

CL05-11 Trading Journal (04/04/2011) – Market Needs to Liquidate

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 have swapped the locations of 2 sections in this journal: “Daily Market Review for Crude Oil” and “Trade Entry Commentary”. As I’ve been rereading my journals it became clearer to me that reading a list of trades taken along without first knowing what occurred in the market or what the general sentiment of the market was during the time these trades were taken did less for my understanding the regarding the overall reasons for taking those trades. Reading a review or recap about what transpired in the market provides me with a contextual understanding of the trades taken during that market day.
- A section is added called “Guide Lines for Trading the Open”. This will become a permanent part of the “Premarket Observations” section located at the bottom of it. I can reference this as part of my premarket procedure in the event that I think that a particular day has a good chance of gapping, instead of repeatedly having to write my gap guidelines down every time. I’m planning to come up with one for non gap days as well.
- Starting tomorrow, April 5, 2011, I will not be trading the markets since I’ll be taking personal time few 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:

No reports due out today.

Today is April 4th, 2011; it is about 8:00AM and the April 1st settlement price is 107.99. The overnight market is all long this morning on hardly any overnight volume. The Overnight High this morning already took out Friday’s contract high of 108.05.

30 Minute Overnight Chart



I have also observed that minutes 30 minutes before the market Open and notice a lot of sellers hitting the bid in a rush to liquidate long positions. However, I still think there is a good chance of the market gapping up since it's so high up there. If I look at the last days since the 4/1 gap, I see that price action looked very strong as price shows elongated bars on the daily chart, but the 30Min chart tells a whole other story: Price has been having problems trending upward. I will wait for the Open to happen before deciding on what's going to happen, although, the daily chart does show me that the market is displaying at least some weakness or hesitancy in moving upward. If the market gaps up, there is a chance that there will be long positions in weaker hands that need to be liquidated before the market moves further up.

If price gaps, please see gap guidelines at the bottom of this section.

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
108.60 - Contract High
108.78 - Overnight High
107.47 - Daily
108.05 - Yesterday's High
107.99 - Yesterday's Settlement
107.89 - Overnight Low
107.25 - 30Min 4/2 DD S/R
106.30 - Yesterday's low
106.22 - 3/31 POC
106.18 - 106.06 - the 3/24 POC
105.15 – 3/31 (Gap)
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)

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.

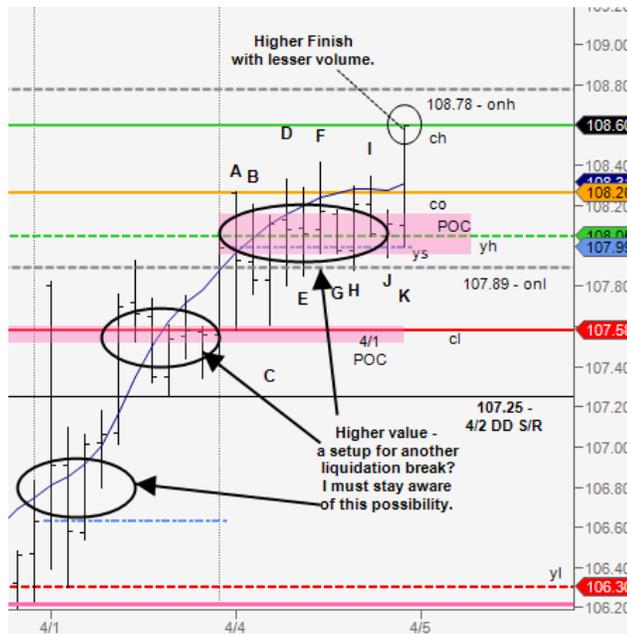
Balance:

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: 108.60
Low: 107.58
O/N Inventory: Long
Open: 107.81 (Gap Up +98 Ticks)
Close: 108.26
Short Excess: -
Direction: Up
Value Area: Higher
Profile Shape: Balance
POC: Higher @ 108.05 – 108.15
Long Excess: -
Volume: 120K
PVolume: 162K

30 Minute Pit Session Chart



The market gapped up 21 ticks into Blue Sky to 108.26 only to close the gap almost as quick as it made it. There were a lot of long positions at the Open that needed to be traded to stronger players in the market that had a longer perspective of the market. Every time the market makes a directional thrust for several days, there's always an expectation for it to pull back since the shorter term traders are either taking profit or are too weak to hold the position any longer needing to liquidate. This says the same for the longer timeframe traders and investors as well, the difference being that the moves are with greater swings in the market - and the same applies to the downside.

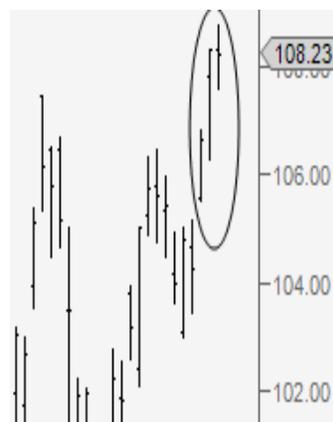
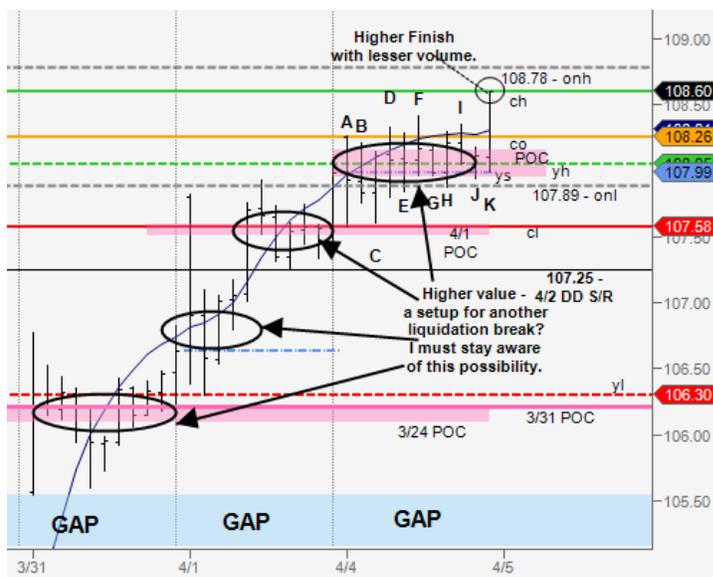
“A” period opened with a commitment of heading lower. 21 ticks is not that much of a spread in the gap so I would expect a quick fill of the gap and would also expect market possibly to continue to head down further. The market bounced right off of

One would never know that this whole day consisted of a single bar plotted on a daily chart that not only was in Blue Sky but looked as if it was going to sky rocket the hell out of here. Looking at the 30Min or the 1250 charts, however gave a different story of tight balance, low volume and just plain old boredom, especially for those who are exclusively trend traders. For floor traders and other day traders who thrive on market rotation, this market type day was exactly what they were looking for. I noticed that the POC was really wide when “C” period completed; this was the 4th clue that the market gave indicating that it had a good chance of balancing for at least a good portion of the day. The 1st clue was the Open showing very little confidence and immediately closing the gap, the 2nd clue was the increase of down volume just before and into the Opening of the market, and the 3rd clue was the lack of acceptance of price in Friday’s balance area; price was specifically rejected from Friday’s Value area – after it had bounced off of the top of Friday’s POC (to the tick – Friday’s upper POC was 107.60 and “A” period low had bounced at 107.58). Crude continued to balance for the rest of the day higher above Friday’s balance as it developed Value just above the upper fringes of Friday’s balance area.

There were several trades I had taken today but it was the 1st trade where I really lucked out. Not having realized that Yesterday’s High was located at 108.05, I traded short, right after price plunged below it, to fade the market lower, and to be honest, I never would’ve played the Open knowing that Yesterday’s High was so close. These things happen, I realize that, but they really shouldn’t happen with one of the most played and influential levels in the market. I should always know where my previous high and low is – even if they were the only 2 levels around.

The rest of the day was basically rotation. What is important is that by “C” period, the developing POC was so wide that one can assume that the rest of the day was going to be a market of only short term traders. At this point, between the wide POC, tight range, price action created by both responsive buyers and sellers, and low volume I just felt that much more confident in trading the balance for the day knowing that it was highly probable that the longer timeframe was staying out for most if not the whole day.

Tomorrow will be interesting. If I looked at the daily chart and saw that the market was in balance I wouldn’t think anything of it relating to tomorrow. However, the daily and weekly charts both say that the market has broken balance and is expected to move higher. Here is where the contradiction lies: Price action on the daily and weekly chart say long, however, price action on the 30Min and volume say reversal:

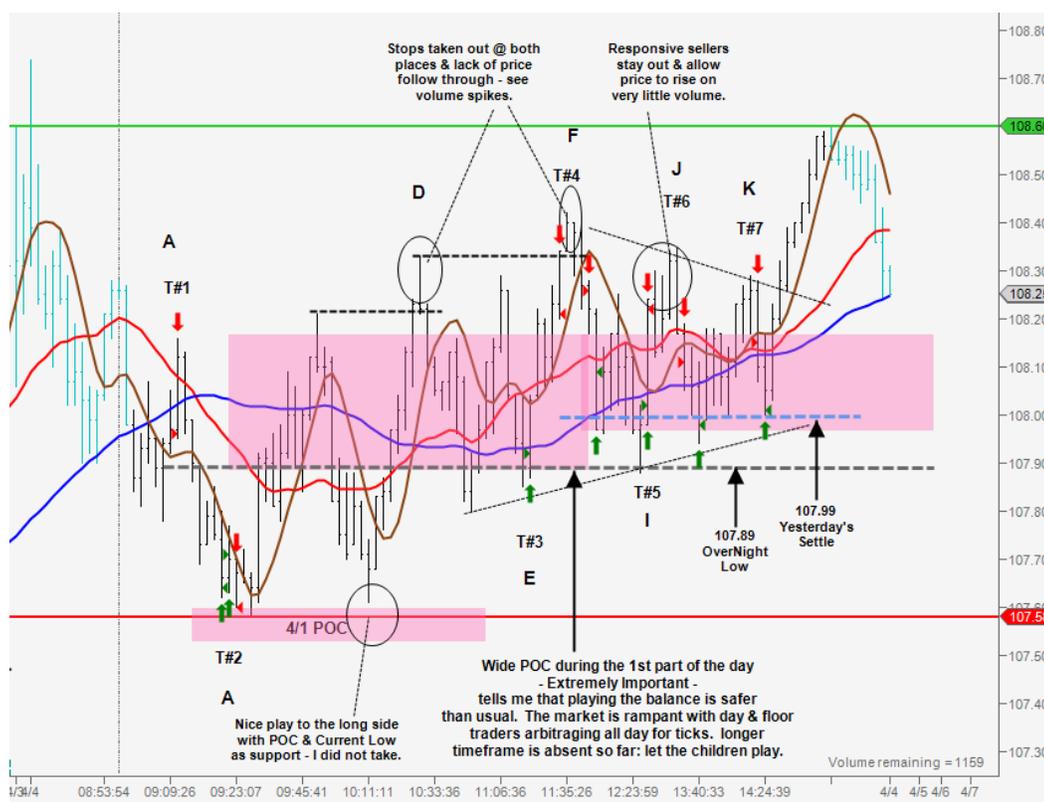


I am expecting a liquidation break to the down side because of the markets way of moving upward; not in a trend like manner but in a clustered, balancing way. If I looked at the last 3 days on a 30Min chart I can see no healthy trend, but I do see days of balance and multi-distribution days. Liquidation may or may not come tomorrow, but when it comes there may be a possibility for price to head to the 4/1 gap area. I’m not saying that I’ll be shorting at the market Open tomorrow, but just to be aware of this scenario can keep me out of trouble and can allow me to know where the best opportunities are.

Trade Entry Commentary

Trade-#	Market pos.	Quantity	Entry price	Exit price	Profit	Cum. profit	Entry time
1	Short	1	107.96	107.64	0.32	0.32	4/4/2011 9:10:05 AM
2	Long	1	107.71	107.6	-0.11	0.21	4/4/2011 9:20:34 AM
3	Long	1	107.92	108.21	0.29	0.50	4/4/2011 11:23:44 AM
4	Short	1	108.26	108.09	0.17	0.67	4/4/2011 11:38:21 AM
5	Long	1	108.02	108.22	0.20	0.87	4/4/2011 12:35:08 PM
6	Short	1	108.11	107.98	0.13	1.00	4/4/2011 1:24:45 PM
7	Short	1	108.15	108.01	0.14	1.14	4/4/2011 2:20:36 PM

1250 Volume Chart



T#1 – Short // “A” period // Fade Open // Entry @ 107.96 // Initial Stop: 108.29 // Target: 4/2 POC @ 107.60 // P&L: +32 Ticks.

Much down volume started to come into the market just before the open. Overnight shorts were too extended to the long side. Although the market gapped up for the day, it was telling based upon the Overnight market that the Overnight market was too long considering the kind of up days we’ve been having the last 2 days; although the last 2 days before today had higher balance areas, it was exactly just that, balance, not really any trend with volume. Another gap up with much less bids being taken out than the offers at the onset of the open was a signal that the market was going to retrace at least into Yesterday’s High if not to Yesterday’s value area. Entering where I did and the stop placement for this particular trade was troubling me a bit. When price did go against me - but short of taking out my stop - I was worrying about the location of my entry and the risk I was dealing with, just about to pull

my stop from above the market shot down just as quick and stayed in it till I a little short of my target at which point I exited the trade. Afterwards did I realize that I shorted right against Yesterday's High – never really a good thing to do.



T#2 – Long // “A” period // RV off Balance // Entry @ 107.71 // Initial Stop: 107.61 // Target: ONL @ 107.89 // P&L: -11 Ticks.

I was anticipating a bounce off of yesterday's POC and was a minute too soon as I rushed in without a signal from any chart. The idea was good but not possessing any composure at the time was my weakness. I didn't reenter the long because it was at that time when I discovered that I had Yesterday's High just above me at which point I then knew that I lucked in my T#1 trade. I just let price settle in a bit then went on to the next trade after letting my stop take me out of the trade.



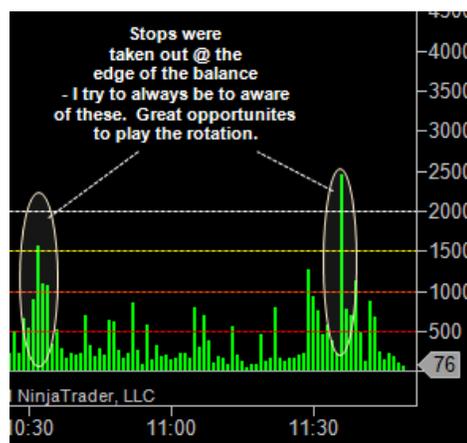
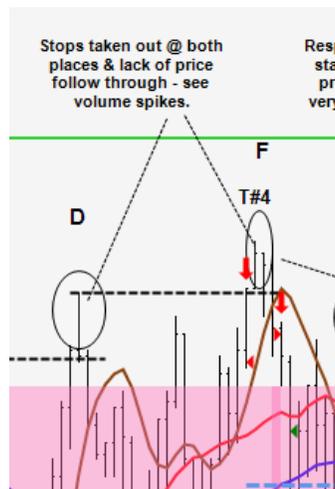
T#3 – Long // “E” period // Scalp off Balance // Entry @ 107.92 // Initial Stop: 107.84 // Target: CH @ 108.33 // P&L: +29 Ticks.

By This time it was definitely a balancing day so I just went for the rotations. I played the balance to the long side. I used the Overnight High and today's developing POC as support. I exited out near @ my target, the Current High.



T#4 – Short // “F” period // Scalp off Balance // Entry @ 108.26 // Initial Stop: 108.43 // Target: YS @ 107.99 // P&L: +17 Ticks.

I played the balance to the short side. I waited for evidence of price failure and a volume spike that indicated that the short term traders were taking out stops as a signal to go the other way.



T#5 – Long // “I” period // Scalp off Balance // Entry @ 108.02 // Initial Stop: 107.87 // Target: 10+ Ticks // P&L: +20 Ticks.

I played the balance to the long side. By this time the POC had moved up a bit but generally in the same area. I used the bottom of the POC and Yesterday’s Settle as support to go the other way.



T#6 – Short // “J” period // Scalp off Balance // Entry @ 108.11 // Initial Stop: 108.36 // Target: 10+ Ticks // P&L: +13 Ticks.

I played the balance to the short side. Again, I waited for price failure. By this time I felt that I could have afforded to be a little sloppy since all eyes were on the rotation but I wasn't happy with the risk and was late getting in, however, it was a quick scalp as intended. I exited at the usual place, @ Yesterday's Settle and POC bottom.



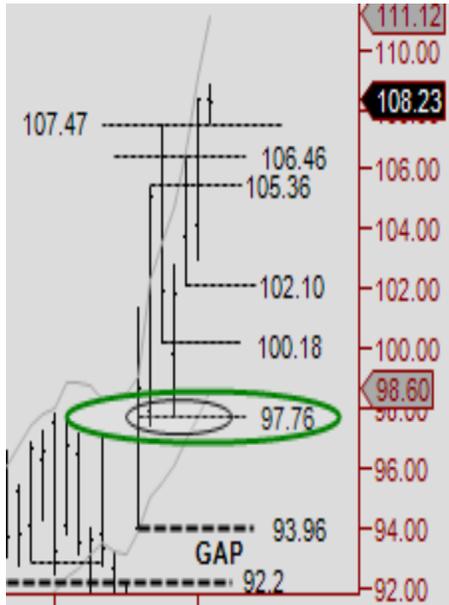
T#7 – Short // “K” period // Scalp off Balance // Entry @ 108.15 // Initial Stop: 108.30 // Target: 10+ Ticks // P&L: +14 Ticks.

I played the balance to the short side. Again, I waited for price failure. I exited at the usual place, @ Yesterday's Settle and POC bottom.



No more trades for today. Net Today: +114 Ticks.

Weekly



Daily

