MarketDelta®

The Value Area is a primary component derived from the Market Profile® methodology and is intended to show the range of prices that reflect the most interest on the part of buyers and sellers.

The objective is to show traders where "value" is being established and provide low risk, high reward trading areas based upon some simple rules and strategies. One of the most common uses of the value area is to relate the current day's trading activity to the previous day's value area.

One of the best things about the Value Area is the familiar bell curve shape it will many times create. Other times the curve will be skewed, but the simplicity the distribution offers provides traders a new way to objectively observe where other market participants are placing their trades and help identify areas of value.

Once you know a few basic rules you will be armed with a sound trading strategy that will not go away just because markets change. One of the key benefits of learning Market Profile® is that the strategies are all based upon auction market theory and not a sector or spread relationship that is here today and gone tomorrow. You will be equipping yourself with a skill set that should last all of time. If there is one thing you can count on, it is that the market will always be an auction market. When this ceases to exist it would be advisable to stop trading.

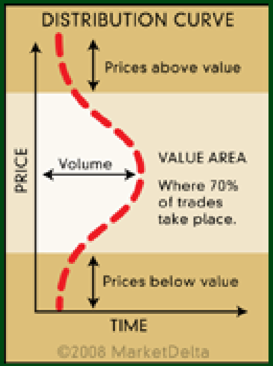
Let's all hope this never happens! By learning and practicing the value area setups listed below you will begin to develop confidence in your trading and have a sound methodology from which to build upon.

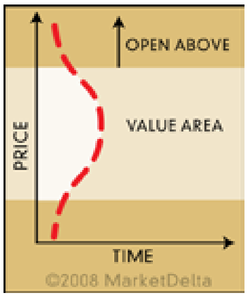
MARKET PROFILE® EDUCATION SERIES DEFINITIONS

Value Area – The Value Area represents the range of prices that contain 70% of a day's trading activity. This 70% represents one standard deviation and reflects the area where a majority of the trading occurred. It can be calculated based upon the TPO count (number of letters in the profile) or more accurately using the actual volume at each price. It is most commonly referenced to yesterday's trading and used as reference points for the current day.

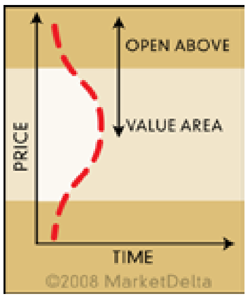
Point of Control (POC) – The price that recorded the most trading activity.

Developing Value Area – The Developing Value Area represents the range of prices that contain 70% of the current trading day's price range. The developing value area is a dynamic area that changes throughout the day until the day is over. Many traders like to compare where the developing value area is in relation to the previous days value area.

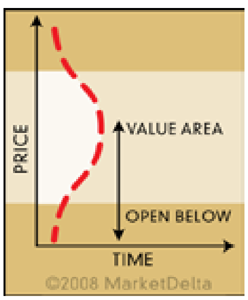




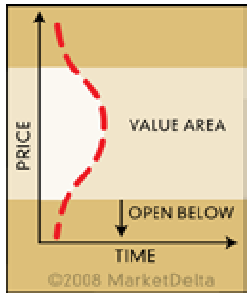
Scenario 1
When the market opens above the value area and is able to hold the value area high on subsequent tests, it is a strong bullish signal. If the market begins to trade within the value area and volume picks up it would be recommended to exit long positions.



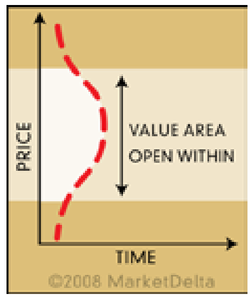
Scenario 2
When a market opens above the value area but then begins to trade for two consecutive brackets back inside the value area, there is a strong tendency to rotate all the way through the value area and test the value area low.



Scenario 3
When a market opens below the value area but then begins to trade for two consectuive brackets back inside the value area there is a strong tendency to rotate all the way through the value area and test the value area high.



Scenario 4
When the market opens below the value are and is able to hold the value area low on subsequent tests, it is a strong bearish signal. If the market begins to trade within the value area and volume picks up it would be recommended to exit short positions.



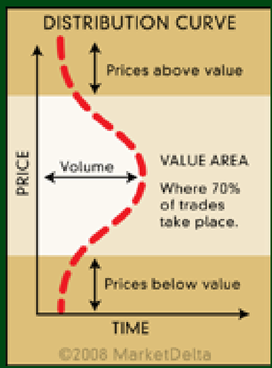
Scenario 5
When the market opens within the value area it is showing signs of a balanced market. Trading from a responsive versus initiative mind frame would be preferred.

MARKET PROFILE® EDUCATION SERIES DEFINITIONS

Value Area – The Value Area represents the range of prices that contain 70% of a day's trading activity. This 70% represents one standard deviation and reflects the area where a majority of the trading occurred. It can be calculated based upon the TPO count (number of letters in the profile) or more accurately using the actual volume at each price. It is most commonly referenced to yesterday's trading and used as reference points for the current day.

Point of Control (POC) – The price that recorded the most trading activity.

Developing Value Area – The Developing Value Area represents the range of prices that contain 70% of the current trading day's price range. The developing value area is a dynamic area that changes throughout the day until the day is over. Many traders like to compare where the developing value area is in relation to the previous days value area.



Initiative Selling – When the market opens and stays below the value area it should be viewed as a strong bearish signal and moves lower should NOT be faded. Many times this type of trading activity is a result of longer time frame traders and institutions who have lots of selling to do and will be pressuring prices for the trading day. Fighting this type of move can be grueling and very unprofitable. Identifying initiative selling by realizing where the current market is trading in relation to the value area can really help keep you on the right side of the market and from getting run over by a strong bear market. The best strategy on a day exhibiting initiative selling is to sell bounces until proven wrong. Sustained probes back into the value area should be viewed cautiously as the market may be showing signs of strengthening.

Responsive Activity – This is when price trades outside the value area and is met with an opposite response and rejected back into the value area. This type of activity is often present when a market is trading within the value area and makes an attempt to trade outside of it for a sustained period of time.

Responsive Buying – There are a couple of scenarios that could be classified as responsive buying.

1. The first scenario occurs when the market opens within the value area and makes an attempt to trade below the value area. Buyers enter the market and auction price back into the value area. This shows responsive buyers stepping into a market that is trading below value and taking advantage of the low prices. This strategy works well in bracketing (sideways) markets.

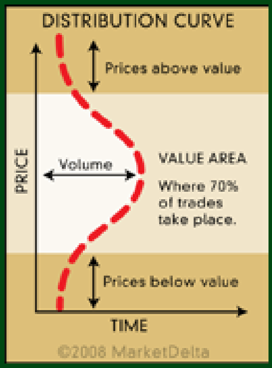
2. The second scenario occurs when the market opens BELOW the value area and buyers immediately start entering into the market. This would be witnessed by prices moving higher from the open as buyers "respond" to price below value. A good initial target would be the value area low. When this type of responsive buying occurs it is likely the 80% rule come into play. Refer to Value Area 80% Rule document on the website for more information on this strategy.

MARKET PROFILE® EDUCATION SERIES DEFINITIONS

Value Area – The Value Area represents the range of prices that contain 70% of a day's trading activity. This 70% represents one standard deviation and reflects the area where a majority of the trading occurred. It can be calculated based upon the TPO count (number of letters in the profile) or more accurately using the actual volume at each price. It is most commonly referenced to yesterday's trading and used as reference points for the current day.

Point of Control (POC) – The price that recorded the most trading activity.

Developing Value Area – The Developing Value Area represents the range of prices that contain 70% of the current trading day's price range. The developing value area is a dynamic area that changes throughout the day until the day is over. Many traders like to compare where the developing value area is in relation to the previous days value area.



MarketDelta

Responsive Selling – There are a couple of scenarios that could be classified as responsive selling.
1. The first scenario occurs when the market opens WITHIN the value area and makes an attempt to trade ABOVE the value area. Sellers enter the market and auction price back into the value area. This shows responsive sellers stepping into a market trading above value and taking advantage of the high prices. This strategy works well in bracketing (sideways) markets.

2. The second scenario occurs when the market opens ABOVE the value area and sellers immediately start entering into the market. This would be witnessed by prices moving lower right from the open as sellers “respond” to price above value. A good initial target for trade like this would be the value area high. When this type of responsive selling occurs it is likely the 80% rule come into play.

Balanced Market Trading within the Value Area – The basic significance of a market trading within value area is that of a balanced market. It shows buyers and sellers are equally matched and facilitating trade at mutually agreeable prices. Price will wander but when it reaches the value area high or low responsive activity is often present from the longer term time frame market participant.

Out of Balance Market Trading outside the Value Area – The basic significance of a market trading outside the value area is that of an out of balance market in which the value area is being rejected. When the market is above or below the value area it is showing us that either the longs or shorts are currently attempting to influence the market. A key observation is when the market opens out of balance and begins to randomly trade back and forth but still stay outside the previous day’s value area. Essentially you are witnessing a market build value outside the previous day’s value area which would confirm an out of balance market.

MarketDelta
CBOT Building
141 W. Jackson Blvd
Suite 3706
Chicago, IL 60604

312 922 7800 P
312 922 7801 F

www.marketdelta.com
sales@marketdelta.com