Gaps

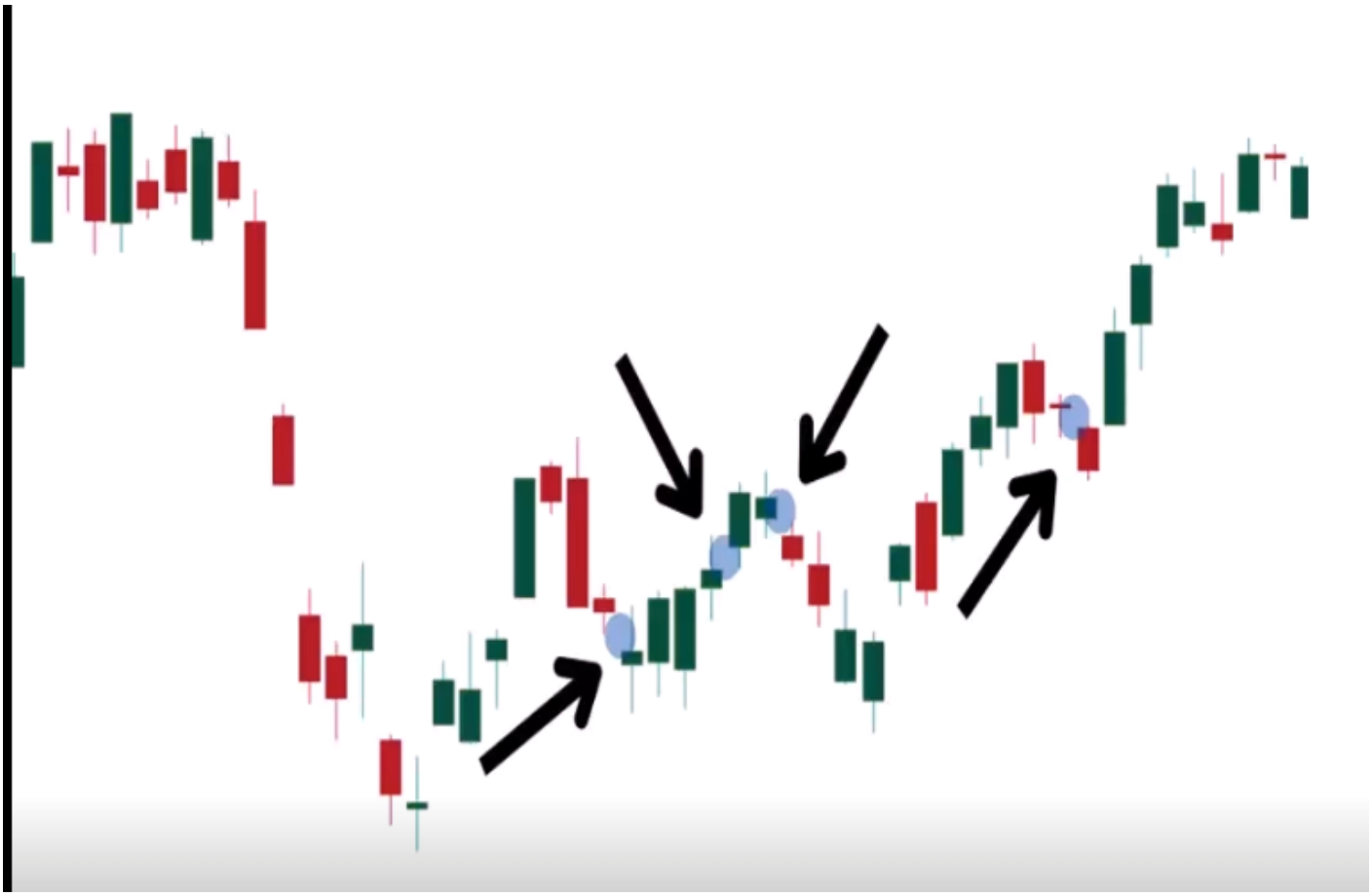
Gaps

Why Gaps Occur

- Good/bad earning announcements that differ from market expectations
- News / geopolitical events
- Overall market sentiment shifts
- Order imbalances — big buy/sell orders from institutional traders
- Rumours — company partnering, leaked info, speculation

92% of gaps eventually get filled — so gaps are always good targets. If you know traders target them and they align with other areas of confluency (zag zone, S/R, Fibonacci), they're great profit-taking zones.

Types of Gaps



The natural sequence within a trend: Breakaway gap (start of trend) → Runaway gap (middle, public participation) → Exhaustion gap (end, excess phase reversal). Maps directly to accumulation breakout → public participation → excess.

Common Gaps

- Appears in a weak or calm market
- No reason or catalyst for the gap — just minor supply/demand imbalances, market noise, routine technical adjustments
- Often filled quickly — **100% of common gaps get filled**
- Low volume — no significant surge in trading activity
- Useful for **scalping** — if something gaps up for no reason, there's a good chance it fills that day or within a few days. Look for nearby unfilled gaps as profit targets
- **Real trade example:** Sonic Healthcare gapped up for no reason → educator entered knowing the gap would fill → price came back and filled it same day, also filling a prior gap below. Then the next nearby unfilled gap above became the next target



Breakaway Gaps

- Price suddenly breaks through a well-defined structure (support or resistance) in the form of a gap
- Usually confirms a breakout — signals the **start of a new trend**
- Happen at the end of a consolidation pattern or range and usually mark a new trend beginning
- Larger than common gaps — reflects a strong shift in market sentiment
- Usually followed with a **significant increase in volume** — confirms breakout strength
- Do **NOT** fill quickly — represents a decisive market move, price generally continues in the gap direction
- **Stop loss:** Below the gap for upward breaks, above the gap for downward breaks. The gap itself acts as S/R
- Usually caused by:
  - Earnings reports (exceed or fail to meet expectations)
  - News announcements (mergers, acquisitions, regulatory changes)
  - Market sentiment shifts
  - Technical breakouts (breaking key S/R where stop losses are clustered)
- **A2 Milk example:** Had THREE breakaway gaps in succession — each one gapped below a major support level on high volume. Earnings downgrade after earnings downgrade, each time breaking the next support. The high volume on each confirmed institutional money exiting



Runaway Gaps (Continuation / Measuring Gaps)

- Appears when the market is gaining or falling quickly — in the **middle** of an established trend
- Signals dominant buyers or sellers — high probability of **continuation**
- Usually NOT filled (until the trend eventually ends and the major correction begins)
- Followed with moderate to high volume — confirms trend strength
- Usually in the **public participation phase** — where the public starts getting involved and everyone piles on
- **Measuring tool:** The distance from the trend start to the runaway gap can be projected forward to estimate the potential remaining length of the trend (similar to a bull flag measured move)
- **If you see a runaway gap, don't take profit at the next resistance** — the trend still has momentum and should continue. It's telling you NOT to exit yet
- **How to distinguish from exhaustion:** Runaway gaps happen in the MIDDLE of the trend. If you're getting gaps at the PEAK after a long overextended run = exhaustion, not runaway



Exhaustion Gaps

> **If you gap and then pivot within a few days, it's most likely an exhaustion gap**

- Occur near the **end** of an existing trend, after a prolonged price movement — the trend is reaching its climax

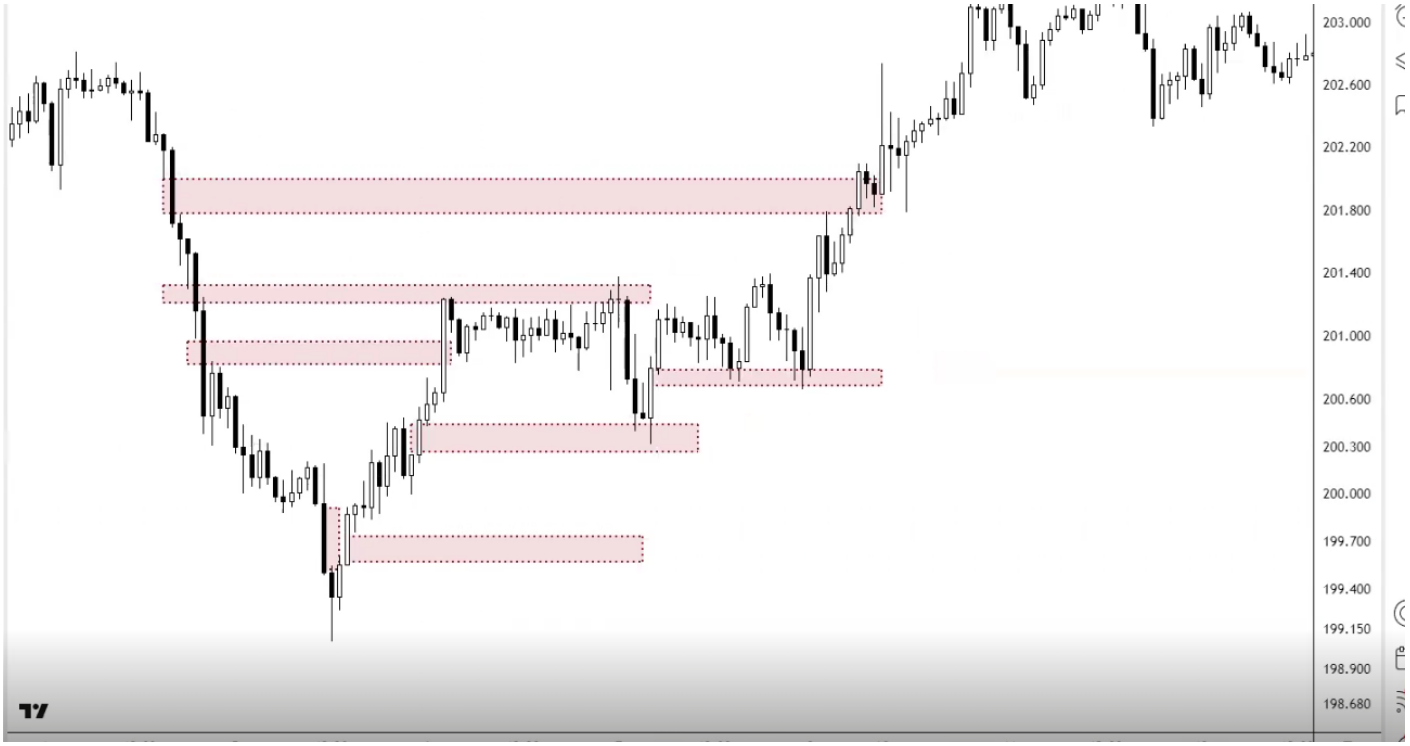
- Usually accompanied by a **spike in volume** — the final rush of buying/selling (capitulation or complete greed) before the trend reverses. This volume often includes retail traders, indicating the end of institutional interest
- Exhaustion gaps are likely to be **filled quickly** as the market corrects and reverses
- Signal a **high probability of a trend reversal**
- Can be used to enter a trade in the opposite direction — exhaustion gap at the bottom might be a good time to enter long
- Everything usually looks very **overbought** (RSI above 80) or the gap happens **into bearish divergence**
- **How to confirm it's exhaustion:**
  - RSI very overbought when the gap occurs
  - OBV/volume showing institutional money NOT confirming the move (lowering OBV = retailers driving it, not big money)
  - Pivot within a few days (doji → bearish engulfing after the gap = classic exhaustion confirmation)
  - Already at the excess phase of the trend
- **Zip example:** Breakaway gap (start) → Runaway gap (middle) → Exhaustion gap (end). RSI very overbought when the exhaustion gap occurred, followed immediately by a doji and bearish engulfing = confirmed exhaustion. Same pattern on NVX and LKE

Professional Gaps (Institutional Gaps)

- Caused by actions of institutions, usually from:
  - Earnings reports
  - Portfolio rebalancing based on macro trends
  - Insider/privileged information or proprietary analysis
- Show sentiment and strategic decisions of institutional players
- Can remain **unfilled for a long time** if they reflect long-term institutional positioning — especially mining discoveries
- Usually after major announcements — e.g. PointsBet expanding to America, mining companies announcing discoveries
- **These signal the very beginning of a new trend** — institutional money flowing in
- In Australia, most common with **miners** making discoveries — institutions unpack the report, like what they see, and start buying. Sometimes takes days as they read more and keep buying
- **PDN example:** Went from $0.006 to $0.019 in one gap (tripled), then 10x within two days as institutions kept reading the report and buying. Eventually went to $0.30+ — nearly 100x. That gap never filled because it was a genuine major discovery
- **3DP example:** Institutional money came in at $0.05, gapped up to $0.08, eventually went to ~$1

Fair Value Gaps (FVGs)

- A place where price has moved **too quickly** creating a void — most popular in **crypto** due to 24/7 trading (no normal gaps from market close/open)
- **Not an actual gap on the chart** — it's the difference between the top of one candle and the bottom of the candle two periods later, with a big candle in between. The "hidden gap" in the body of that middle candle
- Very popular in **SMC (Smart Money Concepts)** — all about imbalances and liquidity
- Usually filled quickly due to market seeking to correct the imbalance
- Volume: **low volume gaps may fill quicker** than high volume gaps
- **Confluency power:** If an FVG aligns with a golden pocket zone (382-618 Fibonacci), that's two independent reasons to expect a retracement to that area. Use FVGs as profit-taking targets when they align with your zag zone
- Crypto & Forex most-filled timeframes:
  - 1 hour
  - 15 min
  - 5 min
  - 3 min



Using Gaps for Confluency

Gaps are another tool for your confluency checklist — another river meeting the zone:

- **As targets:** If there's an unfilled gap that aligns with your Fibonacci zag zone (382-618) and/or a horizontal S/R level = high-probability take-profit zone. "Profit taking is your zag zone. If you can combine that zag zone with an FVG or a gap, it's giving you more confluency to take your profit there"

- **As entries:** If a gap fill brings price down to a zone where you also have support, Fib level, and bullish divergence = entry confluency
- **For trend identification:** Breakaway gaps confirm breakouts. Runaway gaps confirm trend strength (don't exit yet). Exhaustion gaps warn of reversal (start looking to exit)
- **Scalping with common gaps:** If something gaps for no reason, look for nearby unfilled gaps as quick profit targets — they tend to fill within hours or days

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