

# CL05-11 Trading Journal (04/01/2011) – Blue Sky and a Double Distribution Day

*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.

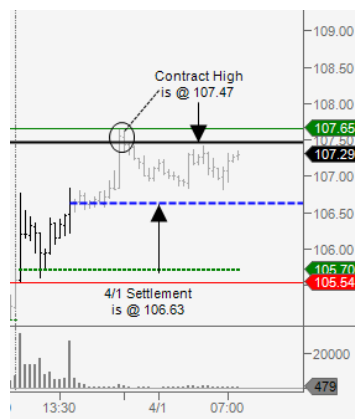
## Premarket Observations.

### Reports due out:

- @ 8:30 Non Farm Payrolls
- @ 8:30 Unemployment Rate
- @ 10:00 ISM Index
- @ 10:00 Construction Spending

Today is April 1<sup>st</sup>, 2011; it is about 8:00AM and the March 31<sup>st</sup> 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 the contract high of 107.47 and walked into Blue Sky for just minutes before dipping below for the rest of the Overnight session.

## 30 Minute Overnight Chart



If price gaps up, that means price has broken balance again, 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.

But that's enough about the standard rules this morning. From here up is Blue Sky Territory – I am strongly leaning to just stand aside while the market plays out if there happens to be a gap up in this case. I will admit I'm a little afraid of jumping into a market where it has rarely been.

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:

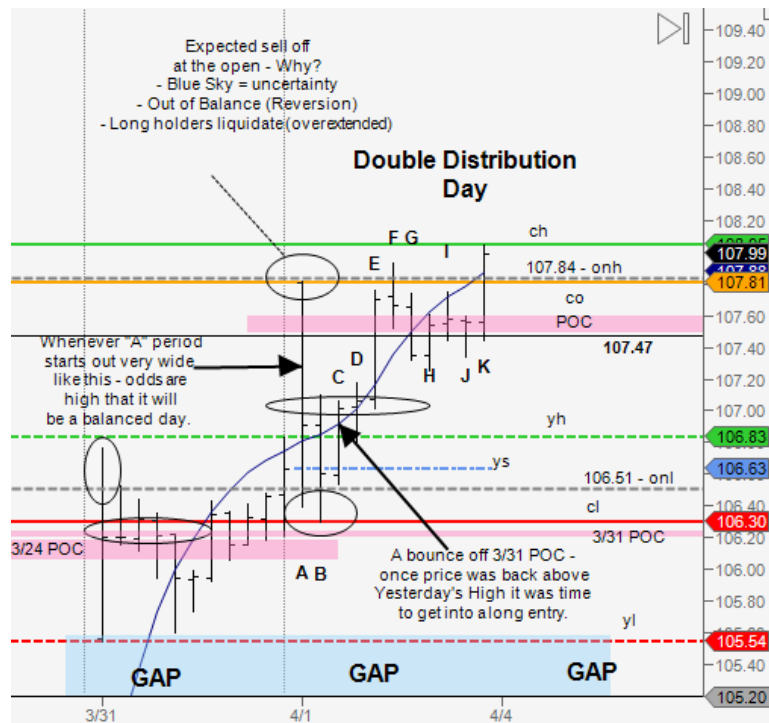
Blue Sky  
107.84 - Overnight High  
107.47 - Daily  
105.15 - Yesterday's High  
**106.83 - Yesterday's Settlement**  
106.51 - Overnight Low  
106.18 - 106.06 - the 3/24 POC  
105.54 - Yesterday's low  
105.00 - 30Min S/R  
104.68 – 104.43 - the 3/28,3/29,3/30 POCs  
103.75 - 30Min S/R  
103.18 - 3/21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

**Today's Market Summary For Crude Oil**

**Crude Oil 05-11 Contract Market Summary for Pit Session 04/01/2011**

**High:** 108.05  
**Low:** 106.30  
**O/N Inventory:** Long  
**Open:** 107.81 (Gap Up +98 Ticks)  
**Close:** 107.99  
**Short Excess:** -  
**Direction:** Up  
**Value Area:** Higher  
**Profile Shape:** Double Distribution  
**POC:** Higher @ 107.52 – 107.60  
**Long Excess:** -  
**Volume:** 162K  
**PVolume:** 150K

## Session Chart



The market gapped up 98 ticks (almost a full point) into Blue Sky to 107.81. A very low confidence morning as price went only 1 tick up from the open before spiraling down into not only yesterday's upper balance but into yesterday's Value area where price came from within just ticks of yesterday's POC, using it as support, before bouncing off it to make its way back up to around its the initial high where the market had Opened and to make a new high of 107.93.

As observed in Premarket, the Overnight market was very long almost from the onset of the Overnight market hours. The only time Crude had ticked below Yesterday's Settlement of 106.63 from the time of Yesterday's close was between the time of the Close and 5pm yesterday afternoon; since around 5pm, price stayed above Settlement, climbed up to the contract high of 107.47 to tick a couple of times above between 8 & 9pm before spending the rest of the night time hours between the Settlement low and the contract high of 107.47.

I observed during this time that the Overnight market did not have much volume in its efforts to drive price as high as it did just before the Open. I also thought that price is almost a point above Yesterday's High which is high for the given volume and for the state of the market that is about to open in Blue Sky. It was interesting, but almost expected, and definitely not surprising that the 1<sup>st</sup> 12 minutes of price action involved such a forceful throw back to the previous day's range. Roughly eyeing the volume it seemed that about 20K contracts traded in a liquidation resulting from long holders that were caught holding too many long positions in a too high of a market. This sell off in price should have been expected for basically 4 reasons as mentioned:

- Gapping in Blue sky causes a lot of uncertainty for traders of any timeframe, excluding the largest timeframe investors,
- Long positions that were in weaker hands had to be liquidated,
- The principle of breaking balance instills in the market a necessity to revert back to the mean. Price that travels some distance to a new area away from where price recently has been spending most of its time has a tendency to gravitate back towards that old area.
- Even though the market had established a higher value Area today, immediately after the Open, there were no new buyers joining in to move this market higher.

This kind of day was similar to what had happened yesterday, except the events of both Opens were different in that yesterday gapped higher and established Value at that higher level above the gap. Today, again the market gapped higher but closed the gap only to go back up to establish Value at that higher level. Both days were days of balance.

"B" period finished the dissension by finding support in yesterday's 106.22 POC which reflected previous day support as well. Price reacted with a bounce off that support and started to meander higher to a point where it became attractive to enter in long.

The market day for the most part left a lot to be desired as after having it turn into a Double Distribution there was nothing left to trade off as price stayed in the tight range of the upper distribution. Regarding the Double Distribution Day (DD) I will most likely treat each distribution as a separate balance area as though they were 2 separate balance days.

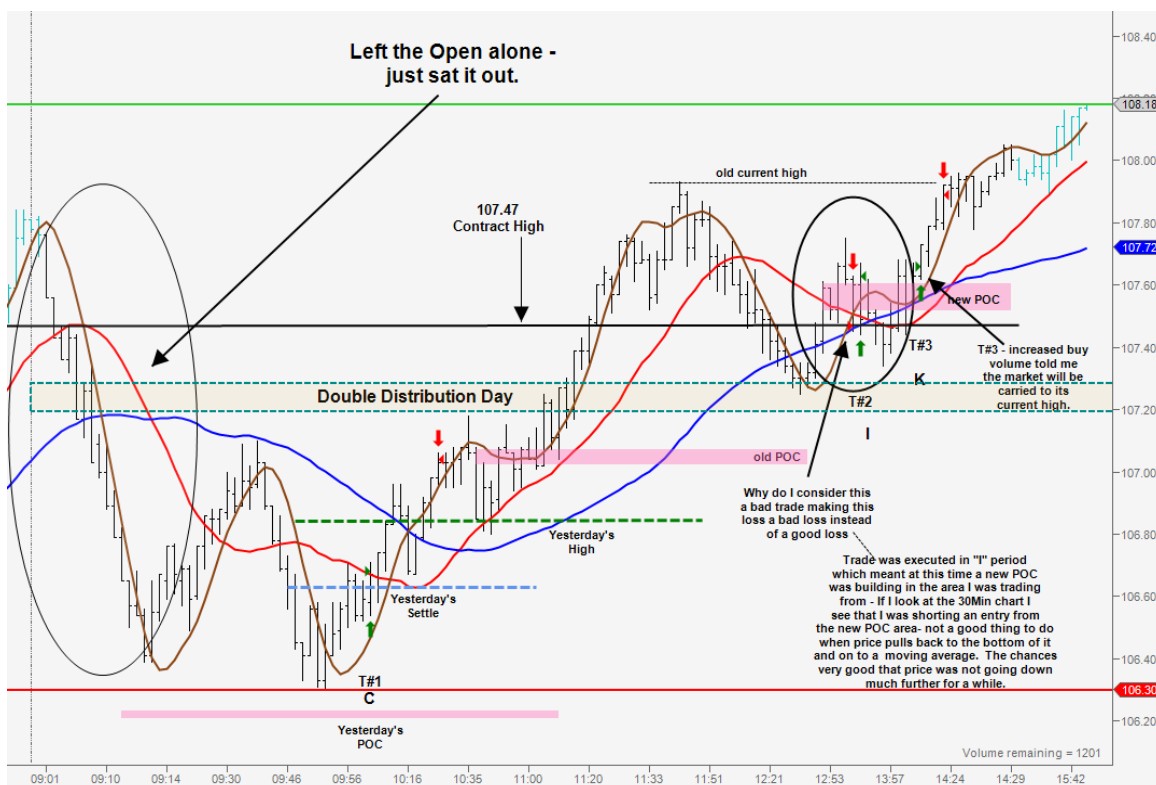
My T#2 trade was a very poor trade. I exited out of it when I discovered that on my 30Min chart (which was a mistake not looking at it in the first place) I was trading in the wrong direction within a just newly formed intraday POC area. Because price has spent 5 30-minute time periods between 107.52 and 107.61 (as "I" period was the 5<sup>th</sup>) I was trading in the wrong direction and aborted the trade when knowing this.

Finally, the market needed to make one more move before the weekend close – too many traders don't want to feel too uncomfortable either holding or not holding positions ( I don't which know exactly ) over this weekend in anticipation for Monday's open. However the big clue as to what may happen on Monday, may regarding Crude's latest drive up, may be hinted at during Monday's premarket activity before the Open. The market did make a final stab the high, at which point noticeable volume came in and took price to its highest point of the day to 108.05.

## CL 05-11 Trade Entry Commentary

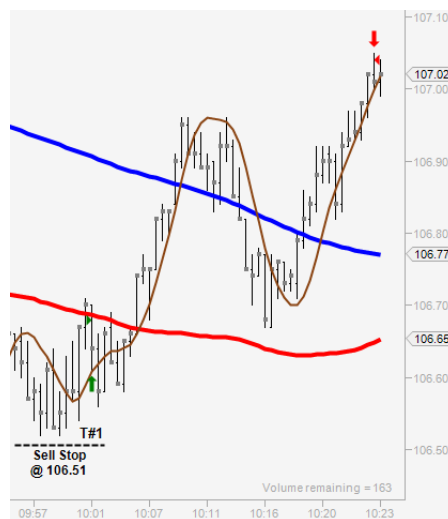
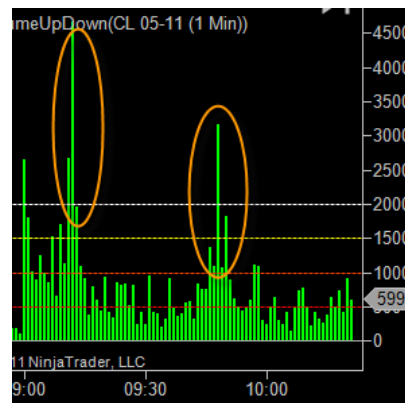
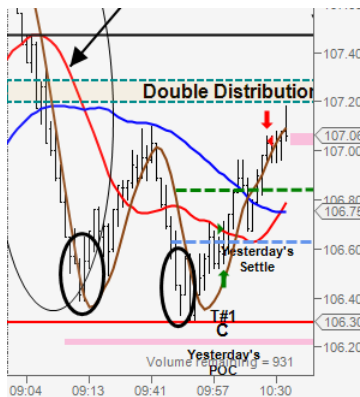
Trade-#	Market pos.	Quantity	Entry price	Exit price	Profit	Cum. profit	Entry time
1	Long	1	106.68	107.04	0.36	0.36	4/1/2011 10:01:11 AM
2	Short	1	107.47	107.63	-0.16	0.20	4/1/2011 1:07:45 PM
3	Long	1	107.66	107.89	0.23	0.43	4/1/2011 2:14:28 PM

## 1250 Volume Chart



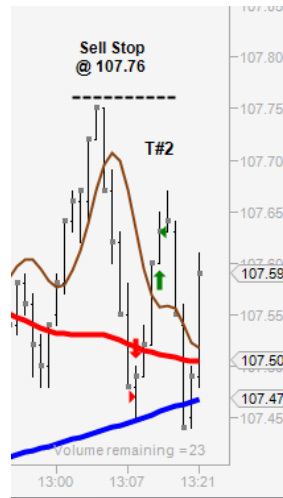
**T#1** – Long // “E” period // RV off Balance // Entry @ 106.68 // Initial Stop: 106.59 // Target: High of “B” @ 107.08 // P&L: +36 Ticks.

I entered long for 2 reasons, 1. In “A” period there were 2 huge volume surges right at the base of “A” period’s support. These surges are circled on the volume chart and they correlate directly to the 2 circles on the 1250 chart next to, the 1<sup>st</sup> bounce occurring in “A”, the 2<sup>nd</sup> in “C” period. This tells me that there was large interest in keeping price above the base of “A” or at least above yesterday’s Value area. If I look, I can see both areas protecting that same support line. 2. The other reason was there was predefine support there; Yesterday’s POC and the 3/24 POC. I exited when price reached the height of “B” period and didn’t want the risk staying in longer because of the nature the way the market Opened – that was still fresh in my mind.



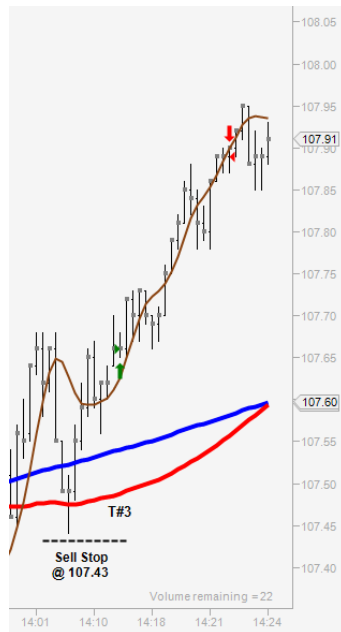
**T#2** – Short // “E” period // RV off Balance // Entry @ 107.47 // Initial Stop: 107.76 // Target: POC @ 107.03 // P&L: -16 Ticks.

I shorted this trade after realizing that I was really shorting into an area, If I really had to play this area, where I should’ve been going long. I failed to look at my 30Min chart to notice that price development occurred long enough there to move the POC from where it was to the new location on that chart. To make matters worse price was pulling back into the 50sma at the bottom of the POC where it was highly expected to at least bounce to the long side, I initiated the exit without hoping for anything else. An absent minded trade I won’t forget.



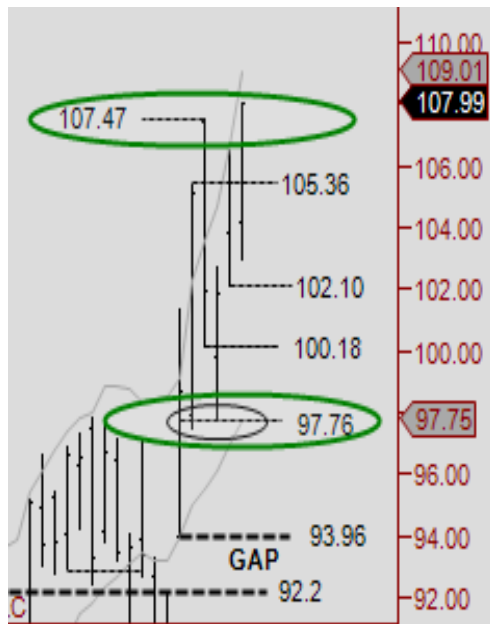
**T#3 – Long // “E” period // RV off Balance // Entry @ 107.66 // Initial Stop: 107.43 // Target: CH @ 107.93 // P&L: +23 Ticks.**

It was the end of the day and this time I was thinking that there were only 15-20 minutes left before the close on a Friday before a weekend. I was expecting price to at least break a bit to settle some of the floor and day traders out of the market. So when I noticed a bullish flag hanging there with a sudden but slight and steady increase in volume, I decided to enter a long with a good guess that the market will most likely go for the high of the day – that was the 2<sup>nd</sup> attempt that I always wait for – but this time I’m taking it long instead of short because instead of seeing failure, I’ve seen poise in the market to go long with the increased buy volume and minutes to go before the close. I exited just a few ticks from my target.



No more trades for today. Net Today: +43 Ticks.

Weekly



Daily

