what was happening.

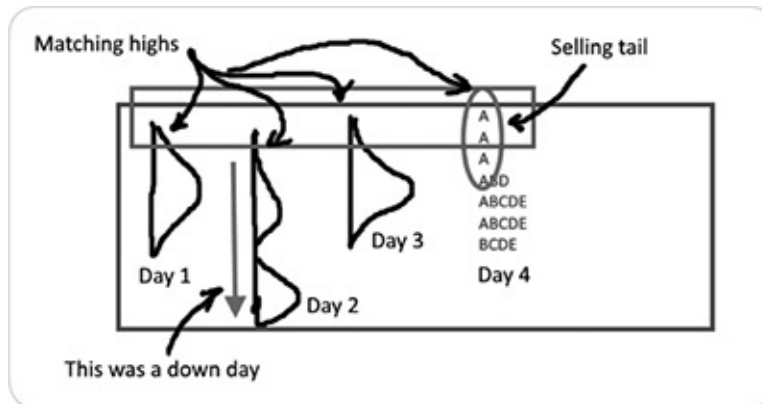


Image 4: Structural Features

Now I was dying to show off my MP learnings, so I said, “Babuji, it looks like the sellers are in control.”

“Does it?” asked Babuji.

“Yes, look at the selling tail” I pointed to MP chart on my laptop.

He seemed least bothered by it.

Later in the day the markets actually broke out, I covered my shorts created in ‘D’ period at a small loss. More than the loss I was curious about Babuji’s analysis of the situation.

“How did you know markets were going to go up?” I asked for an answer.

“There was a lot of overlap if sellers were in control why were we spending such a long time in this zone,” Babuji replied.

Once again my hopes to become an MP Master were shattered, temporarily. As I am not the one who gives up so easily.

“You need to look at what is happening in the recent past to assess the markets in present.” once more single sentence reply to my big problem.

“I will think over it and come back,” I said with some sadness in my voice. The sadness was partly due to losing out on a long trade and partly due to my misreading of the situation using MP.

“You will get it, son,” assured Babuji.

That night I sat down with my MP charts, determined to find out what was happening.

I had a few guiding beacons with me, they were.

1. AMT principles.
2. Babuji’s idea of looking at recent market action (which Jim calls context)
3. Recent understanding of the MP structural features.

It felt like I was having a conversation with three people, AMT, Babuji and MP Structure, it’s kind of funny but here is how it went.

AMT: Market is in an uptrend, why do you think the market goes up?

Me: To find sellers.

AMT: Great.

MP Structure: But there was a selling tail right at the top of the tight range today.

Babuji: But even after this so-called show of strength by sellers, prices did not come down, it was well within the consolidation.

Me: But Babuji what made you go long?

Babuji: Lack of aggressiveness by sellers and the current trend.

Me: But AMT says market goes up to find sellers.

AMT: Absolutely, but what if the market does not find sellers at this level, it will continue going upright.

Me: That makes sense.

MP Structure: Maybe you are not looking at the complete structure and getting hung up on the present day’s structure only.

This was a light bulb moment for me.

Babuji: I always say, you always have to look at recent market action before you make up your mind about a trade.

Me: Yes there is one more structural feature that I overlooked here, matching highs, which is a sign of exhausted buyers and not aggressive sellers.

MP Structure: Look at it this way, if you are climbing a hill and you get tired, you rest for a bit and then resume climbing again. Unless there is a very very good reason, you don't start climbing down mid-way, you wait till you get to the top of the hill right.

Me: Right.

MP Structure: Matching highs tell the same story, the market wants to go up, but is tired and may rest for a bit.

Babuji: Exactly what I saw.

Me: Babuji your trading experience is twice my age, no wonder you got it right.

Babuji: Don't worry son, you will get it.

Me: Okay so today's lesson is, look for the recent market action, do look at just recent days structure and make up your mind about the big picture.

Babuji: Also have patience, markets could have come down in the same scenario, it was the lack of follow-through to the downside which was a key indication that sellers may not be in control. If the market takes too much time to do something it usually does the opposite.

Me: Thank you all for helping me understand what happened today. I wonder when I will be able to do it in real-time.

I went to sleep with this thought of being able to figure out the markets in real-time. It was an exciting thought and I had a good nights sleep.

This is how the day ended.

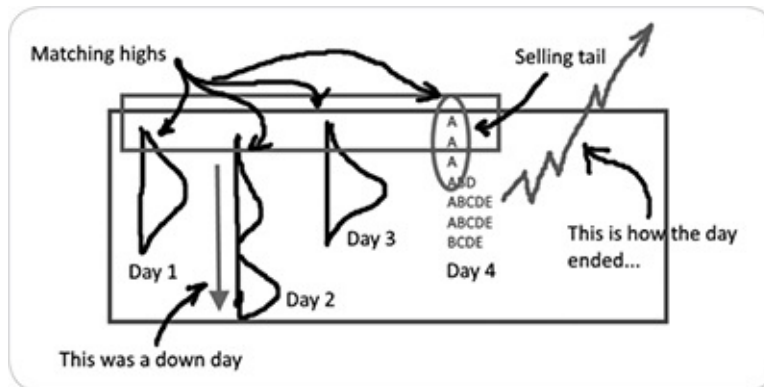


Image 5: Market Follow Up

I continued my learning and application of MP. Making and losing money, but learning precious lessons along the way.

I learnt that just looking at the structure won't help you, you have to look at the overall context.

Next learning came regarding the day types.

There are following day types in MP.

These are shared by Jim in his book.

1. **Non-trend day:** Prices stay within a very narrow range with no directional bias.
2. **Normal Day:** Prices may try to move up or down but the range remains very narrow.
3. **Neutral centre day:** Markets vacillates on both sides but end up closing near the mid of the day.
4. **Normal variation day:** Markets show a definite preference in terms of direction.
5. **Neutral extreme day:** Markets test on one side and then end up moving

substantially in the opposite direction.

6. **Double distribution trend day:** Market has a definite directional bias but the opposing activity is strong and does not let the markets move freely in one direction.
7. **Trend day:** Markets are completely in control of either buyers or sellers, opposing activity is minimal and prices move freely in one direction.

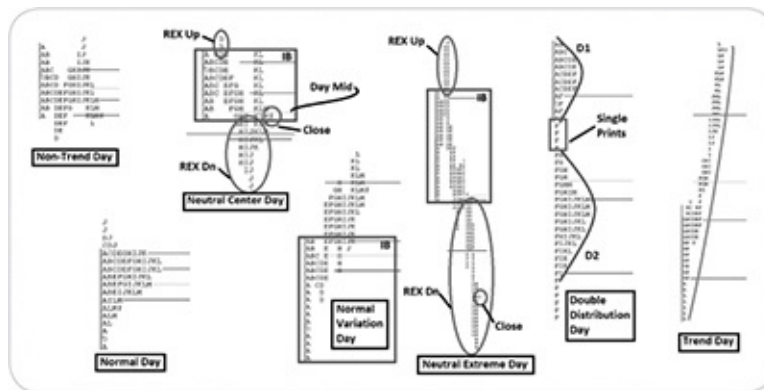


Image 6: Day Types

These are arranged in increasing degree of increasing directional conviction. Naturally, the traders are attracted towards the trend day, because there is big directional progress. But each day tells you a story. Each day type will add to your market understanding. But as it was clear from the following incident, not all information is actionable; some information is just to improve your market understanding. Only a little part of the overall information matrix is actionable. Let's see what soup I landed in this time.

“It happened again today, I missed yet another trend day.” I was almost angry at myself, I knew it did not serve any useful purpose but I guess I was just venting out.

“What happened?” asked the gentleman.

“I was tracking the markets for so long, it was doing nothing, I thought today will also be one such ‘nothing’ day, but the markets just kept going up. I missed this again, this has been happening very often lately.” I explained my plight to him.

All the while Babuji was listening to my rant, he was taking care of some business with another trader, but I am sure he was listening. As soon as he was done with his business he turned to us and said, “How do we make money in the markets, son?”

I was not expecting a direct question, so I was caught by surprise, but gentleman replied: “buy low sell high or sell high and buy low.”

“Correct” replied Babuji, “basically we are trying to create a price differential.”

“A, what???” I asked I was aware of the word ‘differential’, for some reason I liked mathematics in college.

“A price differential, a positive difference between our entry and exit price” he explained.

“Ok, go on,” I said.

“To create a price differential we need to wait for the markets to finish doing business at a price level or zone and then see which side the markets may move next,” said Babuji.

“What do you mean to finish the business at a price zone?” I asked.

“See, big traders need to take big positions, also there is not a single big trader, there are multiple and they all are watching each other. Say, they feel markets will go up and they want to establish a big long position they can’t just go and buy,” said Babuji.

“Why not” I interjected.

“Because if they buy in such big quantities, the supply will be absorbed quickly and the prices will start moving higher, this will only increase their average price.”

“So what do they do?” asked the gentleman, who was patiently listening so far.

“They spread their orders over price and time, they will buy over a bigger range and if their buying becomes too big for the market to handle, they will stop buying let the markets recede and then buy again later, this is what creates consolidations,”

Babuji explained.

“Wow!” that’s all I could say.

“Today they finished accumulating their longs and absorbing almost all the supply at this zone and the prices had nowhere else to go but up,” said Babuji getting up to leave.

I was lost in my thoughts, I was thinking AMT had a similar thing to say. Markets go up to find sellers, but if the big and smart traders are on the long side they will absorb the selling and keep marking up the price. Suddenly a thought struck me like a bolt of lightning and I blurted, “But Babuji who was selling in this consolidation zone?”

But to my surprise Babuji had already left, I was so engrossed in my thoughts that I did not notice him leaving. Gentleman too did not have an answer. So I was left with another unanswered question to ponder over.

I once again sat down that night to ponder over the discussion we had earlier that day. I was just brushing up on my reading of the day types in MP and it struck me that different day types exude a different degree of confidence.

And as explained by Babuji, smart traders will not mark the price up until they have accumulated their positions.

So can these two things be related, the smart money behaviour and the day types, so I laid it down on a piece of paper.

Day Type	Confidence Level	Smart Trader Activity
Non-trend day	Very low	Accumulation/Distribution
Normal day	Low	Accumulation/Distribution
Neutral centre day	Low with confusion	Accumulation/Distribution with the test at extremes
Normal variation day	Good	Accumulation/Distribution with a directional bias

Double distribution trend day	Better but opposing activity strong	Directional bias with opposing activity
Neutral extreme day	High with one side winning at EOD	Accumulation/Distribution with a successful test on one side
Trend day	Highest	Mark up

So as per MP Day types, I can now see that on narrow range days with very little price progress on either up or downside, smart traders might actually be accumulating and on days with clear directional bias aka trend days they are enjoying the fruits of their labour during the preceding consolidations.

So consolidations in markets, which novice traders are asked to avoid are actually big opportunities where the smart traders accumulate or distribute their positions.

That day my whole view of the markets changed. Thanks to Babuji, AMT and now MP I could finally make a lot more sense of why the markets do what they do.

Chapter 5

Deep Dive into Market Profile

“Market Profile has been the most important thing I came across in my life. It not only changed me as a trader, it also helped me learn some very important lessons about life. Overall it has made me a better person.”

– Dean Market Profile

Market profile sometimes may seem like a vast subject. I almost stopped pursuing it on many occasions. But once you are through studying it in detail, you will realize it is not that vast after all.

The concepts are so intuitive and easy to apply, that once you get a hang of it, you can't see the markets the same way again. Actually, this is what James Dalton said in one of his videos.

And it has been my experience too; you see the markets in a totally different light. Sometimes it feels that the market is talking to you, nudging you ever so subtly to take or not take a trade.

You can develop this feel too; I will share how I acquired this feel over a period of time after I learnt all the different aspects of Market Profile.

Let's take a deeper dive into the subject now. Let's see what pearls of wisdom are hiding at the ocean bed of MP.

Some time had passed since my last meeting with Babuji or the gentleman. I was now trading from my office, not the broker's office. Babuji was not keeping well recently, he was really old now. Age catches up with everyone.

I visited him often at his place; he loved it when his old acquaintances from the trading world visited him. There are not many people you can talk about trading with. Especially and surprisingly in your family.

Most of my family members have been employees. I was the only one who was “stupid” enough to leave a cushy job and try doing business, that too, one as uncertain as trading.

But you can't reach new places by following the same old beaten down path.

I wanted new in life and in trading as well. And I was discovering layers upon layers of this fascinating tool called MP. By this time I had considerably improved as a trader, reduced my mistakes considerably, discovered a newfound respect for the word “risk” and gone much deeper into the different concepts of MP.

One such thing is Open and Opening types.

Where and how the markets open gives you a lot of information about the kind of day that is likely to develop. There are about 3 types of Open and 5 types of openings in MP. Let's dive into them now.

These terms were introduced by James Dalton in his book *Mind Over Markets*, and are used commonly amongst the traders.

Open Types

1. **Open outside the range (OOR):** Denotes imbalance and suggests a possibility of a directional move.
2. **Open inside the range (OIR):** Suggests market is still balancing and yet to decide on the future course of action.
3. **Open inside yesterday's value area (OIV):** This type suggests and even stronger affinity to what was happening on the prior day. The range is likely to be limited on this day, and inside day is quite likely on such days.

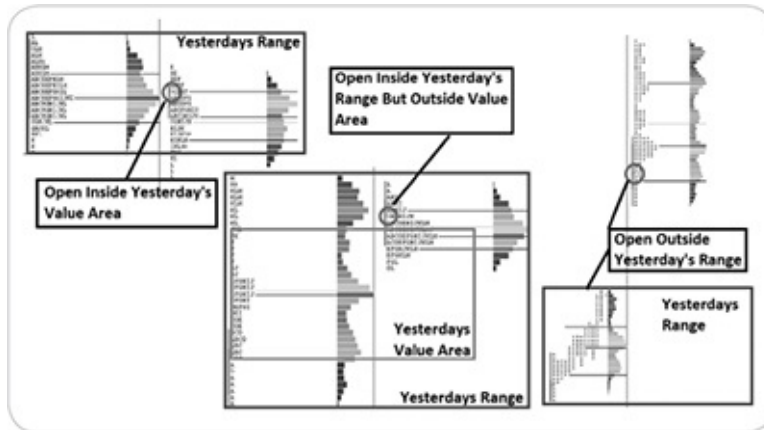


Image 7: Open Types

Opening Types

1. **Open drive (OD):** Open with the highest confidence, usually results in a trend day.
2. **Open test drive (OTD):** Second to OD this is a strong opening too and can give directional days. The market opens tests beyond an important reference, discovers no new business and reverses swiftly.
3. **Open rejection reverse (ORR):** This is a tricky opening, where market explores in one direction but then gets rejected and moves in the opposite direction. It is not as strong as OD but can occur at important reversal points.
4. **Open auction outside the range (OAOR):** Here the market opens outside of prior day's range, but starts trading in a very tight range. The initial indication of an imbalance is quickly overcome by boring sideways activity in a narrow range, but there is always a possibility of a directional move in the latter half of the day.
5. **Open auction inside the range (OAIR):** On this day markets open well within prior days range and forms a tight balance. This indicates that the opinions of traders have not changed overnight and they are likely to wait for more information before they make a move. Sometimes the day ends up

being an inside day.

These open and opening types give an additional dimension to your trading. Once you become good at reading them with respect to the current context (don't ever forget what Babuji told us about recent market action), you can estimate a day's development well in advance.

The other day I visited Babuji, at his home. He was still pretty active, although he could not take travelling to the broker's office anymore. He had set up a trading office at his home. And he watched the markets through the day.

I don't think he was trading anymore, but it was an old habit for him. I guess just trying to figure out the markets kept him younger.

Babuji's maid opened the door and walked me to his room. A business news channel was playing on the TV. The sound was pretty loud I guess Babuji's hearing had weakened a bit.

The moment he set eyes on me, his face lit up like a kid and he said, "Long time no see my friend"

He had never called me a friend; I was way younger than him. But maybe he saw me as his friend over all these years.

"Hello Babuji, how are you?" I asked.

We got to chatting, the maid brought us some tea, Babuji could never leave tea, I was sure of that.

"So how is your trading going on?" he asked me.

"I have improved a lot, but I think there is still room for improvement," I said.

"That my friend is true," he said reflecting on his multi-decade long trading career.

I let him have this moment. He gathered his thoughts and asked, "So are you still using Market Profile or caught something new?"

At this age too he was very sharp at reading trader behaviour. I said, “No Babuji I am still stuck with MP and it looks like I will end up marrying it.”

He laughed loudly and said, “That is a sign of a true gentleman, he waits patiently for the right match, but once you catch one you stay committed for life.”

I laughed along with him and asked him, “Babuji I have a few questions about the markets. I hope you don’t mind.”

“Oh, no no, actually no one in my family understands markets. My sons and daughters are not interested, they have their own liking. But I am an old soul who knows nothing but how to buy and sell stocks. Please tell me what’s on your mind.” said Babuji, his eyes lit up like a kid who is about to get his favourite ice-cream.

“How do you decide when to trade during the day? Some days, like trend days, you need to hop on early but some days you buy the open and end up stuck in a losing trade as the market almost immediately reverses.” I said in a complaining tone, “I can’t decide what to do, most of my profitable trades have come in the latter half of the day, but some days like trend days I either end up missing the move or end up fading the strong trend. Can you help me out here?”

Babuji listened to me patiently and then got quiet as if he was contemplating something. Maybe he was remembering some of his old experiences, some similar situation he found himself into.

“See how the market opens is very crucial to how it behaves through the rest of the day. When you see as many days of markets as I have, you will start to pick up these things. If the market opens gap up you don’t jump right in, but you see if that higher opening is bringing in selling or not. If the sellers don’t find that higher price attractive markets will keep going up.” he explained.

Immediately I was struck with the wisdom of this old soul. I studied every word of Peter’s and Jim’s book again and again and still was struggling to make sense of all of it. And here was this trader who basically learnt all his wisdom watching the dealers screen. In his early years, even that was not available. Yet his understanding of the principles was so immaculate, that I immediately felt grateful to have known

this person.

“Where are you?” Babuji woke me up from my trance.

“You are right,” I said, “I look at some opening combinations to get an early grip on the day.”

“What are those?” he asked with curiosity.

“I track two things, where the markets open and what they do as soon as they open. If they just stay within a narrow range I wait and trade in the second half of the day, which is alright. But it’s when they start to move right at the start, that I get in trouble.” I said.

“How so?” he asked again.

“Well, let’s say markets open gap up and start moving up, I feel I may lose out on the move and jump right in, and as soon as I jump in, it halts and starts coming down. Whereas on other occasions when I decided to wait, markets just kept going away from me and developed into a nice trend day” I said in a complaining tone, “it’s as if the market is out to get me.”

Babuji laughed heartily and said “Markets don’t give a f**k about you, son. markets don’t know that you even exist.”

“I know that, Babuji. But sometimes the frustration gets the better of me.” I explained my rant.

“Frustration is the closest friend of a thinking man.” Said Babuji, as if that was all the wisdom I needed to achieve whatever I wanted in my life.

Today, years later Babuji said that I have understood the truth behind it. I have lived it almost daily. Thinking, getting frustrated and then thinking some more and finally finding the solution to your problem. Babuji had a fine understanding of life along with trading.

“Dynamic opens are so easy to trade in the hindsight. They are the ones responsible for the fall of many traders. They look so pretty on the charts, and so

easy to trade, that almost every novice I have seen has fallen for them at one time or other in their trading.” Babuji explained.

“So what do I do?” I asked.

“Same old, same old, my friend. You watch the recent market action. All the answers are buried in the recent market action.” he said.

“But what exactly do I look for in the recent market action?” I asked again.

“You see which side is under pressure? Which side is trying hard to hang on to hope? Which side can be easily scared? Which side is likely to be hurt most if the markets don’t act as they want?” Babuji gave me a number of questions.

Over the years I have found that it’s not the answers but the right questions that help you progress in life, trading is no different.

Once again I have been given something to ponder on. I took it with both hands and promised Babuji that I will think over it. We then went on to chat about other things, reminiscing about good old days, how far we have come and on and on.

* * *

When I came home, I decided to think about what Babuji said earlier. So I dove headlong into the charts and this is what I found.

After spending many rigorous hours on thinking about the Open and Opening types, I came to a slightly disheartening conclusion. I understood that these open and opening types are actually hindering my market understanding, let me elaborate on this one.

The human mind thrives on recognizing patterns, it was really useful in old hunter-gatherer days when we had to hunt and also keep from getting hunted. In those days on the slightest signs of danger, we used to run away. The world has changed a lot since then, but unfortunately deep down our mind and body still interpret and act the way it did thousands of years ago.

So there is no surprise to see traders clinging on to patters and setups like their lives depend on it. Sadly it does and this behaviour is hampering their progress as a trader. With patterns come rules, but there is a big misconception about rules in the minds of traders, it is as follows.

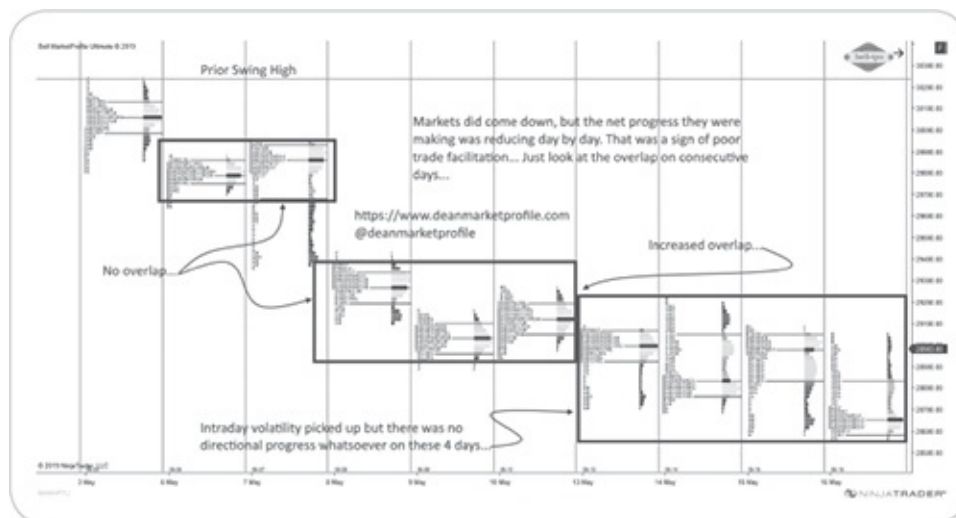
Old and experienced traders set definite rules for certain indicators, setups, etc. But they were given to guide trader behaviour and not to tell the markets how to behave. If a rule is being broken it tells the trader to refrain from taking that trade and get away from the markets or get out of their trades.

Instead, traders start believing in those rules so strongly that they now want markets to obey those rules. Markets don't give a f**k, Babuji told us to remember! Rules are for traders and not markets.

I too suffered from this bias and thought the open and opening types gave me a definite way to “predict” what the markets will do on that day. Sadly the markets taught me a lesson in its usual fashion, more losses.

* * *

So let's take an example and see for ourselves how a certain open or opening type can mislead traders and how keeping an eye on the context will help us out of any situation.



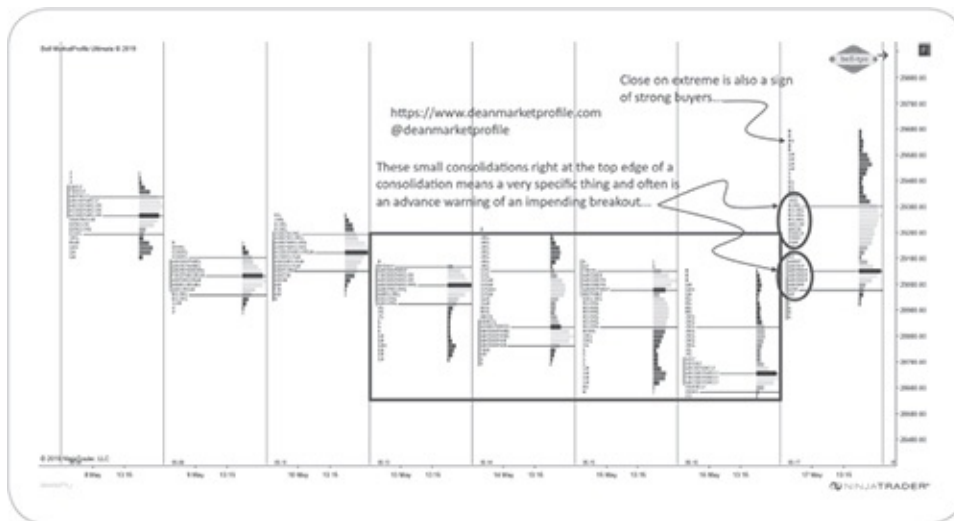
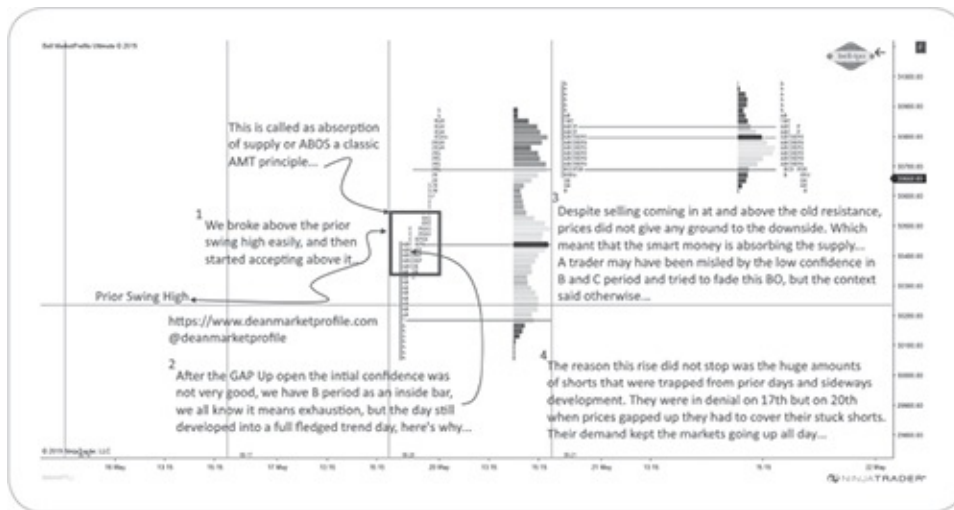
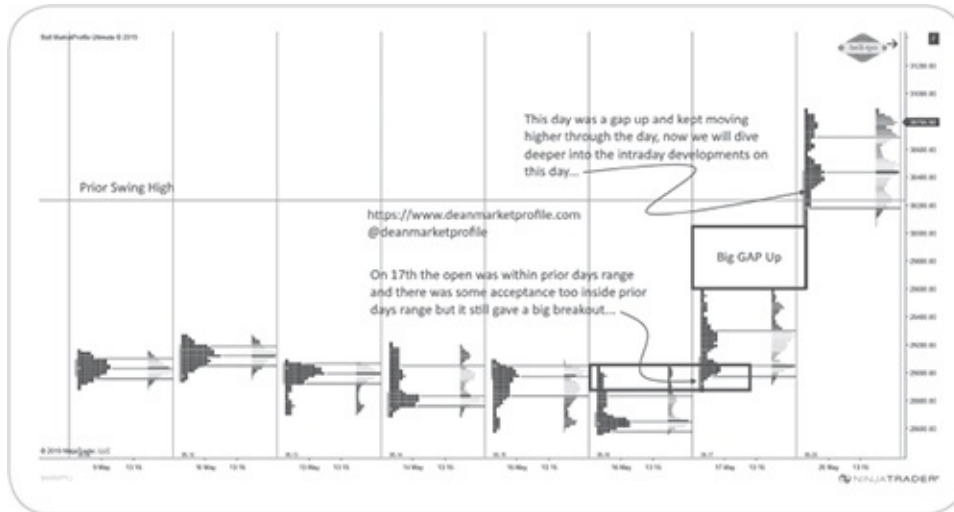


Image 8–11: Opening

So the above example makes it clear how keeping an eye on what the recent market action or development is telling us is absolutely crucial. In this case, the down move was struggling, which was very clear from the Market Profile charts. So when the big GAP up came and traders shorted looking at initial low confidence, SM had an opportunity to squeeze them even further.

If you look at the overall development instead of fixed day, open and opening types you will be in a much better state as a trader. The trading profession itself is all about breaking free from the set pattern of 9–5, why then a trader would fall in a similar pattern by clinging on to these patterns like their lives depend on it.

Let's talk about structure now. Like open and opening types traders have devised elaborate trading strategies based on structure too. That is an old habit of human beings to think in terms of repeatable patterns. Seldom do they pay attention to the logic behind the pattern?

Imagine you are in a forest, thousands upon thousands of years ago, when the man was merely a hunter and gatherer. You are out with your tribemates deep into the jungle collecting fruits and look for a deer to hunt so you can come back and feed the rest of the members of your tribe.

While walking for hours you don't find anything, but suddenly you hear something moving in the bushes. You hear some noises, you are not sure what it is. Is it a deer or a tiger lurking in the bushes? Should you go closer or run away? If it is a deer you will benefit from going closer but if it turns out to be a predator you may end up losing your life.

That was a real struggle, move away and face hunger or move closer and face a possible predator. If you can close your eyes and imagine yourself in such a predicament, you will understand the true dilemma humans faced in those early years of evolution.

This is precisely the kind of situation human mind is built for, at least a major part of it.

Now suddenly you hear the familiar but terrifying growl from behind the

bushes, it is a TIGER!!!

Now even before confirming anything you are programmed to run away because that is the pattern that has been engraved in your mind over generations. The patterns of sounds, smells, surroundings, etc were very important for our survival, if we stood their contemplating things, it could lead to harm and potential death.

That is why these patterns are engraved so deeply in our minds. But in the present, we are seldom faced with such life-threatening situations. Consequently, we should move on from those patterns that are etched on our psyche. Look for a better way of handling the non-threatening situations we face in our day to day life.

The solution is simple, we need to use logic, and more precisely “trading logic”.

So each pattern that we are going to discuss from here on will be put to the strict test of logic. We are not going to rely on these patterns blindly, instead, we will be using a clear logical decision-making process to assess them as and when they appear.

Let us look at some peculiar patterns that form on a Market Profile chart, which we call structural developments and put them to the acid test of logic.

Babuji used to say this all the time, “Once you understand why the markets are doing what they are doing, trading will become fun.”

So what are the different structural developments that we encounter in MP?

1. Tails
2. Poor Highs/Poor Lows
3. Weak Highs/Weak Lows
4. Prominent Point Of Controls
5. Overlaps between.

- a. Bars
 - b. Value Areas
 - c. Days
6. Inside Bars/Days
 7. Profile Shapes
 - a. P
 - b. b
 - c. q
 - d. d
 8. Single prints.
 9. Anomalies.
 10. Initial balance.
 11. Failed auction.
 12. Inventory adjustments.
 13. Pullback lows and rally highs.
 14. One time framing.

The important thing before we dive into all these patterns and more is this.

The sole purpose of markets is to ensure “trade facilitation”, so no matter what structural feature is being formed the ultimate arbiter is the quality of trade facilitation.

If the trade facilitation (TF) is poor, then the markets will ultimately reverse their trend, no matter how much structural evidence we have, suggesting otherwise. So read the next sections carefully to get a grip on MP Structure.

Tails

Now, whenever we have more than two single prints in any time period (except for last time period of the day) we call it a tail. If it forms at the highs it becomes a selling tail and if it forms at the lows it becomes a buying tail.

A tail indicates rejection of the price level where it forms and in extreme cases end of one auction and start of the next one in the opposite direction.

Logic

The logic is simple. We know AMT tells us that auction move up to find sellers and it moves down to find buyers. There is one more thing which happens when the suction goes up, it is lack of buying at increased prices. Now if strong buying subsides at higher levels or market uncovers supply, in both cases markets move down. And often it moved down quickly.

When it moves quickly it leaves behind a tail or a single print at the extremes.

How to Use Tails?

Just because there is a tail does not mean the market is going to reverse. If the tail has formed because of reduced buying or selling at the extreme, then it does not have the same strength.

To decide which tail is stronger we need to see where it forms. Tails forming above range tops and below range lows are reliable. Because we expect supply to come above the range top and demand to come below the range bottom.

When tails form within consolidation zones or worse yet within prior days range, it does not carry much weight. The difference in both cases is time frames.

Babuji used to differentiate between these traders as chote (small or shorter time frame) and bade (big or longer time frame) traders.

He often used to caution me “Bade buyers are coming into the markets, be

careful with shorts.”

To this day I miss his brief comments, which had a world of meaning and experience behind them. I don't know where I would be without a mentor like him.

So that is about tails, let's move on.

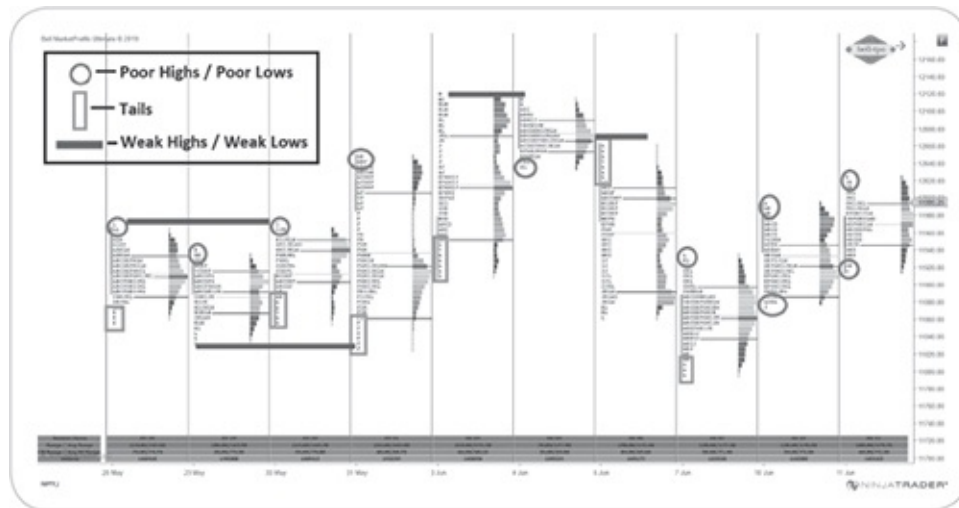


Image 12: Tail/Poor Highs & Lows/Weak Highs & Lows

Poor Highs/Lows

Ok, this one is a sign of exhaustion. Prices reach one extreme in let's say D period. And if in the subsequent period, or next period that is E the markets come to the exact extreme of D period and reverses, it forms a poor high or a low.

Logic

Short time frame traders are always looking for a quick trade. And since they trade so often they want to keep their risks limited. In the short time frame references like yesterday's high or day high or yesterday's low or day low provide them with precise points to measure their risks.

So whenever they come in exact vicinity of a prior reference they fade that reference. But as it is obvious from the time frame they trade in they don't plan to

hold on to the trade for long. So as soon as they make a few points they get out. In other words, they don't have the staying power and that is why they can't start persistent trends.

How to Use Poor Highs/Lows?

First and foremost they do not help in making a trade decision. They improve your market understanding. Many people try to incorporate PH/PL in their trading strategies, but end up getting frustrated because they look tradable in the hindsight.

That is one more reason I feel that using set patterns to trade is an incorrect strategy. If there is no clear indication of smart money entering or exiting or better yet testing beyond certain reference you have no logical basis to enter a trade.

So the best way to use them is as markers of exhaustion zones. Usually, when the markets reverse because of exhaustion, they need to test those references to see if any business is left unfinished there.

I have seen many mentors suggesting to trade for a revisit of these levels, but once again I don't think that makes sense either. But if an auction moves up leaving behind a lot of poor lows and vice versa, then that trend is considered weak and is liable to be reversed and retraced completely to test for unfinished business.

So you remain alert for such signs of forced action (leaving behind multiple PH or PL) and when you see them protect your profits by tightening your stop loss or watch the markets like a hawk for any signs of reversal.

Weak Highs/Lows

These form when day high or low matches prior days highs or lows. Often multiple days highs or lows get clustered in a narrow range. This like it's shorter time frame counterpart poor high/low points to exhaustion.

Logic

Babuji always said its all about the time frames, he called them bade and chote (big and small). Jim calls them time frames, the trade holding time frames. As the range grows from intraday to multiple days to multiple weeks, the time frames also increase.

So while a PH is a cause by day time frame traders, a weak high or WH will be caused by short to medium time frame traders. So when traders look at prior highs or lows they tend to think that we may get some resistance or support there. Also, the short time frame traders try to fade these levels; all this creates good supply and stops the markets from scaling well above the prior high. If this happens over multiple days we get weak highs.

How to Use WH/WL?

We use them similar to PH/PL. We understand that there is exhaustion in the markets and traders are getting hung up on visual references. Often these traders are not of the strongest kind or longest of time frames.

So one trade is to fade such references, that is expecting the BO or BD to fail, but one needs to see immediate follow-through, otherwise, it may turn out to be an absorption pattern.

If it turns out to be absorption, the BO or BD can be big and very dynamic, so if the prior high or low is not rejected quickly, one should get out of the fade trade.

That is weak highs and lows.

Prominent Point of Control

PPOC as they are fondly called forms when the market trades at a price in at least 50% of 30 min time periods. In the case of Indian markets where there are 13 bars on a 30 min time periodicity chart. So for forming a PPOC, we need to trade at a price level in at least 7 or more than 7 time periods. More the better.

Logic

On days where the longer time frames are not very active, markets tend to trade in a narrow range. It does so on other occasions like just before the event days when new information is anticipated or sometimes after a big volatile move.

The more time periods trade at a price level more is the acceptance of that level. But smart money who usually trade in big sizes use these sideways developments to establish their positions, slowly without marking the price up or down against them.

So many traders ignore such areas because they feel only short term trading is happening in these areas, but SM is methodically accumulating in these zones and that is why we get big moves out of completed balance areas.

How to Use PPOC?

Since the SM have established their positions in these zones they act as support and resistances upon subsequent tests of these areas. So if prices break out of a nice bell-shaped balance area and come back to the PPOC, then the PPOC is expected to provide support.

Some traders use it to take mean-reverting trades. The logic, in this case, is since the PPOC is the price level of highest acceptance prices will be attracted to the PPOC.

I do not take mean reversion trades using such logic, but if I am in a trade I do look for the retest of such areas as my potential exit points.

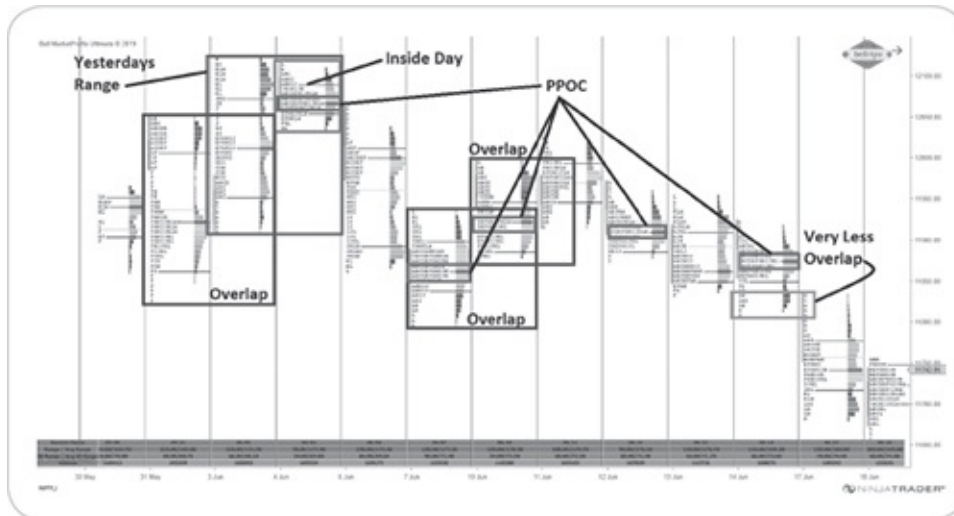


Image 13: PPOC Overlap Inside Bars

Overlap (Bars/Value Areas/Days)

Overlap means the current bar covers the majority of prior bars range. Same is true for consecutive value areas as well as days. When current bars range and previous bars range has a lot of overlap, it suggests exhaustion.

Whenever we see any sign of exhaustion the preceding trend is in danger. It means that the traders who were responsible for the trend are exhausting and not supporting the trend as well as they were earlier or opposing activity has picked up strength.

Logic

When a trend is strong every new level brings in fresh buyers or sellers depending on whether it is an uptrend or a downtrend. But when that trend encounters opposing activity or lack of interest by original traders it stalls.

This is the time when there is indecision in the markets, so markets enter a two-way auction zone and remain in that indecisive stage until the confusion is resolved.

The confusion or indecision is resolved when SM either accumulates all supply at that level or distributes their holdings to the retail buyers, then we get a big move.

But while this indecision is going on markets tends to move in both directions and consecutive bars tend to retrace most of the range of the prior bar, hence resulting in overlapping bars.

How to Use Overlapping Bars?

The overlapping can happen on a 30 min chart where consecutive letters overlap each other or on a daily chart where consecutive days range overlaps each other.

This is often a sign to part book your positions. So if the markets are moving down and you are short and suddenly over a couple of time periods you see a lot of overlap between bars, aka deeper retracements, it is a sign that markets may enter a temporary sideways range, so it is always better to protect your profits.

If this happens when the markets go into very strong support or resistance you can even look to fade the preceding trend, but going against the trend is always a risky strategy.

Inside Bars/Days

This is very similar to overlapping bars or days, with the only difference is the current bar or day is completely within the range of the prior bar or day.

It is a stronger case of exhaustion and often strong trends halt when such a development is seen. You can treat inside bars or days similar to overlapping bars or days. They share the same characteristics and have the same effect on the auction.

Profile Shapes

This is a big one, often because the way the Market Profile charts are plotted they take peculiar shapes and these shapes do provide great insight into what is happening in the markets.

Before the market profile, I used to look at different candlestick patterns to make sense of what is happening inside the day, but that often turned out to be

misleading. But when I started using market profile I could look at what was happening inside a day and then make much more accurate assessment of what the traders are up to and what is more likely to transpire in coming days.

You can safely say that an MP chart is multidimensional and a candlestick chart is two dimensional, let's see how.

If you could look inside a trading day and answer these questions.

- a. Which price levels traders are accepting?
- b. Are there signs of exhaustion in the markets?
- c. Are SM buying or selling?
- d. How good is trade facilitation?

Then your trading is bound to improve.

P Shape

Imagine a trading day opening strong and moving up sharply in the first hour of trading. Everything looks great and markets look poised to scale even higher levels.

But then the market just refuses to follow through, it just starts moving sideways, bar after bar, with a lot of overlap and no directional progress. This sideways development frustrates you and sometimes you end up making a stupid decision during such days.

I have made my share of mistakes in the markets. But thankfully I had my mentor to guide me when I was down.

One such day, long back, in my broker's office, I witnessed the same activity as described above in the markets. To make matters worse I was even holding a long position. I bought it as soon as markets opened gap up and B period extended the range above A period.

I was expecting the markets to continue its upward journey but markets had

other ideas. While I was getting impatient with the markets, my mentor Babuji was busy observing the markets, he was bullish over the last few days as markets were approaching an important resistance.

Suddenly markets broke above this consolidation and the important resistance as well, I got excited, I had a nice MTM by this time.

But suddenly Babuji yelled at the dealer “Sell my position at once.”

“But it is breaking out Babuji” protested the dealer.

Without batting an eyelid, Babuji said: “Will you pay the money I will lose if markets come down?”

The dealer turned back to the screen and squared off Babuji’s position at once, by this time the markets were back in the sideways range, it now started to look more and more like a false breakout.

Looking at Babuji, who covered his longs, I brought my SL to just above cost, just in case. It got hit in a few more minutes, I was happy I did not hold on to hope with this position. But I was more curious about what made Babuji change his decision at that precise moment and this was not the first time he was right.

So I went up to him and asked him about it.

“Buyers were getting tired and big players were not supporting the markets, the risk of holding a long was very high, I had to do something.” Replied Babuji.

“Risk of Holding a Long Position Was Very High” this statement stuck with me, although I did not understand anything at that moment, somehow I knew I had learnt a very important lesson that day.

Today I know that when markets move sharply higher and then starts to move sideways it forms a P shape profile. It usually means that traders rushed into their longs but are now getting exhausted or someone is booking profits and creating the supply. In both cases, they are weak hands and can be scared easily by the smallest of reactions.

The longs created in the stem of the P are often shorts whose stop losses are getting hit. Hence it is often looked at as a sign of short covering.

On that day Babuji saw traders rushing into longs in anticipation of a BO, but by the time they reached the resistance the weakest of them started booking profits and new demand was not coming in.

That was a very intuitive decision, the quality of which still surprises me to this day. He really was a consummate trader, trading was second nature for him.

I don't know where my trading would be if he would not have mentored me, I can't thank him enough.

Now I trade a P shape profile in any of the following 3 ways.

1. P + Spike – Something similar to the situation described above where Babuji squared off his longs. Market forms a P shape then tests above the loop of the P and finds no new business. Prices then collapse sharply often well below the loop and sometimes even end up repairing the complete stem of the P.
2. P + IAB + Continuation – If SM is buying in the loop and supply is not reducing, they will step aside momentarily. That is they will stop buying. As soon as they stop buying markets spike down hitting stop losses of the weak buyers pushing them out of the markets. SM then step back into the markets as the weak buyer's stop losses is getting hit. So the fall is used to balance the long inventory as weak buyers keep booking profits at visual references. Once SM steps back in markets often go above the loop and continue the trend.
3. P + Acceptance above the LOOP – This happens when after forming a P, early in the day, the auction moves up and finds acceptance (aka double prints) above the loop. This puts anyone selling in the loop under pressure and sparks a short covering. The trend continues unhindered. Such a development is a classic representation of the core principle of Absorption of Supply (ABOS).

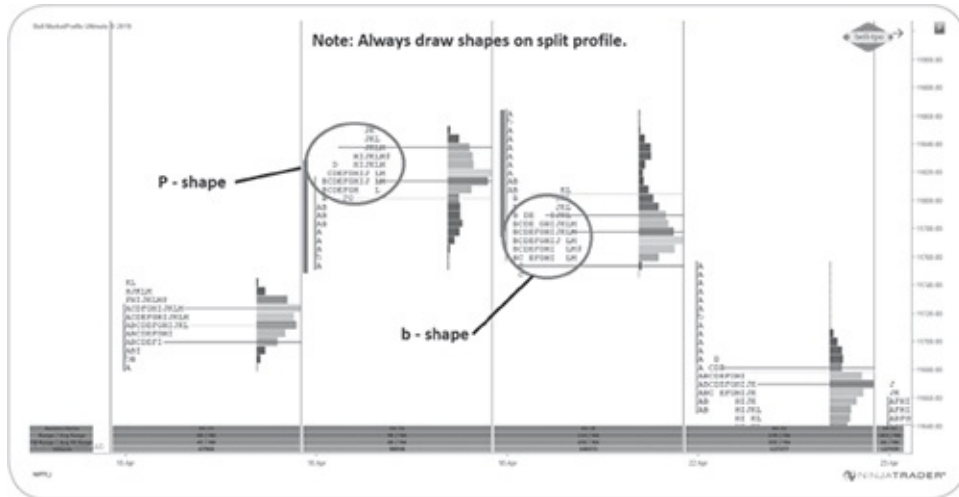


Image 14: P and b shape

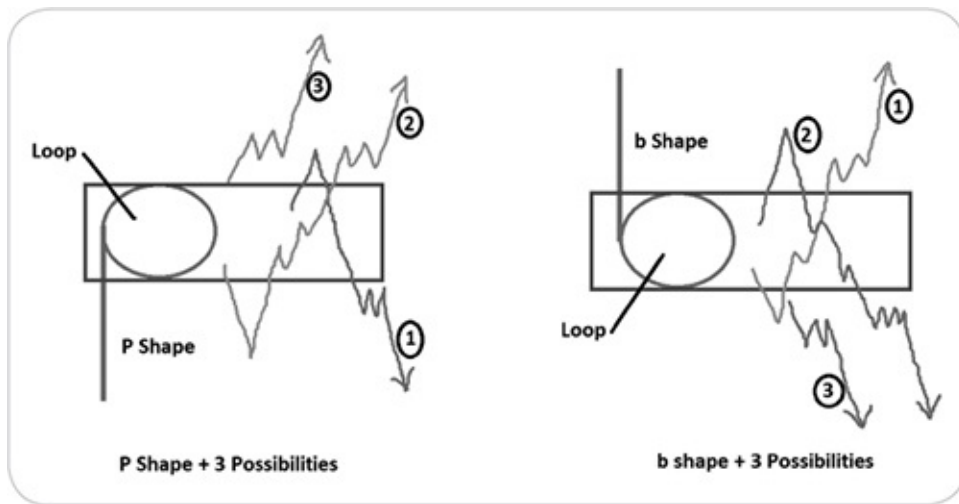


Image 15: P and b shape (3 possibilities)

The exact opposite thing happens when b shape forms.

b Shape

Here the markets move down sharply and then starts moving sideways forming a tight balance. The whole profile takes the shape of the letter 'b'.

This can happen because of many reasons some of them can be.

- Markets fall and traders who were short start booking profit on their

shorts. This creates demand and stalls the down move.

- Markets break down from big support thus hitting a lot of stop losses, which send market sell orders into the system. This results in a rapid fall, but when the long stop losses were being hit, the other side of the trade was taken by the smart money. Once the stop-loss orders are out of the system no new selling comes in. This also gives markets a nice 'b' shape.
- Market is approaching important support fast and it stalls just at the support. This is because buyers are hoping the support will hold. This results in a tight balance just above or at the support. Again resulting in a 'b' shaped profile.

The way to trade the 'b' shape is similar to what I do with P shape. There are three possibilities.

1. b + Spike – Markets are stuck in a 'b' shape for some time. If SM is accumulating in the loop every up move may be found selling. This might be profit booking by short term sellers in the loop. SM often steps aside and lets the market fall below the loop, because that will push all the short term traders out of the markets. Once these short term buyers are out of the markets, SM steps back in at lower prices but this time markets won't stop at the top of the loop but goes straight through it. Often the whole stem of the 'b' is repaired.
2. b + IAR + Continuation – This often happens when markets are trading just above support. Once again short term sellers buy as soon as the prices reach the support. SM often stops selling and this result in a quick spike up above the loop. The stop losses of the short term sellers are hit and SM uses this opportunity to jump into the shorts. This time since there are very few short term sellers to cover at the support, prices go straight through the support.
3. b + Acceptance below the LOOP – Here the SM is hell-bent on taking the prices down, so they absorb all the demand and push the prices below the loop. Once the buyers in the loop see this acceptance below the loop they give up and throw in their positions, adding to downward pressure and

taking the prices sharply down. This is called as Absorption of Demand (ABOD) another AMT core principle.

q and d Shapes

These shapes are found by yours truly. These form often in the markets and are often misinterpreted by the traders. This sometimes leads to wrong positions by the traders often resulting in losses.

So When do These Shapes Form?

They often form when markets are stuck in a very tight range, often waiting for some kind of information. The range is very narrow and volumes are often very low. Then suddenly the news hits the markets and markets break out or break down.

This breakout or breakdown often stutters and fails and send the prices in the opposite direction. This time the trend just goes on and on and a big directional move sets in.

Whenever you get such a failed BO from a tight range it takes the shape of the letter 'd' and in case of a failed BD a 'q' shape forms.

Note: One thing to remember though, always draw these shapes on split profiles. Sometimes traders try to draw these shapes on collapsed profiles and that leads to wrong interpretation accompanied by a horrible trading decision.

Ok, back to the 'q' and the 'd'. Whenever prices move too far too quickly from the developing value area they are liable for a pullback to the value. This pullback lets the auction determine whether the buying or selling that resulted in the BO or BD is still valid or not.

It's difficult to say when the spike away from the value will end, but VSA and Order Flow can be really useful in this scenario. But it's not a trade setup to start with. It adds to your market understanding and can help you assess the markets better going forward and find some really great trading opportunities down the line.

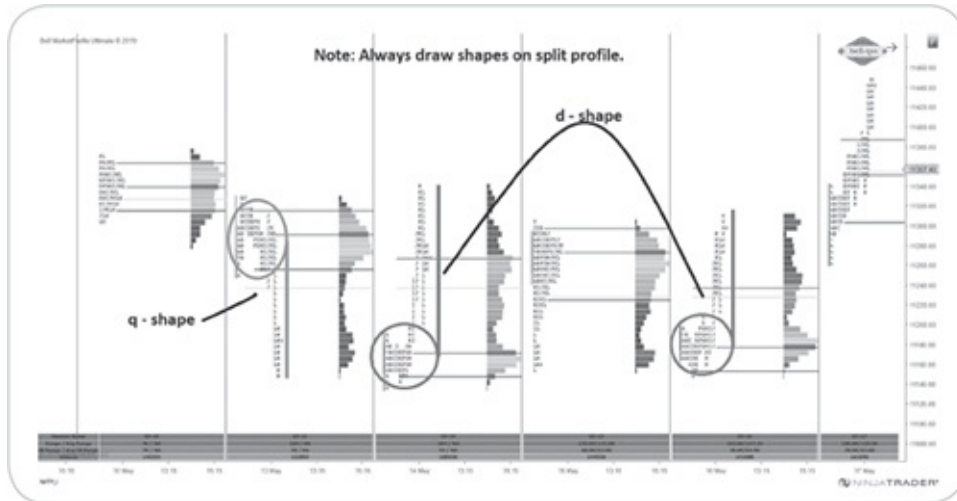


Image 16: q and d shapes

Single Prints

This happens when markets are forming a value area and prices suddenly move out of it and reach a new area of acceptance and develops the value at that new price zone for the rest of the day.

This leaves a number of single prints in between. Single prints are forms when only one time period is traded at multiple price levels. If double prints form then it loses its importance as a support or resistance.

Also, if these single prints form at one of the extremes of the day they are called as buying or selling tails.

Single prints denote aggressive buying or selling and they are expected to act as support or resistances when prices subsequently reach that area. If the prices don't get rejected quickly from single prints and end up spending time in that area they will lose their importance and won't act as support or resistance.

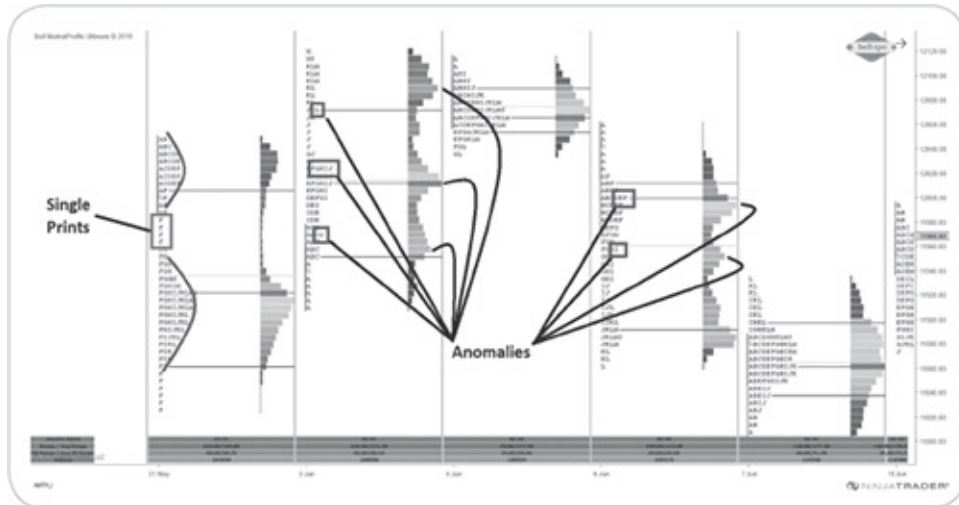


Image 17: Single Prints & Anomalies

Anomalies

These are the jagged edges of the profile as Jim Dalton puts it. They happen for a very specific reason and give us some really cool insights into what is happening in the markets.

I often wonder had Babuji, my mentor, known about all these things, which make reading the markets so easy, how much better he could have done in his trading career.

But his simplicity was the reason behind his success.

There are days when one side in the market is hell-bent of taking the price in their direction. Every pullback is getting bought into and every rally is getting sold into depending on whether the markets are moving up or down.

But when such kind of trading is taking place it results in many rough edges being left behind, this concept is better studied on the charts.

These rough edges denote forcing action. Let's say markets are moving down, and then every small rally gets sold into. Markets try again and again to explore upwards, but every time sellers step in and sell. So these uneven profile shapes and rough edges left behind indicate unfinished business. It shows that buyers were

interested in checking out higher prices, but on that day sellers did not budge.

Even though you end up with trend days when something like this happens, these trend days often do not get the follow through and end up being retracted completely.

It is a poor form of structure. Once again it is not the piece of information that helps you take a trade, but it certainly tells you that markets may not be at their strongest and are susceptible to a retracement.

Initial Balance

Initial balance forms during the first hour of the trade. It forms a crucial part of the opening. Now since we don't look at traditional definitions of openings monitoring what is happening in the IB are crucial to get a jump on what kind of structure might develop through the day.

Following cases are particularly interesting.

- **Markets open with a very wide initial balance:** Suggests that there may have been many traders who were proven wrong at the open and ended up covering their positions, thus leading to a sharp move. Or there was some news overnight which led to traders rushing into the markets giving us a wide range right at the opening.
- **Markets open with a narrow initial balance:** This may happen when there is a news or event coming out later in the day. Markets stay in the narrow range right at the beginning and often when the news comes out it gets broken on one side and sometimes during extreme volatility it gets broken on both sides and the range expands.
- **Markets open with a moderate initial balance:** and moves consistently in one direction. This consistent buying or selling usually results in a nice trend day. Too wide an IB is a sign of trapped traders. Too narrow IB is often a sign of lack of interest by traders.

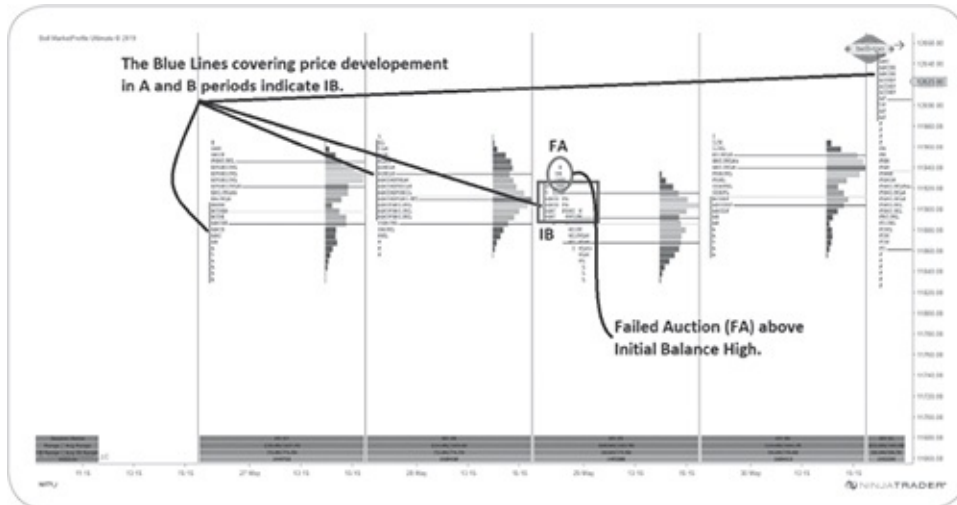


Image 18: Initial Balance & FA

Failed Auction

This happens when prices move beyond an important reference and then reverse quickly. This is one of the most misunderstood concepts in Market profile.

Some traders have devised elaborate rules and regulations pertaining to this failed auction. They also have a very strict definition of it. But I look at it in a completely different manner.

I like to keep things simple and fluid. Getting stuck in rigid rules plays some weird psychological games on your mind. We human beings are not meant to be stuck in rigid rules.

So for me, every time prices look beyond a reference and reverses quickly qualifies as a failed auction. So let's say we open inside yesterday's range and then move towards yesterday's high. We trade a few TPOs above it and reverse in the same period, leaving behind a selling tail. That is a failed auction for me, that is the auction failed to find any new business beyond the specified reference.

Now how can this help you, well it can help you in entering trades, but for that, you need a firm grasp on the current context? Not all FA results in a reversal, sometimes the FA itself fails.

So if I see the auction struggling to move up, with a lot of poor structure in the last few days. Now if it is approaching an important reference the chances of FA are very high. I will be ready at such points, will keep an eye on the order flow or VSA charts and jump on the first sign of weakness, like some VSA sell signal or Delta Divergence on the OFA charts.

I definitely don't play the FA to be revisited in X number of days, it may work but I don't like to trade FA that way.

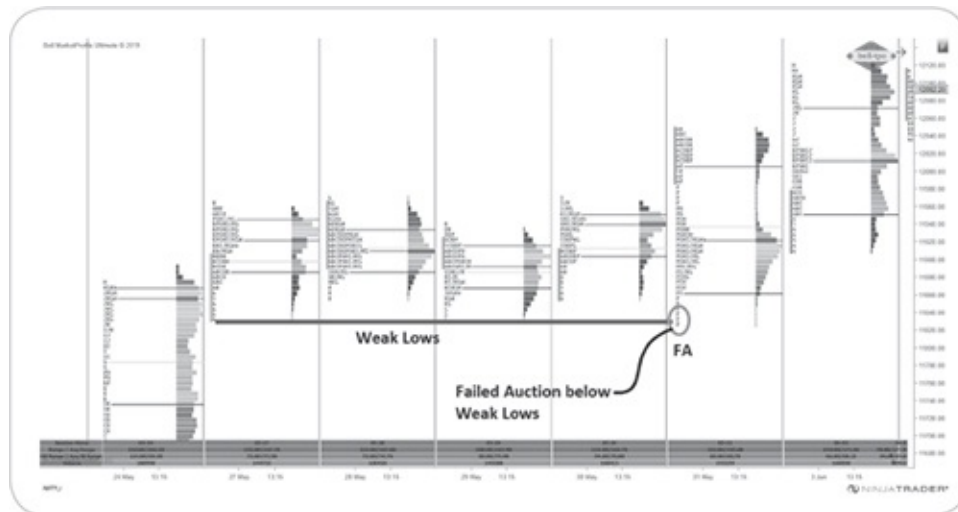


Image 19: FA

Inventory Adjustments

The famous IAB and IAR you must have seen me talk about all the time. They happen when the inventory becomes too long or too short.

But, what exactly does that mean? What is a long or short inventory? Let's look into it in greater detail.

IAB (Inventory Adjustment Break)

This happens in the following case.

- Buyers rush to buy and prices move up.

- But if the buyers are of short time frame, they keep booking profits at every small rise, especially around a visual reference (eg: IBH, YH, etc.)
- Smart money wants to take the markets up, but this constant profit booking slows down their progress, so they just step aside and stop buying.
- As soon as the SM stops buying markets start to come off, soon the speed of the fall accelerates.
- Now this sets panic in the short term traders, usually their stops are nearby, the fall takes them out. This makes the fall even worse in the short term.
- But the SM is aware and waiting to buy at lower levels. So usually such falls give a sharp rise in volume and the SM accumulates more longs at lower prices.
- Once the stop losses are out of the system markets again starts going up. This time the number of short term buyers is drastically reduced and the markets end up taking out the resistance.

The IAR (Inventory Adjustment Rally) happens in the exact opposite manner. As the number of short term sellers rises in the markets the SM stops selling and prices recover sharply pushing the short term sellers out of their positions and then the fall resumes.

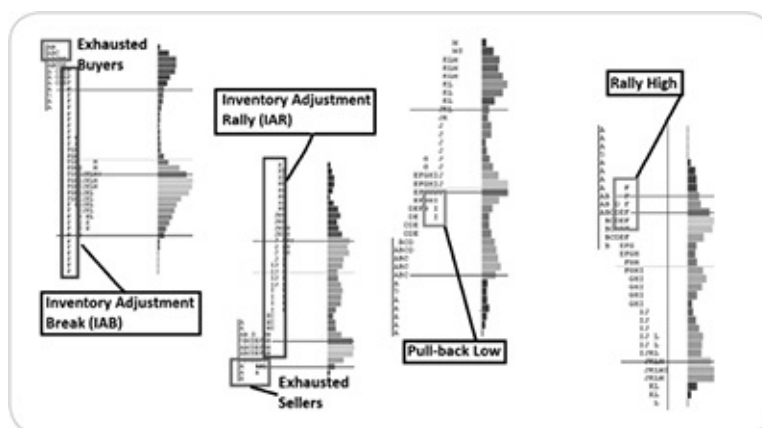


Image 20: IAB IAR PBL RH

These provide amazing buying and selling opportunities. But one word of caution, it is really difficult to tell when the IAB or IAR will end and it takes a lot of experience with markets to be able to buy when the SM buys and sell when the SM sells. So have patience and don't run after the markets in search of the profitable trades.

Pullback Lows and Rally Highs

Right, when you get an IAB the low it forms is often the pullback low and the high that is made during an IAR is often the rally high.

Usually, when the markets move in one direction during the first half of the day, the trend usually heads into some exhaustion and prices give a contra move just to balance out the inventory.

Usually, novice traders jump on to this contra move because they could not join the original trend. That is usually a losing strategy if the context does not support the decision. Then when the market resumes its original trend all these trapped traders run for cover.

One indicator that can be of great help is VWAP (Volume Weighted Average Price). Usually, prices test the VWAP and if the trend is going to resume we get rejected from VWAP and resume the trend.

But if we start trading around VWAP or crosses it against the main trend then the trend may not resume. Once again a sound understanding of context is necessary to make this kind of judgement in the markets.

One Time Framing

One time framing or OTFing is the most visible sign of strong buyers. One time framing means that subsequent time periods extend the range in the direction of the day's trend. Continuously higher highs in case of an uptrend and lows in case of a downtrend suggest that higher prices are bringing in more buyers and lower prices are bringing in more sellers.

This is crucial for the continuation of the trend.

One very important thing that all traders new or old need to understand is never to go against the one-time framing activity. Usually, OTFing is obvious only later in the day. Just because the first few time periods are OTFing does not mean that the day will develop into a full-fledged trend day.

Many traders remain adamant and don't give up on their market view despite strong and clear signs of OTFing. One factor that helps you make that judgement is the context. I know I am repeating this word again and again, but that is how my mentor embossed its importance in my mind.

Babuji always said, "If you don't know why the market is doing what it is doing, you won't be able to make use of what the market is doing."

Often his statements were a little cryptic but when I spent time making sense of them one by one they would come to me like a bright flash of light. Just like an epiphany, in my trading career, there has been no shortage of those.

Actually every new thing I would consider as an epiphany, but only later in my trading career, I understood that every new concept needs to be examined carefully with a framework which is based on logic, not on the latest fad.

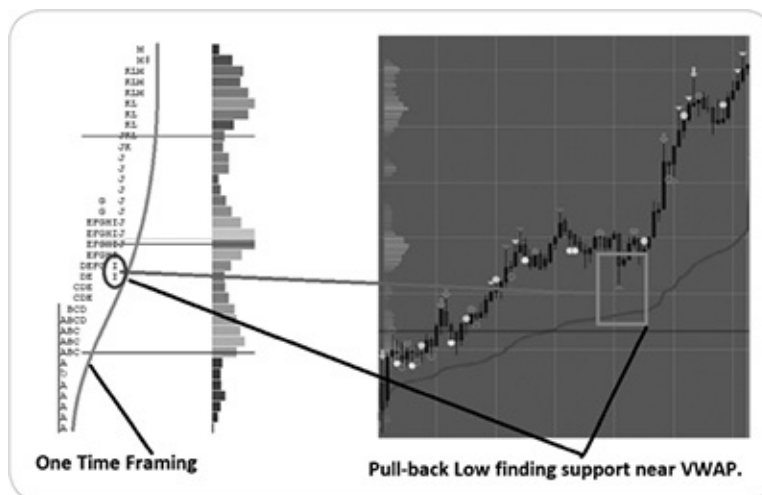


Image 21: OTFing and VWAP

Just having the knowledge of these structural features won't help you become profitable. You need a proven framework which has sound logic at its base to make use of these structural features.

Now we will look at a framework which will help you make the transition from someone who knows what MP is to someone who knows how to use Market Profile to find profitable trade opportunities.

Chapter 6

How to Trade with Market Profile?

“Market Profile helps you improve your market understanding, better understanding leads to better trading decisions under uncertainty, better trading decisions lead to reduced mistakes, reduced mistakes leads to improved profitability.”

– Dean Market Profile

let's start with answering a few frequently asked questions (FAQ).

What Beginners Always Do?

I still remember my early days of trading. When you think you want to become a trader and start observing the markets, trades just jump at you, left right and centre. Whatever you think happens in the markets, you just can't go wrong.

Similar experiences have been reported by those who try paper trading to fine-tune their approach to markets; while this might have worked for some I was never really comfortable with these approaches.

I always believed the only way to prove my point is by risking my money. If my trade turns out to be profitable then I am right but if it loses I am wrong. Sound fair right, but hold your horses, this approach is flawed. This approach specifically led me to believe that I am a bad trader and can't become a successful one ever.

It was just another day at the broker's office, nothing special. It probably was the results season. This is the time when the price volatility is high in your favourite

stocks. As if there is such a thing as your favourite stock. It can be true for investors, but to become a trader, playing favourite can be devastating.

I was watching my favourite stock; the result expectations were bullish on the street. I was watching the stock keenly; it moved up at the open but was not doing much after that. Everyone had an opinion on the stock; some bought it some sold it. It was a time before I was a student of Babuji; at least I thought so.

I said to the trader besides me “This time it’s going to be good for XYZ.”

That guy was senior to me, he replied: “Yes it indeed seems so, but I wonder how the price will react.”

I said “If the results are good it should go up right?” my tone was almost as if I was looking for confirmation as I was holding long positions in the stock.

“Ideally it should, but in real-world, things seldom play out as we expect them to, especially if there is a consensus.” He replied. I did not understand much.

Markets became active as the results announcement time came near. Sure enough, the results were good, the stock started to move up, the activity picked up, I was super excited to see my position making money, it was pretty rare in those early days.

But suddenly the markets crashed as if something bad was also announced with the results. I was watching the business channel nothing bad was being said there. I asked the traders around me same answer; nobody was sure what was happening.

That old guy however suddenly became active and asked the broker “Reverse my position right now.”

I assumed he was reversing from longs to short since I was losing money on my positions I too said the same thing to the dealer. It was a mini panic inside the dealing room.

Now I was short and the markets stalled. As if they were waiting for me to sell, and they started inching up. Again my position was underwater, as soon as I punched it in.

The pace of the up move started picking up. I became impatient, but more than the loss what was bugging me was how calm the old trader besides me was. I still thought he was short like me. After some more pain, I threw in the towel, like so many other days.

Markets closed and I approached that old guy and asked him “How was your day?”

“Fantastic” he replied, “but I am hoping for tomorrow to be even better.”

I was puzzled “But what was your position?”

“I was short before, and when the markets fell sharply after the results announcement I reversed my position and went long, still holding them.”

I was shocked as I was thinking we were riding in the same boat.

I did not see that man often enough later to strike a friendship with him. I really hoped I could learn something from him, but fate had planned something even better for me and later I met Babuji.

So this little story may have sounded familiar to you, but what does it have to do with this chapter you may ask. well, everything I would say.

Earlier when someone made money in trading I would get impressed by it. But as my learning with Babuji began I slowly started leaning towards other things,

- Understanding how the markets worked?
- How to assess the risk in the markets?
- How much to trade?
- Working on alternate scenarios?
- Most importantly, why do the markets do what they do?

Now imagine this scenario.

1. You come into the markets and see that the stock you track gapped and

moved up at the open but later it has moved sideways in a tight range, forming a nice P shaped profile.

2. You immediately understand that there are weak buyers in the markets which are booking profits at every small rise. SM doesn't like that.
3. You now know there are 3 ways to handle this situation, you know 3 possible ways a P shape can resolve (read the previous chapter again if you don't).
4. Markets suddenly become active and make a move to the upside, you know that it can turn out to be a false breakout; you look at OFA and/or VSA charts. Sure enough, you spot a negative delta divergence on smaller chart periodicity.
5. You feel the risk in longs is very high; you can try your hand at a short trade, so you establish a short.
6. Markets promptly fall and fall quickly. Your position is in profit. It takes out the morning low by 1–2 TPOs and instead of continuing down starts to stall.
7. You know that many traders put their stop loss below the day's low and the trading activity near the day's low looked more and more like a stop hunt. So since the weak buyers are now out of the markets, you think that SM now has a great opportunity to start marking the price up again, since the whole value is forming higher compared to yesterday and the GAP was not filled as well.
8. So you covered your shorts, as the risk in shorts has now gone up substantially. You feel since you have made good money and the opportunity of long is there you take a small long position.
9. By the time the markets close, your longs are well in profit as the markets recovered back up all the way and close at the highs for the day.

This would be a really nice experience don't you think, to be right in all your

decisions. But if you look at the above scenario, the only thing you knew was the P shaped profile and a GAP up open. There were no trade setups, no exotic references mentioned, no effort to predict the markets. Just unbiased observation that's all.

This is how we would like to trade in real life and Market Profile has the power to take you very close to this goal.

Now just for fun, try comparing the first story of the old trader and what he did to the above scenario and see if you see any similarities. I am sure you may find both the situations identical.

The point I want to make is good traders have been here well before the fanciest TA tools and they will be here well after that. But you can become one by using MP in a relatively short period of time. So let's see what exactly you need to do to be able to trade like a professional and experienced trader in any situation.

What changes you will notice when you start using MP?

As you become good with Market Profile you will start noticing a few things. When I was struggling with my trading in the early part of my career, I encountered a few problems time and again. I was frustrated by them. I sought help from many sources, read books, watched videos, etc. but everywhere I found one problem.

Everyone was busy treating the symptom and no one actually focused on the root cause of these problems. I wanted to find a permanent solution. One solution is to find a mentor who is willing to share his learnings with you.

When you learn from the experience of a mentor, you can relive the same experience without paying the price for it. I remember one such instance when Babuji shared an experience from his life which helped me avoid the biggest mistake you can make as a trader.

Way back in the day when Babuji was a young aspiring trader like me, he met a person who promised him inside information on stocks, the rumours straight from Dalal Street. (It is India's Wall Street, in case someone from other beautiful countries is reading this book).

He said he would have to pay off some people in the know to get that information. He collected money from many people and promised to provide valuable inside information. Babuji was one of the persons who paid him money.

What impressed Babuji was the list of stocks he had purchased and how much they had grown over a short period of time. More than making money himself Babuji was impressed by the money made by that person.

Traders today still fall for the same kind of thought process. They run after traders who lure them by showing how much money they have made. Now they may be great traders, but that is not enough. A mentor does not have to be the greatest trader of all time, but he must have an eye to spot the opportunities where a trader can improve.

Babuji had that gift, he could tell where I was going wrong and how I could improve, that is much more important than how much money a mentor is making.

Let's get back to the insider. That person went back to Bombay as it was called in those days. He did send tips and information back. But none of the traders back home could make much of that information.

Babuji said "The information was not bad per se, some of the tips worked out great. But we were not good enough to make use of that information. None of us had the experience to make sense of that information."

"Because the insider gave us only information, but did not teach us how to use it."

When I heard this story, I immediately understood the importance of a mentor and felt grateful that Babuji agreed to help me.

But that also saved me from the big mistake I talked about earlier. It was to fall prey to the shiny tools, inflated trading records and bold claims people make. They would do anything to part you with your money.

In all my years with Babuji, I never once asked him how much money he made. I was more interested to learn the craft and then try it on my own.

The people who are interested in such things are always looking to cut the corners. They don't want to put in the efforts to become good at the craft. The result they end up chasing these so-called heroes and never really progress in their own trading.

Once their favourite hero falls out of favour with the lady Fortuna, they go looking for a new one. There is always someone who is at the right place at the right time mistaking the luck for his own ability. Such traders eventually meet their nemesis in changing market conditions.

So when you start using Market Profile following things will happen.

- You will start to pick up the SOS (snake oil salesmen).
- You will start understanding why the markets did what they did.
- You will lose the urge to move from indicator to indicator, totally.
- You will feel calm while taking trade decisions in volatile market conditions.
- You will embrace the uncertainty which is an integral part of the structure of the market.
- You will start losing all the anxiety of finding good trade entries and exits because you will rely on a much sound approach (coming up in the next chapters).
- You will not be swayed by the opinions of other traders. You will stop doubting yourself while trading.
- You will start accepting losses as a part of the game. You will start respecting risk and appreciate its importance in trading.
- Last but not least, as Jim Dalton says you will never look at the markets in the same way again.

So consider this as a rare chance you have got to change the way you think about

markets and trading forever, a chance to learn and trade the markets the correct way, a chance to become a consistently profitable trader.

Let's look at what factors are essential to making correct trade decisions.

What factors need to be considered while making a trade decision?

The goal of a trader is not to find entries and exits. They are easy to find if you know what the markets are trying to do. To become a consistently profitable trader you need to come out of the trap of finding an entry, exit and stop-loss levels.

You need to go beyond the hit ratios, profit ratios, number of points made per week or month, how many lots someone is trading. These are not the metrics that decide who will be a successful trader.

To become a successful trader you need to focus on the following.

- Improving your market understanding.
- Having a way to assess the risk in the markets. (Your initial stop loss is the not the risk we are talking about.)
- Having a tool to apply your market understanding to real-time market situations. (Obviously, I am talking about Market Profile.)
- Most importantly, having a process, a proven process which needs to be followed over and over again to find good trades on a consistent basis.
- A willingness to trust the process and keep improving from all the learnings you get while you follow the process.

One may discard the above things as being too subjective. I mean it is really difficult to compete with precise entry, exit, stop loss, support and resistance levels with just sound logic.

People confuse what they can easily understand with objectivity. Just because your brain can easily understand the patterns, setups, levels, rules and regulations

does not mean they control the markets. Rules are there for the trader, not the markets.

A better way is to move beyond all these things and embrace sound logic to arrive at your trading decisions. A complete framework that is based on this.

What process needs to be followed for consistency in trade decisions?

The process is at the root of all success. It may not be the best process in the world but how consistently you follow it tells you how good the results are going to be.

Bear in mind, no matter how different people tell you it is, consistency always comes before expertise. Some traders are very good at entries, some are good at exits, but the trader who is consistent at following his process will win over both of them in the long run.

One other benefit consistency has is it helps you deal with your emotions better. If you have a framework a process that helps you make decisions in emotionally challenging situations then your ability to deal with such situations only gets better with time.

So is there a process or a framework that a trader can follow to become consistently profitable? The answer is twofold, a yes and a no.

Let's talk about the yes part first.

Yes, because all profitable traders have a process or a framework. They may not know it consciously but intuitively they are following one. So there are frameworks, not one but many and they can really accelerate your learning curve.

That is why there are so many mentors who have a lot of followers, the real ones; I am not talking about the social media followers gained by being sensational. But real people with real problems like you and me, who sometimes need a mentor in life who can guide them well.

I had Babuji, and his advice made life a lot easier for me.

So, I trade with the LCTR framework. It means Logic – Context – Timing – Risk. It is simple yet very powerful. I will discuss it in a bit but before that.

Let us discuss the no part.

No, because every trader is different. So no matter how successful a mentor is with his framework, you can't copy his framework as is and then hope to be successful.

You need to assimilate the logic behind his framework, I mean if the mentor is ready to share it. Many mentors like to keep their methods a secret and create an aura around them. They can't fool people for long. Such mentors get buried under the weight of their own aura.

So, I have the LCTR framework. Even if I share it with the world for free, they won't be able to do any good with it, unless they understand it completely and then modify it to suit their own needs and situation.

You may feel this is a cop-out on my part, but I have suffered so much pain, in trying out other peoples frameworks that I can't lie to you. Even if that means you lose interest in what I have to share.

So that's the twofold answer to the question – “Is there a process or a framework that you can use to become consistently profitable?”

Now, let us turn our attention to the LCTR framework.

LCTR Framework

Over many years of trading and using Market Profile, I understood that, unless you are trading with the smart money you won't be able to make consistent profits. But this realization wasn't always there.

Babuji always said to me “First understand why the market is doing what it is doing, only after that you should think of putting on a trade.”

This one advice from Babuji put me in countless hours of ruminating and thinking, often in circles about this concept. But the epiphany came to me when I was watching one of Jim's free webinars.

He was talking about S&P and keep saying that day time frame traders (intraday traders as we know them) are coming at a particular level, so that level might not hold. Sure enough, markets went through that level like a hot knife through butter.

Later he said weak hands were selling in the hole (we usually call it capitulation, a sharp fall). Sure enough, the markets recovered sharply in no time.

Now as I was lost in his commentary, suddenly it struck me. Jim is looking for weak traders, retail traders or short term traders, because they tend to make the most mistakes. He was looking for them because he wanted to exploit them. That is what smart traders do. And Jim himself is smart money.

We, on the other hand, are not smart money yet. So it makes more sense to look for smart money than dumb money because we are the dumb traders.

From that point onwards I focused all my attention on finding out what the smart money is doing. Where they buy? Where they sell? How to find out what time frame they are from? How Market Profile structure reveals their actions? And finally the million-dollar question, how can I match my timing with them?

Trust me; we all are always looking for answers. That is why we are never satisfied and keep jumping from one method to another, follow one mentor after another, keep changing systems faster than the four seasons.

But real and lasting change will come in your life only when you start asking the right questions. When I started asking the right questions my trading changed. And when I sat back and observed what questions I was asking the LCTR framework revealed itself to me.

I did not find the LCTR framework, it found me. And today I am sharing it with you so you can start asking the right questions too.

What stage can you reach using this fantastic tool?

Now before we take a deep dive into this framework, let me list down a few of the advantages you will get when you start trading with the LCTR framework using Market Profile.

1. Understand the markets better, much better.
2. Understand why markets did what they did.
3. Understand your trading mistakes better.
4. Learn from you trading mistakes better.
5. Catch yourself before you repeat one of your trading mistakes again.
6. Be calm and collected in highly volatile situations.
7. Never get anxious about where the markets will go next.
8. Never get impatient and take impulsive trades.
9. Stop stressing over finding the perfect entry and exit.
10. Stop relying on statistical patterns as they are not applicable to real markets.
11. Understand your competition better.
12. Avoid getting trapped by the smart money.
13. Stop giving up on good positions.
14. Stop taking bad trades and then hold on to hope.
15. Stop running after the one big trade, the silver bullet that will kill all your problems in one shot.
16. Start respecting risk.
17. Before that start understanding risk.
18. As you will soon see, get a completely novel perspective on risk.

19. Stop relying on guru's to give you good trading advice.
20. Become independent while taking your trading decisions.
21. Start differentiating genuine mentors and the SOS (snake oil salesmen).
22. Start believing that you are a consistently profitable trader.

I mean I can keep going on and on, but after so many life-changing benefits if you still need convincing then I can't help you;)

But if you feel even one of the benefit can be useful for you do read the next chapter, it can be the difference between years of struggle and taking streamlined efforts in the right direction.

Chapter 7

LCTR Framework

“The LCTR framework encapsulates how I started to see the markets once I understood where I was going wrong. I would pay a million dollars in a heartbeat if I could start my trading all over again on the foundation of LCTR framework.”

– Dean Market Profile

This is the framework that changed my trading. It’s funny that I realized after my trading improved. But once I understood what helped me improve my trading, I wanted to share it with everyone, so here it is.

It consists of 4 parts; actually, there is also the 5th part to it. But it is more of an all-encompassing thing. That is it is present in all 4 core parts.

The four parts of the framework are.

1. Logic
2. Context
3. Timing
4. Risk

And the 5th part is Psychology. It changes over time as you start using this framework. The more time you spend with it, the more changes will occur in your thought process. It will start becoming better and better. You will start realizing your mistakes, even before you make them. When this starts happening it is a sign

that you have embraced the framework well and you are on the right path to consistent trading profitability.

Let us begin with the first part.

Logic

Logic refers to the underlying reason why the markets work. Jim and Peter always said that the purpose of the market is trade facilitation. It is a platform for buyers and sellers to come and express their opinion of the prices of assets. Be it stocks or commodities or something else.

To understand the functioning of the markets to its very core you need to answer three questions.

1. Why do markets or better yet prices move up and down?
2. How can I classify and determine which stage the market development is in? (we will see different stages soon)
3. How to determine whether the participants are early birds or smart traders or late to the party or laggards?

There are three models or thought processes that can help us get an answer to these questions.

1. The Auction Market Theory (popularized by Peter and Jim)
2. The Wyckoff Market Cycles (obviously discovered by Richard Wyckoff)
3. The Innovation Adoption Curve (by Rogers, Jim also calls it the Life cycle Model)

Now, these three models once understood and applied regularly in your trading can change the face of your trading forever. Mind you these do not trade setups or ways to find entries and exits. These are the foundation stones on which your market understanding will be built.

Let's go through them one by one.

The Auction Market Theory

This was proposed by Peter Steidlmayer and really understood and popularized by James Dalton. These two gentlemen have given traders something which has the power to revive even the bleakest trading careers.

The basic auction market theory as I understood it consists of only two statements. It's deceptively simple but one should not confuse the simplicity with its ability. It is an extremely powerful concept.

1. **The market goes up to find sellers.**
2. **The market goes down to find buyers.**

That's it. Just two little statements but it changed the way I looked at the markets forever. Like any other trader, I had many misconceptions about the markets. I used to believe completely in trend following, while trend following is not wrong in itself, but blind trend following is going to frustrate you all the way.

1. So the first thing I realized while using AMT is that no trend will last forever. In fact, markets are moving up to find sellers, the very thing that will end the trend.
2. Markets don't really move up and down because demand is greater than supply or vice-versa, in fact, it happens because markets are finding the best place to conduct business. That is to facilitate trade. Markets want to trade at places where there are both buyers and sellers available.
3. So I realized markets move up because they don't have sellers and to facilitate trade they have to move up to find sellers. As we learnt in Economics 101 when prices increase supply also increases.
4. So I stopped chasing prices up and down, that does not mean we should fade every trend, but I became selective in my trading. I would buy and sell when I was sure there is a supply-demand imbalance and not because a

moving average is moving up.

So auction market theory is a fantastic tool and can be very very useful in your trading. The reason why it is so good is it uses the auction framework at its core. We all have heard or seen auctions, maybe not in real life but definitely in movies.

Where the auctioneer announces an item and its initial selling price. Then people with money come in and start bidding for the item. Soon the price becomes much higher than the price at which the item was first offered. Then at the very last only one person remains and no one is willing to pay more than him, so he gets the item.

The difference between a traditional auction framework and markets is that in markets we get to see this process both with increasing and decreasing price.

If sellers feel that the current price is not a fair price for them, they won't sell. The markets or auction will then start moving up to find willing sellers. Till such time they will keep moving up. Now imagine the opposite scenario.

Markets are trading at a level and buyers feel it is overpriced. They are not willing to pay the high price for a stock or futures or whatever instrument they are trading. Now the auction has to move lower to find buyers. As the price moves lower demand increases and buyers come in and support the price. So prices will keep moving down till they find buyers.

This realization eliminated the always bullish or always bearish bias traders have often based on factors that are external to the markets. This is a big problem, especially for traders who watch the news channels and other social media for market information.

So this auction market theory (AMT) is a wonderful tool and really helps us in understanding the markets. Babuji would often give me tips and nuggets of information about what the markets were doing in the present moment. It was difficult for me to understand oftentimes, as the opinions were contradictory sometimes.

But after learning the AMT framework, I started making sense of his

statements. Much more sense and that started reflecting in my trading decision making.

So that is the first thing that comes under the logic part of my framework. It is extremely powerful and every trader must incorporate it in their trading. One thing I have noted is that the AMT actually forms the basis of every business transaction. It might be a big statement, but that is the truth because the more I explore the more I see this wonderful theory showing up beneath every transaction.

Wyckoff Market Cycles

This is another gem hidden for so many years. But all the successful traders use it in one way or another. Even you are using it, but you are not aware of it. It is the most simple classification of the markets I have ever seen.

People try to misuse this one and then end up blaming it. Many traders have given up on Wyckoff saying that it does not work and does not provide a clear indication to buy and sell. Well, that is absolutely true because it is not meant for generating buy and sell signals.

It is supposed to give you a solid foundation in understanding what the markets are doing presently. Are they trending, consolidating, breaking out or topping out and so many things that the markets do over and over again.

Now imagine a framework that will give you an idea which stage the markets is in and what will be its dominant behaviour over the near future (depending on your time frame as it works on every time frame). For instance, if the markets are in a trending phase and they are trending up. Every small balance will most likely resolve to the upside. Every small pullback will see buyers supporting the markets. All supports will be held or at least provide significant support.

Now if you are sure of the dominant behaviour, then this will give you a foundation to pick a strategy that is more likely to work in the present market situation. For instance, if you know that the market is in a trending mode, you can use the buy breakouts strategy or a simple buy on dips strategy.

It may sound very simple, but once you know the strategy you should use, you can then go to the market profile chart and look for supporting clues. It's amazing how such simple things get overlooked in the hustle and bustle of daily trading activity.

So let us look at the phases in a Wyckoff Market Cycle.

1. Accumulation
2. Mark Up
3. Distribution
4. MarkDown

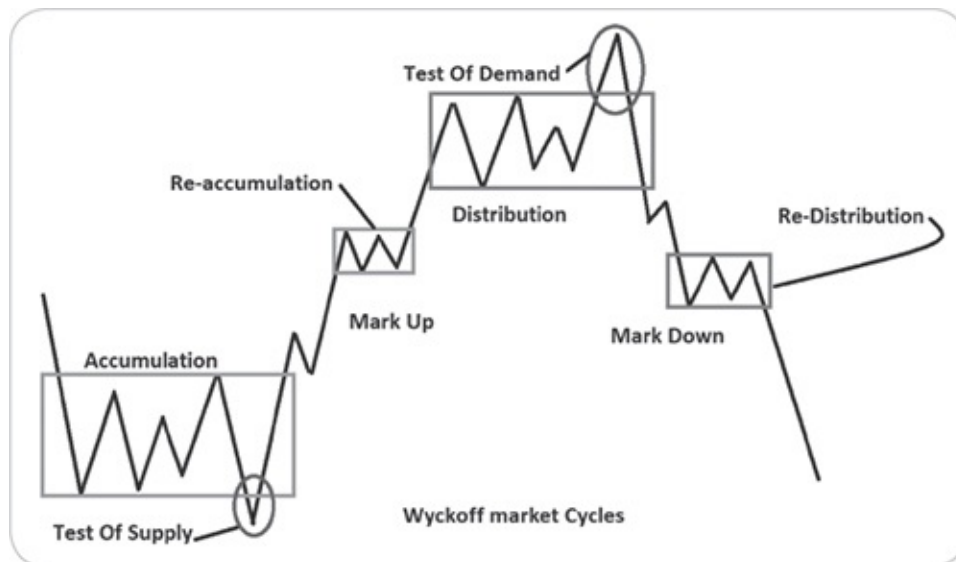


Image 22: Wyckoff graphic

The market up and markdown phase on a lower time frame see an intermediate phase that is re-accumulation and re-distribution respectively.

These 4 main phases combined with two intermediate ones of re-accumulation and re-distribution make up the complete Wyckoff Market Cycle.

There is another thing which is out of the scope of this book, which relates to Wyckoff. They are called Wyckoff schematics. These are detailed templates of how

markets perform while in each phase.

The most popular however is the accumulation, distribution, re-accumulation and redistribution phases. This we will discuss some other time.

So let me describe what you can expect in each of these phases. But before that let me share with you my biggest learning from AMT, Market Profile and all other tools we are discussing in this book.

Where Does Smart Money Trade?

The common assumption is whenever the prices move directionally smart money is responsible for that. Well, the answer is yes, but a majority of their position is not established during the trending move. That is when they make profits, they buy before that.

So what comes before a trend? Yes, you guessed it right, consolidation. That is where they buy or sell, or in other words, accumulate or distribute. Once they absorb all the supply or demand, markets will move up or down.

So keep that in mind, the smart money has already bought when you see a good trend underway.

Phase 1: Accumulation

In this phase you see prices moving sideways in consolidation and not doing anything. There is no directional progress. And the mean reversion tendency is observed. Every time prices reach the top or bottom of the consolidation zone you see a reversal.

Prices are moving sideways because SM is accumulating. They do this in a very gentle manner so that they don't mark the prices up against their own buying. That is why consolidations take longer (roughly 70% of the time markets are consolidating). SM need time and liquidity to accumulate their positions, and consolidation provides both in ample quantities.

There are two ways to handle this type of market development.

1. **Stay on the sidelines:** That is the wisest thing to do. But if you are a day trader and your livelihood depends on trading, you can't afford too many dull days. So what do you do? You do the second thing when markets are stuck in the accumulation phase.
2. **Trade smaller time frame:** You can drop a couple of time frames. What I mean by that is if you are a positional trader, you look to take some intraday trades or short term trades. You monitor when the markets reach an extreme and if the auction shows signs of exhaustion there, you fade that extreme.

This is the only way a retail trader (with limited capital) can trade during accumulation.

Phase 2: Mark-Up

If you were observant during the accumulation phase then you will catch the breakouts from such consolidations. Once a breakout happens prices tend to move in one direction. If you were long, then this is the time to sit tight and do nothing.

Prices will keep moving up and keep widening your price differential (CMP – Buy Price). If you become impatient during these mark-up phases you won't be able to make the big money.

The patience takes time to develop and a lot of screen time.

The indication of such behaviour on a market profile chart is trend days. Whenever you see nice elongated trend days forming back to back, with nice directional value area placements, you know that the trend is strong and we are in a mark-up phase.

Phase 3: Distribution

This phase is the exact opposite of accumulation. Here SM is trying to distribute their holdings or create fresh short positions in the markets. Again SM will take

their own sweet time to distribute or create fresh shorts so that the prices don't fall too quickly.

The best way to trade these consolidations is by using mean reversion strategies. Just as described in the accumulation phase, buy low and sell high. But while doing this keep a close eye on the breakdown. If you buy at the lows of the consolidation and prices breakdown, it is wise to exit immediately.

Below the lows of the consolidation, it is unwise to hold on to your shorts.

Once their shorts are established, prices collapse sharply. Thus send us into the next phase.

Phase 4: Mark-Down

In this phase we see prices moving swiftly down. It is a clear downtrend. The best thing that can happen is you catch the breakdown from the consolidation or the distribution, and then sit tight till the markdown phase is playing out.

Once again patience is the key here. Often times I have heard traders complaining that they enter a trade just fine but can't hold on to their winners. Sometimes they hold on too long and their profits evaporate on a pullback, at other times they end up booking profits early and the trend just keeps going on and on.

You need a lot of screen time and a firm grasp of these 4 phases of Wyckoff Market Cycles to be able to capitalize on these phases.

Intermediate Phases

Then there are two intermediate phases. Often trends pause a bit and then continue again. Most retail traders take these pauses as a potential reversal and end up fading the trend.

But the trend resumes and their stop losses are taken out. These stop losses end up helping the original trend. This is called as re-accumulation in an uptrend and re-distribution in a downtrend.

The idea is smart money knows that the trend has much more room to develop and they end up absorbing the demand and supply by the retail traders. The small balance gives retail traders hope but SM pushes the markets in the direction of the trend taking out stop losses of all the retail traders. These stop losses add to the strength of the trend even further.

Innovation Adoption Curve

This is another fantastic tool to help us gauge whether the trend is young or old. Once again it is not objective, where one sell signal appears and tells you the trend is over. It takes a lot of practice and observation to become good at it. But once you get the hang of it you will never lose the touch, it's like learning to ride a bicycle.

So what does this innovation adoption curve (IAC) by E M Rogers really tell us? It tells us which participants are coming into the markets at present. Are these smart traders who often are responsible for starting a trend, or are these laggards who usually show up when the trend is about to come to an end. There is a whole spectrum from innovators to laggards and where you are on the spectrum will determine how consistently you make money in the markets.

So, here is the complete spectrum.

1. Innovators
2. Early Adopters
3. Early Majority
4. Late Majority
5. Laggards

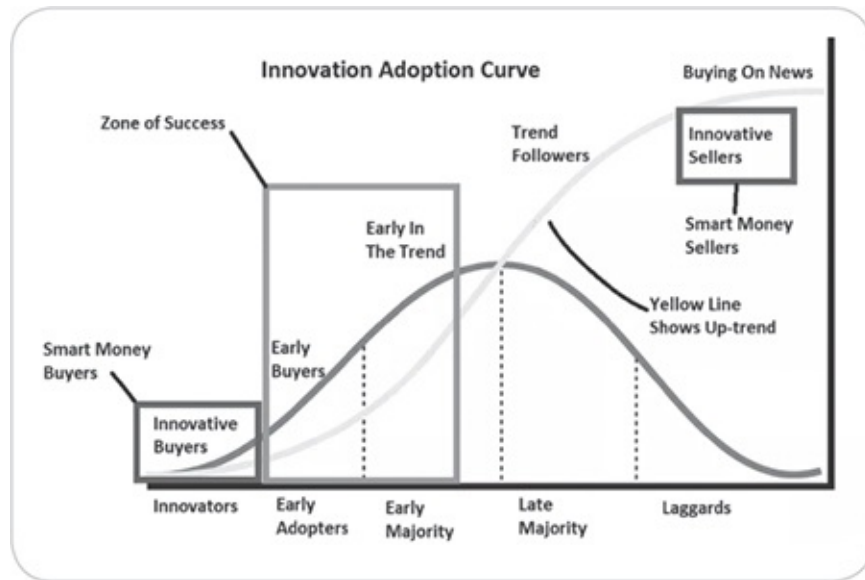


Image 23: IAC

It was a particularly bad day for me, early on in my trading career. I had just started talking to Babuji and he was measuring me as a trader. Markets had opened contrary to my expectations and I was losing money.

The worse part is I kept fighting the trend, a beginners mistake and made things even worse for myself at the end of the day. Now Babuji never gave me straight trading advice. He always said “If I feed you trade today, you will never be able to take one by yourself, you will always keep searching for a hand to feed you trade. I want you to become an independent trader.”

That thing has stuck with me even today and that is what I have incorporated in my mentoring too.

At the end of the day, I went to the water dispenser and filled myself a glass of cold water and as I was gulping it down I felt a gentle tap on my shoulder. It was Babuji standing behind me, I thought he wanted water as well, so I offered him a glass. But he said, “I am here to talk with you, and I had a good day so I don’t need water right now, but you finish your glass and then we will talk.”

We sat in the lobby of the broker’s office and he said to me “You kept averaging your longs today, despite markets moving lower after each purchase you made.”

“I don’t know what happened,” I said, “I was just zoned out and was on an automatic mode.”

“This is a common problem, and the reason is that you did not accept you were wrong. This problem is not common to trading only, you see so many people zoned out and getting stuck in a routine wake-office-sleep-repeat cycle. They don’t know what is happening with their life, neither are they ever in control. The same thing happened to you today.”

“I did not get you Babuji,” I said.

“Well, the problem was you did not accept that you were wrong in buying today. Today right from the start the buyers were at a disadvantage. You don’t fade a strong trend like today unless you have signs of the trend exhausting or reversing.”

“Is there a way to find out when a trend is exhausting or ending?” I asked.

“Well, that is where your observation powers come in. Trends stop when they meet the opposing force. So a downtrend will stop when the markets will see buyers coming in and opposite for the uptrend. Whenever they come in there are signs that you can observe in the markets. Accordingly, you can choose to take your trade decisions.”

“What signs?” I almost jumped out of my seat with curiosity.

“Well, there are no buy and sell signals, nothing ready-made for you. Otherwise, the markets would have been too easy and no fun. There are subtle signs like, how deep the retracement goes, whether markets move directionally or start moving sideways, is there a blow-off right at the end of the trend, successive candles showing a lot of overlap, and on and on.”

“There are so many things.” I protested.

“Well making money cant be so easy right, you have to separate yourself from the crowd to make money. The crowd is always late to the party, whereas the big traders they throw the party.” Babuji replied in his usual cryptic manner.

I also never asked Babuji for a straight answer, because I knew I had to think

long and hard to make sense of what he said. That deep and focused thinking often led to what I call light bulb moments or epiphanies.

Once I discovered the wisdom behind his words, markets would look different to me. When I reminisce about my early trading days I can't help but notice that I was always a laggard. This term coined by E M Rogers is an important concept every trader should master.

Let me describe all the participants from the IAC in the context of the market. Let us discuss each one of them in greater detail, but as it applies to the markets.

Innovators

They are responsible for stopping a trend and reversing it. The most common advice that a beginner gets is "Don't catch falling knives.", well these are the traders that catch them.

Almost always these traders are big traders with better know how, know what and know when. They are better in every respect than the retail traders who are always in the laggards category.

Early Adopters

These are probably the wiliest traders of the lot. They don't have to take the risk commonly taken by the innovators. They watch the innovators like a hawk and when they are sure that innovators have stepped in they too jump on to the trend, very early on.

A retail trader can become successful if he can spot the early majority in action. Market Profile makes it possible to spot them in action. That is the only way a retail trader can hope to become a consistently profitable trader.

Early Majority

These are our conventional trend traders, but those who have the experience to

distinguish between a strong trend and a tiring trend. If you look at Wyckoff Market Cycles, you will find that the re-accumulation and re-distribution phases will see this type of traders.

They will wait for confirmation and only after that jump on to the existing trend. These guys can make good money but are susceptible to be trapped in false breakouts and breakdowns. Smart money knows all this and sometimes they set traps specifically to catch a lot of this early majority on a wrong foot.

Late Majority

Now we are moving into the realm of amateur or most of the retail traders. These guys are often late to the party and usually jump into the trend when it is very old. False breakouts and false breakdowns are a regular feature in these traders trading. Alas, they are often on the wrong side of it.

These traders have little chance to be consistently profitable unless they make big changes in their trading method. If you are one of those (I know I was a few years ago) then understanding this LCTR framework and tools like Market Profile will give you a big boost on your way to consistent profitability.

Laggards

These are the absolute last of the participants into a trend. They are often driven by news and events. They are the cannon fodder used by the smart money.

The whole objective of smart money is to tarp you out of good positions and trap you into bad ones. And these laggards fit the bill perfectly.

The innovators are often trading against the late majority and laggards. They are creating situations in the markets that let the smart money transfer inventory from the laggards to them.

Once the inventory transfer process is complete the trend reverses. Think about stop hunts, double or triple tops, failed breakouts or break downs from long consolidations. These are all ploys of smart money to trap the gullible laggards in

the markets.

Now we will discuss the second part of the LCTR framework, Context.

Context

This is the part where a tool like Market Profile becomes invaluable. But before we look at what we need to see exactly what context is.

“You need to look at what the markets have been doing over the last few days,” Babuji said sipping his favourite afternoon tea.

“Markets don’t turn on the dime, they need time to turn,” he said.

I was listening to him intently, but then he stopped talking as if he had given me all the knowledge needed to become a successful trader. This was not the first time this was happening. Babuji often would say something like this and then I would spend days on end to make sense of what he said.

Babuji often said, “You need to understand why the markets are doing what they are doing.” But as simple as his statements were, it was very difficult to make sense of them and further incorporate them into my trading.

So what is context after all? Context is nothing but what markets did over the last few days if you want to be a short term trader. As your holding time frame grows your recent market activity will also be of a longer time frame. For an investor, you may have to observe market activity over the last few months to even a couple of years to get an accurate picture of what smart money is doing.

But over a short time frame, the last few days of activity is sufficient.

Value

To make sense of all this we need to revisit the concept of value, which is central to the study of market profile.

Value is where the markets spend the most amount of time. The more time

market spends at a price level the more valuable it becomes to our trading. More time at a price means more trading. More trading means more liquidity. More liquidity means better opportunity to move large quantities of stocks, options, futures, etc.

Who needs more time to trade? Obviously not me and you, aka retail traders, because we will be putting in an order of 1, 5, 10 or sometimes even 100 lots. Markets nowadays can absorb such liquidity easily. But consider big traders who want to hedge their huge portfolios, or want to create positions in FnO segment for next couple of series.

These guys trade in huge quantities and they need time to establish their positions. Imagine a big institution coming in and putting in a market order of 10000 lots. What will happen in the markets, there will be a big spike up or down depending upon whether the order is buy type or sell type.

let's say they bought 10000 lots at the market. But by the time the complete order is executed prices would have rallied a lot. This will also increase their average price. And that will limit their profit margin.

Now let us look at another scenario, say markets are moving sideways. A big institution wants to establish a big position. They come into the markets but instead of putting in a big buy order, they start absorbing all the sell orders slowly and in small quantities.

This is will ensure that the prices will not be marked up against their own buying. Now once they absorb all the supply markets will inevitably move up to find sellers. If some small supply comes in the big guys will quickly absorb that with additional buying.

They will keep doing this until markets reach a price level where they feel comfortable selling their inventory. Now again they won't sell it all at once but will start offloading their inventory slowly. Possibly in another consolidation.

Market profile as we have seen earlier gives us an idea about where this activity may be going on by plotting value. The structural developments like PPOC

(prominent points of control) and value area and its migration will give us an idea where the smart money is entering or exiting.

That is why I say Market Profile is an invaluable tool if you want to track the activity of big traders the smart money.

We have already discussed the structural details about market profile and how it can help us find out the truth about the current market situation.

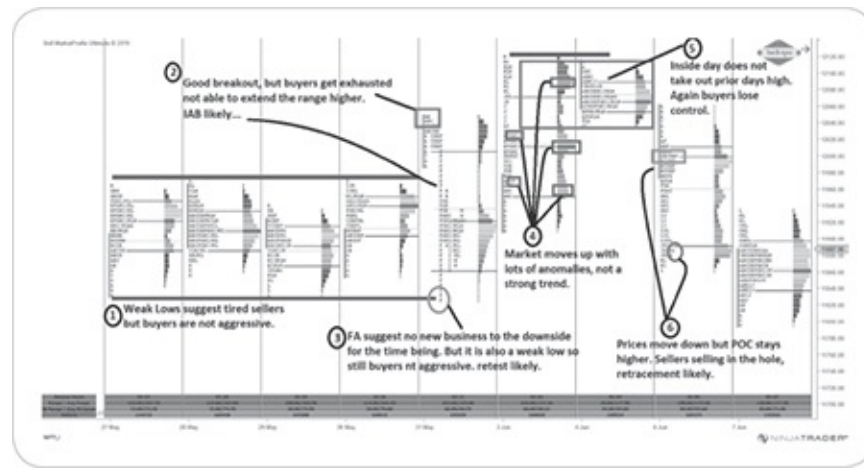


Image 24: MP

But if you are just starting out with market profile let me list down the benefits of market profile for you.

1. It will tell you where value is forming.
2. It will tell you whether the value is moving up with price or not.
3. Based on point no 2 above you can gauge the strength of a trend, whether it is accelerating, decelerating or ending.
4. It will tell you when the big money is coming into the markets and when it may be exiting.
5. It will tell you some very important references which will guide you in your trading.

6. It will reveal the traps that smart money lay for catching retail or amateur traders on the wrong foot.
7. You can even spot these traps in time and position your self along with the smart money to benefit from the subsequent price move.
8. It will help you manage your risks properly. Not in the traditional sense as we will see in the next section.
9. It will help you transition from amateur trader to a smart or professional trader with minimum mistakes. Always remember lesser mistakes means increased profitability.

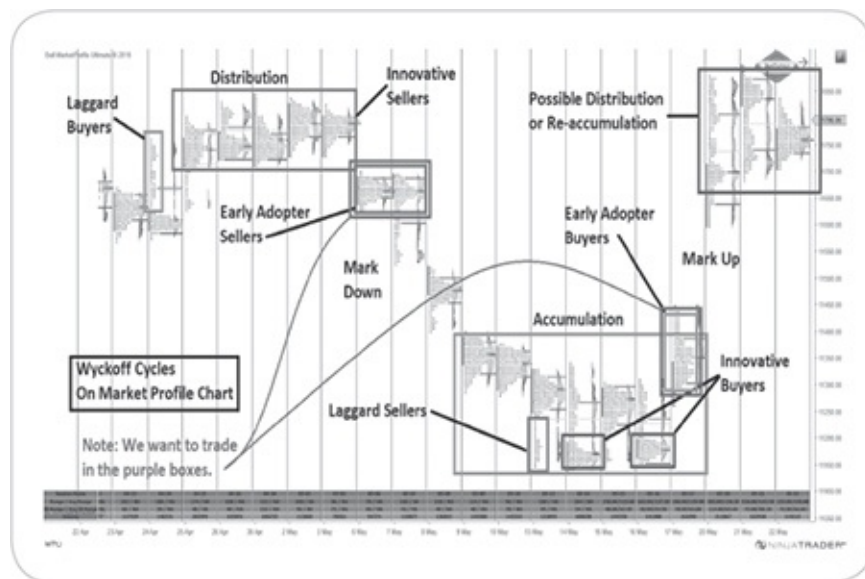


Image 25: MP

I can go on and on about these benefits but I am sure you get the point. Starting with the market profile is one of the wisest decision you have taken as a trader. It may seem a bit challenging at the start, but if you persist with it the rewards are huge.

Reading this book is the best start because it gives you the real picture of market profile. Many people are misguiding beginners about the market profile. The simple reason is they themselves don't know what market profile really is. They are

projecting it as a trading system, whereas in reality, it is much more than that.

Do use it in your trading but don't treat it as merely a trading system. It can give you much deeper insights into the markets and has the potential to transform your trading completely.

Now that we have understood the context part, let us move on to the timing aspect of trading.

Timing

This is the biggest graveyard of retail traders. This aspect of trading has the most amount of misinformation floating around on the internet and even written in a lot of books. If you don't understand the timing aspect of the trading correctly, you can never become a successful trader.

Let us first look at some of the misconceptions traders have about timing.

1. Timing is everything. Your trading success depends on how well you time your trades.
2. All you need to be a successful trader is a good timing tool.
3. You can succeed with a good timing tool even if you don't have a firm grasp on other aspects of your trading like logic and context.
4. A good trading system will tell you when to buy and when to sell.

There are many more of these, but they are absolutely baseless. Most of the times these misconceptions spread because of the so-called mentors who give traders what they want rather than what they need.

Many times traders don't know what they need to become consistently profitable. They gather information based on loosely written articles and books or videos on the internet. Often times they start their trading career with these misconceptions at its base.

Trust me because I was the one who did the same.

Let me tell you the truth and dispel these wrong notions traders have about the markets, especially about timing your trades.

Timing is everything. Your trading success depends on how well you time your trades.

This is far from the truth, I have seen many traders who have terrible timing but still end up making a lot of money. The reason is trading is not about timing only, but also about understanding why markets are behaving a certain way.

It is very difficult to time your trades to the last tick and doing it successfully trade after trade. It puts a lot of pressure on you as a trader. And in an effort to get your timing perfect you miss out on many great opportunities.

Trading is not about catching the last tick in a reversal, but about creating a price differential. If you can create that differential on a consistent basis, while controlling your risk, you can make it as a trader.

All you need to be a successful trader is a good timing tool.

Here is where most retail traders get it completely wrong. They invariably start with timing tools, whereas the right approach would be to first understand the logic behind market moves and the context under which those moves are happening.

Just ask yourself what are the most common trading indicators traders come across when they start trading. I can bet at least 50% of you came across the following 3.

1. RSI (Relative Strength Index)
2. Stochastic
3. MACD (Moving Average Convergence Divergence)

Of the 3 above two are timing tools and the third one is often used as a timing tool only. Traders get stuck on divergences between the markets and these indicators. They observe that on some occasions the markets did obey what these indicators

were suggesting. They jump headlong into trading with these indicators only.

The result, after a few trades they realize that markets are not obeying the indicators all the time. Sometimes they do and more often than not they don't. This is especially true if you have a position on. Some traders also have this experience that when they put on trade these signals don't work, but when they pass on a trade they do.

All this is happening because they are putting on a trade without understanding what the markets are doing in the present moment and what they have done over recent times. Aka context.

Trade timing will work only when all the other aspects line up for that trade. That is.

1. Big traders or smart traders have completed their accumulation or distribution. That is all the supply or demand is absorbed.
2. The smart money has tested the markets for residual supply or demand. This is where most of the failed auctions show up.
3. There have been signs of weakening trend prior to potential reversal.
4. There are signs of absorption of supply or demand at important resistance and supports for a possible breakout or a breakdown.

When one or more of these conditions line up it becomes a good time to look for a trade and then at a timing tool to find a good trade opportunity.

A timing tool can be as simple as a divergence on RSI or STS indicators or as advanced as an Order Flow Chart (OFA) or Volume Spread Analysis (VSA). I use OFA and VSA charts for timing purposes.

But I will only move on to the timing chart when I am confident that the smart money is now ready to move the markets. If you move on early then your trades are likely to fail.

So to become a successful trader learn to be patient, first find your trade and

then look to time it.

You can succeed with a good timing tool even if you don't have a firm grasp on other aspects of your trading like logic and context.

That is as far from the truth as it can be. If you don't understand the context under which the current market development is taking place then you will be left in the lurch on all good trades. Because SM has a sole objective to trap you into bad trades and trap you out of good ones.

So if you don't understand what is happening in the markets and trade solely based on past data you will get caught in their traps. The problem is traders often end up blaming their trading system or tools for their failure.

Whereas in reality it's their own lack of understanding that causes this problem. So give enough time to learn and only after that can you think about making consistent profits. Focusing only on entries and exits will keep you from the success you deserve.

A good trading system will tell you when to buy and when to sell.

Well, a good trading system should do 100 other more important things than just telling you when to buy and when to sell. As I emphasized earlier trading is not about entries and exits only. There are so many other things that are going on.

A good trading system will tell you first and foremost why you should buy or sell. And after that where you should buy or sell. And only after that will it tell you when you should buy or sell (aka timing). But the journey doesn't stop here, it then goes on to tell you whether you should hold on to your trade or not. And then finally when to get out of it.

So trading is not only timing. Timing is a small part of it, although important but definitely not the most important one.

Now we come to the most important component of this book, this business of trading and life in general. Understanding and managing risk. This is not going to

be your usual discussion on risk, I have a completely novel perspective on risk which I am going to share with you today.

Chapter 8

Risk Management

“The only thing a trader needs to learn in his early days of trading is how to manage his risks properly. It ensures your survival when you are the weakest.”

– Dean Market Profile

Now we come to the most important part of the trading business, or any business for that matter, managing our risks and keeping them within controlled limits. More often than not it is this mismanagement of risk that leads to the downfall of the most flourishing businesses.

Trading is no different and I have been on the brink of a blown trading account more than once in my trading career. It's not the money that we lose, but the social and family pressures along with that make like unbearable. It is the expectations you have of yourself and other people around you have of you that weigh you down.

There are very few who can keep fighting on both fronts. But there is a very easy solution to all this. Do not get into this situation ever in your life. That means anyone with low capital or money which they can't afford to lose should not enter into this business at all.

It is better to bide your time, learn and invest in yourself first, although I don't believe in paper trading but even do that for some time and you can hope to become a successful trader in due course of time.

I am not trying to discourage you from taking up trading. But please bear this in mind, if you disrespect risk it will clean you out before you know what

happened.

Now let's take a look at the traditional approach to risk management and see why it causes problems in our trading.

Traditional Definitions of Risk

1. % Risk Model
2. No of Points Model
3. How many lots to trade?
4. Where to put the stop loss?

let's go through it one by one.

% Risk Model

This is one of the most basic models and the most popular one. Here we decide to risk a specific percentage of capital on each trade. We sometimes also decide on an overall risk number for all the open positions at any given point in time.

And should you encounter losses, as every trader and trading system does, you also decide on a percentage of capital that you will lose in any given month. Now let us put some numbers and see how it looks.

Total Risk For The Month: 10% of Capital

Total Risk On Open Positions: 6% of Capital

Total Risk On Any One Trade: 2% of Capital

So if you have INR 100,000 in your account the following number comes out using the model above.

Total Risk For The Month: INR 10000

Total Risk On Open Positions: INR 6000

Total Risk On Any One Trade: INR 2000

Which means you can risk a maximum of INR 2000 on any one trade and you can have a maximum of 3 different positions like this. And should you lose INR 10000 in any one month you have to stop trading for that month?

That puts a serious limitation on someone who is trying to make a living out of trading business. Given the contract sizes, we have currently on indices as well as stocks it is almost impossible for an INR 100,000 account to trade in FnO segment.

Yet I get regular calls from people who have as low as INR 20000 – 25000 in their accounts and are trading in FnO segment. No matter how good a trader you are, how good a mentor you learn from, if your trading account is under-capitalized it is almost impossible to survive.

So the flaws with this model are that it does not work well with FnO segment because it does not consider how big is your contract value. It just focuses on the risk part and then tells you how many contracts you can trade. But if you don't consider the contract value you are trading it is going to be a losing game after all. Let's look at the second point now.

No of Points Model

Here you are looking at the maximum no of points you will keep as a stop loss. You can decide the number based on your technical analysis, the average range of the day or some advanced method like calculating maximum adverse excursion after you put on a trade.

The problem with advanced statistical methods is that they are designed for situations which are not too far off the mean. Let me explain to you this very important point.

Suppose you are calculating the average height of a class of 20 students. Most of the students are between 4' to 5'. So the average is somewhere between 4 and 5 let's say 4.5 for simplicity.

Now let's say a new student joins the class and his height is 8', which is very rare for us human beings. What do you think will be the average of the class with 21 students now. It will be 4.66 not very far from the original 4.5.

But let's take an example of a situation where this rule does not apply. Let's say you take the average of the net annual income of the parents of those 20 students. let's say most of the parents are making somewhere between 15 Lacs to 20 Lacs per year. For simplicity, we consider that the average income is 17.5 Lacs per year.

Now just for fun imagine if the 21st student who joins is the son of Warren Buffet or Bill Gates or Jeff Bezos or Mukesh Ambani. What would the average be? A quick google search reveals that the annual income for Mukesh Ambani last year was 4.2 Crores (that is just his personal remuneration we are not even including the income that his company makes). Now the average becomes INR 36.67 lacs, that is double of what it originally was.

So if you had predicted using the great statistics that the average annual income of the parents of students will be around 17.5 lacs, the addition of just one student skews the picture.

By the way, the annual income of just Reliance Industries was INR 1,62,759 Crores. Now the average would become INR 7,75000 Crore. That is roughly 44000 times higher than the previous average.

So the point I want to make here is that there are some fields of study you cant apply the statistical approach to, you won't get reliable results.

So it does not matter whether it is % of capital or no of points if you don't understand the power of leverage both constructive and destructive you are walking on a minefield with blindfolds. Just imagine would you ever do that.

How Many Lots to Trade?

How do you decide that? How do you decide how many lots to trade? Well if I am not wrong most people would like to trade the maximum no of lots their risk management system can afford.

let's take an example of the % risk model.

Your Capital: INR 10,00,000

Your Max Risk Per Trade: 2% that is INR 20,000

Now let's take an example of Bank Nifty with a lot size of 25 and you have a stop loss of 40 points as per your technical analysis. Now the number of lots a normal trader would trade will be simply calculated by dividing the max risk per trade by the stop loss.

So,

$$20000/(40*25) = 20 \text{ lots}$$

Now your logic is if I lose I am just losing 2% of my capital. But when you consider how much contract value you are controlling with that position you will be shocked.

So,

$$20 \text{ Lots} * 25 \text{ lot size} * 30000 \text{ Bank Nifty CMP} = 1.5 \text{ Crore}$$

Now to lose INR 20,000 on a trade size of INR 1.5 Crore you need only 0.13% move. Do you think it is difficult for the Bank Nifty to move that much? Forget about the index, imagine you are trading a call or a put option do you think it is difficult for bank nifty options to move that much.

Even if you say that the margin requirements have increased and it may be around INR 100,000 still you will try to trade 10 lots and bank nifty will have to move by 0.26%. It is still nothing for bank nifty to move by that amount in a day.

This over-leveraging is what is killing small traders. They don't realize that until it is very late. So wake up guys, don't get fooled by people promising you the riches if they are not showing you the ugly side of the business.

In reality, trading is like any other business where you can only expect to make a reasonable rate of return. If you try to make it big overnight you won't see the light of the day. Smart money makes sure of that.

So it is more important to learn how the smart money works before you run after the “shiny new trading system with a proven track record”.

let's look at the biggest scam purported by the smart money, stop loss.

Where Do You Put Your Stop Loss?

I have been talking about this for a long time. If you are trading for some time and have been putting a stop loss, I am sure it was hit on multiple occasions. Not only that once your stop loss was hit, but markets also reversed on the dime, as if they came down just for taking out your stop loss.

If you have been frustrated with this in your trading then you are not alone. Every retail trader goes through this problem one time or other. Unless you understand how the stop loss works for smart money you won't ever be truly able to beat them.

Now let us focus on why the markets go against you just enough to trigger your stop loss and then turn back up. The reason is simple, it depends on where you are putting your stop loss. Smart money knows where you put your stop loss, even if they don't have the level 2 or 3 data, they can tell by experience.

And once they know what information they can use that information to their advantage. So while you are worrying about whether your trading system is good or not, the smart money is meticulously planning their next move so that they can exploit your stop losses.

Here is how they do it.

It was a nice week for me, I had been on a roll, making one profitable trade after another. Punters in my broker's office had started asking me for tips. Things change so quickly in a brokers office. Just a week back I was a nobody and now they were asking me for my advice. I have made it finally I thought to myself.

Then came the day when I was shown the mirror by the markets. Babuji was witnessing all of it.

“What happened today?” he asked in a compassionate voice.

“Well I was on a roll for a few days and then today everything just went wrong. One position took away weeks worth of profits for me.” I complained. (I did a lot of complaining when I was starting out.)

“Tell me what happened exactly.” Babuji inquired.

“I was making consistent money for last one week from the long side. Today too markets opened gap up so I bought at the open and went with the trend and I put my stop loss at yesterdays low. Then suddenly the markets started crashing and before I could understand what was happening it took out my stop-loss” I said “not only that as soon as my stop loss was taken out markets again resumed the uptrend and went on to hit my target eventually. I just don’t understand where I went wrong.”

“How much did you lose?” Babuji asked.

“I lost all the profits from last week,” I said.

“How many contracts did you have on today?” Babuji asked with a serious tone. I went silent for almost a minute and before he could ask again I said.

“I was trading 3 times my regular positions size.”

Babuji broke up into a burst of hearty laughter. I could not understand, he was not someone who made the sun of others, then why was he laughing. I waited for him to finish.

He said “Son, you got played by the smart money. Your first mistake was thinking you were a smart trader just because you made money last week. People get lucky and live their complete lives without even once realizing that they are sitting on a ticking time bomb. Your second mistake was putting on a very big position relative to your trading capital. And your third mistake was to put a stop loss at a very visual level. Everyone knows that short term traders like to put a stop loss at visual levels like yesterdays low or high. Smart money knew all this and they had no problems to take you out to cleaners, not only you many many more traders

like you.”

“Can you explain this in greater detail? Its the exact same thing that had worked for me during the last week. What went wrong?” I asked.

“Well, first of all, don’t mistake a trend with your intelligence. You made money because you happened to buy in an uptrend. Second over-leveraging is a sin that markets never forgive. You will be punished for over-leveraging your trading account.” Babuji replied.

“Now we come to the part where your stop loss was taken out. You put in a stop loss at yesterdays low. Smart money is trading on all time frames, its not just the bigger time frames that are smart. Smart money trades on all time frames. And whenever you make mistakes SM is there on the other side of your trade.”

“SM likes to trade big, now if the trend is already up and they start buying big the trend will accelerate. Then their average will again go up and we know SM likes to buy low and sell high. One more thing that happens is when SM sees that retail traders are booking profits at a certain level then they cannot absorb it always so they step aside. As soon as the SM stops buying markets crash, that is exactly what happened today.”

“And lastly why the markets reversed after taking your stop loss. Well, imagine that many traders had the same thought process as you did. They all put stop loss below yesterdays low. Now if all these stop losses were hit it will create a big supply right at the lows of the markets right. Now SM likes to buy low, so what they do is they put limit buy orders just below yesterdays low, so all the market sell orders that came in the markets as a result of your stop losses getting hit were absorbed by limit buying by the SM. That is why the markets reversed as soon as the stop losses were hit.” and Babuji stopped.

I was taken aback by the fact that I got played by the smart money but not as much as by the wisdom of that old soul. How easily he understood and explained to me what has happened to me. I knew it would take me a while to fully understand what he said.

I too encourage you to read it again so that you understand what is happening in the markets. Now I will share with you my approach to looking at risk. Many traders ask me how I put my stop loss or whether it is advisable altogether or not. So let's dive into it.

Risk of Being Long, Short or Flat in the Markets

Traders know only one way of looking at risks. Risk as a percentage of capital. They believe that risk is only when markets go against their position. But the risk is present in the markets in all positions at all times.

Just because you are in a position does not mean you have risks. Risks are there in the markets all the time and the best thing is it keeps changing all the time. Sometimes the risk of being long is very high and at other times the risk of being short is very high. Sometimes it is advisable to remain out of markets and at other times staying out of markets may not be the best strategy.

So if you want to buy you need to trade when the risk of being long is low or sometimes when the risk of being short is very high. Just because the risk of continuation in a trend increases does not mean that the trend will stop, it may go on longer than you can remain solvent.

So you need to develop a keen eye for identifying the risks involved in any position in the markets before you jump into one. And most importantly Market Profile is uniquely capable of helping you with that.

Also, as I have said earlier just because you have clearly defined your risk does not absolve you of your responsibilities. This is a major reason for retail traders lack of success. They work really hard to find good entries and then they enter the trade. But once they are in the trade they give up on it completely. They now depend on the markets to make them profitable or hit their stop loss. Entering a trade is only 10% of the work, the majority of the work comes after that.

Monitoring the risks continuously is the only solution. But how do you do it exactly? And better yet how can market profile help me in achieving that? Well, let's

find out.

Market Profile as we saw is based on three underlying philosophies the AMT (Auction Market Theory), Wyckoff Market Cycles and the IAC (Innovation Adoption Curve).

AMT tells us two things, namely.

1. **The market goes up to find sellers.**
2. **The market goes down to find buyers.**

That should immediately make you suspicious of any trend. But if you end up fading all trends you will be on the streets rather quickly. So what is the next piece of the puzzle?

Next comes Wyckoff Market Cycles, if you can identify which phase the market is in currently your job will become much easier. And it will take some practice to tell which of the following phase market is currently in.

1. Accumulation
2. Mark-up
3. Distribution
4. Mark-down
5. And re-accumulation or re-distribution

Based on the current market cycle phase you will be able to decide which trading strategy to use, viz.

1. Buy Low – Sell High
2. Buy Breakouts – Sell Breakdowns
3. Buy Dips – Sell Rallies

Its all good that you have identified the phase of the markets and selected the best possible strategies. But your work is not done yet. Next, you need to identify which

time frame you want to trade on.

Time frames are decided by your trade holding time and not chart periodicity. So if you are watching a 4-hour chart that is not your time frame that is your chart periodicity. But if you plan to hold your trade over 2–3 days then you are a short term trader and that is your time frame.

It took me quite some time to figure this one out and credit goes to our beloved Jim Dalton. So decide first which time frame you will be trading on, some suggestions by Jim Dalton are as follows.

1. Scalpers
2. Intraday Traders
3. Short Term Traders
4. Medium Term Traders
5. Long Term or Investors

But based on your time frame your trading plan is formed. Questions like.

- Which references will you watch?
- What position size will you trade?
- How long will you hold the trade?
- What structural features will you pay attention too?
- What structural patterns will you keep at the back of your mind but won't base your trade decisions on?
- Who your competition is?
- Which time frames to trade with and which time frames to go against?

I mean the list is endless. But once you give market profile the time it deserves you will be asking these questions automatically. So once your time frame is resolved then you will take a look at the market profile charts. But what exactly are you

looking for?

Only one thing, yes that's right at the end of the day you just have to answer some simple questions to understand the markets better.

You need to see how good the trade facilitation is in the direction of the trend.

Is higher price bringing in more buyers? If that is the case the uptrend is strong. If lower prices are bringing in more sellers then the downtrend is strong. But if you see structural formations that suggest that lower prices are not bringing in new business then it is a warning sign that the trend might be weakening.

That is where the context comes in. I have abused this term to the end of time, but I can't stress enough the importance of this one word "context".

So all the structural features that we studied earlier, a quick list.

1. Open Types
2. Opening Types
3. Day Types
4. Structural Features
 - a. Poor highs and lows.
 - b. Single prints.
 - c. Anomalies.
 - d. Weak highs and lows.
 - e. Initial balance.
 - f. Failed auction.
 - g. Profile shapes.
 - h. Inventory adjustments.
 - i. Pullback lows and rally highs.

- j. One time framing.
- k. Profile shapes.
- l. Value area migration.
- m. Value area placements and on and on.

All these will help you in identifying the answer to these questions.

1. What is the market trying to do?
2. How good a job is it doing?

Also known as trade facilitation. But there is still one last thing remaining. Let's say our analysis of market profile tells us that the trade facilitation is good or bad. But what do we do of this information? We use the last tool to identify what is the risk involved with the current trend on your time frame and on time frames closely spaced around your preferred time frame.

Innovation Adoption Curve or IAC tells us whether the trend is getting old or is still young. Are we in an acceleration phase or do we have sufficient opposing force to stall the trend?

Let me explain.

We saw the following types of traders as per the IAC.

1. Innovators
2. Early Adopters
3. Early Majority
4. Late Majority
5. Laggards

So to be successful you need to be in categories 2 or 3. The reason we cannot be innovators, except by stroke of luck, is we don't have deep enough pockets as retail

traders and we don't have the information that some of these traders have.

So by judging the trade facilitation, you will try to identify whether we are very early, early, late or very late in the trend. Obviously, if you are in the last two stages that is the late majority or laggards your odds of success are very low. Consequently, the risk in your trades is very high. But if you feel that you are on to an idea early then you may be one of the top 2 categories then your chances of success are good. The one in the early majority or mostly trend traders, they do just fine until they reach the last two stages and refuse to believe what the markets are telling them.

Alright, so that was a long discussion. And I bet it won't sink in in the first read. So go over these last few pages again and again till they start making sense to you. Because that is when your trading will start turning around and start getting better and better.

This concludes our discussion on risk and the way I look at it. Babuji always had a sound understanding of risk, at least he had when I was in touch with him. He may have learnt his lessons the hard way like most of us have done in markets. You should not be ashamed of the failures but should feel proud that you studied in the most difficult school in the world, the street.

Now we look at the last part, that is important in all aspects of life, not just trading. This aspect is the one I have spent more time studying than I spent learning how to trade. Because it is that important.

That one thing which will ensure your success in trading and life, in general, is psychology. Which is nothing but your attitude towards life and trading amongst other things?

Chapter 9

Trading Psychology 101

“Being in control of the emotions is out of fashion now, accepting your emotions and creating a conducive mindset for trading is the next big thing.”

– Dean Market Profile

Psychology in this context refers to how to deal with different aspects of trading. So many things come with trading which you can't say no to. If we decide to make a list it will look something like this.

1. **Peace:** to know that you are in control of your livelihood.
2. **Acceptance:** of losses and uncertainty that comes with the trading.
3. **Courage:** to trust your analysis and put in trades despite the bad experiences and losses in the past.
4. **Pride:** getting hurt by losses and trying to beat the markets, trust me it cant be done.
5. **Anger:** of losing repeatedly and nothing working out for you in the markets.
6. **Lust:** of making tons and tons of money from the markets and making it easier.
7. **Fear:** of continuing to make losses in your trading and worst of all fearing that your next trade will turn out a loser too.
8. **Grief:** of big losses, blowing your accounts, the fact that markets are getting

the better of you every time.

9. **Apathy:** the feeling where you don't want to move and do anything about the situation, you kind of give up on trading and yourself in that particular moment. Its sheer helplessness.

If you look at these psychological stages (I have borrowed it from the book Sedona Method by Hale Dwoskin) they move from the one with the highest energy at the top to the lowest one at the bottom. All our feelings and psychological states are just different states of energy.

For example, anger has a lot of energy but it is misdirected, if it is channelized properly it will give you the strength and mental capacity to handle any situation you may face in trading.

Now in trading, we face these situations not exactly in that order. But we go through all of them at one point or other. And if you don't deal with them properly it may affect your trading and consequently the results that you will get from it.

I will discuss how I got into these states and the situation when I felt these emotions. I did not always have an answer, but I stuck through all of them. I may not be the best trader in the world but I can make some money out of the markets without the stress commonly associated with it.

Not only that when I started sharing my learning with other traders who were at different stages of their trading career they really appreciated it. So now not only do I have solutions to my problems, but my experience is also helping other people out. That is a very good place to be and I am proud of myself to reach such a stage in my life.

So let's see what situations got me into different psychological states and how I tried my level best to deal with them. In the end, I will share my experience with the Sedona Method and I would recommend the book to everyone who may find it difficult to deal with emotional and stressful situations in life as well as trading.

Pride

That was the first to go out of the window. For this you need to know that I was a good enough student (academically) through the school, never really stepped out of line. Felt the pressure to do well in studies as all middle-class family kids do. I did my best, the worst part is the results were linear, let me explain.

In school, more studies meant more marks and fewer studies meant fewer marks. The same thing overflowed into college. There too I did not go out of the line too much, did not explore many things, always focused on the studies. Of course, my parents were happy.

But today I regret not trying so many things out, things that are labelled bad by society but may be essential for developing your character to deal with life.

With all these limited experiences with life, I ventured into business and that too one of trading. And let me tell you the initial years were brutal. I was worst hit at m pride.

I always thought of myself as a good student because I am always open to learning new things, which I can say with absolute pride that I am still open to learning today. For many people the first thing they leave in life after their formal education is learning, I pity them.

So when I started with my trading, I felt if worked hard and studied as much as I can I will be good. That is when I met my nemesis for a better part of my trading career. This may get a bit difficult but stay with me as this is absolutely essential for your trading success.

My nemesis was non-linearity. I met people throughout my trading career who seldom analyzed the markets as much as I did they made money. I met people who were not as educated as I was (I mean it seems hilarious to me to call my engineering education) but they still made money. And I mean I am not saying they made more than me, I was still losing money and they were net positive at the end of weeks and months and they were heroes for me.

So why were the results so skewed. I mean I worked hard and still I was not getting results. That hit my pride hard. It even made me think whether I am made

for this kind of thing or not. But trust me if I can become a calm and confident trader with decent profitability anyone can do it.

As my learning progressed with markets I slowly started realizing that more is not always the answer. You need to select carefully where you will be focusing your efforts because if you focus is wrong no matter how much efforts you put in, it is all going to go down the drain.

Slowly I learnt that you can't beat the markets. But if you are in a jungle with a few others and a tiger comes after you. You don't have to run faster than the tiger, you have to run faster than the person next to you. It is the same in the markets, unfortunately, it is not a place for collaboration. Even if you work in a team you are always working against someone else. There is no place for pride, the quicker you surrender to the markets the better your trading will become.

Surrendering seems a bit difficult at the start, but slowly you realize that when you stop fighting the markets the better markets treat you, if you believe in that kind of thing.

Now we move on to the next one, anger.

Anger

Now this one is of no use, let me make it clear at the beginning itself. I have suffered from this for a long time. But as it turns out it does not benefit at all.

I used to get angry at myself most of the time. Once I realized that getting angry at the markets makes no sense. I turned all my attention to my own self. I blamed myself for all my trading loses. But that does not work as well.

Anger comes when you are not in control of your situation. When you take action but results don't follow you tend to get angry. But that is how it is most of the times in markets. An angry trader is of no use.

Smart money knows all these things and they will exploit you every step of the way. So it pays to be calm and focus on the situation at hand instead of getting

angry at markets or yourself.

Smart money or smart traders are those who have learnt from their bad experiences with the markets. They observe and make a note of everything. This wisdom has been passed on from one generation to the next. As a first-generation trader, I did have anyone to talk to about the markets.

You have to have patience. Sometimes the market teaches you an important lesson but you are too preoccupied to learn anything from it. That is why you need to keep a balanced mind while trading. Not only to make profits but also to learn important lessons from the markets.

So let us move on to the next one in the list.

Apathy and Grief

let's put two birds of the same feather together. Here you are mourning your losses in most cases, but sometimes you may be feeling bad about not becoming successful in trading.

Sometimes this translates into a complete lack of enthusiasm or energy to trade in the markets. While clinging on to hope in your trades is a disastrous strategy you should be hopeful in trading as a business. As time goes by your trading will only get better. So once again patience is the key here.

Stay hopeful that you will get it. Some traders take more time than others. I took almost a decade to understand what my mistakes were, my behaviour patterns, my market logic, etc. The one thing that delayed my progress was lack of proper framework.

The moment I started using AMT, Wyckoff and IAC in my trading and using market profile to apply these principles to live markets, my trading turned for better.

So whenever you feel low and feel like nothing will go better in your trading, always remember you can only improve as a trader. A good reliable framework can

accelerate your progress but that too will not happen overnight. The problem with most traders is that they want results in an instant. It seldom happens, even if it happens it won't stay with you.

So respect the profession of trading, it takes more time to become a trader than it takes to become an engineer or doctor. And I would say it is as difficult as both of them if not more.

So remember there are no shortcuts.

Lust

This comes from the age-old emotion that has been controlling human beings, greed. Greed plays a two-part role in trading, many people don't realize that. I will try to explain it here to the best of my abilities.

Greed 1

It happens when people come to trading to make an easy and quick buck. They want to break free from their routine, from the bad bosses to the work they do day in and day out and don't love. They feel trading is their way out of that problem.

Sadly when people come to trading they soon realize that it is not the truth. In fact, it is more difficult than they thought. They also realize that it is going to take a lot of time and commitment than they had envisioned.

All this leads to a big disappointment. That disappointment makes them make rash decisions and that is the reason for the majority of retail traders running after tip providers, and mentors who promise them riches in a quick time. Unfortunately, no one has ever achieved success this way, but people keep throwing their hard-earned money after such people.

Trying to get more by giving little from your side is also a form of greed. These traders often expect miracles from technical indicators. They keep chasing every new toy that hits the markets hoping this would change it for them. But it never happens. What you need to do instead is to learn the logic behind these tools.

The reason I stuck with the market profile is that it gives me an answer to the question.

“Why the market does what it does?”

No other technical indicator ever came close to answering that question for me. But even after that, it is hard work. It can be done and if you are focused enough you can do it in a short period of time.

Now we come to the second type of greed.

Greed 2

Here traders are greedy about the money they make. The counterpart of this emotion is hope. When they are stuck in a bad position they hope that markets will turn and give them profits. Whereas when they have a good position on they think markets will keep going their way forever. But when the markets turn abruptly they end up giving everything back and some more.

This problem is only exacerbated by leverage. Novice traders are especially notorious for using too much leverage in their trading. They never give a thought to how much they are trading and are only stuck into entries, exits and stop losses.

We already saw the truth about stop losses. So too much leverage and not listening to the markets when it tells you that the markets may be turning are primary examples of greed amongst traders.

AMT provides a good way to handle this problem. Earlier I used to follow trading advise such as follows.

1. Stay with the trend as long as you can.
2. Stay in a position till the market throws you out.
3. The trend is your friend.
4. The market tends to keep doing what it was doing in the recent past.

All these suggestions only point to one thing that is you are not in control of your trading. To beat this problem traders often come up with a list of rules and regulations to control the outcome.

But they seldom realize that the rules and regulations cannot be enforced on the markets. The rules are there for the traders, not the markets. But when I read the AMT principle I had an epiphany that I was looking at the markets all wrong for so many years.

Now when I see a good uptrend I immediately realize that markets are going up just to find sellers. And if the smart money wants the prices to go even higher they will keep absorbing the supply.

So now if I miss a trend I don't have the anxiety of missing a trade anymore, I patiently wait for the opposing activity to show on the MP charts. Then I monitor if the opposing activity is strong enough to halt or reverse the trend or not.

I observe if the SM is distributing or absorbing. And when I am completely sure of it I either fade the trend or go with it based on my assessment. A trend or a consolidation does not have to continue, they do end and we get the opposite activity. You have to expect that and then be prepared for it.

OK, so far we covered all the negative emotions, emotions that cause problems and drag us down. Now let us talk about some positive ones. This man Hale Dvoskin has done a phenomenal job of identifying those for us. Now we will see in trading how they affect us and help us stay on course despite the difficulties that will come up time and again.

Courage

Courage is needed at a particular stage in your trading career. It is crucial to be courageous at this moment, if you fail to do so you will never really generate the confidence to trade successfully. That stage is when you have learnt a lot about markets and about yourself and are now on the cusp of becoming a successful trader.

But you don't know that all you know is the painful past you had. Learning a lesson and reaping a reward are two different things. If you remain stuck in the past failures you will never see the opportunities in the present. That is where courage comes in.

Trading is a tough business, the successes or failures are always in the future. You have to pull the trigger without knowing the outcome of the trade. It's true you choose to play the odds and select your trades carefully, but no matter what your method you cannot predict the outcome of the trade. Now with all your learnings, you are sure that the trade will most likely work out, the risk in the trade is low, everything has lined up and is making perfect sense.

But you still need to do one more thing, that thing which was so easy at one time, but suddenly becomes the most difficult one, despite improved market and self-understanding. I sure many experienced traders will identify with this.

That fear is the fear of pulling the trigger. It baffles me how easily I used to take on big trades without a drop of hesitation, but now with rational position sizes too it becomes difficult to take the trade. That is when you will need courage. That is when you will have to stand by yourself and give the trader in your confidence.

Once you start making trades though the need for courage decreases and it becomes a second habit to take only those trades where most of the factors line up. But now we will be moving on to another emotion that will be necessary after we become courageous.

Acceptance

Acceptance is required when despite your improved market understanding, despite a better understanding of yourself, despite all the factors lining up the markets go against you. I mean that is brutal.

These are the times of greatest testing. In the beginning, you can say that you did not know a few things. But now you know most of the factors needed for becoming a successful trader, then how can you be wrong again.

And the reason is, it is market and it won't follow your analysis, it will do what it feels like doing when it wants to do it. So even after doing your best you make a mistake, you need something to tell you that it's ok. That you will make a few mistakes here and there and markets won't always follow your lead. And you need to accept that.

Acceptance of the fact that markets are not going to obey your analysis 100% of the time is absolutely necessary to remain a successful trader. But the good thing is you will be able to spot these mistakes early.

It still happens with me, I take a trade it turns bad. I spot it but I am not able to get out. I still cling on to hope. That is where acceptance is necessary. To accept the fact that you can still be wrong will set you free. But that is not the only thing you need to accept.

Accepting profits is the next big hurdle in the big scheme of things. Many people learn to deal with losses because they happen so often in the early part of your trading career. But when you turn profitable profits start showing up. Your mind though is still geared for the disappointment that used to come after an occasional profit in your early trading.

Sometimes this can even lead to self-sabotage. So you need to accept the profits too. Welcome them, celebrate a little. I mean don't go on a month long vacation if make INR 10000 in profits or buy a INR 50000 watch. don't go overboard, but whenever you get a profitable trade to reinforce it, reinforce the feeling. Build these good neural connection in your brain.

Something like a nice long drive to an ice-cream parlour with your family will do. But accepting profits is very very important. Accepting losses is easy as you cant do anything once the money is lost. But when you make money you have additional responsibility of keeping it and then growing it.

But don't stress by the time you need to accept profits you will already be a very good trader and a businessman. You will do it easily, even if you are just aware of it. And now you are.

This brings us to the last emotion, it is more a state of being.

Peace

If you can achieve peace in your trading there will be nothing like it. Some of the signs of peace (especially in this very competitive industry) are.

1. Being comfortable with both losses and profits (the later is more difficult to believe me).
2. Being appreciative instead of being competitive of your competitors.
3. Being calm in the times of heightened volatility (Like big events and news days).
4. Know that brightest light often comes after the darkest of nights.
5. But also know that it is a cycle, and no matter how good you get you will have dull patches.
6. In this age of social media, it is so easy to criticize others, but if you are at peace you won't engage at all.
7. Money does not affect you anymore, the process makes you happier than the outcome.
8. No fear of losing this new found golden touch (consistent profits).
9. Genuine urge to help fellow traders. People who may be struggling or may be right on the brink of success.
10. Finding happiness in the success of your fellow traders.

I mean the list can go on and on. Fell free to add to it and keep it handy. Go through it often because that will again strengthen the neural pathways of success in your brain. And you will deal with life in a positive way.

So that completes the psychological part of it. I never believed in the bullshit of controlling your emotions. Or worse yet not having them while trading. If you can

learn to appreciate and accept your emotions they can give you tremendous energy to continue your endeavour.

Now we come to the closing of this book. It's been sometime now that Babuji left us. He was an old man when he took his last breath. The first thought for me when I heard was who will mentor me now. It was not only about trading, but his advice has also helped me become a better human being. I learned how to put things in proper perspective. He affected my whole life not just trading.

Losing him was a big blow to me. But after a few days when things came back to normal as they often do, I started thinking about all his teachings. One very surprising factor came out. He never gave me a solution to my trading problems. He never really spoon-fed me.

Every time I was stuck with something or ran to him for advice he always gave me a line of thought. Sometimes my frustration grew after talking to him, but always in the end when I cracked his puzzles I would make big progress in my trading.

He knew the importance of thinking through your own problems and that is how he moulded me. I can't be grateful enough. Babuji lives on in my thinking now. And with this book, I hope to take his thinking to many more traders. Hoping to make them independent thinkers.

Trust me it was very easy for him to solve my problems, but he chose the difficult path of making me capable of solving my problem. It is a long road and often with many struggles along the way. But you will emerge a better person and a better trader on the other side.

The Jade Master

Like in the story of the jade master, the mentor did not teach the student by telling him about precious gems and stone. He just put one in his hands day in and day out for months and kept talking about random things. The student became used to the touch of the true Jade stone in his hands.

Then one day the mentor puts a duplicate in the hands of the student. The student immediately becomes restless and complains there is something wrong with the stone. That is when the mentor smiles at him and tells him he has become a Jade master.

That is when he knows his work is complete.

May you find your Jade and become the Jade Master!

To learn more about Market Profile please visit
www.deanmarketprofile.com...

To get the software for plotting Market Profile charts please visit
www.belltpo.com...

About the Author

Aniruddha Deshpande or Dean as he is fondly called is a full time trader for last 14 years. He has been through the difficult journey of becoming a consistently profitable trader. He started with traditional technical analysis and climbed the ladder of technical analysis.

With each step becoming more and more difficult he kept improving himself by learning more and more about technical analysis. Until he found the one tool or method that changed his trading forever, Market Profile.

Since then he has been practicing Market Profile trading strategies with great effect. But he has not kept his learnings limited to himself. Dean believes in sharing his learnings with the world and does so via...

 : www.deanmarketprofile.com

 : <https://www.youtube.com/c/DeanMarketProfile>

And now in the form of his latest book “Anyone Can Learn Market Profile”.

He studied engineering but never stopped learning. This hunger to learn more brought him to trading business. He took up the challenge of learning one of the more complex technical analysis tools, market profile and took upon himself to make it easy for everyone to understand.

He promises to be there for anyone who is interested in learning more about this fantastic tool called Market profile and make it in this extremely competitive industry of trading in the stock markets.