1. Trade the Gap

In my opinion, trading “the gap” is one of the highest probability trades there is and generates great profits.

Gaps are defined as areas on the chart in which no trading has taken place.

I look for these gaps in the Forex markets every Sunday evening at 21:00 GMT when the markets open for the week.

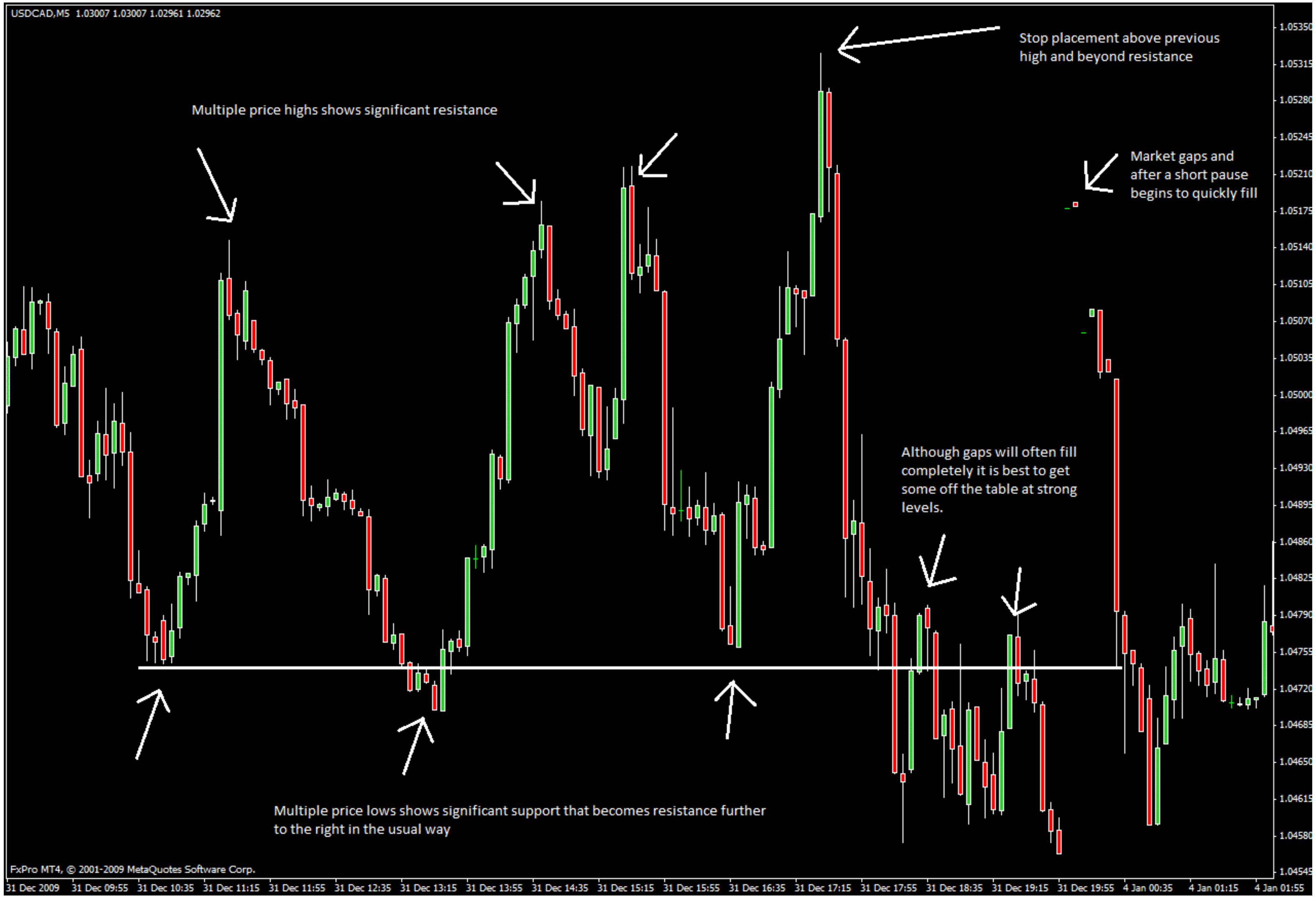
What you are looking for is a significant “gap” or empty space on the chart between Fridays close and Sundays open.

These gaps will fill almost every time. The only question is how they will fill. Sometimes they will fill instantly. Other times price will continue in the direction it gapped before turning to fill it later.

The first thing you want to do is identify which pairs have gapped and whether the gap is significant enough to play. For me personally, a 15 pip gap is not worth trading. I am looking for gaps in excess of 30 pips.

The second thing to do is to prepare to “fade it.” That is to say, if the market has gapped up, you should be looking to go short. If the market has gapped down you should be preparing and looking for opportunities to get long.

There are many different techniques for gap trading as in every other type of trade. Here are some suggestions based on what I do:



This was the last gap trade I did in USD/CAD on Sunday 3rd January 2010.

Please note this 5m chart and the one below are intended for illustration purposes only. I have used it because you can see the gap, the s/r and how the gap fills more clearly.

When I traded this, I did so on the hourly time frame. I do not use the 5m time frame in my trading.

If the market gaps into a level as it did here – gapping sharply higher into resistance - I will sell immediately and place a technical stop. In this case, the stop goes beyond resistance and beyond a previous high.

If there is a significant s/r pivot before the gap is filled as was the case here, I usually exit half the trade at that level and run the rest for a fill. Not all gaps will fill exactly so it is worthwhile closing your position shortly ahead of it filling.

This trade risked 19 pips for a return of 36 pips and worked exceptionally well – not all trades are as easy as this one although the outcome of an eventual fill is extremely reliable.

This is not a gap I traded as it was too small but I will use it as an example of the other technique I like to employ.

If the market gaps down (as it did in this case) but there is no significant support, I will stand aside and see if it can find its way to a level.

In this example, price gaps down and continues moving down for a short while.

Now what I do is place a buy order at the point the gap will start to fill and if that is triggered, I then place my stop at the lowest point the market reached. This is indicated on the chart to the left.

This technique would be reversed for markets that gap up.

This strategy is highly effective but remember to keep an eye on your risk management and your R:R. It won't work every time.