CL06-11 Trading Journal (04/26/2011)
An Inside Day – Be Aware at the Time of the Break of this Bar.

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 knowing the Market day type and to trade accordingly….
The difference between market intuition and market knowledge is the difference between success and failure…

Announcements.

- There was no electronic Journal recorded for yesterday's 4/25 & 4/21 pit session days.

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.

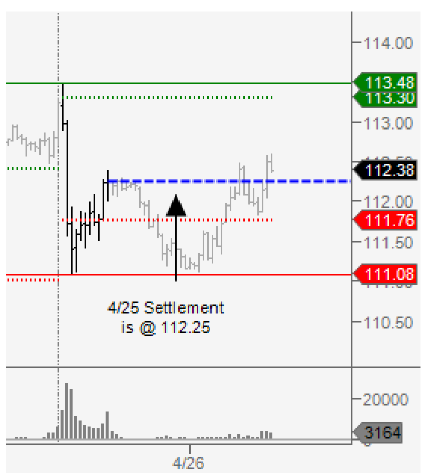
Premarket Observations.

Reports Due Out:

@07:45 → ICSC Goldman Stores Sales.
@08:55 → Redbook.
@09:00 → S&P Case Shriller HPI.
@10:00 → Consumer Confidence.

Today is April 26th, 2011; it is about 8:45 AM and the April 25th settlement price is 112.25. The overnight market is long. We are close to the open and needless to say that there is a good chance of a gap up this morning:

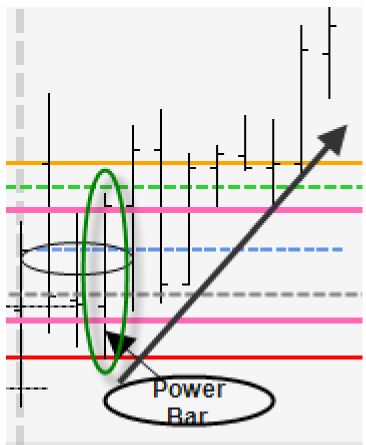
30 Minute Overnight Chart



First let's quickly review last week. After failing 3 times to take out the gap (a gap that was established back on the 30th of March), crude had set a big challenge for itself: Since it failed to go lower, it would naturally attempt to go higher to the 111.16 resistance point. We noted that just before the market failed to take out the gap the first time, that it had experienced a liquidation break after reaching its recent contract high. We know that after a liquidation break (a way for the market to shake out weaker long positions) it's highly probable that the market will attempt to move higher. We also talked about the significance of the 111.16 resistance area and why it was important to take out that reference to the long side. On Thursday, April 21, the market took out that reference but closed below it. A day later, on Friday, April 22, the market took out that reference again and this time closed above it. I don't think it was any coincidence that Friday's POC wound up being 111.58, just 3 ticks below that reference.

Now, let's review Friday's pit session.   In brief, the market basically balanced all day. Crude did give some hints in "C" period that the bias was going to be long for the rest of the day and that it was unlikely that the market would fall below 111.0. The strongest hint was the ***Power Bar*** that "C" formed. If we look at "C", it bounced at the lowest point of the day and ended up closing higher than "B" and with just as much volume as "B". Responsive buyers were determined to keep price above the prior day's POC and the Overnight Low. The remaining periods, were generally bullish as "I" period was the only period that stopped 1-time framing upward but bounced off the elevating POC after which the market broke for new highs for the day and ended at the near top for the day @ 112.29.

Friday's Pit Session Chart



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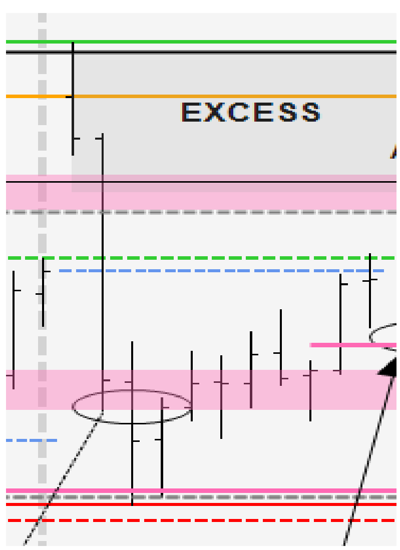
Monday reached a contract high shortly after the open, tested higher before liquidating down to where the longer term buyers held price at. Support derived from the last 2 trading days, 4/20 and 4/21 from last week, kept price at that level, a level where both longer and shorter term traders want to see to congest a while. The outstanding attribute about the market day of 4/21 was Blue Sky then immediate liquidation that followed. Price needed to come back to va;lue before it goes out exploring again. Up to now it seems that the bottom base of intermediate term balance is around the 105.72 gap area, while the top of the balance is Blue Sky – 113+ and beyond.   Please keep in mind that as a result of this day, excessive excess from this day's open will be a real suppresser if price does not vacate the area to go higher. Value, in a balance type day, will definitely be maintained, at least to the downside, any attempt for price to move past this excessive to the upside if the market opens within the previous day's range is a sign that this will be is a strong rallyin market and will stay that way for at least a few days.

Monday's Pit Session Chart



The major levels to watch for before the opening bell:

1. **113.43** (Daily)
2. **112.96** (Daily)
3. **110.67** (Daily)
4. **109.10** (Daily Gap)
5. **105.72** (Daily Gap)
6. **105.93 (WEEKLY)**
7. **103.32** (Daily)
8. **102.10** (Daily)
9. **100.98 – 100.93** (Daily Gap)
10. **98.38** (Monthly)
11. **92.77 – 94.53** (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.

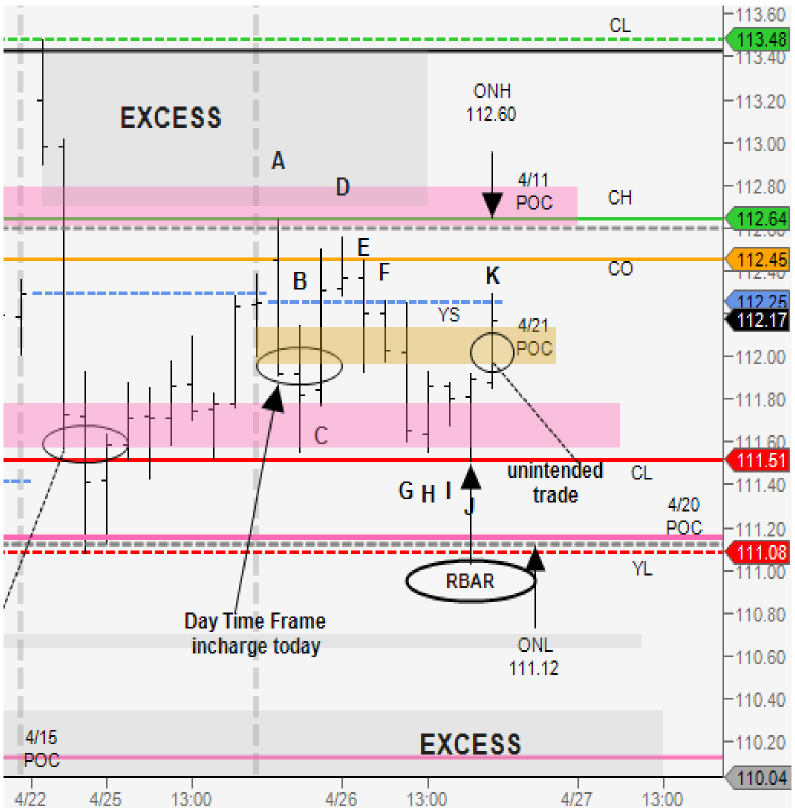
Balance:

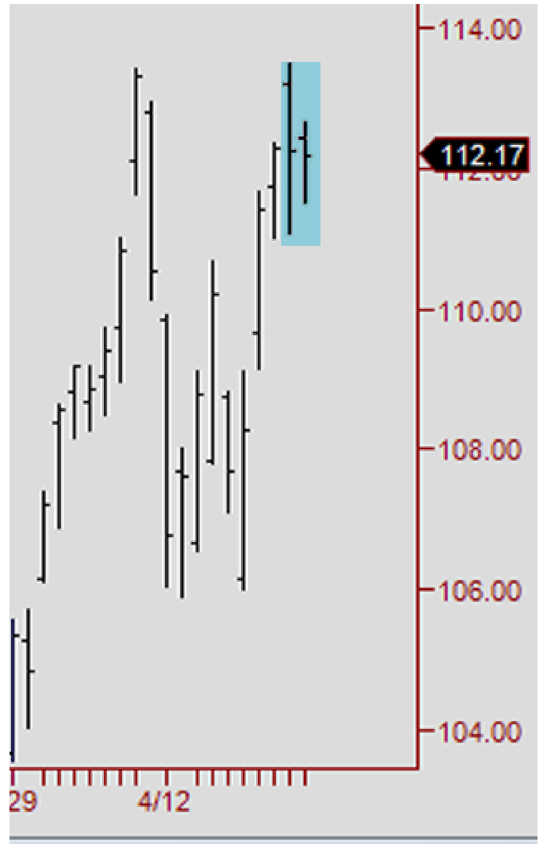
If the market opens within previous balance or Value, I will wait for price to approach a level located at an area considered to be at the extreme edges of that balance. Once price is at such an area, I will then monitor market speed, volume, price action and responsive activity to determine the likeliness 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: 112.64
Low: 111.51
O/N Inventory: Short
Open: 109.64 (Gap Up 54 Ticks)
Close: 112.45
Selling Tail: 8 Ticks
Direction: Neutral
Value Area: Overlapping to Higher
Profile Shape: Wide
Market Type: Balance
POC: Lower @ 111.91 -111.92
Buying Tail: 4 Ticks
Volume: 127K
PVolume: 133K

30 Minute Pit Session & Daily Charts

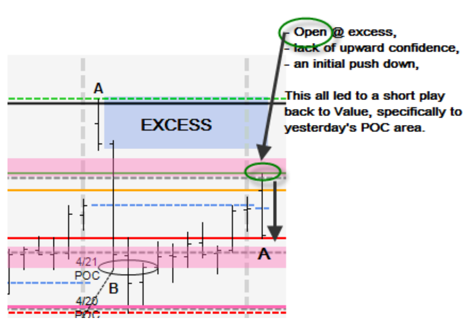




Trade Entry Commentary

Trade-#	Market pos.	Quantity	Entry price	Exit price	Profit	Cum. profit	Entry time
1	Short	1	112.43	112.33	0.10	0.10	4/26/2011 9:02:25 AM
2	Short	1	112.37	112.05	0.32	0.42	4/26/2011 9:03:07 AM
3	Short	1	112.36	112.11	0.25	0.67	4/26/2011 10:42:29 AM
4	Long	1	111.75	111.67	-0.08	0.59	4/26/2011 12:28:07 PM
5	Short	1	112.03	112.03	0.00	0.59	4/26/2011 2:04:57 PM
6	Long	1	111.92	112.09	0.17	0.76	4/26/2011 1:57:26 PM

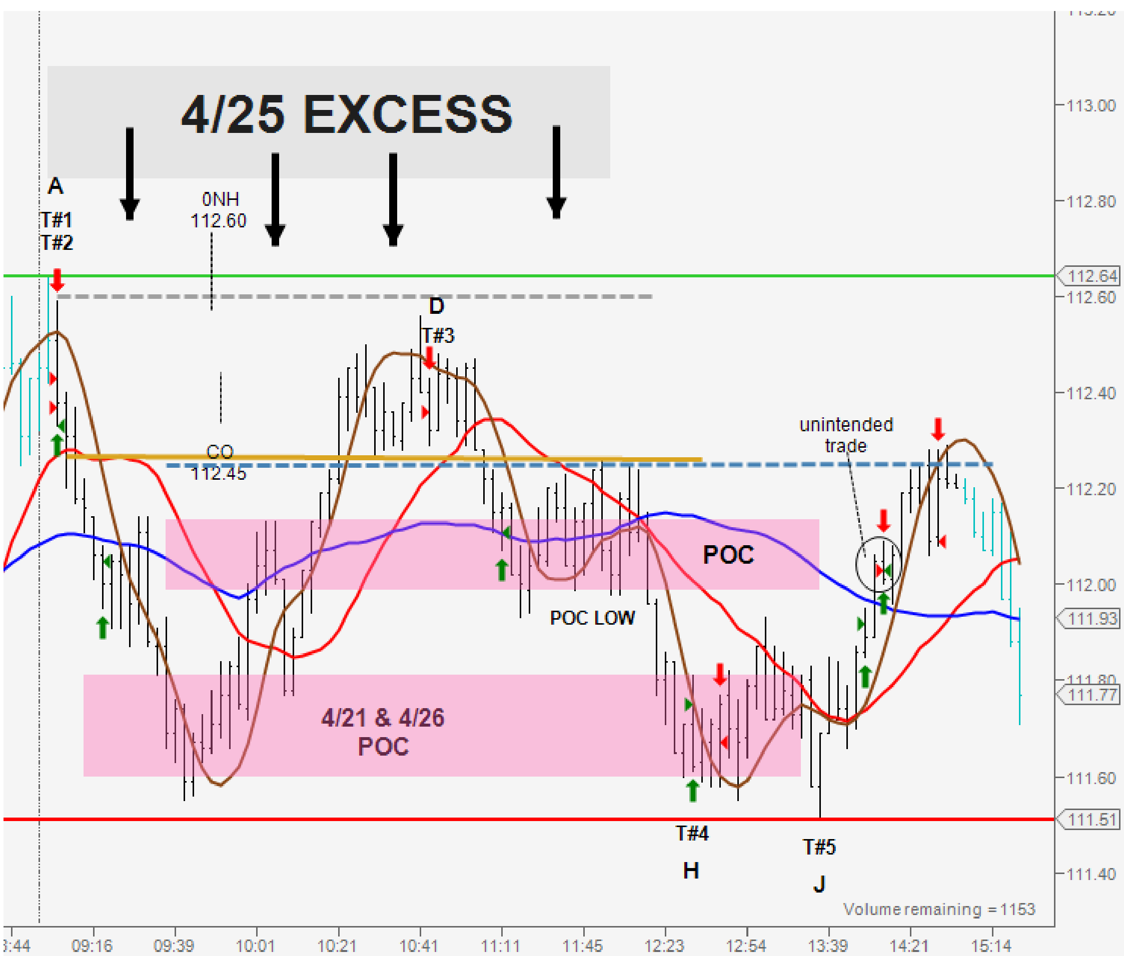
Crude opened within balance but at the upper part of yesterday's balancing range, not the total range. Remember that the 4/25 liquidation started @ the open for that day which was at 112.48, more than a full point above yesterday's balance. However, the fact that the open was even at the upper part of yestgerday's balancing range meant that price opened too high and needed to liquidate a bit down to previous Value (**T#1 & T#2**).



The last 4 days we've been seeing higher lows. This trend continued into today. Look at the pattern: A day opens anywhere within its trading day but persistently drives higher, not necessarily closing higher in every case, but definitely on each and every day, the low is preserved by the stronger buyers on the market to ensure that those lows are not violated. This is a sign of dormant market strength; strength that is used when volume is needed only to protect vital areas to maintain the buoyancy of price yet gentle enough to keep the market day in a balance mode. Why is it like this? For the purpose, at even these high levels, to accumulate positions by the longer timeframe and to continue the action from this point to lower levels so at the time price has completed its profit taking by one group the stronger group is ready for that 2nd push up.

As we cut to the chase, price valued all day and after a push off the low of the day, price failed to take out "A", not reaching the OverNight High it showed exhaustion and weakened further , the market then took price back down to the established lows. The opportunity was right for another short trade (**T#3**). By the time the market reached the lows for the day I had my eye on the previous POCs that were established during the last 2 session days. A bounce off the previous POC low signaled me for a long; however, it was a mistake that I always make and that is whenever I over anticipate a setup I tend to anticipate the entry as well. In this case I got in too soon only to stop out before my initial stop was hit – at that point I recognized that the market was not finished with its down move (of course, if I got in too soon it's like that in almost every case) and wanted to minimize the loss. I was not looking for long scalps here, I see a reversal if 1) I'm at a balance area extreme, and 2) the market day type spells "Balance". I waited for a more definitive sign to enter and it worked out, but not as well as I hoped because the market really had not much more steam left to drive the market as ardently as I hoped during the last 2 periods of the day (**T#5**).

<u>1250 Volume Chart (today's trading day at a glance)</u>

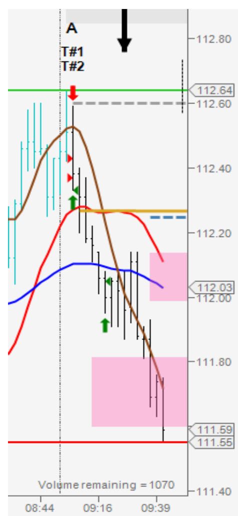


T#1 – Short // "A" period **//** Fade the Open// Entry @ 112.43 // Initial Stop: 112.66 // Target: 4/21 POC @ 111.80 // P&L: +10 Ticks.
T#2 – Short // "A" period **//** Continue T#1 // Entry @ 112.37 // Initial Stop: 112.66 // Target: 4/21 POC @ 111.80 // P&L: +32 Ticks.

There were 4 reasons for a short to fade the CO here:

1. There was the 4/25 Excess that was continually suppressing price downward.
2. The ONH was resistance.
3. Price opened within yesterday's balance but at the upper region close to yesterday's Excess.
4. Price broke below yesterday's the CO after an Open Test & Reverse down.

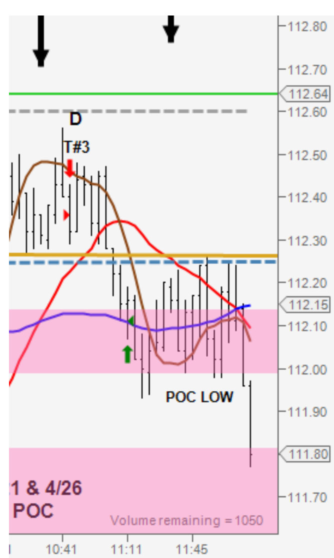
Unfortunately, in this first entry into this decisive move down, a 10-tick target was set by the scalp strategy that I predefined in the NinjaTrader DOM order entry platform. Price move too quickly down and took my initial set target almost as soon as entered the trade. I wanted to use a strategy that had a longer distance in stop and target orders. I reentered again in T#2 with another sell order at the market and continued the trade. I exited rather too quickly and further noticed afterwards that there really wasn't any reason for me to exit this trade.



T#3 – Short // "D" period **//** RV off Balance // Entry @ 112.36 // Initial Stop: 112.57 // Target: POC @ 106.14 // P&L: +25 Ticks.

There were 4 reasons to short here:

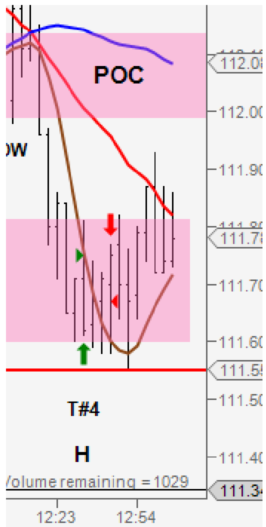
1. **"**D" period failed to take out "A" to the long side.
2. "D" period broke and closed below the CO.
3. There was a good chance of price going back down to Value towards the 4/21 & 4/25 POCs as price was being pulled back to Value.
4. There was strong Excess created from the 4/25 trading day that was on top suppressing price to the down side.



T#4 – Long// "G" period **//** RV off Balance // Entry @ 111.75 // Initial Stop: 111.56 // Target: YL @ 106.21 // P&L: -8 Ticks.

There was 1 reason for entering this trade and that was that price came down to the prior POC. I got in too soon as I focused too much on the 1250 chart and not the 30Min chart. I did get a bounce off the POC low but I need to let price play out significantly more.

I moved my stop up to exit sooner than later.

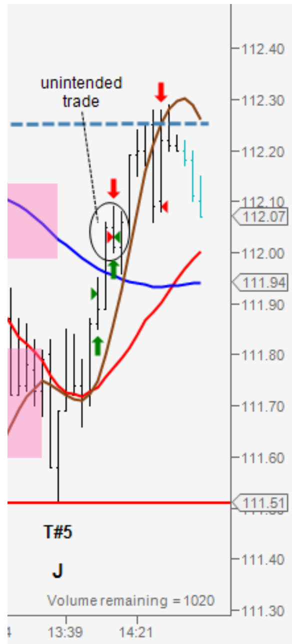


T#5 – Long// "J" period **//** RV off Balance // Entry @ 112.03 // Initial Stop: 111.64 // Target: CH @ 112.64 // P&L: +17 Ticks.

With all the great signals that this setup had given, there was just not enough volume to push this market to the CH @ 112.64. I should've exited this trade @ the YS @ 112.25 given the low volume, speed and the strong excess on top that did a good job in suppressing the market enough to keep it below YS. Nevertheless, the man-made problem with this trade was that I stayed in too long. I noticed that all the way up volume was low, the speed of the market was low, distal progression was lower than that of a decent reversal upward; basically price crept upward until it had hit YS @ 112.25. This should have been my secondary target as my primary target was the CH @ 112.64.

There were 4 reasons to enter long here:

1. The "J" period was an RBAR. Not only an RBAR, but a bar that 1st broke below "I", which was an inside bar, failed then broke to the long side to close above "I" period. The market gave this one away – you can only get just one or two more signals that are more obvious than that.
2. It was a 2nd attempt up. In a trading environment dominated by shorter term traders I must always never fail to expect a 2nd attempt up or down, depending on the initial direction of the market. This is particularly true during the last 2 periods of the day. The market loves to make last ditch attempts to either liquidate or accumulate positions in preparation and to carry forward into the next business day.
3. There was IDSR @ the CL.
4. There was the CL. I realize that a descending market will always have the current low underneath it; therefore, it may not be that solid of a reason to consider it a source of support. However, the fact that the CL had hung out in that price area for the whole day prior to the market reaching "J" period, and the fact that the market was dominated by the day time frame traders, a balance low or high then would had most likely been spending a much of the time hanging in that area with very little movement. I cannot over emphasize how important it is for a trader to understand what type of trading day the trader is trading in. With that information, areas of the chart become so important, or not important at all depending on the type of day it is. And that depends on who is in control of the market: the shorter time frames or the longer time frames.



T#6 – Unintended trade – Exited @ B/E - 0 Ticks.

No more trades for today. Net Today: +76 Ticks

Weekly ***Daily***