

# CL05-11 Trading Journal (04/15/2011)

## 3 TO 4 Days of Short Covering Fills the 109.55 Gap.

*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.

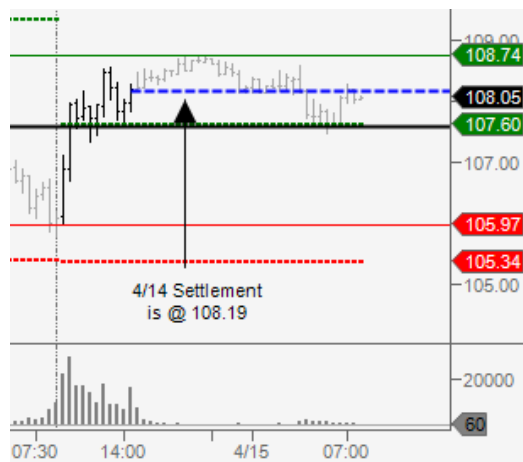
### Premarket Observations.

#### Reports Due Out:

@08:30 →CPI.  
@08:30 →Manufacturing Index.  
@09:15 →Industrial Productions.  
@09:55 →Consumer Sentiments.

Today is April 15<sup>th</sup>, 2011; it is about 8 AM and the April 14<sup>th</sup> settlement price is 108.19. 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 balance – that is, 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



There is still a chance that the market may gap at least up. If we consider what happened yesterday in Crude Futures we had a trend day. From the beginning the market had an Open Test Drive morning creating a large buying tail. We know that buying and selling tails are nothing more than excess and excess is defined as an area that only had 1 timeframe because it was an area where price could spend very little time due to either extreme demand or supply of the advertised price at that level. In this case there was an extreme demand for price being advertised @ prices at which the market had opened up yesterday morning. As a result price never returned to that area as it climbed from the open to new highs as the market was exploring new territory at which there will be strong enough responsive buying to cut off buying activity. I noticed that yesterday during the latter part of the day, the market was starting to have some problems facilitating trade on the way up, and, although price went reached and closed higher than the day before, volume was about 150K lighter than it previously was on the day that it had bounced off of the 105.15 gap. That gap remains intact still and tells us that although the market had trouble yesterday trend upward that it is quite possible that the bottom established at the gap bottom could be there for a while longer.

The major levels to watch for before the opening bell:

1. **112.86** (Daily)
2. **109.35** (Daily Gap)
3. **105.15** (Daily Gap)
4. **102.98** (Daily)
5. **102.10** (Daily)
6. **100.36 – 100.41** (Daily Gap)
7. **97.76** (Daily)
8. **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:** 110.10

**Low:** 107.21

**O/N Inventory:** Neutral

**Open:** 107.26 (Lower Range)

**Close:** 109.63

**Selling Tail:** 15 Ticks

**Direction:** Up

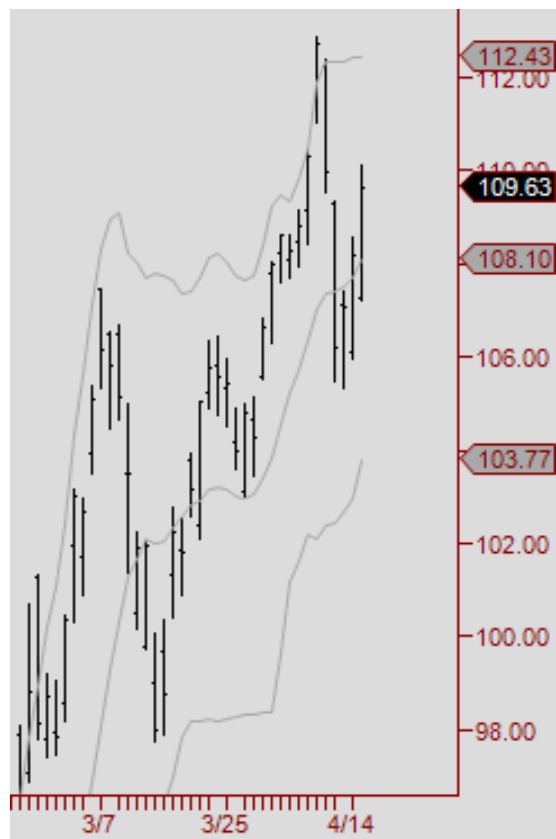
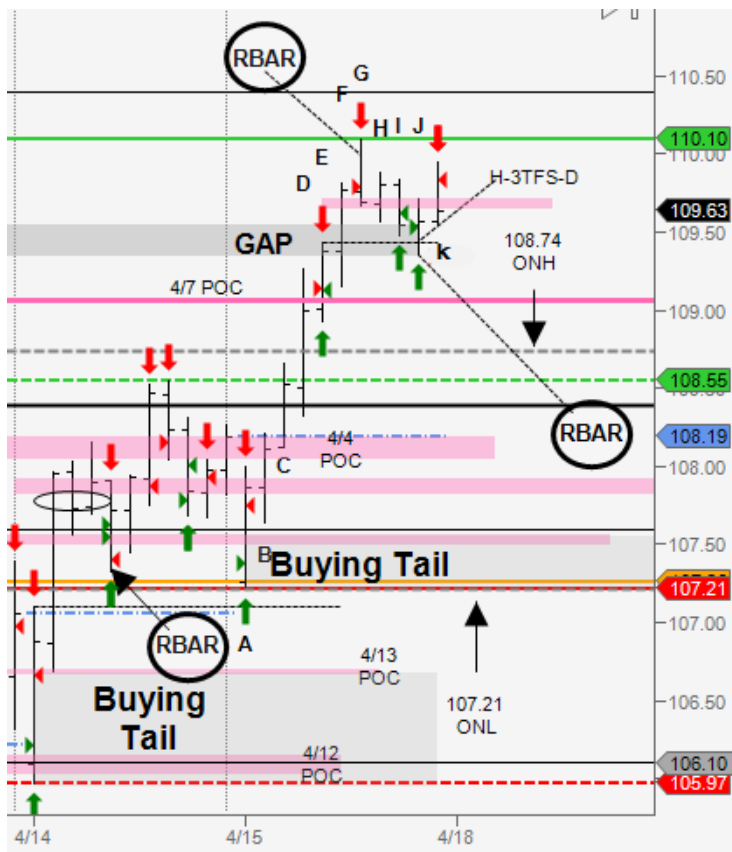
**Value Area:** Higher

**Profile Shape:** Short Covering

**Market Type:** Trend

**POC:** Higher @ 109.67 -109.71  
**Buying Tail:** 59 Ticks  
**Volume:** 104K  
**PVolume:** 168K

### 30 Minute Pit Session & Daily Charts



### Trade Entry Commentary

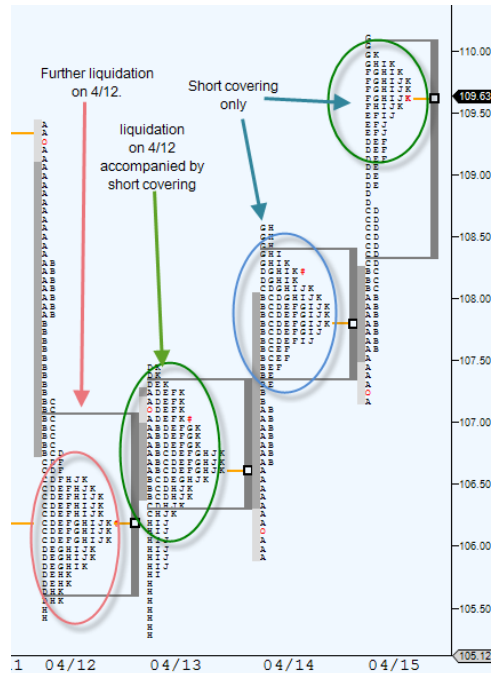
Trade-#	Market pos.	Quantity	Entry price	Exit price	Profit	Cum. profit	Entry time
1	Long	1	107.38	107.75	0.37	0.37	4/15/2011 9:01:04 AM
2	Short	1	109.14	109.13	0.01	0.38	4/15/2011 11:06:30 AM
3	Short	1	109.79	109.62	0.17	0.55	4/15/2011 12:23:04 PM
4	Long	1	109.53	109.84	0.31	0.86	4/15/2011 1:51:36 PM

Again, the same as yesterday's premarket and opening pit session: This time, however, premarket spent not as much time as yesterday in neutral territory before trading down low enough to open below yesterday's Value Area but within yesterday's balance. The market started its descent at about 4AM and traded all the way down to 107.21 where it had opened before proceeding upwards to new highs. This is exactly what had happened yesterday in both the O/N and pit sessions.

Where the market opened was very significant: The market, opening in the lower range and below Value, gave me a sense to be aware of a possible entry long considering that there has been much short covering taking place the last 2 days since the bounce off of the 105.15 gap. The real clue that helped me take a long entry shortly before the market opened was already there given to me by the previous 2 session days; there were 2 very strong buying tails expressing the mood of the market, that is, strong responsive longer timeframe buyers were very convicted on seeing price move up from the most recent lower gap.

Periods “A” through “G” 1-timeframed up from the open @ 107.26 to 109.26 and filled the 109.55 gap that was made on 4/12. My first trade of the day (**T#1**) was @ 107.38 when I entered long to fade the open and took price to Yesterday's POC @ 107.75. Price continued to make new highs in such a lethargic and slow way. This is the type of short covering day where the volume is very low but the trend, though slow and uneventful, was more persistent and kept the pace of the march until it did fill the 109.55 gap. This kind of market is dangerous to those who think that the market may short at any time but doesn't and just resumes this slow moving trend further and further. I fell victim to it myself (**T#2**) when I shorted it without thinking.

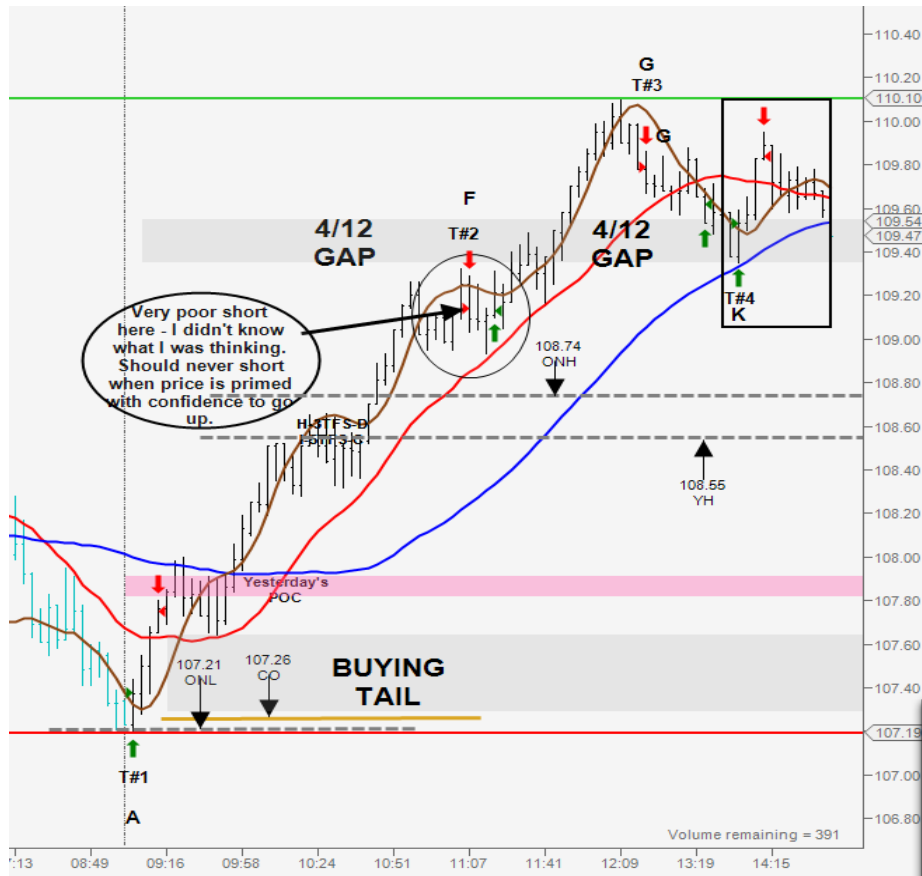
Finally in “G” period an RBAR forms to the short side and I took the short down (**T#3**) but not as far as I wanted to go. This is typical of a short covering day. The trend is fueled more by short players than new long buyers in the market. Below is a Market Profile showing that after the longer term liquidation phase was over, short covering usually follows:



These are the laggards in the market; they are the last ones that get in on the trend up or down. When the trend has exhausted itself and starts to recede, it's the laggards that are left holding the bag. They must get out of their situation either by short covering if they shorted too late or liquidate if they are too long.

Getting back to finishing the day off... the market made its 2<sup>nd</sup> attempt up in “K” period. I always expect a 2<sup>nd</sup> attempt, and I always expect that the market may fail as well as succeed in that 2<sup>nd</sup> attempt. The 2<sup>nd</sup> attempt in this case was obviously to the long side and I took the entry long with it (**T#4**).

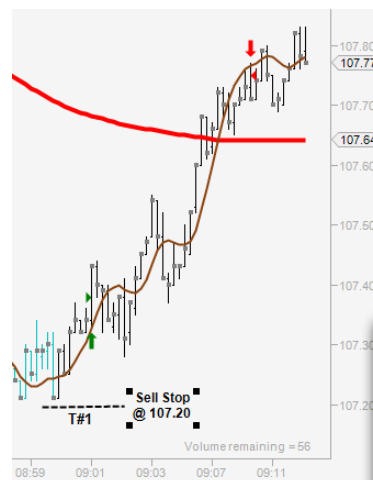
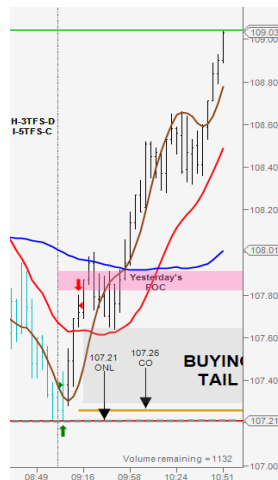
## 1250 Volume Chart



**T#1** – Long // “A” period // Fade the Open // Entry @ 107.38 // Initial Stop: 107.20 // Target: 4/14 POC @ 106.21 // P&L: +37 Ticks.

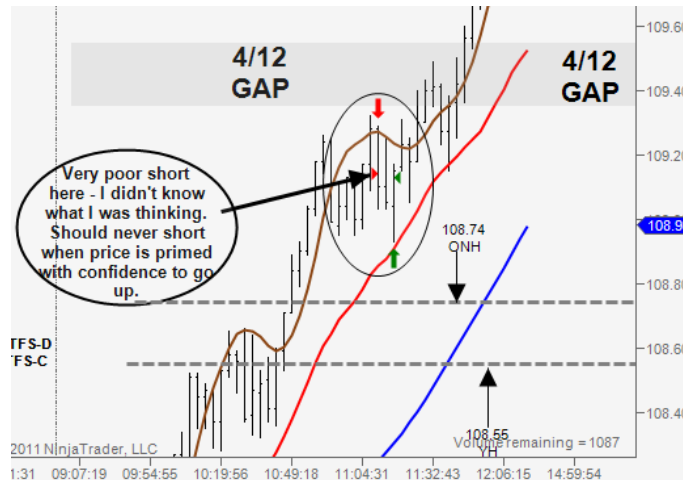
The O/N inventory during Premarket had become short during the last 30 minutes and had opened price below Value but within yesterday's range. Given the bullish activity that took place yesterday:

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 43 tick buying tail caused by the responsive buying activity.
4. There was higher value at the end of the day yesterday.
5. Support below my entry was the ONH, CO and the top of the 4/13 Balance area.



**T#2** – Short // “F” period // RV off Resistance // Entry @ 109.14 // Initial Stop: 109.33 // Target: ONH @ 108.74 // P&L: +1 Tick.

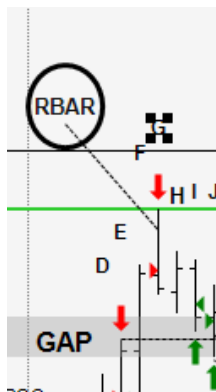
I DID NOT WAIT – I WAS TOO IMPATIENT WAITING FOR SOMETHING THAT NEVER WOULD HAVE HAPPENED CONSIDERING WHAT TRANSPIRED TODAY. IF I CAN'T TRADE WITH THE TREND, THEN I SHOULD STAY OUT IF I FEEL TOO ANXI TO SHORT IT. IF I HAVE TO SHORT IN A LONG MARKET, OR, LONG IN A SHORT MARKET, I MUST WAIT FOR AT LEAST 1-TIMEFRAMING TO STOP AND A 3-TIMEPERIOD TO DEVELOP.



**T#3** – Short // “G” period // RV off Resistance // Entry @ 109.79 // Initial Stop: 110.11 // Target: H-3TFS-D @ 109.43 // P&L: +17 Tick.

Below are the following reasons for an entry short in this trade:

1. There was a RBAR formed in “G”.
2. A Selling Tail was formed as a result of the RBAR in “G”.
3. The market accomplished the task of filling the 109.35-109.55 gap. This means the market’s work is done and has no other outstanding business to finish.
4. “G” period formed an RBAR.

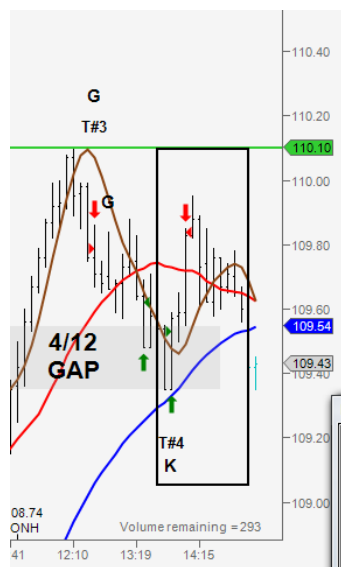


**T#4 – Long // “K” period // PB to GAP Low // Entry @ 109.53 // Initial Stop: 109.34 // Target: Selling Tail Low @ 109.90 // P&L: +31 Ticks.**

Let's look at this trade in context of the past few hours. We have the market making new highs for the day @ 110.10 after taking out a gapped area that was more than 2 points from where price had opened this morning which was at 107.26. After these new highs were made price starts to retrace back to an area. We know that when price makes a new high or a new low, that it will almost always make a 2<sup>nd</sup> attempt to take out the new high or that low. In this case it took 4 30-minute time periods (that's 2 hours) of waiting around for that 2<sup>nd</sup> attempt up. This is where I was in the trade. I'm sitting around waiting for a long entry into the market as I'm waiting for that 2<sup>nd</sup> attempt and finally the market shows a reaction when it hits the gap low @ 109.35.

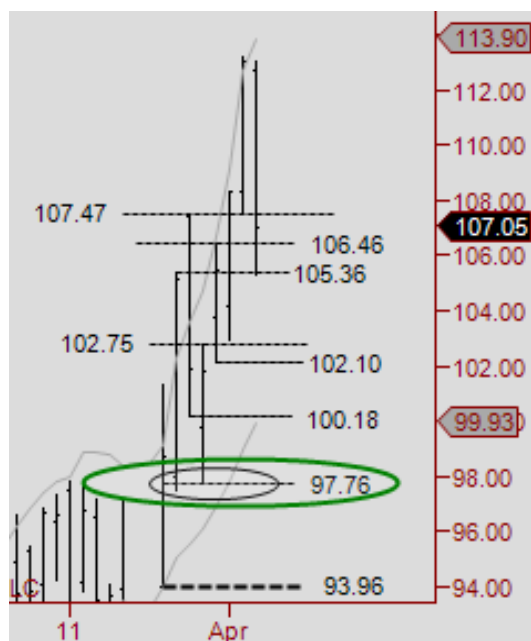
Reasons for this trade are:

1. A pullback to the 109.55 gap low @ 109.35 on the 30 minute chart.
2. This was also a pullback to the 50ma on the 1250 chart



No more trades for today. Net Today: +86 Ticks

Weekly



Daily

