GAPS; The 'Forgotten' Trading System That is RIGHT 89.1% of the Time

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Newbie-Trader.com

Futures Day Trading Simplified

Please take time to read and study the following pages carefully. We have very specific rules and techniques we apply to our gap trading that allow us to achieve a high level of success. Probabilities change with each passing day so the statistics used are for referencing purposes only and you should do your own analysis prior to implementing any of our strategies.

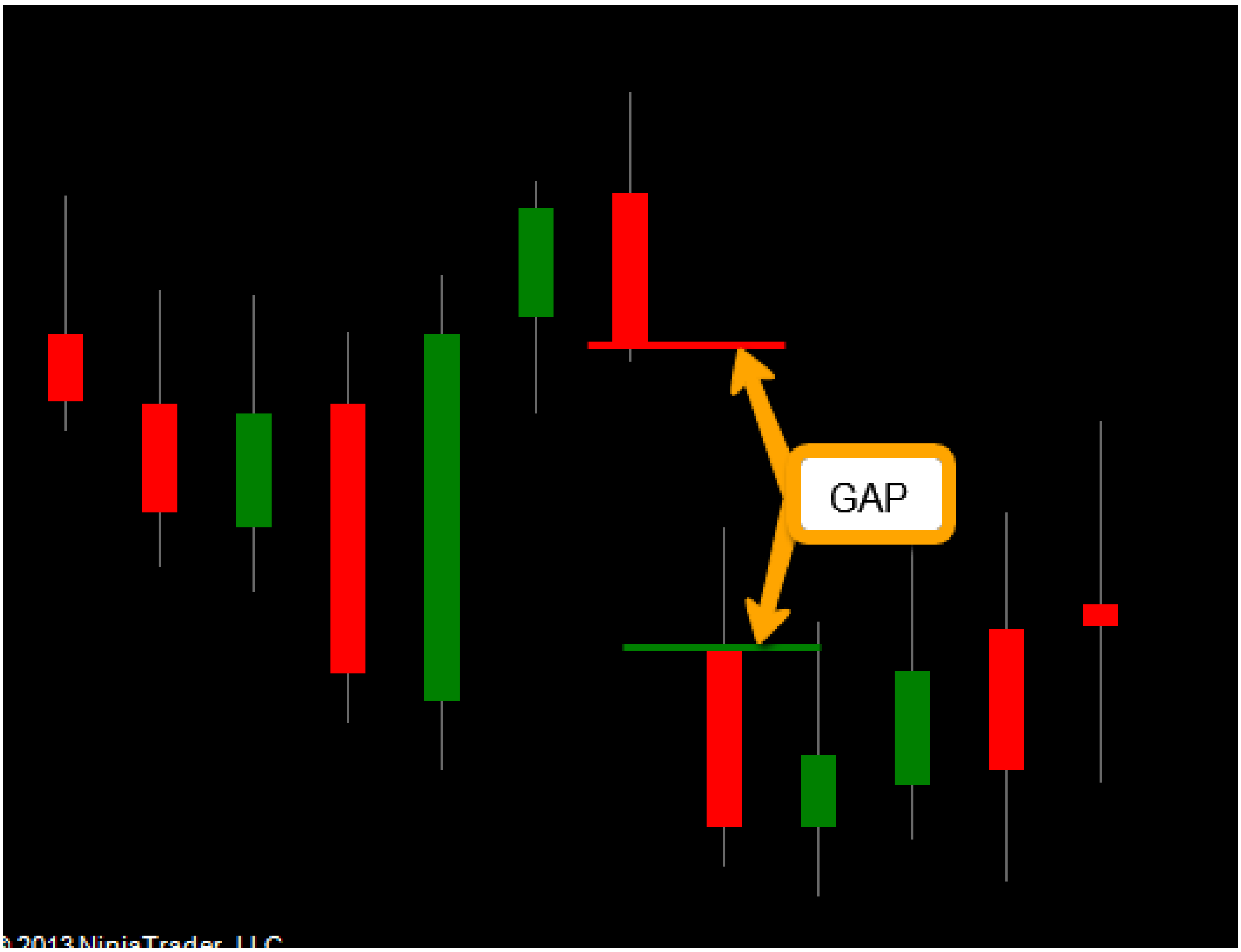
CFTC RULE 4.41 HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS.UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER-OR-OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN.

DISCLAIMER: Futures and options trading involves substantial risk of loss and is not suitable for every investor. The valuation of futures and options may fluctuate, and, as a result, clients may lose more than their original investment. The impact of seasonal and geopolitical events is already factored into market prices. The highly leveraged nature of futures trading means that small market movements will have a great impact on your trading account and this can work against you, leading to large losses or can work for you, leading to large gains. If the market moves against you, you may sustain a total loss greater than the amount you deposited into your account.

You are responsible for all the risks and financial resources you use and for the chosen trading system. You should not engage in trading unless you fully understand the nature of the transactions you are entering into and the extent of your exposure to loss. If you do not fully understand these risks you must seek independent advice from your financial adviser. All trading strategies are used at your own risk. This software should not be relied upon as advice or construed as providing recommendations of any kind. It is your responsibility to confirm and decide which trades to make. Trade only with risk capital; that is, trade with money that, if lost, will not adversely impact your lifestyle and your ability to meet your financial obligations.

WHAT IS A GAP

A break between prices on a chart that occurs when the price of a commodity or stock makes a sharp move up or down with no trading occurring in between. Gaps can be created by factors such as regular buying or selling pressure, earnings announcements, or any other type of news release.



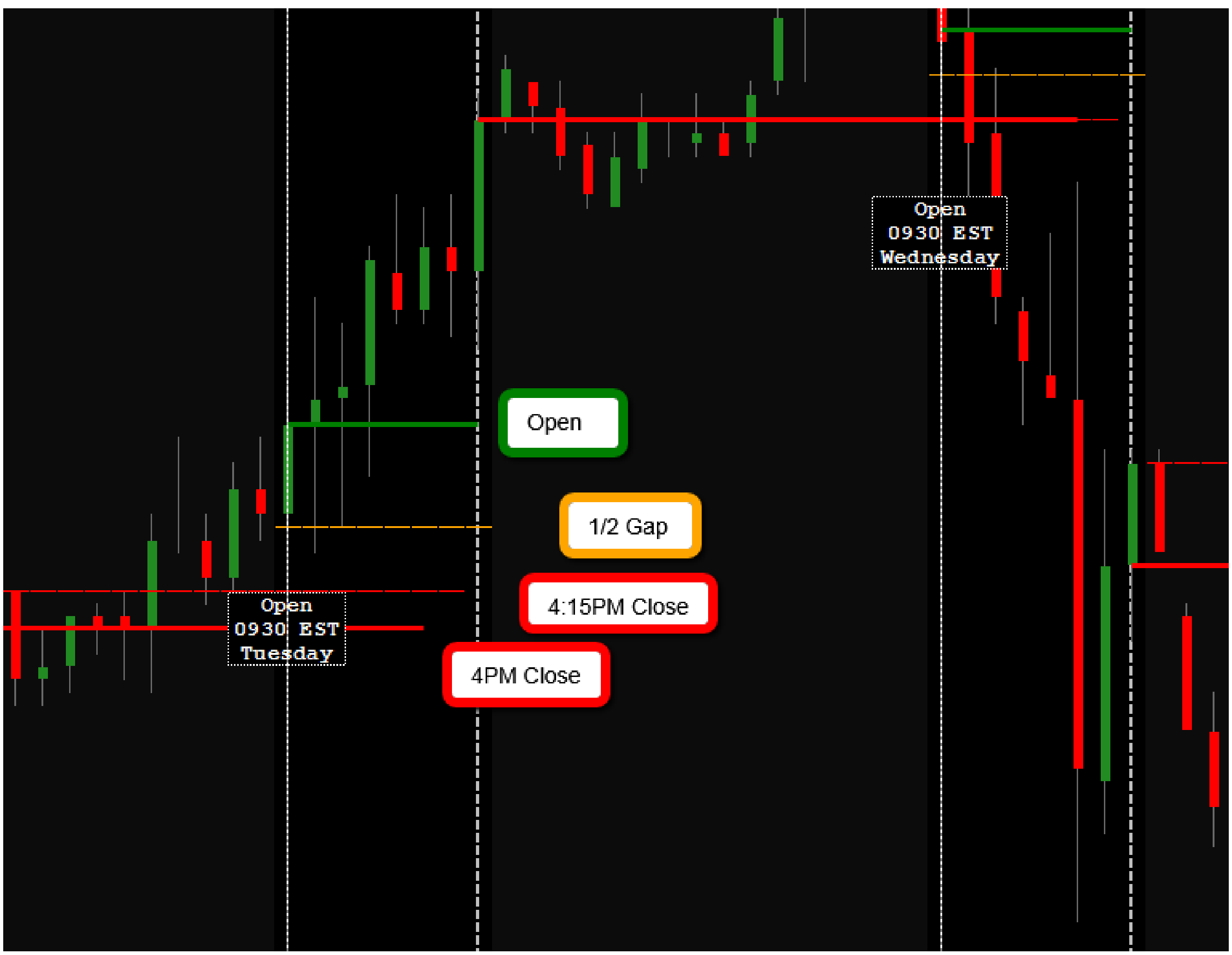
THE OPENING GAP

Due to the fact that the ES trades almost 24 hours a day on the GLOBEX there are several days when price opens up at a different levels than where it closed during the previous day. We call this difference the Opening Gap.

The ES (S&P 500 Futures) Gap usually fills 1/2 of its Gap within the first hour of trading unless there is a strong trend break away gap that forms during the overnight session. As Newbie-Traders in our Live Trading Room at our sister site, EminiJunkie.com we look for a minimum of 1/2 the Gap to be filled on a regular basis and note this price level as one of our key levels to monitor during the trading day. One important note, we measure the close, for our 1/2 Gap measurement, from the 4PM futures close.

Here is a picture of a weeks worth of price action on a 60 Min chart showing both the 4PM and 4:15PM EST ES futures close, the 9:30AM EST Open, and the 1/2 Gap as measured from the 4PM EST close.

Click HERE to See Full Size Image.
Click HERE to See a Short Video.



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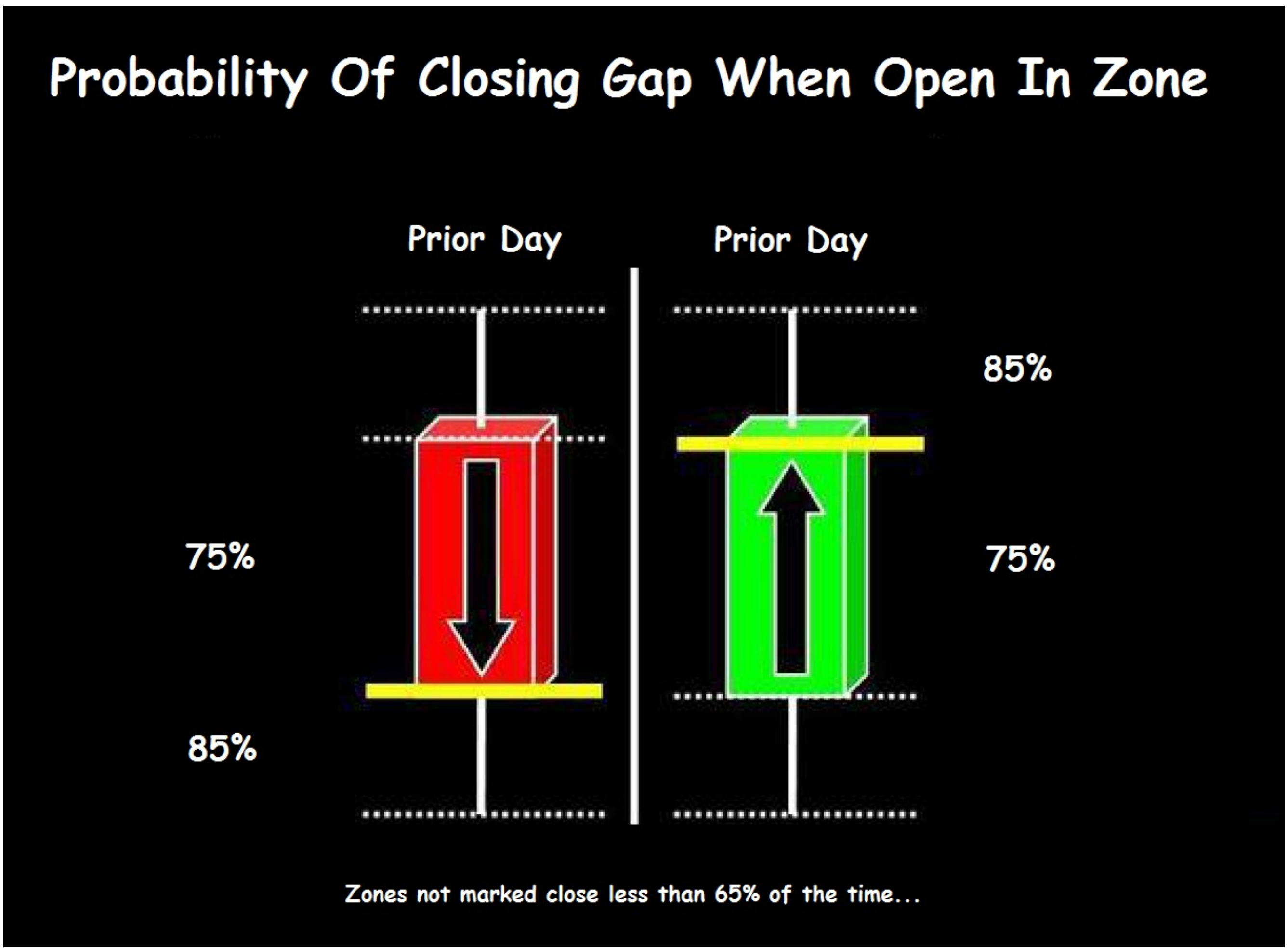
GAP ZONE PROBABILITIES

Where the next day opens, as compared to the previous day's close, gives us some key ideas on the probability for a gap fill. For instance if the open is within the previous days candle body regardless of direction you have almost a 75% chance of the gap closing. Following a down day, you have almost an 85% chance of the gap closing if you open between the close and low of the previous day... Conversely, following an up day, you have almost an 85% chance of the gap closing if you open between the close and high of the previous day...



Outside of the above mentioned zones the gap fill falls off to less than a 65% fill rate. For our trading we like to concentrate on probabilities greater than a 75% success rate, so we will ignore the other areas for now.

HIGH PROBABILITY GAP RANGE

We calculate our high probability gap range by looking at the previous days range and the previous five days (trading hours only) average true range. We take both those numbers and multiply by 40%. Which ever number is smaller is the number we use. We take the resulting value and we add it to the higher of the 4pm or 4:15pm close and subtract it from the lower of the 4pm or 4:15pm close. The difference between the two numbers is our high probability range.

Example:
High of Day = 1806.75
Low of Day = 1798.50
Yesterday's Range = 8.25 ; 40% = 3.30 pts
5 Day ATR = 13.00 ; 40% = 5.20 pts
4PM Close = 1801.50
4:15PM Close = 1802.25

High Probability Gap Range = 1802.25 + 3.25 = 1805.50
1801.50 – 3.25 = 1798.25

When we open within the high probability gap range we have over an 85% chance of filling the gap.

USING THE PROBABILITIES

When the open is within both the 85% Gap Zone and the 85% High Probability Gap Range we have ***over an 89.1% chance*** that the closer of the 4PM or 4:15PM EST Gap will fill and ***over a 94% chance*** of filling the 1/2 Gap. Using this information alone will give you all the edge you need to be consistent in trading the opening gap. However, in the next section we will go over a few techniques for entry.

TRADING THE GAP

Trading the 1/2 Gap is a high probability trade that we look to play everyday in our Live Trading Room. Watch the gap in relation to the pivot levels of R1 and S1. If the gap is above R1 or below S1 there is less chance in the gap filling that same day.

Minimum Distance... You need a minimum of 1 point profit target to trade the 1/2 Gap and 2 points profit target to trade the full gap. With such a high probability to close, you can use an inverted reward to risk proposition and still have a profitable strategy. *Using no stop at all is not recommended*, but the last time we did a statistical analysis it was a break even trade without using any entry probability filters... so using our entry filter techniques (Zones and Ranges discussed earlier) alone would suggest a winning system without a stop loss order. We suggest using a 5 point stop loss maximum if you are simply buying or selling at the open depending on trading towards your Gap fill direction.

If you were to win 1 point 19 times out of 20 (95%) you would have approximately 14 net points after taking 1; 5 point loss. Taking 2 points profit 17 times out of 20 (85%) you would have approximately 19 net points after taking 3; 5 point losses.

Although trading on the open as described above would allow you to be better than 95% of all future traders, who do not have a daily trading plan, and consistently lose, we feel you can be even more profitable.

Please click HERE for more information on the Newbie-Trader.com Ultimate Delta Indicator. The NTDeltaCross is a perfect entry trigger to compliment your Gap trading, always keeping you on the right side of the market. Allowing you to operate with a much tighter stop, improving your expectancy ratio and overall trading performance.

Thanks – Matt Brown