

CL06-11 Trading Journal (04/19/2011)

3rd Attempt To Close the 3/31 (105.72) Gap Fails.

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....
There is a difference between predicting price based on market hunches and expecting market behavior based on market knowledge...

Announcements.

- Just as a reminder, I did switch over to the CL06-11 contract over the weekend.

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.

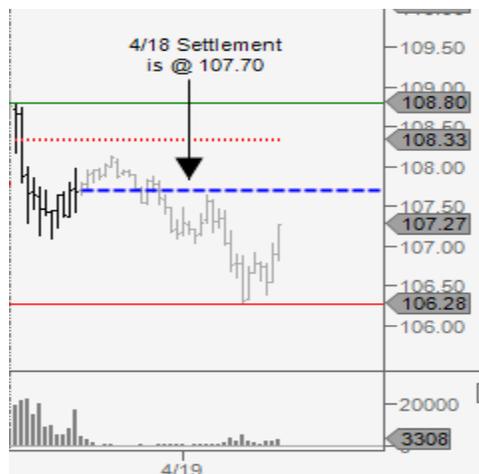
Premarket Observations.

Reports Due Out:

- @07:45 →ICSC Goldman Store Sales.
- @08:30 →Housing Starts.
- @08:55 →Redbook.

Today is April 19th, 2011; it is about 8 AM and the April 18th settlement price is 107.70. The overnight market is short. With yesterday's low at 107.10 and the overnight price having spent most of its time below that low, there is a good chance that the market may gap down this morning:

30 Minute Overnight Chart



Let's keep in mind regarding what happened yesterday. There was short term liquidation. If we look at the day entirely, we can see that the market liquidated down to 107.10 where it literally stopped on a dime and understandably so as there happens to be pretty significant support there in the form of 2 buying tails, POCs from 4/12, 4/13, and the 3/31 gap. It is important as well to note that the market, although trending up according to the longer term, is currently balancing on the daily and on the day timeframes. Therefore if the market happens to open lower in the form of a gap or in the lower regions of yesterday's balance my bias will be to fade long. If the premarket turns around and gaps higher, which is unlikely at this point, or opens to the high side of yesterday's region my bias will be to the short side.

In the event that the market opens within previous Value I will wait to see what price does regarding its approach to the previous balance extremes but the overall bias should be long today considering that we are up against the 3/31 gap on the short side. At the same time I must keep in mind that there were already 2 attempts to take that gap out and both failed. Does this mean that the gap is weakening? I don't know that's why the best thing to do if price does challenge the gap to the downside to wait for price to give clues as to what it may do.

The major levels to watch for before the opening bell:

1. **113.43** (Daily)
2. **110.67** (Daily)
3. **105.72** (Daily Gap)
4. **103.32** (Daily)
5. **102.10** (Daily)
6. **100.98 – 100.93** (Daily Gap)
7. **98.38** (Monthly)
8. **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: 109.10

Low: 106.01

O/N Inventory: Short

Open: 106.12 (Gap Down 98 Ticks)

Close: 108.28

Selling Tail: 16 Ticks

Direction: Up

Value Area: Overlapping

Profile Shape: Double Distribution/Trend

Market Type: Trend

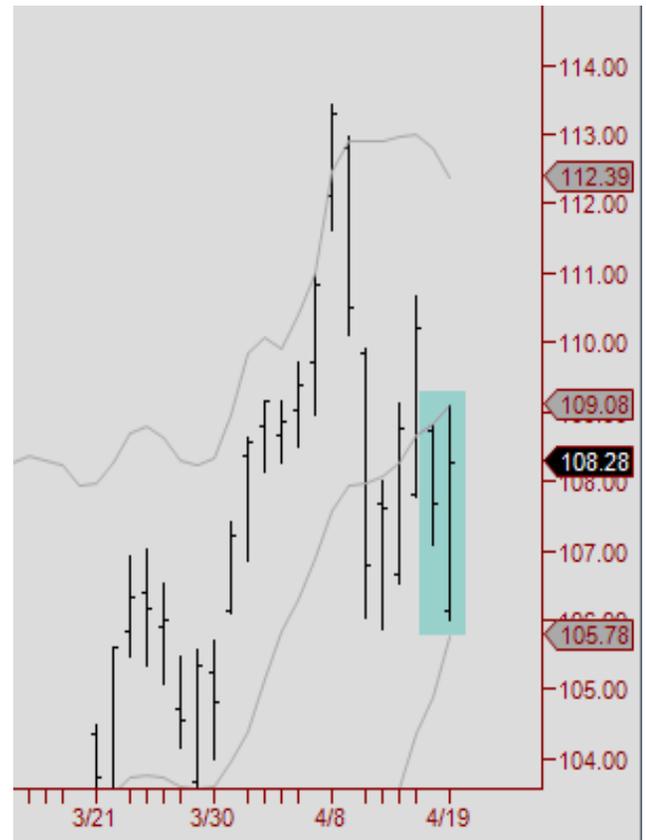
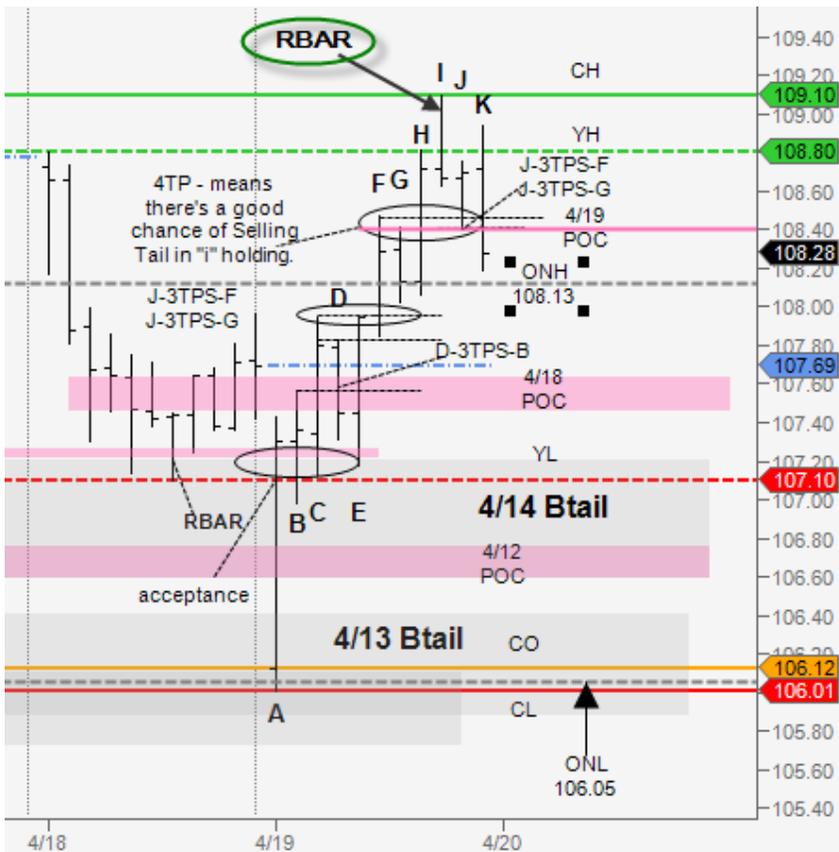
POC: Lower @ 107.31 -107.43

Buying Tail: 97 Ticks

Volume: 180K

PVolume: 151K

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	106.25	107	0.75	0.75	4/19/2011 9:01:42 AM
2	Long	1	107.13	107.05	-0.08	0.67	4/19/2011 9:44:38 AM
3	Long	1	107.13	107.04	-0.09	0.58	4/19/2011 9:47:34 AM
4	Long	1	107.08	107.46	0.38	0.96	4/19/2011 9:55:17 AM
5	Long	1	107.38	107.52	0.14	1.10	4/19/2011 10:50:53 AM

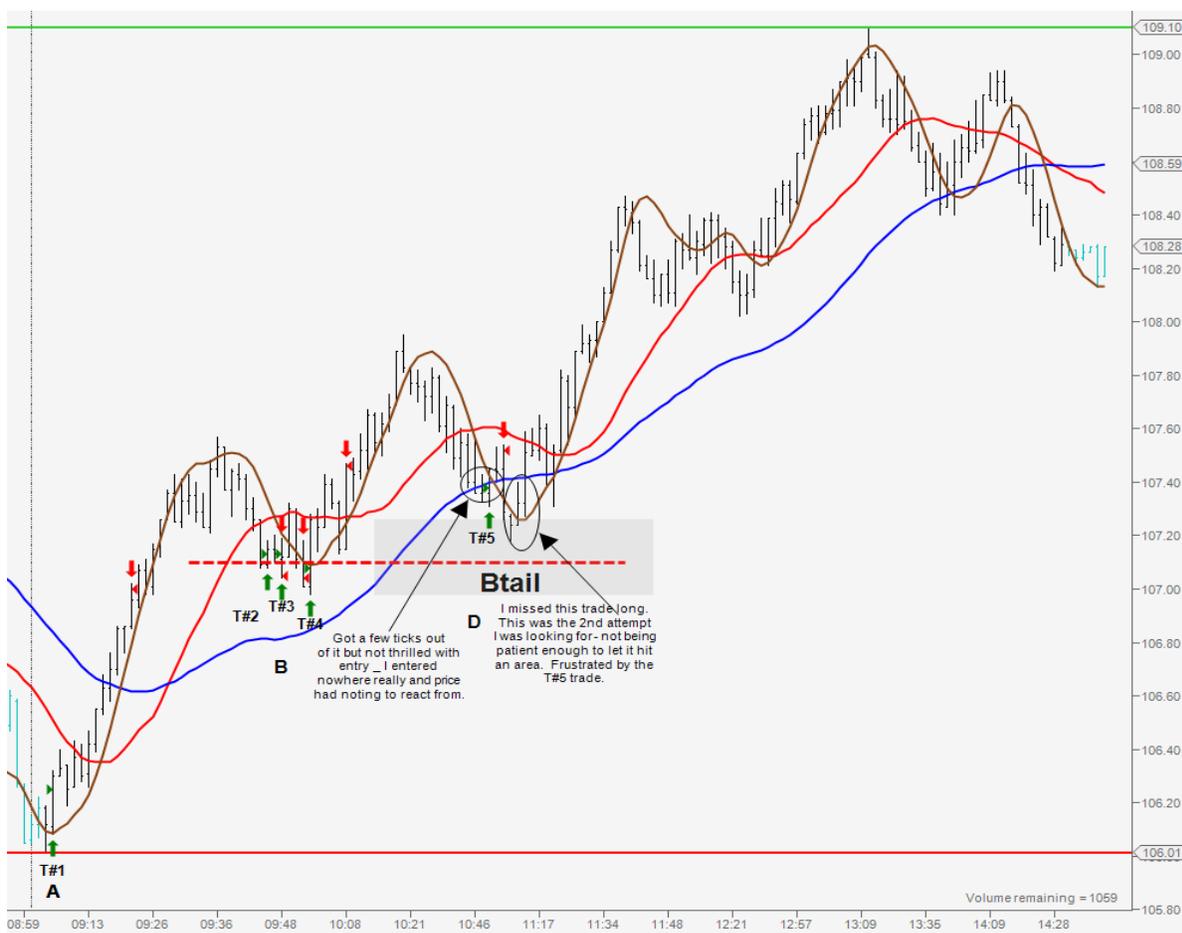
The market gapped down to 106.12, a pretty significant gap, 98 ticks, but right on top of the 3/31 gap. The 3/31 gap, to put things in perspective, was 105.72 to 106.11 and price violated it by just 10 ticks before it started its reversal up. I thought that there was a good R/R entry and entered right at the first 1250 reaction (**T#1**). I thought that a good exit would be at around the area of yesterday's low. The market proceeded up and price began to be accepted above yesterday's low. As "A" pushed higher "B" was the period that brought price back for another entry long. I expected that this 1st pullback to yesterday's low to be a significant 2nd leg since the initial drive up from the Open was pretty strong in terms of price action as well as in the amount of volume that supported this opening drive up. As price pulled back to yesterday's low, I tried entering twice and stopped out in both trades (**T#2**) & (**T#3**), before attempting for the 3rd time to go long (**T#4**) and was successful in catching a bit of a move up. I thought that for this first pullback, I should've waited for a 1250 trigger instead of entering the way when entering a scalp trade. This particular entry into a market had a lot of steam left and could've afforded the extra risk that comes with a 1250 entry; it was not necessary to scalp-entry this particular pullback. I was persistent in these attempts because I was rather certain that after such a move up that the

market will most probably be looking for its 1st strong pullback to an area: yesterdays low is always a good area to pullback to.

After “C” period brought price to about as high as yesterdays Value Area high, “D” and “E” periods led price back down to the base of support – the high of the 4/14 Buying Tail, the 4/13 POC, the current POC and near Yesterdays Low for another possible long play (**T#5**). I was a little frustrated at my entry as I entered way too soon, did not have the patients to let price hit or come close to the base of support. Frustrated over that trade I bypassed unintentionally the real opportunity to go long. Price had hit the major support hub and with a 1250 trigger, proceeded to new highs.

The market spent many of the time periods, from “F” through “I”, 1-time-framing up to a high of 109.10 at which point “I”, the last time period of the day that 1-time-framed up, created significant excess on top leaving the question as to whether the market will make any further attempts to successfully take out the high established by “I”. If one is going to short this kind of market, one would need to wait for excess to form such as the one that formed in “I” period which is about the best looking reversal bar I’ve seen in a while.

1250 Volume Chart



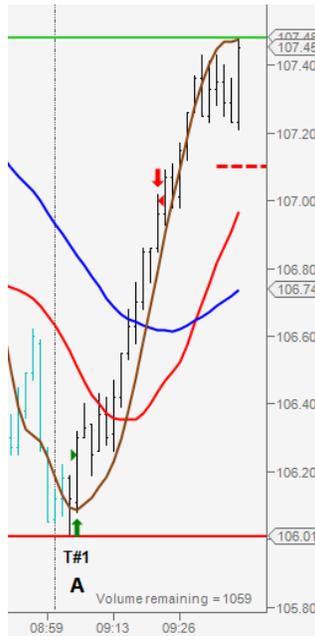
T#1 – Long // “A” period // Fade the Open from Gap// Entry @ 106.25 // Initial Stop: 106.00 // Target: YL @ 106.21 // P&L: +75 Ticks.

The O/N inventory during Premarket had become extremely short during the last 30 minutes and had opened Crude with a gap down right at the base of support. There were 4 sources of support kept price above the Open.

1. 3/31 Gap.
2. Buying Tail.
3. ONL

4. General support from recent balance.

A 1250V trigger sparked the entry long into this trade.

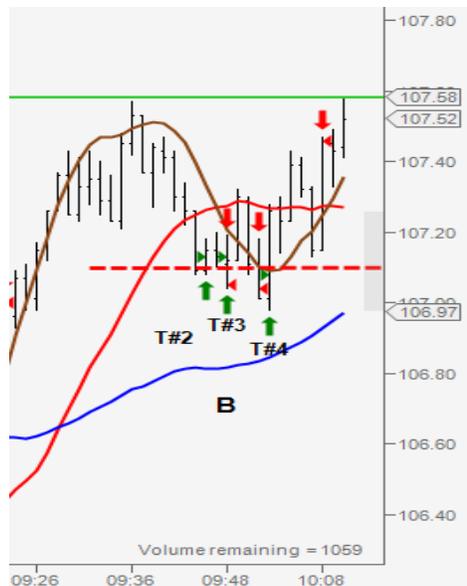


- T#2** – Long // “B” period // PB to YL, BT // Entry @ 107.13 // Initial Stop: 107.07 // Target: CH @ 107.57 // P&L: -8 Ticks.
- T#3** – Long // “B” period // PB to YL, BT // Entry @ 107.13 // Initial Stop: 107.07 // Target: CH @ 107.57 // P&L: -9 Ticks.
- T#4** – Long // “B” period // PB to YL, BT // Entry @ 107.08 // Initial Stop: 106.96 // Target: Ch @ 107.57 // P&L: +38 Ticks.

There were 3 sources of support:

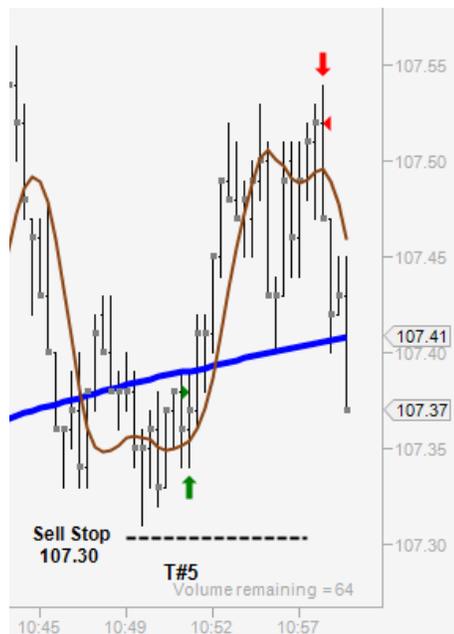
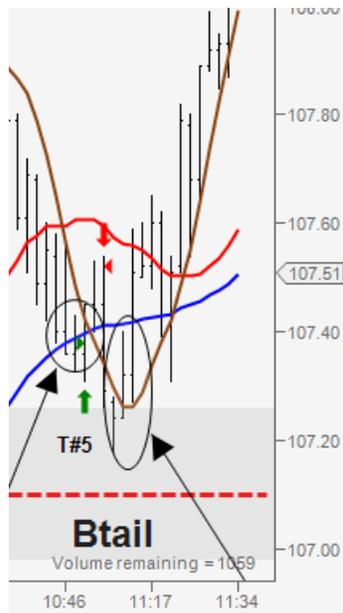
1. A pullback to Yesterday’s Low
2. the 4/14 Buying Tail
3. 1st pullback

These levels made this trade attractive to take as it had placed odds in the trader’s favor to go long at this point. Unfortunately, I was struggling with entries a bit. The losses incurred in T#2 & T#3 was fine, as long as I had solid reasons for entry. I will count in the fact that this, being a 1st pullback, is a source given the strength of the move and the rejection from the base of support, specifically from the Gap. There are longer term buyers, most likely short term (Daily), as well as day traders and floor traders that wanted price above the gap.



T#5 – Long // “D” period // ***Undefined*** // Entry @ 107.38 // Initial Stop: 107.30 // Target: 4/14 POC @ 106.21 // P&L: +14 Ticks.

I anticipated too much on this trade. Say something for psychology, it is probably the most important, yet the most underestimated, factors in trading. I wanted at least a pullback into the 4/14 Buying Tail; afraid that I wasn't going to get in and miss the move, because of being anticipatory at the wrong time and for the wrong reason, I wound up doing exactly that: missing the move.



No more trades for today. Net Today: +110 Ticks

Weekly

Daily

