# Everything You Need To Know About Making Serious Money Trading The Financial Markets

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SAMPLE

## Gap Trading

In a truly efficient market (one in which every participant knows the true price and what everyone else's position is, which is open all the time and so on), the ebb and flow of pricing would be seamless, up or down.

However, this is not always true in practice, and in some conditions markets tend to 'gap' – that is, they jump from one price to a much higher/lower level without going gradually through a graduated pricing pattern beforehand.

**Dynamic Of Gap Times** (applies to a lesser degree to FX, which is 24/6 but slighter volumes will usually be noticed in these gap periods): Japanese and Asia and Australasia session 00:30-07:30 GMT/Gap Time 07:30-08:00 GMT/London and European Session 08:00-13:00 GMT/Gap Time 13:00-3:30 GMT/US Session 13:30-20:30 GMT/Gap Time 20:30-00:30 GMT.

It is apposite to note that the most liquid market is when the London and New York markets are open at the same time, and the least liquid is when only Asia and Australasia are in the game.

This gap phenomenon usually appears in markets that are not 24/6 (as the FX market is). For example, if one is trading the FTSE100 then it is clear that there is a timing gap between when the FTSE closes on Friday and when it reopens on Monday morning at 8am GMT, as illustrated in the chart below.

**FTSE100 (3 Months, Daily)**


*[Chart Key:*
*Gap A = RSI shows no real buying momentum – the smart money is looking to sell on rallies, whilst the hysterical money is chasing the tail of the last move up*
*Gap B = Same pattern as in the previous example – hysterical money is still convinced it is going up but smart money is not – hence the small candlesticks*
*Gap C = With a new week, the smart money has made its profits on shorts and is now going long – with more commitment shown by longer candlesticks]*

Above we can see from the RSI trends that there is only one real move up based on 'smart money': that punctuated by Gap C. In the latter event, the 'hysterical money' is chasing the tail of the move or incorrectly anticipating the level at which the smart money may take profits on shorts.

In smart money moves, the candlesticks themselves tend to be bigger than in hysterical money moves, which are shorter and often punctuated by small reversals (i.e. lack of confidence in one's fundamental positioning).

With Gap Trading, though, even as an RT one can make good money by correctly identifying the overall trend, both from the price action on the foremost graph and from the underlying momentum underpinning the trade trend (from RSI, Price Oscillator, MACD and so on).

In FX, as well, Gap Trading occurs, and oftentimes this occurs after major economic figures (or a change in credit rating for a country, a natural disaster or unexpected political change).

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