

CL06-11 Trading Journal (04/27/2011)

Inside Day Spawns Short Liquidation Break to Subsequent Reversal.

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:

- @07:00 → MBA Purchase Applications.
- @08:30 → Durable Goods.
- @10:30 → Crude Inventory Report.
- @12:30 → FOMC Announcements.

Today is April 27th, 2011; it is about 8:50 AM and the April 26th settlement price is 112.17. The overnight market is Neutral. The likelihood of opening within the previous balance area is good. If that happens, we know that there is a good chance that the short term day traders will be in charge for most of the day. If that's the case, we should not expect much of a move from the break from yesterday's Inside Bar; so we do have conflicting information between the potential breakout expected by yesterday's Inside Bar, and the strong possibility of a balancing day brought on by a morning Open within balance.

30 Minute Overnight Chart



I will always keep the Inside Day in mind first when I'm trading the day subsequent to the day that it formed. Inside days almost trumpet all other things. The rule about an inside day is that when the next business day trades above or below it, enter trades in the direction of that break of balance. It can be a gap up or down, or it can be a break out sometime during the day session hours. However, it is important not to trade against it if one cannot trade with it. That's the rule for this morning, other rules apply as usual, but the Inside rule should be paid special attention to.

The major levels to watch for before the opening bell:

1. **113.48** (Daily)
2. **111.00** (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

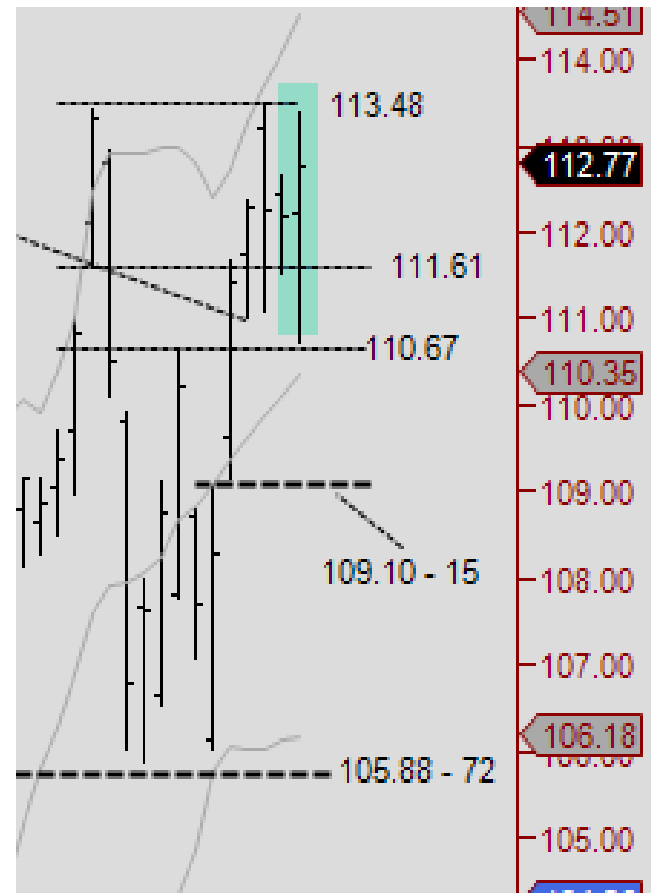
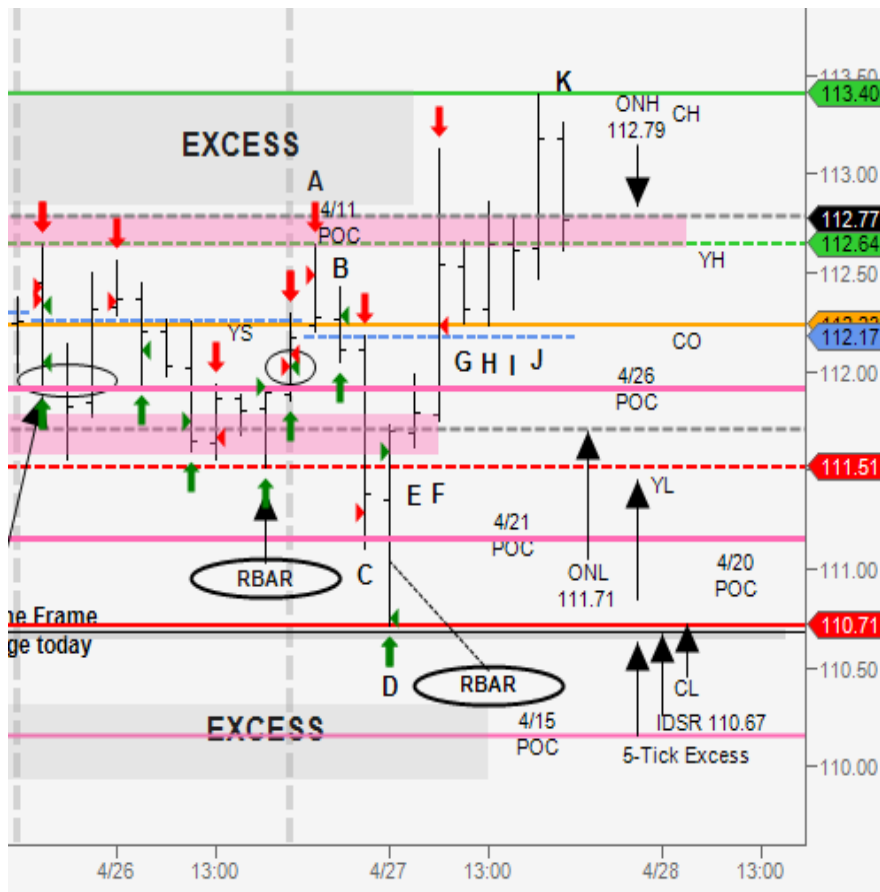
POC: Lower @ 111.91 -111.92

Buying Tail: 4 Ticks

Volume: 127K

PVolume: 133K

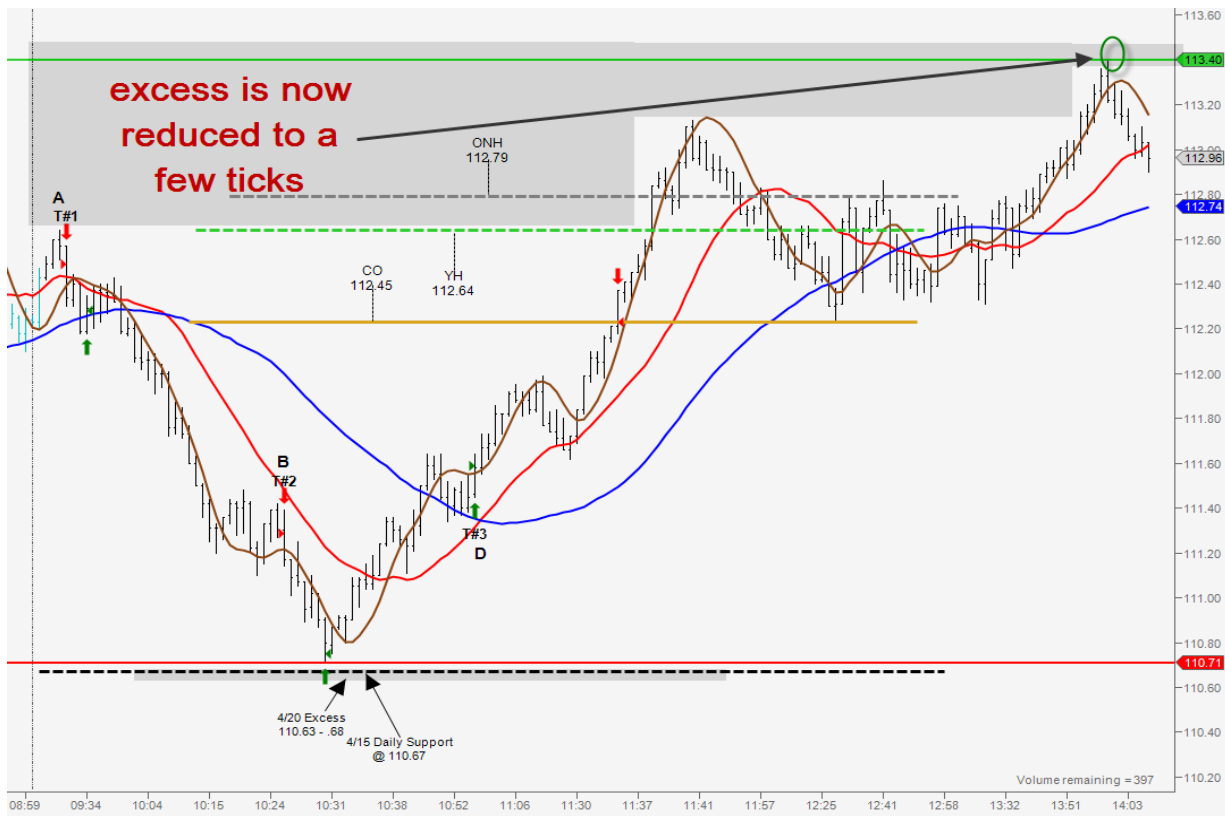
30 Minute Pit Session & Daily Charts



Trade Entry Commentary

Trade-#	/	Market pos.	Quantity	Entry price	Exit price	Profit	Cum. profit	Entry time
1		Short	1	112.49	112.28	0.21	0.21	4/27/2011 9:17:59 AM
2		Short	1	111.29	110.75	0.54	0.75	4/27/2011 10:27:33 AM
3		Long	1	111.59	112.23	0.64	1.39	4/27/2011 10:58:48 AM

1250 Volume Chart (today's trading day at a glance)

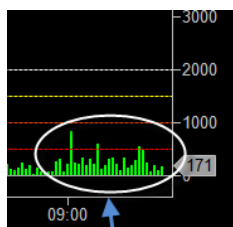


T#1 – Short // “A” period // Fade the Open// Entry @ 112.49 // Initial Stop: 112.66 // Target: 4/26 POC @ 111.92 // P&L: +21 Ticks.

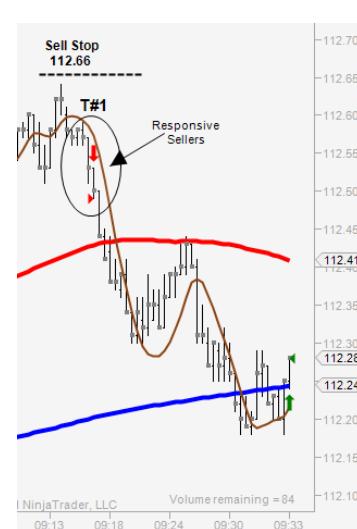
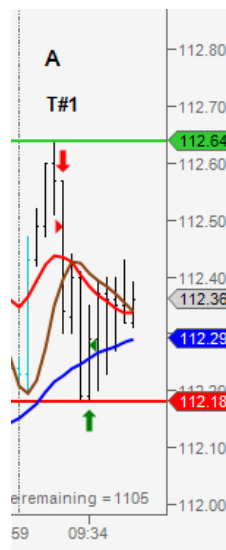
Profit had to be quick since this is an Inside Day – an important day for break outs which makes things a little unpredictable, and with the Crude report coming out at 10:30, it makes the situation a little more unpredictable. The did market tick @ Yesterday's High but did not take it out as a rash of responsive selling came in immediately afterwards to signal at least a scalp to the short side. I was trying to hold on for more but, as mentioned this is not ordinary day. The biggest factor and the most important one in fading the opens is the confidence level of the market before, during and after the failure to take out the extreme.

There were 4 reasons to fade the CO here in the order of priority:

1. The market opened within balance, and moreover, within yesterday's Value giving the clue that the market will most likely be dominated by the floor and day traders today.
2. The market had very low confidence since the opening bell (low volume and low speed).
3. There was the 4/25 Excess – This Excess will remain in effect until the market takes it out.
4. A sign of responsive selling pushed price away from the 112.64 high after failing in attempting to tick above it.



low confidence
volume



T#2 – Short // “B” period // PB in LDB // Entry @ 111.29 // Initial Stop: @ POC low @ 111.59 // Target: 4/20 Excess @ 110.68 & Daily Support @ 110.67 // P&L: +54 Ticks.

Here is a perfect example where the market will use events that occur within the market, such as the Crude report in this case, to either liquidate or short cover, depending on the longer term direction, in order for the market to rid of itself the weaker position holders. This was no doubt not a reaction to Crude inventories but a short term liquidation where price, for the shorter term players in the market, had gotten too high and needed to liquidate into stronger holders in the market.

There were 3 reasons to short the Crude Report:

1. I normally don't play reports, but today was such an obvious play. Today was an Inside Day. The market failed to take out the high, even though that at that point in time, before it started its descent downwards, the left behind poor market structure on top that needed to get resolved: it topped out at 112.64 which was the same high as yesterday and this needed to be dealt with at a later time.
2. The market broke past yesterday's low with a lot of volume and volatility indicating that there is at least a liquidation break in progress but I didn't know what time frame started this break downward.
3. The target was very well known, so that added certainty that the move wouldn't be over until price came to at least a few ticks of it. The fact that the market reversed on a dime to be long told me immediately that this was a short term liquidation break.

Below are the Daily, 30Min, and the 1250 charts to illustrate what is happening from a higher time frame perspective.

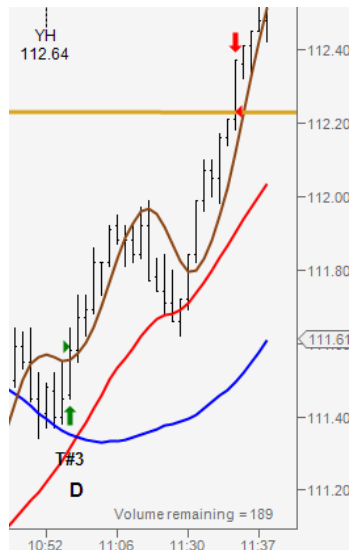


T#3 – Long // “D” period // RV off Balance // Entry @ 111.59 // Initial Stop: 111.08 // Target: CO @ 112.23 // P&L: +64 Ticks.

There were 4 reasons to long Crude here:

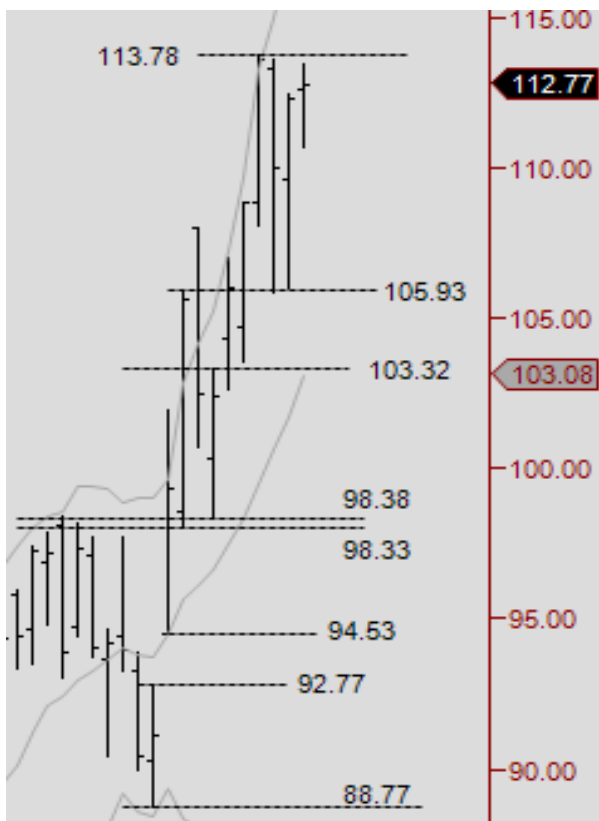
1. The 4/20 Excess and the 4/15 Daily support level held price at bay and price was not able to take them out. The 4/15 support was particularly important because if price did take that out by only 4 ticks, that meant that at that Daily price level, price would have then been expected to go lower in the very near future and not higher. The reason for this is because the fact that price increased its price overlap to 5 layers lends credence to the thought that the market was looking to go lower.
2. A strong reaction by responsive buyers in of itself is an indication that, at least for the rest of the day, price will no longer explore this area. At this point I felt comfortable entering a long trade at any time without the concern of risk as much as other times when entering into trade.
3. At this point, with the reason #2 confirming that it was shorter term market liquidation, I'm confident that there will be fewer sellers in the market and buyers from now on will dominate the rest of the day.

4. A huge RBAR was formed considering this trade an even much more of a no-brainer. I hate to say that because in the market I try never to take things for granted, but this is one of the fewer times where almost everything had lined up for the day trader such as myself to just go with the trade and to sit back and enjoy the show. Not many days are like that during the year. And I noticed that this was also one of the fewer times where I actually let my target to be hit. Again, my weakness, especially in a market like today and with this trade specifically, is to not trail price higher to squeeze as much as I can get out of it.



No more trades for today. Net Today: +134 Ticks

Weekly



Daily

