PREVIEW

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TRADING LIBRARY / VOLUME 05

VOLUME PROFILE TRADING

A Practical Illustrated Guide

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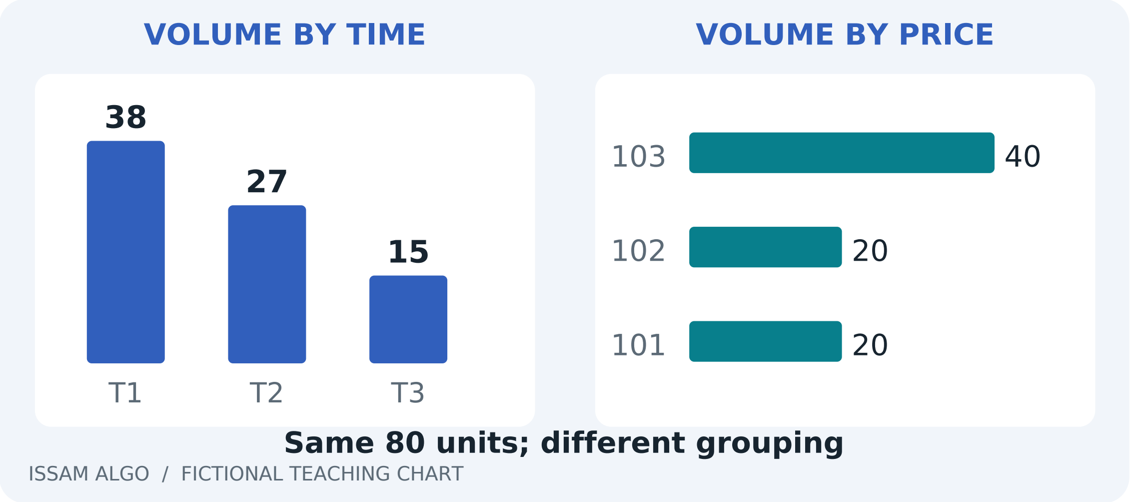
Same activity, a different question

A time-volume chart groups volume by interval. A volume profile groups it by price row across a selected period. It tells you where recorded activity accumulated, rather than when each burst occurred. [1]



Left: activity grouped by time. Right: the same total regrouped by price.

The vertical axis of a profile is price. Read bar length horizontally: a longer row means more recorded volume in that price band. Its screen width is a display scale, not a time duration.

A profile does not preserve the full order of events. Price may visit one row early, late or repeatedly; the final bar adds those visits together. Keep the price chart beside it to recover sequence.

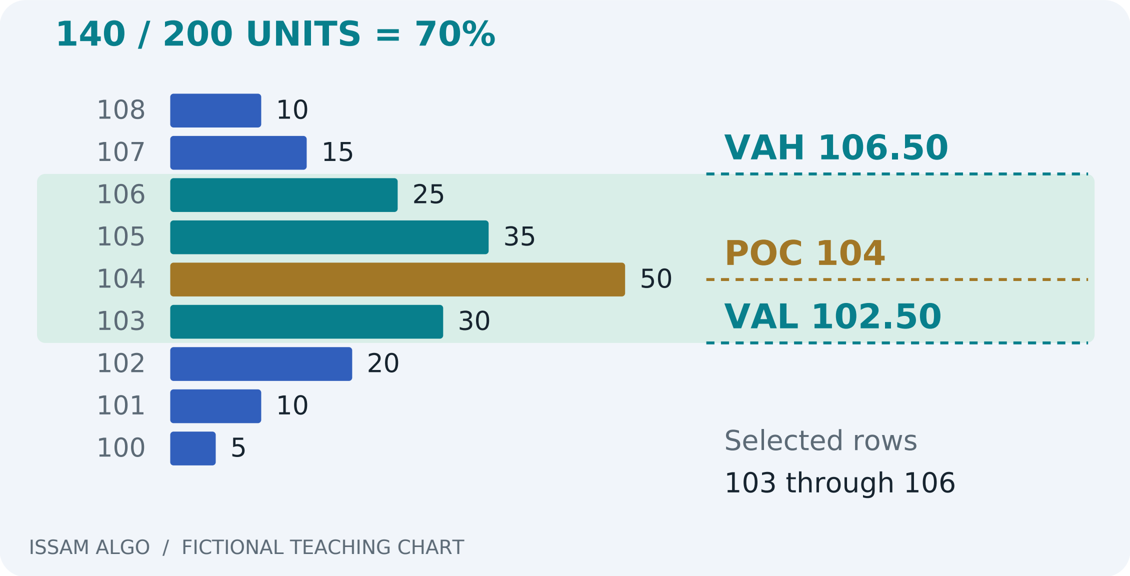
Our mini example totals 80 units either way. Changing the grouping rearranges information; it does not create extra trades or reveal who placed them.

COMMON MISTAKE

Reading a long horizontal row as a forecast of how far price will move.

Value area is a defined band

The value area, or VA, is a band selected to contain a chosen share of profile volume, commonly around 70%. Its upper and lower references are called VAH and VAL. [1] The percentage is a setting, not a probability of a future price move.



Our 200-unit example contains exactly 140 units inside the shaded value area.

This book uses contiguous rows expanded from the POC, with the exact procedure on page 9. Our value-area edges are the outer boundaries of the included rows: VAL = 102.50 and VAH = 106.50.

Rows centered at 103, 104, 105 and 106 contribute 30 + 50 + 35 + 25 = 140 units. That is 70% of 200. POC remains 104; it need not sit in the middle of the band.

Value here is a distribution label. It does not establish that the asset is cheap below VAL, expensive above VAH, or certain to return inside.

COMMON MISTAKE

Interpreting 70% historical volume as a 70% chance of a winning trade.