

# CL06-11 Trading Journal (04/20/2011)

## Another Unfilled Gap Up Open (109.10 - 109.15) to Suggest Higher Moves Up.

*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 market intuition and market knowledge is the difference between success and failure...*

### Announcements.

- CME will be closed on the 22<sup>nd</sup> of April for Good Friday Observance.

*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.

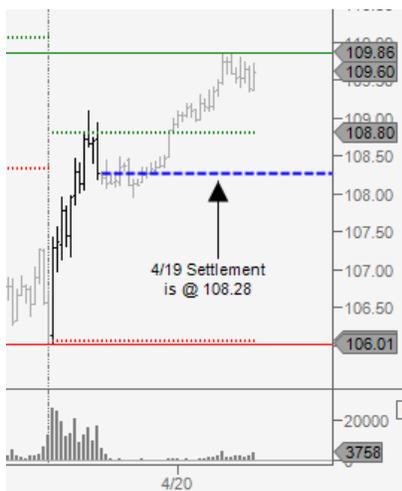
#### Reports Due Out:

@10:00 →Existing Home Sales.

@10:30 →Crude Inventory Report.

Today is April 20<sup>th</sup>, 2011; it is about 8:45 AM and the April 19<sup>th</sup> settlement price is 108.28. 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



Let's review yesterday's pit session. We start with a pretty significant gap down that sparked a combination of short covering that was joined by new longer term buyers. Short covering is one thing but with new longs coming into the market that is what will start of a trend for at least the day. The market spent the whole day trending up ending on its near high or in the upper region of yesterdays range. Volume was significantly higher than average and new long buyers were in the market. If the market gaps up again I will follow my gap rules to wait for acceptance or rejection before deciding what to do. I must remember to look at the market in context of recent activity: although the mover yesterday was decisive and strong, we are still in a daily and weekly balance area. I would have to see what price does coming out of the gate. I'm a bit uncertain about what the market will do today.

The major levels to watch for before the opening bell:

1. **113.43** (Daily)
2. **105.72** (Daily Gap)
3. **103.32** (Daily)
4. **102.10** (Daily)
5. **100.98 – 100.93** (Daily Gap)
6. **98.38** (Monthly)
7. **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 likelihood 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:** 111.66

**Low:** 109.15

**O/N Inventory:** Long

**Open:** 109.64 (Gap Up 54 Ticks)

**Close:** 111.42

**Selling Tail:** 23 Ticks

**Direction:** Up

**Value Area:** Overlapping to Higher

**Profile Shape:** Double Distribution/Trend

**Market Type:** Trend

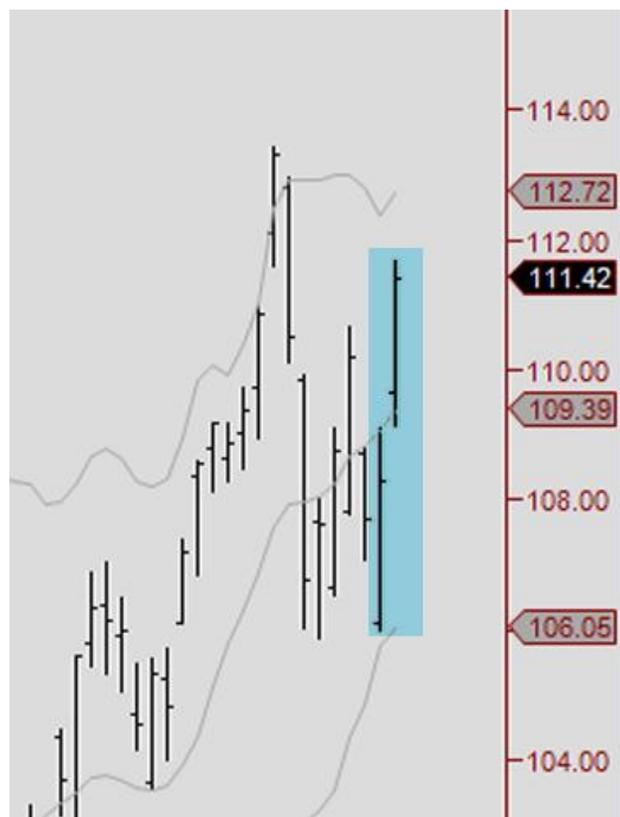
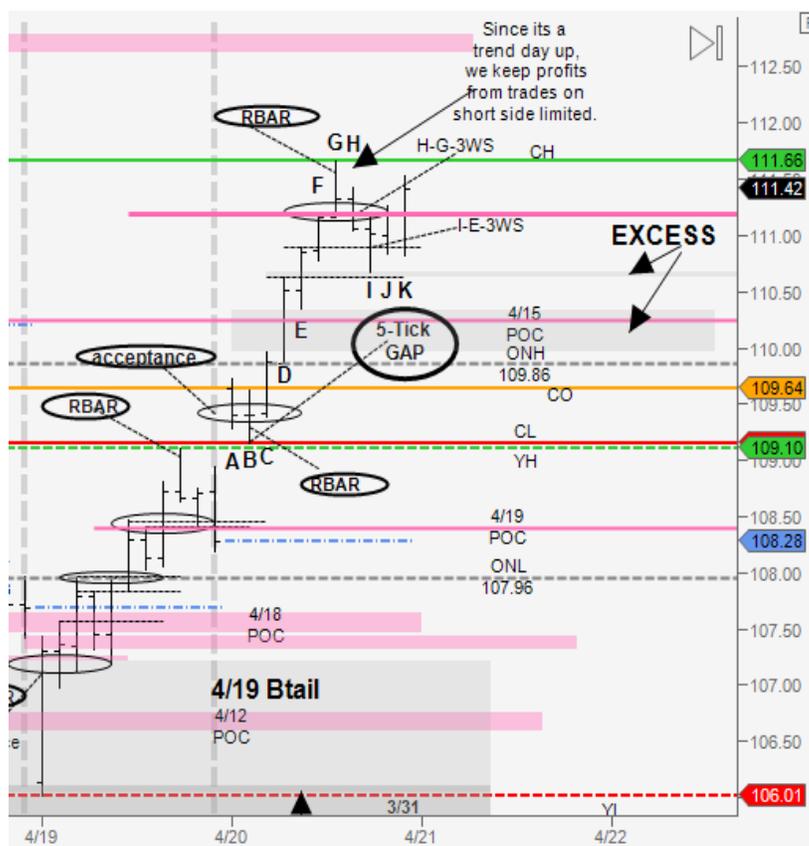
**POC:** Lower @ 111.16 -111.17

**Buying Tail:** 13 Ticks

**Volume:** 174K

**PVolume:** 180K

## 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	109.33	109.23	-0.10	-0.10	4/20/2011 9:42:41 AM
2	Short	1	111.33	110.89	0.44	0.34	4/20/2011 12:30:14 PM
3	Long	1	111	111.24	0.24	0.58	4/20/2011 1:22:54 PM

The market opened with a gap up @ 109.64, 54 Ticks above Yesterday's High. The market hovered as it ever so slowly descended about 30 ticks. "B" period came to about as close as you can get without touching it – within 5 ticks of Yesterday's High leaving open a gap for the day, never to be taken out and only 5 Ticks big. With a couple of long gaps left open, one would think that the market in general is pretty bullish and that volume is really under the influence of buyers. Between yesterday and today I would try to at least understand that this gap was about to, at the least, head for some higher ground. But I didn't have the appropriate flexibility to think long today, I don't know why but I'm attributing it to the slow open.

That said, there were 4 things that took place within the 1<sup>st</sup> 3 periods of play that signaled a long play:

1. None of the 1<sup>st</sup> 3 periods took out Yesterday's Low.
2. "B" period formed an RBAR.
3. The 1<sup>st</sup> 3 periods overlapped, signaling that at the very least value is being built above the gap and that price was now less likely to return to yesterday's balance area.
4. "C" period now closed above the open. The Open is very significant in that price will usually seek the open to either trade above or below it.

Since the open was slow I should've done the right thing by waiting for any stronger clues in the market than what I had to work with as I entered a long trade (**T#1**). Not waiting was the first mistake; if I had waited I would've seen those 4 steps evolve. Then 2<sup>nd</sup> mistake was not placing my stop below Yesterday's High; whenever I play off of support, I need to place my stop below support; the fact that I stopped out side tracked my thinking to a point where I failed to see the latter developments coming down the road.

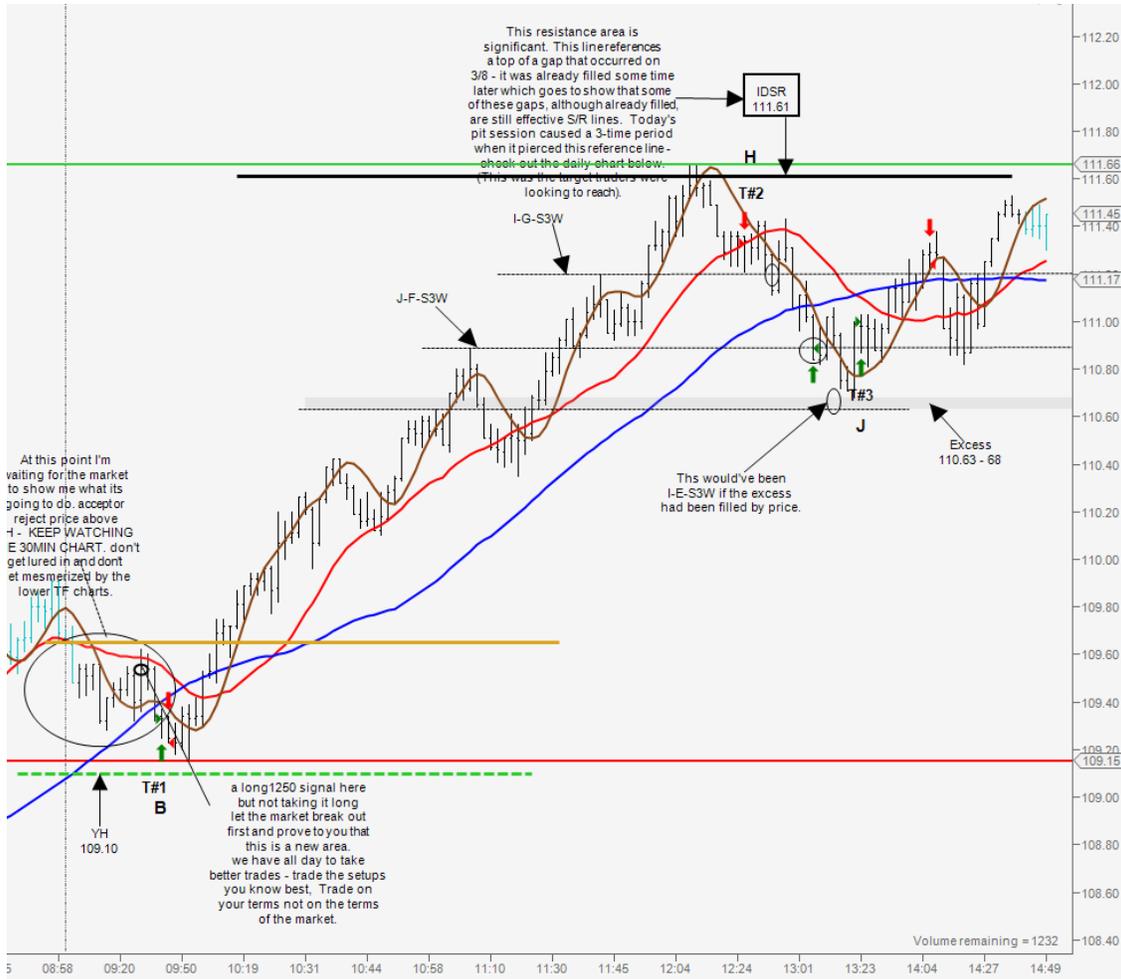
For the rest of the day I had problems pulling the trigger to take the longs. I had a short bias for the rest of the day and that prevented me to trade effectively for the rest of the day. The solution was to wait for a period of balance to transpire before shorting the market, and that's exactly what I did. I was happy with the fact that I was able to stay out of shorting the strong trend up all day when I knew that I wasn't able to trade it.

By "G" period the market had hit resistance @ 111.61. This was significant because it meant higher prices to come. This resistance area is significant. This line references a top of a gap that occurred on 3/8 - it was already filled some time later which goes to show that some of these gaps, although already filled, are still effective S/R lines. Today's Pit session caused a 3-time period overlap when it pierced this reference line from the long side - check out the daily chart below. (This was the target traders were looking to reach).

With this in mind, and with "G" turning out to form an RBAR, and with "H" taking out "F" from the short side making the 111.20 price area 3-time period wide, this was enough evidence that the market was about to change directions to the downside for at least a little while and I entered a short trade (**T#2**).

The market did move down enough for me to cover my trade, but what I was expecting afterwards was the 2<sup>nd</sup> attempt that the market ritually does before the day ended. With that in mind I went long (**T#3**) to capitalize on what I thought was going to be an impressive 2<sup>nd</sup> attempt but turned out to be an arduous task of waiting for a last thrust upward to at least come close to the Current High. It did not do it and I bailed out of that trade tired.

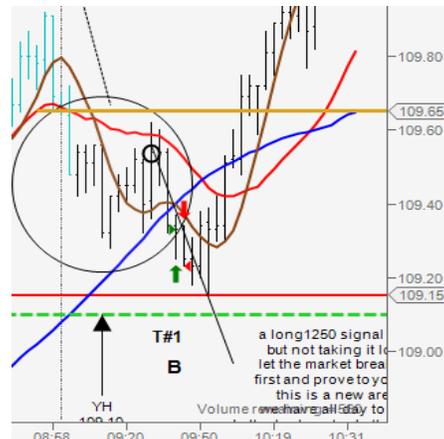
## 1250 Volume Chart



**T#1 – Long // “B” period // RV off Gap, YH// Entry @ 109.33 // Initial Stop: 106.00 // Target: YL @ 106.21 // P&L: -10 Ticks.**

There were 4 reasons for this trade:

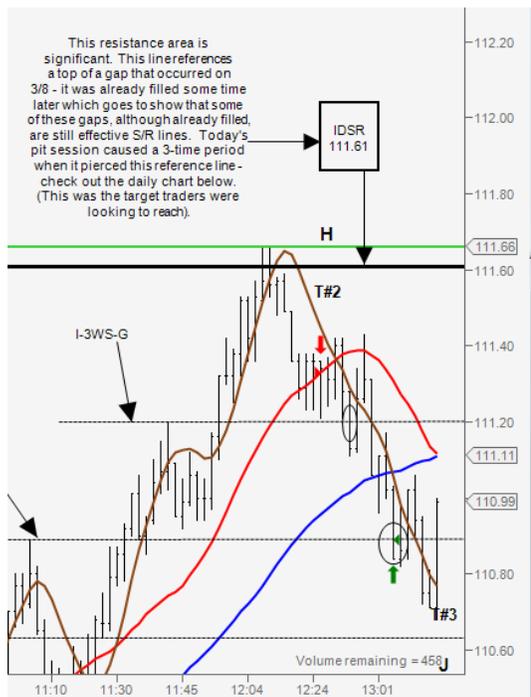
1. None of the 1<sup>st</sup> 3 periods took out Yesterday's Low.
2. “B” period formed an RBAR.
3. The 1<sup>st</sup> 3 periods overlapped, signaling that at the very least value is being built above the gap and that price was now less likely to return to yesterday's balance area.
4. “C” period now closed above the open. The Open is very significant in that price will usually seek the open to either trade above or below it.



**T#2** – Short // “H” period // RV off IDSR @ 111.61, RBAR, H-G-S3W // Entry @ 111.33 // Initial Stop: 111.67 // Target: J-F-S3W @ 110.89 // P&L: +44 Ticks.

There were 3 reasons for this trade:

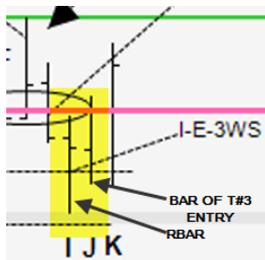
5. A rejection by the shorter timeframe traders from the IDSR line @ 111.61. This line was also the target on the way up, and responsive sellers were protecting that area which caused the 2<sup>nd</sup> reason for entry.
6. The rejection stated in #1 caused an RBAR to be formed. An RBAR contains excess and it is this type of excess that is hard to take out in the direction of the original trend.
7. H-G-S3W – which means “H” took out “G” going Short creating a 3-Wide time-period.



**T#3** – Long // “J” period // PB off Excess, I-E-S3W, RBAR, 2<sup>nd</sup> attempt// Entry @ 111.00 // Initial Stop: 110.83 // Target: CH @ 111.66 // P&L: +24 Ticks.

There were 3 reasons for this trade:

1. Some of the Excess (1TP or Single Time Period area) was left intact when I failed to take out D going short.
2. I-E-S3W – which means “I” took out “E” going Short creating a 3-Wide time-period.
3. An RBAR in “I” period was formed prior to the entry bar, see image below:



Although I don't give RBARs that form within the current days balance range much credence, they still can be effective. I think it helped the trade; I already had 3 reasons to take this entry; I didn't see any harm to add a 4<sup>th</sup> reason in support of this trade. Nevertheless, an RBAR that forms outside of balance, where at the time created an extreme part of the current daily range, is much more effective than one that was created inside of a balance area.

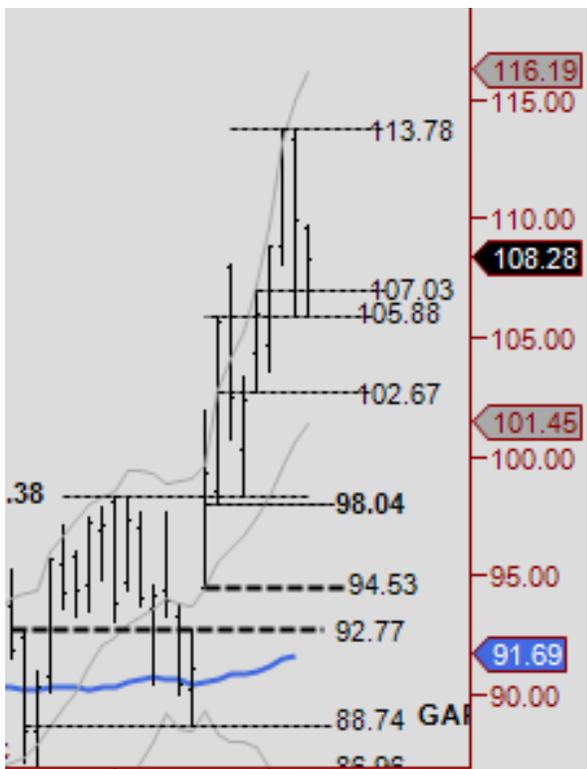
4. I'm a strong believer in 2<sup>nd</sup> attempts – the always seem that they have to happen. The only burden placed upon the shoulders on the trader in this case is just sitting down and waiting for them.

After entering the trade I tried to be as patient and as tolerable as possible as I thought that there was a strong possibility of price reaching the Current High @ 111.66 given the strength of the move up and the volume that supported it. I grew too impatient to stick it out as I exited when price was just dancing around up there for the longest time. I was in this trade for about 45 minutes. If it didn't happen then the chances of reaching the Current High were greatly reduced.



No more trades for today. Net Today: +58 Ticks

**Weekly**



**Daily**

