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Let's understand how to trade gap-up/gap-down,
by understanding gap-theory



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Following are the different types of Gaps.

- 1■ Gap-up
- 2■ Gap-down
- 3■ Common gap
- 4■ Breakaway gap
- 5■ Continuation gap
- 6■ Exhaustion gap
- 7■ Island gap

1■ What is Gap-up?

When the opening price is above the high of the previous day, we get a gap-up.

■ How to trade?

→ ■ Trade in the direction of the gap-up as long as the price remains above the opening of that day.



2 ■ What is Gap-down?

When the opening price is below the previous day's low it's considered as gap-down

■ how to trade

→ ■ Look for only shorting opportunity until the high of 15 min candle is not breached.



3 ■ What is the common gap?

When you see gaps forming within a range, then such gaps are called common gaps.

■ How to trade

→ ■ Common gaps within a range will always get filled. so look for trading in the direction of gap filling



4 ■ What is the breakaway gap?

When we get a gap-up/gap-down after price consolidation in a tight range then it's called a breakaway gap.

■ How to trade it?

→ ■ Trade only in the direction of a breakaway i.e if we get gap-up then only buy and if we get gap-down then only sell.



5 ■ What is the continuation gap?

The frequent gaps that we get in a trending market are examples of continuation gaps.

■ How to trade?

→ ■ Go for positional trade/btst trade in the direction of gaps



6 ■ What is the Exhaustion gap?

When a trending markets give a gap up which is not able to break the previous resistance then such a gap is called an exhaustion gap.

■ how to trade?

→ ■ once you identify the Exhaustion gap. look for trading in the direction opposite of the gap.



7 What is the island gap?

after a gap-up, if markets consolidate for some days and give a gap down, then this forms an island gap.

■ how to trade?

➔ ■ Once the formation is complete you'll see a complete trend reversal. trade in direction of reversal



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