

CL05-11 Trading Journal (03/24/2011) – Double Distribution at the Top

*Go with the setups you know....
Wait for price to stray far from the pack (i.e. Value) before targeting opportunity....
As day a trader I must immerse myself in the longer term timeframe to capitalize on market strength....*

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.

03/24/2011 Pre-Mkt analysis.

Reports due out:

- @ 8:30 is Jobless Claims
- @ 8:30 is Durable Orders
- @ 10:30 is Natural Gas Report

Today is March 24, 2011; it is about 8:30AM and the March 23rd settlement price 105.76. The overnight markets are neutral this morning with relatively low volume and we are expecting the market to open within the previous day's range or value area.



Yesterday, the short term traders were in charge of the market as the whole day was in balance. This balance was in the context of a higher market from the day before. Higher prices with less volume (140K) than Tuesdays, 3/22 drive up by the longer timeframe, was 189K; an indication that weakness is setting in as price approaches the major extremes of the longer term balance area with less volume to show for it. This is a clue supporting the possibility that price may balance further within this weekly range of 98 to 107 for days to come; that's why we need to keep a close watch on News events that occur overseas that may trigger a spike in oil prices. But I'm also thinking that value was built on both days, 3/21 and 3/22, with wide POCs meaning that price won't stray too far from these areas before snapping back to them; that's where trading opportunities show themselves. I try to always think of Value and where is it in relation to price.

The upper references that I will watch today are Yesterday's High @ 106.34; the Overnight High @ 106.69. Beyond that is Blue Sky. The lower references are the Overnight Low @ 105.11, Yesterday's low @ 104.90, the 3/22 POC @ 104.27, S/R @ 103.83, and the 3/21 POC area @ 103.18.

If the market opens within the previous day's Value Area or within the yesterday's range, I will wait to see what the market does regarding its departure from Value. I need to keep in mind about the significance of the role that Value and the POC play whenever price migrates away from them; when price migrates too far from them, it is a time of opportunity; to relate this activity to the different levels defined above help me know what price is attempting to do and where it is trying to go. Any visitations by price to any extreme areas defined will be watched closely for reactions in price within the context of the market.

CL 05-11 Trade Entry Commentary for 03/24/2011

T#1 – Short // “E” period // RV from Balance // Entry @ 106.18 // Initial Stop: 106.47 // Target: YS,CO @ 105.81 // P&L: +15 Ticks.

This was a reversal play from the upper balance region. After establishing a higher high @ 106.46, “E” period subsequently showed weakness by closing on its low. I entered the trade some minutes before it closed to capitalize on better R/R. At the moment of entry I didn't think I did the right thing entering this trade because of the limited profit potential compared to my initial risk. I exited this trade because I realized that “E” also made the area of my place of entry, 106.18, the new POC for the day. This made me think that not only did I have limited profit potential, but now I traded away from a newly formed POC create by “E” period. I exited at the next 250 upturn in price.



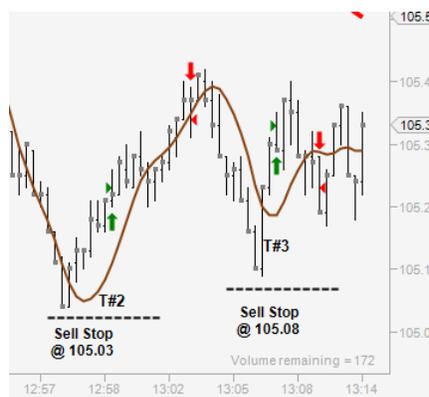
T#2 – Long // “H” period // RV off Balance // Entry @ 105.23 // Initial Stop: 105.03 // Target: YS @ 105.76 // P&L: +11 Ticks.

The market liquidated down “H” period taking out the morning low moving it from 105.43 to now @ 105.04. This was a long play from the balance extreme. Liquidation breaks can be very violent and fast. As soon as I saw a 1250 form a long reversal bar I decided to jump in long. I wanted a quick profit since I only was in the first leg up so I exited with an 11 tick profit. I thought to wait for a 2nd pullback back down to enter again after the market tried to make a 2nd dip.

See image in T#3.

T#3 – Long // “I” period // RV off Balance // Entry @ 105.33 // Initial Stop: 105.08 // Target: YS @ 105.76 // P&L: -10 Ticks.

I entered long again after getting a 1250 signal long. But soon after my entry price by now should have accelerated upward and it hasn't. Suddenly minute or 2 after seeing larger sellers enter the market instead of large buyers I became afraid that I was now on the wrong side of the market. My T/S screen showed new sellers entering the market at this low of a level and thought to take a small loss instead of it having the market run my stop 10 to 20 ticks below from where I placed it.



1:03:31 PM	105.27	15
1:03:31 PM	105.30	13
1:03:31 PM	105.34	11
1:03:38 PM	105.30	50
1:03:38 PM	105.30	35
1:03:38 PM	105.30	10
1:05:02 PM	105.10	40
1:05:47 PM	105.20	23
1:05:47 PM	105.20	55
1:05:53 PM	105.26	35
1:05:53 PM	105.25	18
1:05:03 PM	105.21	16
1:04:59 PM	105.23	14
1:04:55 PM	105.26	11
1:02:50 PM	105.40	20
1:00:50 PM	105.40	15
1:02:47 PM	105.26	33
1:02:26 PM	105.31	17
1:02:24 PM	105.33	13
1:00:57 PM	105.26	11
1:00:55 PM	105.26	22
1:00:55 PM	105.25	11
1:00:45 PM	105.25	10
1:00:22 PM	105.25	11

T#4 – Long // “J” period // RV off Balance // Entry @ 105.16 // Initial Stop: 104.75 // Target: YS @ 105.76 // P&L: +31 Ticks.

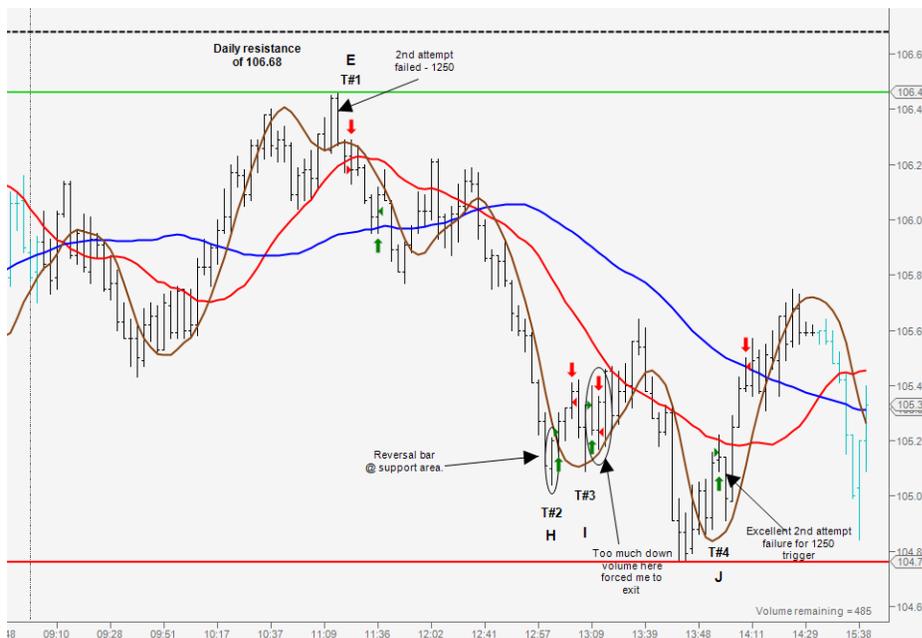
This long trade was the recovery run to the previous liquidation break that took place in “H” period. I tried to fade the liquidation break in trades T#3 and T#4 above, however the short term sellers were not done liquidating and the subsequent 2nd push down to the new daily low gave us the kind of 1250 long signal that I usually wait for. I felt much more confident in this trade since there was now a 2nd attempt downward that had failed and now price closed back pointing in a northern direction. At this point I felt confident that most the immediate or short term sellers were out of the market. I exited when price looked shaky – it was just before my target anyway so I exited to end the day.



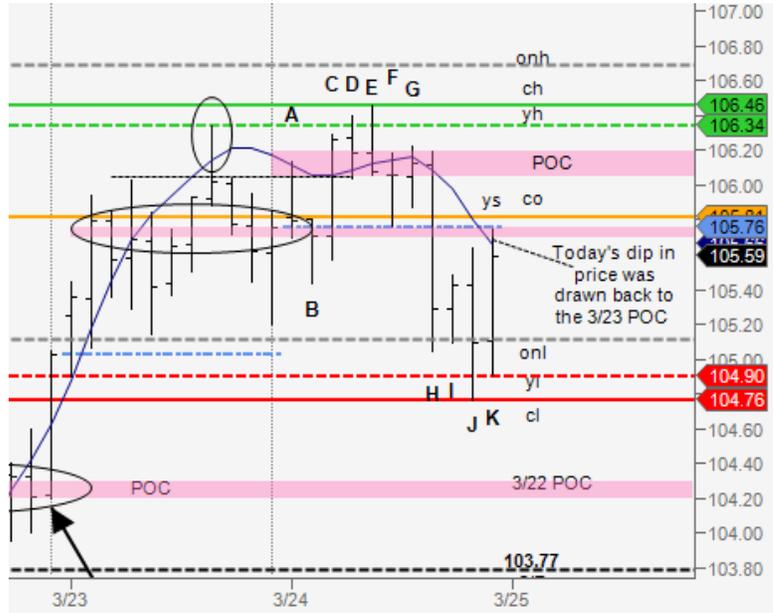
No more trades for today. Net Today: +47 Ticks.

Trade-#	Market pos.	Quantity	Entry price	Exit price	Profit	Cum. profit	Entry time
1	Short	1	106.18	106.03	0.15	0.15	3/24/2011 11:23:03 AM
2	Long	1	105.23	105.34	0.11	0.26	3/24/2011 12:58:49 PM
3	Long	1	105.33	105.23	-0.10	0.16	3/24/2011 1:06:34 PM
4	Long	1	105.16	105.47	0.31	0.47	3/24/2011 1:56:32 PM

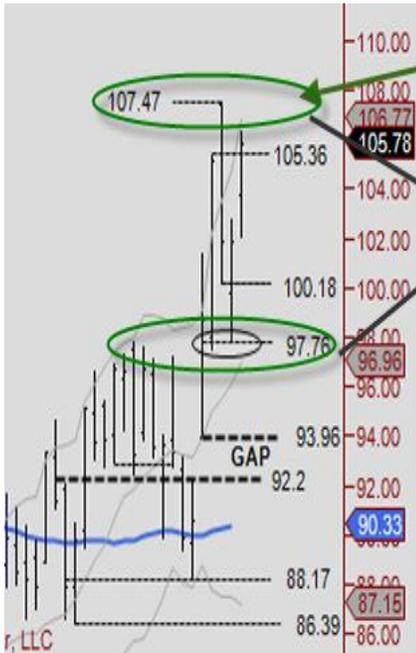
1250V Chart



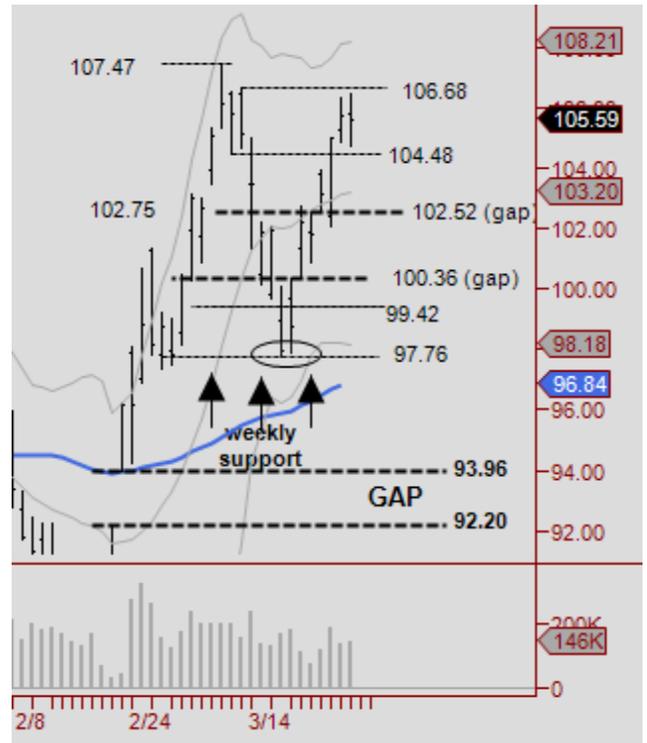
30Min



Weekly



Daily



General Commentary

CL Market Summary

High: 106.46

Low: 104.76

O/N Inventory: Neutral

Open: Within Value @ 105.81

Close: 105.59

Short Excess: -

Direction: Same

Value Area: Same

Profile Shape: Double Distribution

POC: Higher @ 106.06 – 106.14

Long Excess: -

Volume: 146K

PVolume: 142K

The market opened within balance this morning as expected after having observed that the Overnight sentiment was neutral. The market, opening at 105.76 was just a couple of ticks above yesterday's POC. This had given me reassurance that the market day type today was going to be one of balance. That's what the market it certainly did as "A" & "B" periods did absolutely nothing spending most of its time within yesterday's value area range. One note about "A"; it's interesting to see after the fact how "A" climbed up into yesterday's short excess area before finding out that there weren't any more buyers interested in pushing up price beyond that excess before receding back to its open. "C", "D" & "E" periods were able to push and assist price beyond Yesterday's High to 106.46 before "E" closed at its bottom opening up a possibility for a good short opportunity; a similar event that occurred in yesterday's market during "H" period. "F" brought price down further to pretty heavy support area @ about the 105.76 area which is where we had 3 reference levels: 1) the Current Open. 2) Yesterday's Settlement price. 3) Yesterday's POC area. Playing price off this area provided a goo scalp play to go long. The significance of this area was that it was delineation line for a Double Distribution day. In practice I will play and trade each distribution area of a single Double Distribution day as a single Value Area.

A liquidation break followed the morning activity when price in "H" period dropped down 100 tics in minutes providing a bounce right off the Overnight Low. I've entered long on the first bound and just scalped a few ticks, went long again after a higher-low 2nd dip bounce up, however, this 2nd bounce was hesitant and seemed stuck. It just didn't seem like a liquidation break recover rally to me. Large contract sellers came into the market and for 2nd attempt to bring the market down further. It succeeded and brought Crude down to the daily low of 104.76 where price rebounded back up forming a 1250 long trigger thus indicating that this 2nd attempt is now failing. This was a clear signal to go long: a 2nd attempt failure to downside at a heavy support area during a market that was mostly balancing all day with a strong and wide POC awaiting 125 ticks above it. This is one the best setups to be in - when price breaks in the form of a liquidation break and it occurs without new shorts coming into the market. Price then instantly recovers back up to a wide POC area on top where price has been hanging out for most of the day.

I mentioned in yesterday's journal that the market was due to balance soon; today was a balancing day as the market peeked its head above the previous day's for about a couple of minutes before failing and falling back into today's balance area. Yesterday's and today's balance areas were overlapping to higher indication that the market is not facilitating trade that efficiently to the upside and is having signs to exhaustion. This could lead to a break below today's low of 105.43 for the market to start valuing lower. Today's volume was about the same as yesterday which is consistent with the 2 days having the same day types: Balance.