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Gap trading strategies

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For example, in the chart above, ASOS stock rallied overnight as the company's full year results showed it avoided another profit warning - along with traders showing confidence in the company's ability to fix critical operational issues. Other news such as product announcements, analyst upgrades and downgrades, and new senior appointments can lead to gaps. This is because they can move the market significantly between trading sessions in either direction. Gap down stocks vs Gap up stocks Gap down stocks and gap up stocks refer to the direction of the price movement either side of the gap. A full gap down is when the opening price is lower than the prior low price, while a full gap up (as shown above) occurs when the opening price is greater than the prior high price. The four types of gaps in tradingAside from gap down and gap up, there are four main types of gap, dependent on where they show up on a chart: common gaps, breakway gaps, continuation or runaway gaps, and exhaustion gaps. 1. Common gaps simply show a gap in price action independent of price patterns and usually don't provide exciting trading opportunities. 2. Breakway gaps signal a new trend where the asset 'gaps away' from the price pattern, as can be seen below where the gap triggers a breakout. If a breakaway gap is accompanied by higher trading volume, it may be worth taking a position long for a breakaway gap up, and short for a breakaway gap down, on the candle following the gap. (see our gap trading example below).3. Continuation or runaway gaps show an acceleration of an already bullish or bearish pattern in the same direction. This can be caused by a news event that confirms the sentiment and furthers the trend. Traders might look to follow the trend and place a stop just below the gap for a bullish runaway gap and just above for a bearish runaway gap. 4. Exhaustion gaps are, conversely to continuation gaps, where price makes a final gap in the trend direction, but then reverses. This is often caused by a herd mentality of traders rushing to the trend and moving the stock into overbought territory. Therefore, experienced traders will be watching for the reversal and take the contrary position to the prior trend. What does it mean when a gap has been 'filled'?A gap being 'filled' refers to the price returning to the original level before the gap happened. This usually means the price action, in the following days or weeks, retraces to the last day before a gap. There are a range of factors that come into play with gap fill stocks: Price corrections: An overly optimistic or pessimistic initial spike may invite a correction.Support and resistance isn't left behind when a price moves up or down sharply.Patterns: Price patterns dictate the likelihood of a gap being filled. For example, price reversals seen with exhaustion gaps are likely to be filled as this type of gap signals the end of a price trend.Trading the gap: Gap trading strategies & tipsThere are a range of gap trading techniques to explore,from fading and predicting gaps to using indicators to help you gauge price action. Fading the gap'Fading the gap' is when gaps are filled within the trading day they occur. Let's say a stock gapped up at the open with a higher price than the previous close, on a positive earnings report. Now let's say, as the day progresses, tradersdelve deeper into the company's presentation deck, see things they don't like, and start selling. Eventually, the price hits yesterday's close, and the gap is filled.Irrational exuberance from less experienced traders can be particularly advantageous for more seasoned market practitioners when it comes to fading the gap, as the volume that causes the gap is often caused by FOMO in trading.Predicting a gapIf technical or fundamental factors point to the potential for a gap on the next trading day, it may be time to enter a position. For example, having detailed knowledge of a given company and its operations can help a trader predict a gap for that stock ahead of an earnings report. Using indicators Traders can use tools such as the Exponential Moving Average and RSI to ascertain key price points and inform their decisions. For example, the below chart shows how an overbought RSI signal can be used to enter short after an exhaustion gap. The next chart shows an aggressive approach to the breakaway gap example. It reveals where a long position is entered in response to increased trading volume following the gap, and a possible initial stop loss level to protect against the higher risk. A more conservative approach to this breakaway gap would be to enter on a pullback, which gives the opportunity to test the gap. While it may offer smaller upside, this approach means traders can get away with a much tighter initial stop loss order. Gap Trading Rules: Key things to considerClassify the gap you are going to play: It's important to know which of the four types of gap you have identified. A continuation gap will prolong a trend while an exhaustion gap is set to reverse it – two very different outcomes. When a gap has started filling, it will rarely stop due to there often being no immediate support or resistance.Has a move been fueled by amateur or professional investors? Amateur investors may exhibit irrational exuberance that sets up an exhaustion gap, so waiting for the price to start to break before taking a position may be wise.Pay attention to volume. Breakaway gaps normally exhibit high volume (see trading example above) while low volume should occur in exhaustion gaps.Be careful. Trading the gap means trading stock market volatility with low liquidity so caution must be exercised. Read more on trading psychology and using stop loss orders to make sure you're trading with the right mindset and managing risk properly. Further reading on trading stocks and the stock marketMastering gap trading techniques is useful for stock trading in particular. Read more on the major stock indices and download our free, quarterly equities forecast to boost your understanding of the markets and help you trade more consistently. Momentum Day Trading Strategies : "Gap and Go!" Click here for the hottest stocks gapping up/down today! In our recorded webinar I discuss the Stock Trading Strategy that I use every single day. My focus each day is the same. Finding the big gappers, hunting for the catalyst, creating a watchlist, and executing my trades according to the strategy. This is the same thing everyday. Repetition is what makes us so good at these strategies. Discipline is what keeps us profitable. Learning a Strategy for Day Trading the "Gaps" or "Gappers" is critical for success in the market! I trade a Gap and Go! Stock Trading Strategy. Everyday I start the same way. I look at the gappers that are more than 4% using my pre-market scanning tools from Trade-Ideas. Gaps of more than 4% are good for Gap and Go! trading, Gaps of less than 4% are usually going to be filled but I don't find them as interesting. Once I have found the stocks already moving I search for a catalyst. I use StockTwits, Market Watch, and Benzinga to hunt for news. Only after confirming the catalyst I will begin to look for an entry. My Gap and Go! Strategy is very similar to my Momentum Day Trading Strategy. The difference is that the Gap and Go! Strategy is specifically for trades between 9:30-10am. I look for the quick and easy trades right as the market opens. Gap and Go! is a quick stock trading strategy to give us a profit usually by 10am. In our Day Trade Courses we will teach you the ins and outs of this strategy. Gap and Go! A Momentum Stock Trading Strategy Gapper Checklist (Summary, Details for Trading Course Students Only) 1) Scan for all gappers more 4% 2) Hunt for Catalyst for the gap (earnings, news, PR, etc) 3) Mark out pre-market highs and high of any pre-market flags 4) Prepare order to buy the pre-market highs once the market opens 5) At 9:30am as soon as the bell rings I buy the high of the first 1min candle (1min opening range breakout) with a stop at the low of that candle or buy the Pre-Market highs. Gap and Go Entry Setups (Summary, Details for Trading Course Students Only) 1) Break of Pre-market flags 2) Opening Range Breakouts 3) Red to Green Moves Entry Setups 4. 5. and 6. are for Trading Course Students Only. The importance of Float Always look for low float stocks. These will have home run potential written all over them. A stock that has a 10mil share float and trades 1mil share pre-market has already traded 10% of the float. There is an extremely good chance the entire float will be traded during the day once the market is open. These are the type of stocks that can run 50-100% in one day. When we have the right catalyst, float, and retail trader interest, it's the perfect storm for a big runner. Review of Stock Trading Strategy "Gap and Go!" Scanner Results Review of Stock Trading Strategy "Gap and Go!" Setups $TCCO Gap and Go, squeeze over pre-market highs. Entry at 4.75, ride the momentum. $ATOS nice clean Gap and Go Setup $CONN Gap and Go $CSIQ really nice gap with pre-market flag at 23.60, bought this at 23.60 and rode the wave up to 25.00, what a nice move. $MTSL beautiful Gapper with pre-market high of 1.94. Bought the breakout and sold on the spike up through 2.30 for an 11% move in less than 1minute. Picture perfect! $NVGN nice gap pre-market with a low float stock, bought the pre-market flag at 2.70, then bought the first pull back at 3.00, skipped the 2nd pull back at 3.13 but that would have been a nice one too! $BCLI – big gap up in anticipation of news on Monday. Pre-market high of 7.55, bought at soon as it broke and got filled at 7.60, sold on the spike to 8.48. Beautiful opening range breakout. $NDRM got long at 8.48 as soon as the market opened. This surged up to 11.00 in the first 45min of the market being open. I continued trading this as the day went on, applying our Opening Range Breakout, Flat Top Breakout, Bull Flag Breakout, and Top Reversal Strategies. $GILD was watching over pre-market highs of 96.16, market opened and it surged up to 97.31, perfect Gap and Go setup $LIVE premarket high of 4.10, but flagging under 4.00. Long was 4.00 as soon as the bell rings, popped up to 4.15, sold 1/2, pulled back, when it came back up I doubled up and it surged to 4.25.

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