

The Market Profile way to derivatives trading

It helps replicate the pit's atmosphere electronically

By R Sivanithy

EUROPEAN and Australian exchanges have already done it, Chicago and London are thinking of doing it, and Singapore will also probably do it, maybe in the next two years.

Do what? We're referring to a radical shift in the way derivative contracts are traded — from the traditional open outcry system where traders use pre-determined hand signals to buy and sell in a huge trading pit, to a fully electronic, screen-based system where money changes hands via clicks of a button.

On paper, at least, electronics is the way to go since it offers numerous advantages over manual trading such as precise matching of small and large orders.

Yet, ask seasoned traders their views of such a switch and the response is less than enthusiastic. One local trader said: "The pit is a great melting pot, full of emotion and excitement... it offers traders a lot of ideas because of the sights and sounds available that screens cannot."

For Singapore Exchange (SGX) locals pondering whether to switch to full-time screen trading — at present they have a choice of both — help is at hand. Hedge fund manager and trading guru Ramon Barros is promoting a trading tool known as Market Profile that is used in several other exchanges. It helps replicate the atmosphere of the pit when the change is made to electronic trading.

"The problem with going electronic is that many locals can't make the transition," said Mr Barros in a recent interview with BT. "In Sydney, for example, 20-30 per cent of traders failed to adapt. Since locals are the lifeblood of the market, liquidity suffers. If you're going electronic, then it's in everybody's interest to ensure the locals make the cutover smoothly."

According to Mr Barros, Market Profile aims to develop a way of thinking



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that enables traders to replicate the ebb and flow of the trading pit. It is not a trading system per se but rather a way of organising data to generate profitable trading ideas.

"It creates a structure that substitutes for the feel and sights of the trading floor," said Mr Barros. "It teaches people how to recognise certain types of trades via pricing patterns... all levels and types of traders can benefit."

One of the biggest drawbacks of a computer trade is that one never knows why it may have succeeded or failed. "With Market Profile, you always know where you've gone wrong with a trade. Since you know this, you can get out fast and minimise losses," Mr Barros said.

The system has been in use in the US since 1985 and has been described by *Futures Magazine* as the "hottest trading tool of this decade". A seminar on Market Profile will be conducted by Mr Barros on May 15. Those interested can learn more at www.tradingsuccess.com