

CL05-11 Trading Journal (04/14/2011)

More Short Covering as 105.15 Gap Remains Unfilled.

*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....
I must be as objective about the market and as honest with myself as possible....
A great trading advantage is know the Market day type and to trade accordingly....*

Announcements.

- I took out the “Daily References for Today” section of this journal today as I never looked at them during trading hours, I never saw them as being beneficial other than on my 30-Minute chart and they took up a lot of my journaling time for information that I wasn’t using.
- “Daily Market Review for Crude Oil” section will be condensed. This is done for the reason of cutting down the time spent on market commentary and summary. Market summaries will still be issued, however, like the “Daily References for Today” section, too much time was allocated to this section while more time should have been allocated to the overall mechanics, reasoning, lessons learned and techniques of my trade entries for the day.

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 day will move to the business day immediately prior to that holiday.

Premarket Observations.

Reports Due Out:

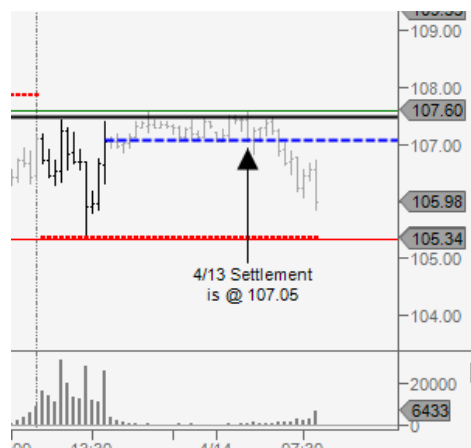
@08:30 →PPI.

@08:30 →Jobless Claims.

@10:30 →Natural Gas.

Today is April 14th, 2011; it is about 8:30 AM and the April 13th settlement price is 107.05. The overnight market is just about neutral, meaning that, as of now, there is a good chance that the market may at least open within the outer regions of yesterday’s balance area if not within yesterday’s Value. If this is the case, there is also a good chance that we may be facing a balancing day type – at least for the first few periods of today.

30 Minute Overnight Chart



I believe there is very little chance for the market to gap in any direction given the extensive drive down resulting from the liquidation break that occurred on 4/12, 2 days ago. Yesterday many longer timeframe buyers stepped into the market to protect the gap area as price seemed to them to be an attractive enough (low enough) for them to buy at the

gap area. Volume was high as a result of the liquidation and the buying that took place to protect the gap, at the same time it was a significant day in that it showed that there are stronger buyers in the market that were willing, at least for the moment, to keep price above the 105.15 gap line. Other things that we must keep in mind for today from yesterday is that price closed higher, there was a 45 Long Tick excess from where responsive buyers rejected price from closing the gap, and the fact that there was further liquidation, there are now less longer time sellers in the market leaving open the question of whether YL @ 105.34 will now become the bottom of a possible reversal back up. If premarket becomes short I will look to entering long only if conditions are right, including to notice if there will be a lack of conviction on the part of short sellers today and to wait for the market to break long before entering it.

The major levels to watch for include:

1. **112.86** (Daily)
2. **105.15** (Daily Gap)
3. **102.98** (Daily)
4. **102.10** (Daily)
5. **100.36 – 100.41** (Daily Gap)
6. **97.76** (Daily)
7. **92.20 – 93.96** (Weekly 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.

Guidelines For Trading the Open

Gap:

If the market gaps up above yesterday's range, which means that previous balance has been broken, I will wait until price is accepted above the previous day's high. Naturally one would expect responsive sellers in the market to attempt to fill the gap. If responsive sellers do attempt to fill the gap, I will continue to monitor the market to see if those responsive sellers are successful in driving the market back down to previous balance at which point I will confirm market weakness and trade the market short at the appropriate levels. If initiating buyers respond by keeping price above previous balance demonstrating strong market confidence I will trade the market long at the appropriate levels.

If the market gaps down below yesterday's range, which means that previous balance has been broken, I will wait until price is accepted below the previous day's low. Naturally one would expect responsive buyers in the market to attempt to fill the gap. If responsive buyers do attempt to fill the gap, I will continue to monitor the market to see if those responsive buyers are successful in driving the market back up to previous balance at which point I will confirm market strength and trade the market long at the appropriate levels. If initiating sellers respond by keeping price below previous balance demonstrating weak market confidence I will trade the market short at the appropriate levels.

Balance:

If the market opens within previous balance or Value, I will wait for price to approach a level located at an area considered to be at the extreme edges of that balance. Once price is at such an area, I will then monitor market speed, volume, price action and responsive activity to determine the likeliness of the market to either reverse back to Value, or to break out of the existing balance area. If price breaks balance but fails back into current balance I will trade the market in the direction of that balance. If the market breaks out of current balance with enough confidence to possibly start a trend, I will wait for acceptance of these new price levels before trading the pullbacks. I will continue to trade the pullbacks until the market begins to show evidence that it is most likely beginning to form balance.

Daily Market Review For Crude Oil

High: 108.55

Low: 105.97

O/N Inventory: Neutral

Open: 106.09 (Gap Down of 20 Ticks)

Close: 108.19

Selling Tail: 24 Ticks

Direction: Up

Value Area: Higher

Profile Shape: "p" Formation (Short Covering)

Market Type: Trend

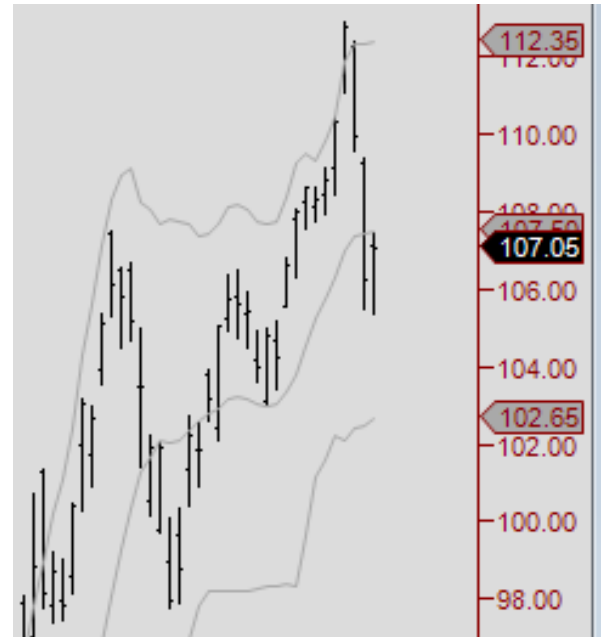
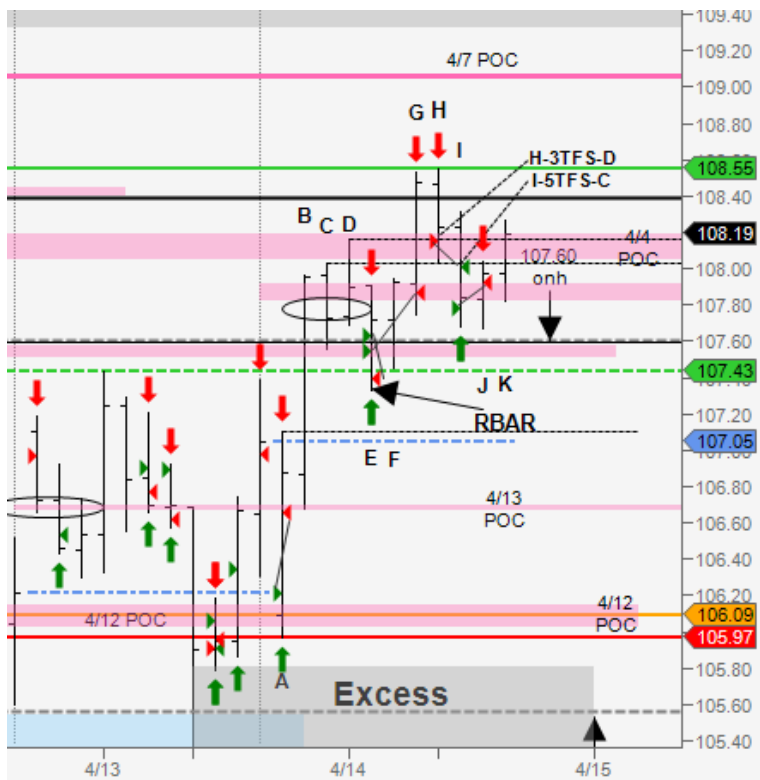
POC: Higher @ 107.82 -107.91

Buying Tail: 69 Ticks

Volume: 168K

PVolume: 200K

30 Minute Pit Session & Daily Charts



Trade Entry Commentary

Trade-#	Market pos.	Quantity	Entry price	Exit price	Profit	Cum. profit	Entry time
1	Long	1	106.21	106.66	0.45	0.45	4/14/2011 9:02:36 AM
2	Long	1	107.55	107.4	-0.15	0.30	4/14/2011 11:11:16 AM
3	Long	1	107.63	107.87	0.24	0.54	4/14/2011 11:21:43 AM
4	Short	1	108.15	108.01	0.14	0.68	4/14/2011 12:41:56 PM
5	Long	1	107.78	107.93	0.15	0.83	4/14/2011 1:25:33 PM

Premarket spent almost all of its predawn hours and up to 30 minutes before the open in neutral territory. Since 8:30AM, premarket prices became short, running from the upper region of yesterday's balance and down to the lower area where it opened below yesterday's balance area but within balance. Considering how session day concluded yesterday, my bias for this morning was looking to enter a long trade once I sensed that the conditions were right. What are these conditions? The right conditions for having gone long at the open today were that volume had to be present and enough to carry price with conviction in upward direction, the open would have been an opening of high confidence, in other words once price did what it had to do and then decided to go to the long side, I would expect that price action would not waver along its way up. This morning the market did show an Open and Test Drive, where the market opened, went in the opposite to test that direction before turning around to head up without ever returning back to the opening price.

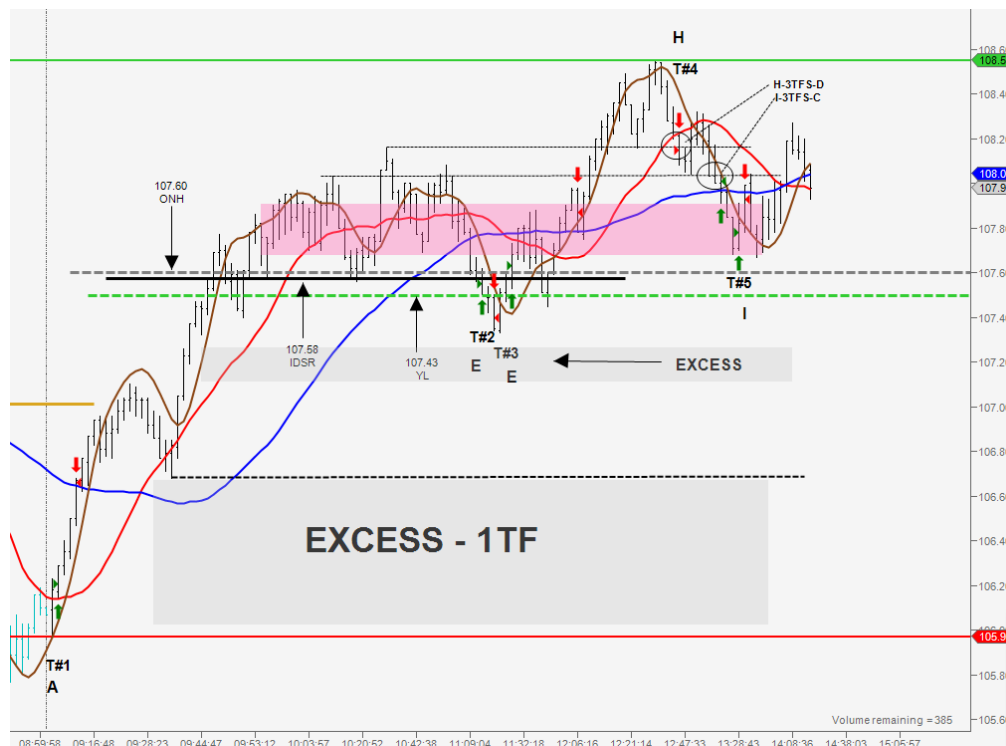
Periods "A" through "D" 1-timeframed up from the open @ 106.09 to 108.16. My first trade of the day (**T#1**) was @ 106.21 when I entered long and took price to Yesterday's POC @ 106.66. After establishing the 108.16 high, price gave a pullback back to YH @ 107.43, price actually pull backed to 107.33. I tried entering long (**T#2**) on my first attempt to take the pull back, but I entered too early, I didn't allow price to come all the way back to YH. I saw no signal

from price to enter a long until it finally came back to YH at which point there was a signal to go long (**T#3**) and took the trade up to the current POC.

By the time "C" period ended, value has started to develop at the same area where today's POC was formed @ the 107.90 area. This was a clue that maybe price will balance for a while in that new area as it did for the rest of the day. But before the completion of the day, the market did give another shot at higher highs after the pullback to the POC. In fact, Crude reached its high for the day @108.55 in "G" period and "H" period before receding back down to the POC at the 107.90 area. Price decided to descend in "H" period that caused an H-3TFS-D at which point a short trade was taken (**T#4**) and exited as "H" proceeded downward to the I-4TFS-C line.

The market continued down and went below the POC but stopped short just above the ONH @ 107.60 before turning up to make another attempt at the high during "I" period. It is expected that the market, after having made trend reaches to a new daily high, will try a 2nd attempt to make a higher high especially if it had not made any attempt yet during that day. This is where I entered my final trade of the day which was a long trade (**T#5**).

1250 Volume Chart

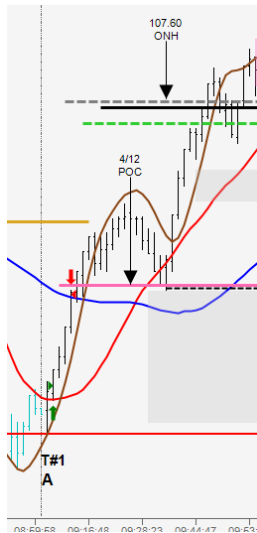


T#1 – Long // "A" period // Fade the Open // Entry @ 106.21 // Initial Stop: 105.96 // Target: 4/13 POC @ 106.21 // P&L: +45 Ticks.

The O/N inventory during Premarket had become short during the last 30 minutes and had opened price below Value but within yesterday's range. Given the bullish activity that took place yesterday:

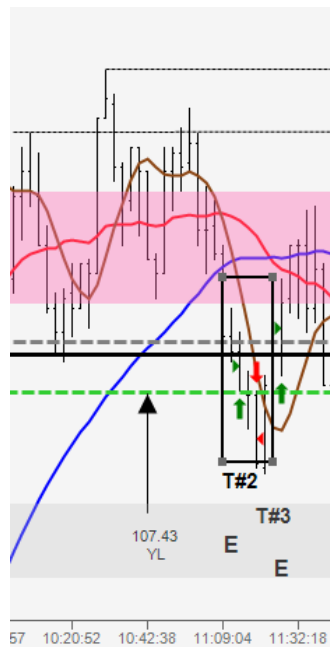
1. Responsive buyers kept the 105.15 gap from being filled.
2. The market closed near its highs for the day.
3. There was a 45 tick long excess caused by the responsive buying activity.
4. There was higher value at the end of the day.
5. There was further liquidation yesterday which purged even more potential longer term sellers from the market, and regardless of the liquidation in the market it still showed

Regardless that the market continued to liquidate yesterday, the bulleted points iterate a different story – remember that before the market can go one way it needs to attempt to go in the opposite direction first.



T#2 – Long // “E” period // RV off Balance // Entry @ 107.55 // Initial Stop: 107.40 (below Support) // Target: CH @ 108.16 // P&L: **-15 Ticks**.

I was playing long off of support (ONH, YL, 107.58 IDSR). The problem was that I got in while the 1250 was still down, my stop was too big for this play (15 ticks – should have been 5).



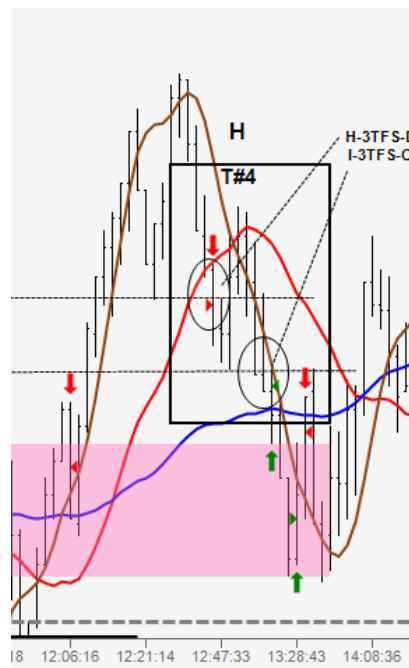
T#3 – Long // “E” period // RV off Balance // Entry @ 107.63 // Initial Stop: 107.32 // Target: CH @ 108.16 // P&L: +24 Ticks.

Price stalled in “G” period. Although “F” did close above the POC I did not want to give up any gains at this point because I had entered at such a poor low.



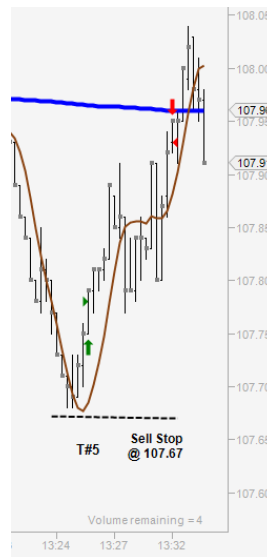
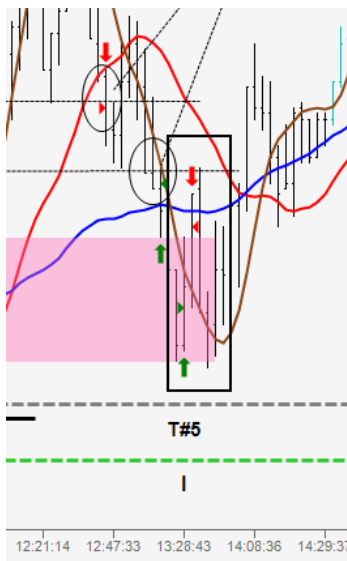
T#4 – Short // “H” period // Scalp @ H-3TFS-D // Entry @ 108.15 // Initial Stop: 108.57 // Target: I-4TFS-C @ 108.03 // P&L: +14 Ticks.

The market showed exhaustion, volume greatly reduced, I thought that there was a very good chance for the market to get back to value instead of forming a double distribution for the day, so I entered once crossed the I-4TFS-C line to the short side.



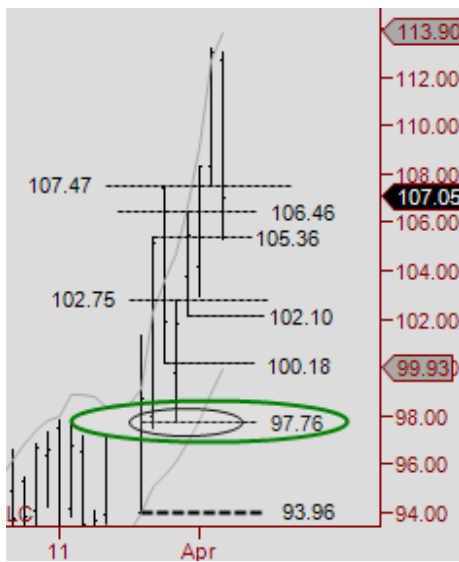
T#5 – Long // “I” period // Scalp off POC bottom // Entry @ 107.78 // Initial Stop: 107.66 // Target: POC top @ 107.90 // P&L: +15 Ticks.

A large pullback to the bottom of the POC was also accompanied by a volume surge taking out the sell stops in that area. I got in at the first reaction on the 125 chart after the surge appeared.



No more trades for today. Net Today: +83 Ticks

Weekly



Daily

