

CL05-11 Trading Journal (03/31/2011) – A Gap Up to Close Higher Near Major Resistance – All Eyes on the Overnight

*Go with the setups you know....
Wait for price to stray far from the pack (i.e. Value) before targeting opportunity....
As a day trader I must immerse myself in the longer term timeframe to capitalize on market strength....
Trade for reasons derived from Value in relationship to price....
I see price as just a mere tool for me to use in order to trade Value....*

Announcements.

- None.

CME – CL Contract Specifications -Trading expires on the third business day prior to the twenty-fifth calendar day of the month. If the twenty-fifth calendar day of the month is a non-business day, expiration is on the third business day prior to the last business day preceding the twenty-fifth calendar day. In the event that the official Exchange holiday schedule changes subsequent to the listing of Crude Oil futures, the originally listed expiration date shall remain in effect. If the originally listed expiration day is declared a holiday, expiration will move to the business day immediately prior to that holiday.

03/31/2011 Pre-Mkt Analysis.

Reports due out:

- @ 8:30 Jobless Claims
- @ 9:45 Chicago PMI
- @ 10:00 Factory Orders
- @ 10:30 Natural Gas Report

Today is March 31st, 2011; it is about 7:40AM and the March 30th settlement price is 104.25. The overnight market is all long this morning on slightly higher overnight volume. The Overnight High this morning already took out yesterday's short excess created in "G" period indicating that the chances of the pit session today going higher has increased. This also creates the likelihood that price may gap up this morning which if the case, would break a tight 3-day balance that could possibly drive the market to upper resistance and maybe beyond that to new Blue Sky Territory. Yesterday and the day before the market provided a couple of hints that this would be likely be preserving its Long Excesses and taking out the Short Excesses – a sign that at this point there are more committed long than short traders in the market to possibly take the market higher than where its been for the last week.



If price gaps up, that means price has broken balance and I will assume that price will revert back to previous balance, unless price is accepted outside of balance at which point I will wait for it to pull back for optimal trade location to go long. From here up, there are not too many areas of resistance other than the 2 daily resistance levels of 106.68 and 107.47, and the 3/24 POC that has yet to be violated.

If price opens in the upper range of yesterday's balance I will assume that it will revert back to the POC area of yesterday, however, in this case the POC is quite close to the POC so I would not consider it today since I believe that there is a good chance for price to break out early today given yesterday's climb up from yesterday's gap down.

If the market gaps down, which I don't think will happen, I will apply the normal gap rules with discretion.

If the market opens inside Value or its outer balance area, I will wait for price to make a move that would challenge the status of the balance and evaluate price's reaction along with market speed and volume to determine if it would be appropriate to enter the trade.

The major levels to watch for include:

1. **107.47** (Daily)
2. **102.10** (Daily)
3. **100.36 – 100.41** (Daily & Unfilled Gap)
4. **97.76** (Daily)
5. **92.20 – 93.96** (Weekly & Unfilled Gap)

I try to always think of Value and where it is in relation to price. I see price as just a mere tool for me to use in order to trade Value.

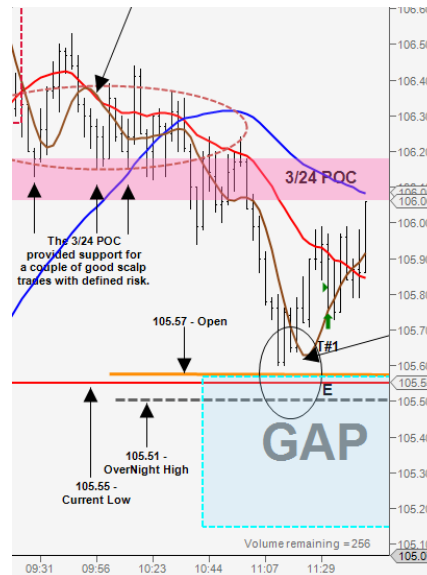
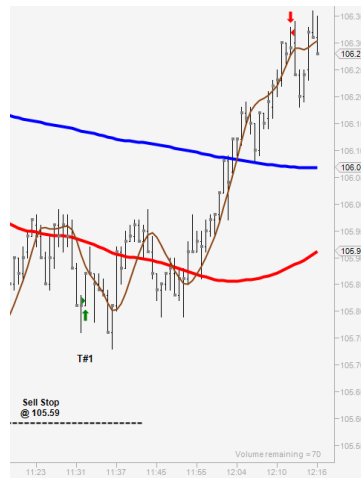
The references around Yesterday's Settlement:

Blue Sky
107.47 - Daily
106.18 - 106.06 - the 3/24 POC
105.15 - Yesterday's High
105.51 - Overnight High
105.00 - 30Min S/R
104.68 – 104.43 - the 3/28,3/29,3/30 POCs
104.25 - Yesterday's Settlement
104.12 - Overnight Low
103.75 - 30Min S/R
103.44 - Yesterday's low
103.18 - 3/21 POC
102.45 - 30Min S/R
102.10 - Daily
100.36 - Daily (Gap)
97.76 - Daily
93.96 - Weekly (Gap)

CL 05-11 Trade Entry Commentary for 03/31/2011

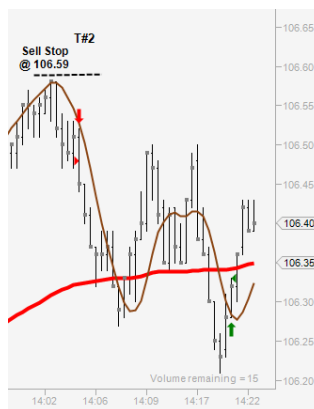
T#1 – Long // “E” period // RV off Balance // Entry @ 105.82 // Initial Stop: 105.59 // Target: SExcess @ 106.32 // P&L: +50 Ticks.

This long entry was taken for a reversal back up to the upper end of today's range, specifically to around the bottom part of today's Short Excess. The market had just created Short Excess which now turns this market from a trend day into a balance day. I knew that by this time in “E” period, after the market had gapped up breaking previous balance, that price in this new higher value area had been accepted and that periods “A” through “D” have been balancing. When price dropped to this day's low, it dropped to an area that had much support: the Overnight High, Current Open, Current Low, and the gap). With price accepted by the market and with dual POC.s hanging 60 ticks above that lower support area, I thought that a long entry would have been a good trade knowing that there were many factors in favor of pulling price back up to at least the POC level if not to the Short Excess area where I exited.



T#2 – Short // “K” period // RV off Balance // Entry @ 106.48 // Initial Stop: 106.59 // Target: POC @ 106.24 // P&L: +15 Ticks.

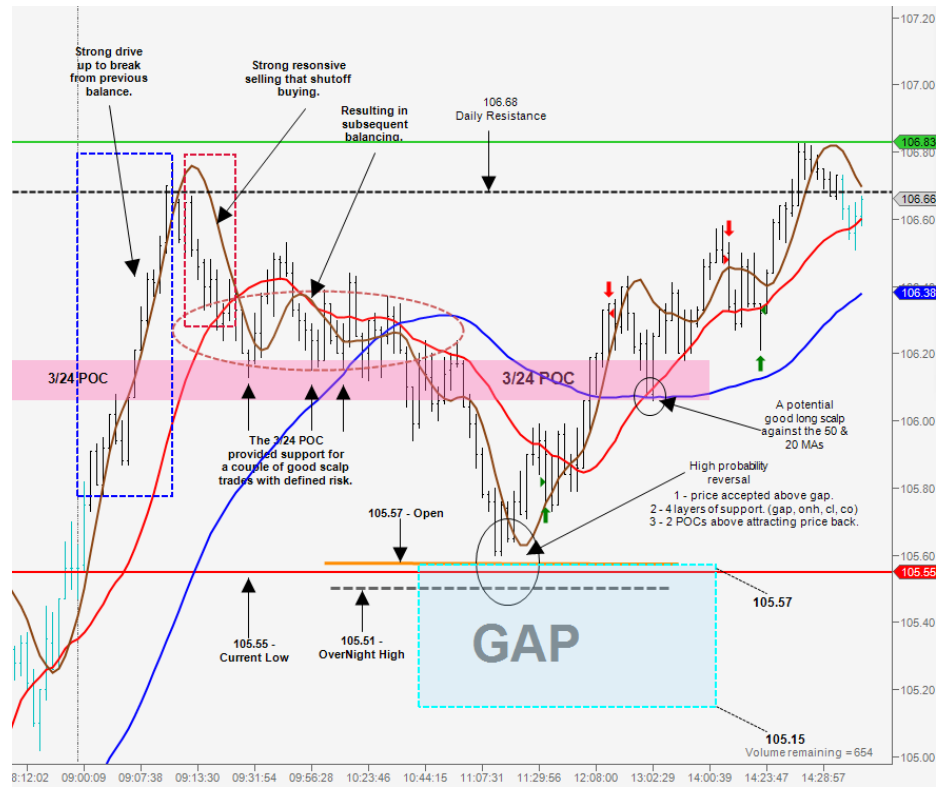
The market went for a 2nd attempt up. Normally this wouldn't have been the kind of trade I would rush in to take, the reason being is that shorting the market at this location is not bad although what I'm short from is not good. If I take another look at the entry in relationship to price on the 30Min chart I have shorted from an area where value is very close and that's a problem with the potential target being too small. I say this because this trade was supposed to be a reversal off of balance. Although price showed weakness after the small volume surge that placed “K” above “J”, a reversal off Balance should be traded with a larger potential profit in mind. Price had hit the top of the POC before reversing back up to the new high for the day where I exited the trade.



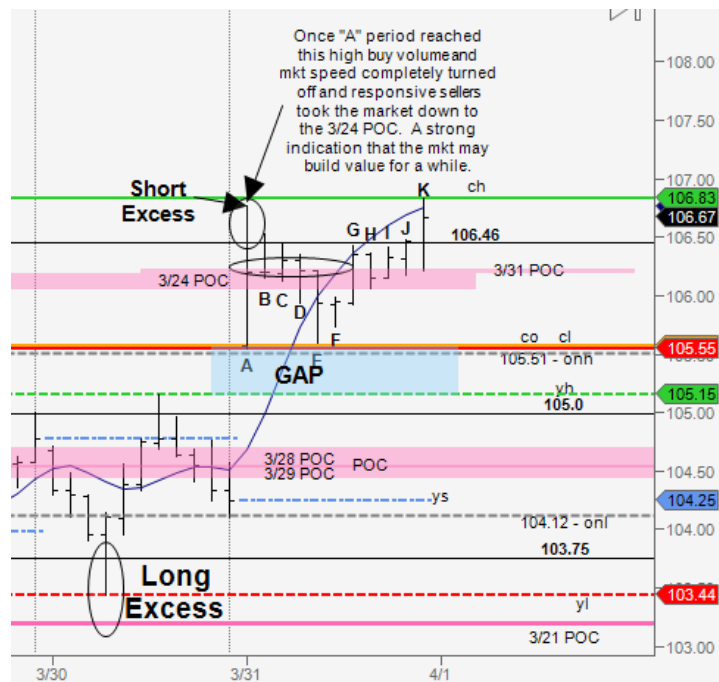
No more trades for today. Net Today: +65 Ticks.

Trade-#	Market pos.	Quantity	Entry price	Exit price	Profit	Cum. profit	Entry time
1	Long	1	105.82	106.32	0.50	0.50	3/31/2011 11:31:33 AM
2	Short	1	106.48	106.33	0.15	0.65	3/31/2011 2:05:03 PM

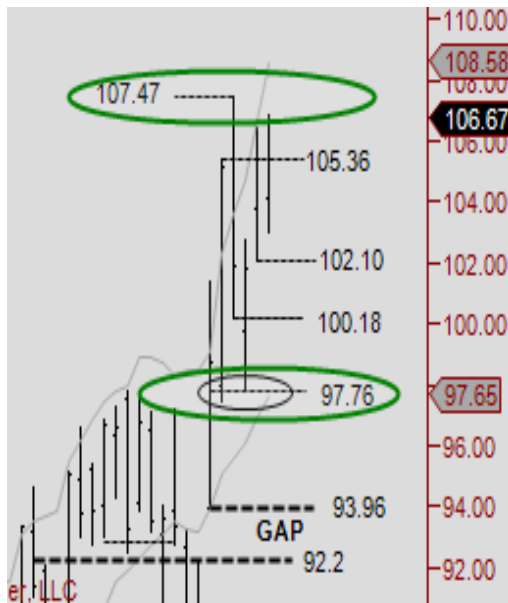
1250V Chart



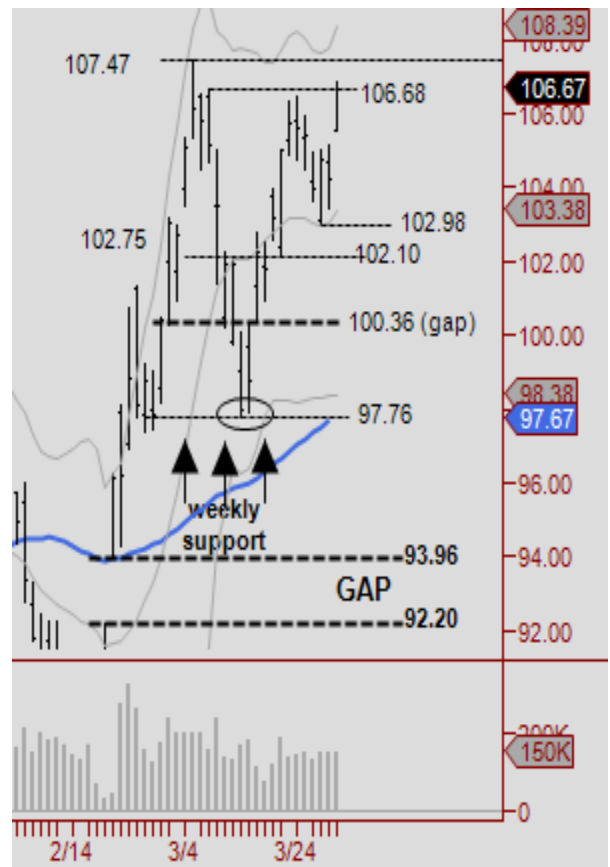
30Min



Weekly



Daily



General Market Commentary

Crude Oil - 05-11 Market Summary

High: 106.83

Low: 105.55

O/N Inventory: Long

Open: 105.57 (Upper Balance)

Close: 106.67

Short Excess: -

Direction: Long

Value Area: Higher

Profile Shape: Balance

POC: Same @ 106.21 – 106.22

Long Excess: -

Volume: 150K

PVolume: 151K

The market gapped up 42 ticks today from yesterday's high of 105.15 opening at 105.57. The Overnight markets were all long throughout the entire premarket session. As mentioned in the premarket section of this journal, the Overnight market took out Yesterday's Short Excess, signifying that most likely the market will at least attempt to make a higher run at it. The move higher today really did not come as a surprise as buyer sentiment among the shorter term traders was greater than the seller sentiment evidenced through the lack of challenges to the Long Excesses as opposed to the

weakness showed by the Short Excesses as they were taken out rather immediately after they were formed. Also, regarding the Excesses, the manner in which the Long Excesses were formed was characteristically stronger with more buy volume than that of the Short Excesses. Even today, as the day ended in "K" period, the Short Excess that was strong enough to create a 24 Tick distance between its high and the rest of the market was taken out by the market. Consistently, for the last 3 days, buyer sentiment was larger than seller sentiment in terms of volume and price reaction to the balance area extremes on those days. All this information gave me a hint that a move higher was not out of the question and even more probable than a move lower, however, I always try to keep my mind open and wait for the market to move first as the market does change in an instant which results in events that totally catch me by surprise.

What did surprise me was the amount of Short Excess that was created in "A" period so early in the day. I would have expected that to happen later on in the day but the fact that it did and with a pretty good distance from the top, I thought at that point that today was a good chance to be a balancing day instead of a trend day. The longer timeframe traders did come into the market but to only push it above the 3 day balance, not to trend the market higher. After this was done the market was left to the day time traders at their disposal and in no time, following the responsive buyers bringing the market down to midpoint, it was the day traders that controlled the market and naturally turned an explosive morning Open into a balancing day.

The market receded to the 3/24 POC which did influence where the market was going to balance for most of the day. As a matter of fact, today's POC happened to complete the day just a couple of ticks above the 3/24 POC. Since the start of the day and up to "K" period both POCs were sharing the same space which provided great information for my long trades today, even though I wound up only taking one long trade and one short trade. By "E" period price retraced all the way down to support. It was amazing to me to see how much support there was: The Overnight High, Current Open, Current Low, and the gap itself. Besides this support, I was considering what was taking place in the market; that price broke away from Value to the bottom of "E", but also broke away from 2 POCS that were influencing the market tremendously, and by this time price had been accepted in this area and it was highly probable that it would not have broke below the upper gap in a significant way. Although the 1250V did not give me the most confident trigger to go enter the trade with, I waited for a pullback and still went with the trade. The reason I went with the trade and stuck it out to the end was that there were so many more positive signs that the market would reverse.

It turned out the "E" period was the pivot point that turned the market up where it shot all the way to its highest point for the day @ 106.83. Shortly after, the market closed just below that high @ 106.67, just a tick away from its previous Daily resistance point.

I would expect that with a gap up at this stage of the game would yield higher volume for the day, where as volume for today was only as much as it has been for the past 7 – 8 days; only at 150K. That's 1 less K than yesterday, 2 less than the previous day..and so forth. A lower than expected volume count for a day that broke previous balance must be monitored closely and not assumed to be the sign of an impending major break out. The other factor for questioning the market's potential for a major break out into Blue Sky would be that it still has to hurdle another resistance point: 107.47. After having broken above 107.47, price must be maintained above this level by building value and acceptance in Blue Sky; that will require a lot more volume than 150K.

I will need to keep my eyes glued to the overnight market for any clue as to what may happen regarding market direction. With volume the way it was today it seems that the market may balance back down to 102 – 104.