The Chicago Board of Trade's Market Profile/Liquidity Data Bank report is an unparalleled source of market-generated information. Each price traded during the day is identified by its associated volume, the class of trader doing the trading and the time period in which the trading took a place at that price. For the analyst, who for years has had to make do with daily summary data (open, high, low, close, volume and open interest), the Market Profile/Liquidity Data Bank provides almost an embarrassment of riches.

There are a number of more or less regular steps that can be followed in using market-generated data.

The data, developed for and utilized by the theory of auction markets, allow more in-depth technical analysis than ever before possible. The theory, itself, is new, dating from the 1984 Chicago Board of Trade (CBOT) Manual.

Reference materials on the Market Profile/Liquidity Data Bank are limited. There are three publications by J. Peter Steidlmayer and co-authors, two on-going research reports, and seminars, mostly of the long weekend variety.

Through Commodity Information Service's (CISCO) contact with many users of the Market Profile, we have found a real desire and need for guidance in the application of auction market theory. What follows is an outline of the procedure for using Market Profile information. Although abbreviated, it identifies and covers all the major tasks required to use this data.
Every step of the outline also notes the original reference source so you can go to the following publications for further study and clarification:

C = CBOT Market Profile Manual, 1984,
M = Markets and Market Logic, Steidlmayer & Koy, 1986,
T = Taking the Data Forward, Steidlmayer & Buyer, 1986,
A = The Alumni Letter, Market Logic School, a series,
P = The Profile Report, Dalton Capital Management, a series.

This outline assumes that the reader has some familiarity with the Market Profile and its nomenclature. (In writing this guide, we have collected a table of definitions, a copy of which is available on request.)

**Procedures**

While the ultimate decision of when and how much to trade is a personal one based on market understanding, there are a number of more or less regular steps that can be followed in using market-generated data (Figure 1):

I. Determine the direction, state and age of the major auction. (T - pg. 78; P - Vol. 1, pg. 22; P - Vol. 2, pg. 3)

II. Develop the market condition parameters of the major auction from the Liquidity Data Bank history data. (C 73,86; M-pp. 5, 8, 25, 55, 58, 66,134; T-pp. 4, 10, 60)

III. Examine the latest Liquidity Data Bank report in detail to define the minor trend. (C - pp. 39, 73, 86)

IV. Determine if the market is facilitating trade. If the market is not facilitating trade, jump to section VI. (A - Vol. 1, pg. 2; P - Vol. 1, pg 2; M - pp. 7, 17, 21, 70, 74; T - pp. 4, 18, 59)

V. The major auction is either trending or not and the latest completed day is one of three types. Thus, there are five possible paths:

   a. Major and minor auctions both trending in the same direction. Find a place to enter, watch for continuation or exhaustion. Proceed to section VII. (C pp. 15, 18; T - pp. 34-37A)

   b. Major auction trending, minor flat. A neutral day is not too unusual, it may provide a low-risk entry point. Monitor the Market Profile for signs of continuation or exhaustion. Go to section VII. (C - pp.12, 15-16; T - pp. 23-33A, 94)

   c. Major auction trending, minor auction countrend could be one of those rare cases where the market "turns on a dime." Exhaustion could be the key. More probably it is a bubble that will soon be righted. Monitor Market Profile for continuation or trend reverse. Go to VII. (C pp. 12, 15-16; T - pp. 34-37A; P - Vol. 1, pg.7)

   d. Both major and minor auctions flat signifies a bracketing market. Either day-trade or stay out. (C - pp. 13-14)

   e. A flat major auction and trending minor is usually where the trends start! Go to VII. (C - pp. 13, 15, 18-19; T - pp. 22, 34-37A)

VI. Non-facilitation of trade provides little information. Be prepared for a fast breakout. (M - pg. 12)

VII. We have our general orientation (major and minor auction, day type and the situation understood in
I. Major Auction direction, time, etc.

II. Liquidity Data Bank detailed analysis of the Major Auction period

III. Liquidity Data Bank report breakdown for latest completed trading day, day type, minor auction

IV. Trade facilitation determination

Yes

V. Major Auction Trending

V (a) Minor Auction - trending with major
Hold on or find entry. Watch for continuation.

V (b) Minor Auction - flat
Locate a low-risk entry point. Watch for continuation.

V (c) Minor Auction - countertrend
Watch for return to major direction or confirm of dir. change

V. Major Auction Not Trending

V (d) Minor Auction - flat
Day trade

V (e) Minor Auction - trending
Look for start of trend. Look for confirmation & continuation.

VI. Be prepared for change

VII. Collect, tabulate, examine all data. Determine market condition through latest close. Set up scenario(s) for the coming day.

VIII. Analyze each half-hour interface against the expected scenario. Determine entry/exit basis prior market condition and today's developing behavior.
general). Now we must do our homework on the Liquidity Data Bank to define market condition exactly. (C - pg. 73)

**VIII.** It is now the new day. Use MarketProfile. (C - pp.11, 77)

This outline provides an operational framework for the Market Profile trader, and incidentally, for all other technically based traders. However, only with the Market Profile information is it possible to develop the level of detail needed to understand the condition of the market in such a variety of situations.

Currently, the Liquidity Data Bank is generated solely by the Chicago Board of Trade for futures traded there. Market Profiles can be developed from a quote machine for any market. While there is much less information in the Profile alone, it is possible to estimate some of the Liquidity Data Bank parameters (see *Stocks & Commodities*, September 1987). With estimated values and data from the daily summary tables (volume, opening and closing locations, highs and lows, etc.) one can locate trends and recent day types. So it is possible to follow the outline to some degree for all markets.

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