

Trading The Opening Gap

June 03, 2009

With

Paul J. Kavanaugh

Disclaimer

There is a substantial risk of loss
in futures, forex and options
trading

About the Speaker



- **Paul Kavanaugh** is a Commodity Broker and Associated Person with over 17 years of experience educating and managing individual investors specializing in risk management specific to the leverage available in the commodity futures markets. Paul has also provided live weekly market commentary from the floor of the Chicago Board of Trade and Technical Analysis Web Seminars at the CBOT.



Topics of Discussion

- Learn the Basics of the Opening Gap Method
- Learn to apply the Opening Gap Method to the Commodity Futures Markets
- Review Recent Gap Trade Signals
- Review the Current Technical Analysis of the Major Commodity Markets

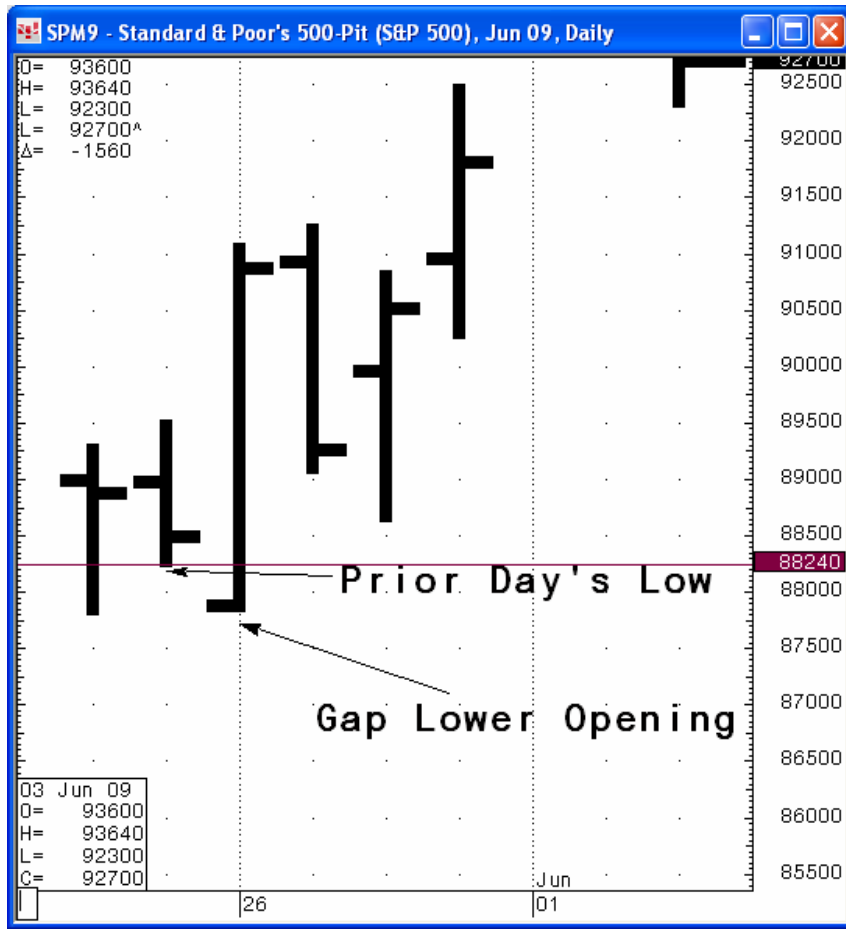
Trading the Opening Gap

- There are many types of gaps in technical analysis, and many different interpretations of what they mean.
- These interpretations are dynamic as you will see as I define breakaway gaps and the failure of a breakaway gap is what we are going to be discussing today.

The Basic Buy Gap

- A basic buy gap signal occurs when a market opens on a gap down and then comes back up to penetrate the previous day's low by a given number of price tics
- When this occurs you buy for a day trade, placing a stop loss below the low of the day when filled, and exiting by the end of the day if not stopped out

Example of Buy Gap

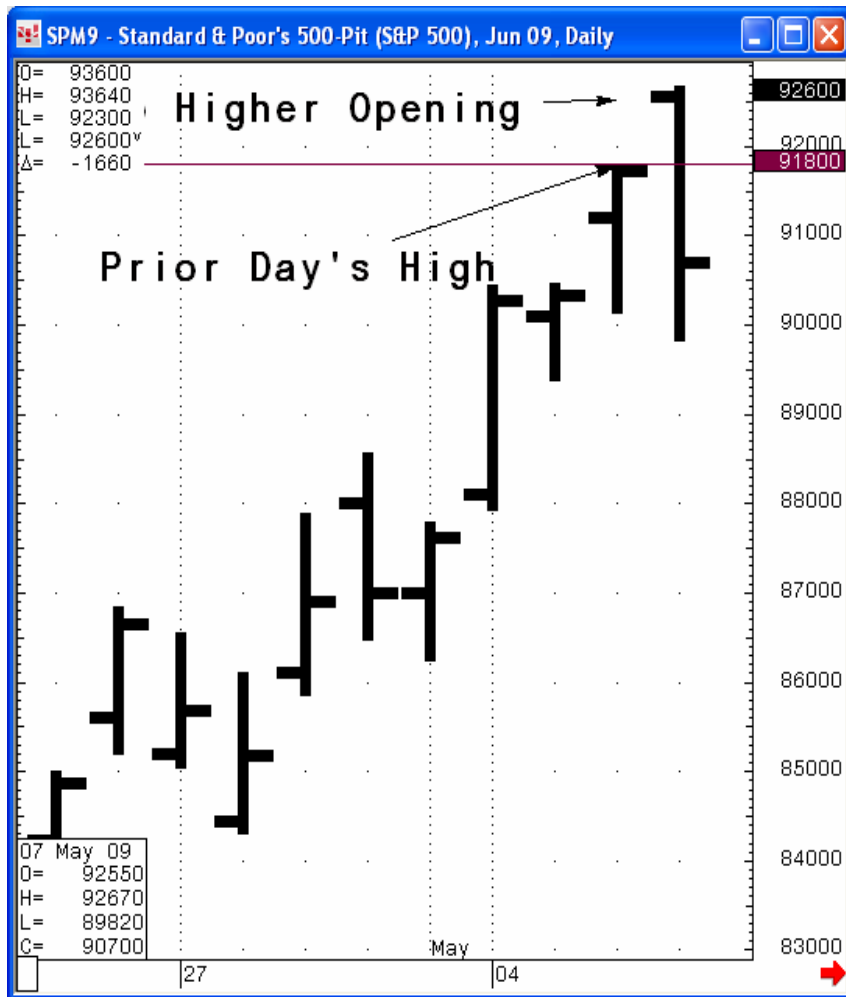


- Buy Gap is defined as an opening at least two ticks below the prior day's low
- Entry order is to buy on a stop 2 ticks above prior day's low
- Stop loss is then placed at least 2 ticks below low when filled, exit at the close

The Basic Sell Gap

- A basic sell gap signal occurs when a market opens on a gap up and then comes back down to penetrate the previous day's high by a given number of price ticks
- When this occurs you sell for a day trade, placing a stop loss above the high of the day when filled, and exiting by the end of the day if not stopped out

Example of Sell Gap

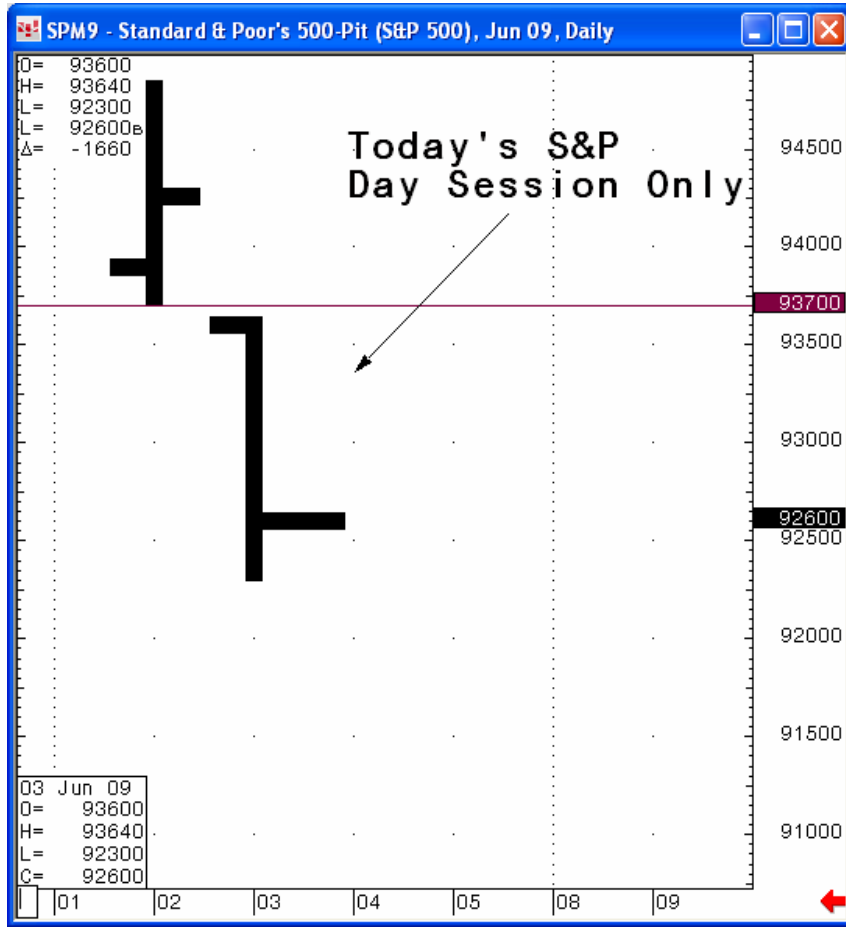


- Sell Gap is defined as an opening at least two ticks above the prior day's high
- Entry order is to sell on a stop 2 ticks below prior day's high
- Stop loss is then placed at least 2 ticks above the high when filled, exit at the close

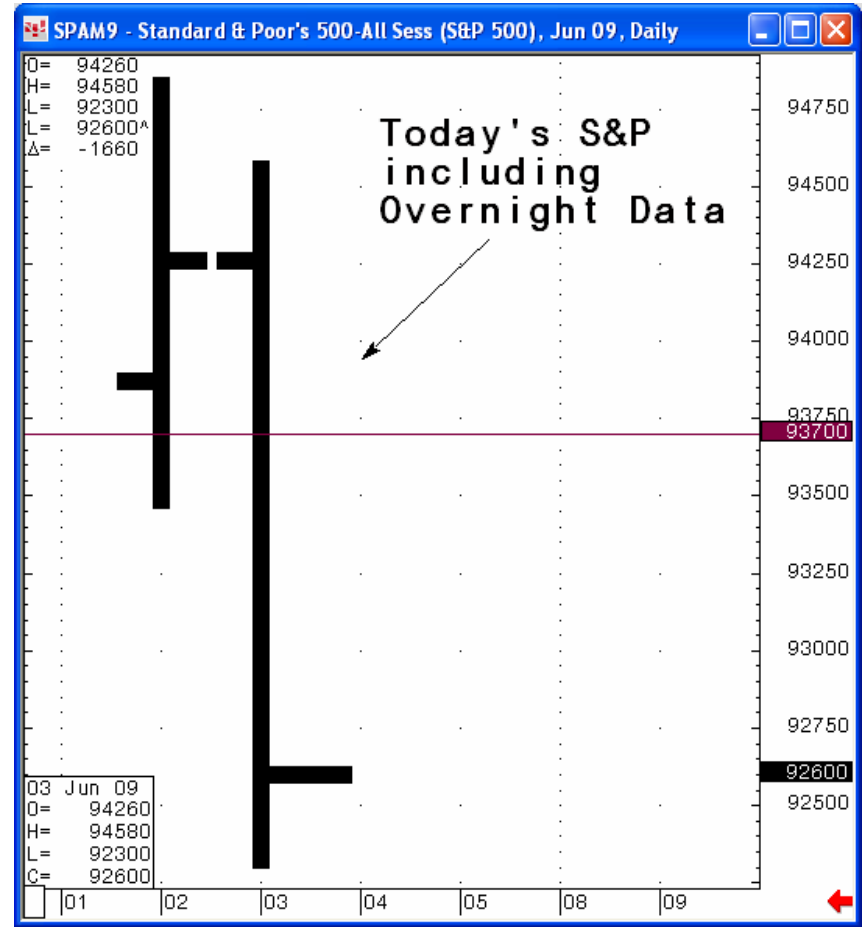
Day Session Data Only

In trading the opening gap, it is important that you only use the day session for your charts

Day Session vs. Globex



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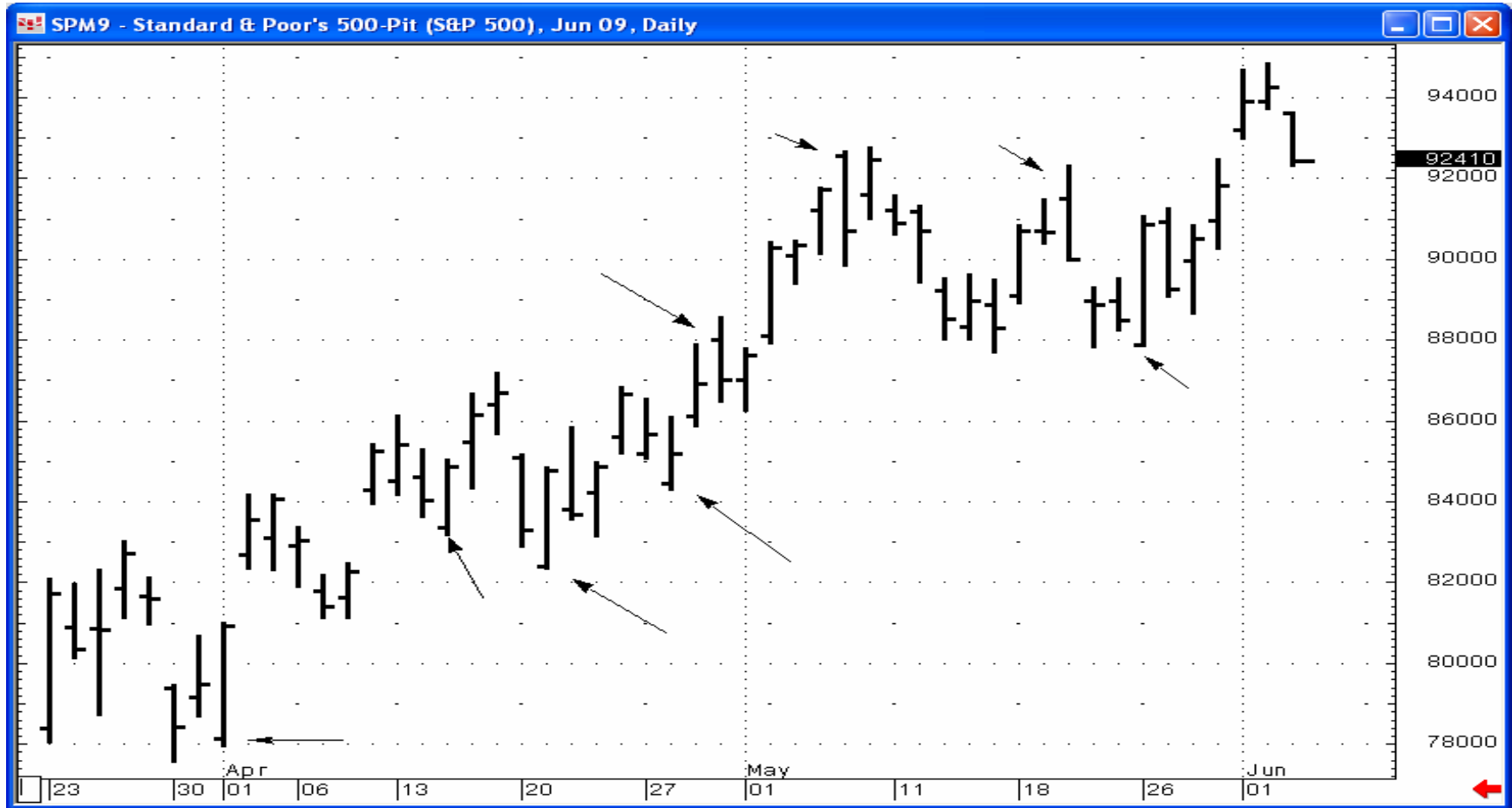


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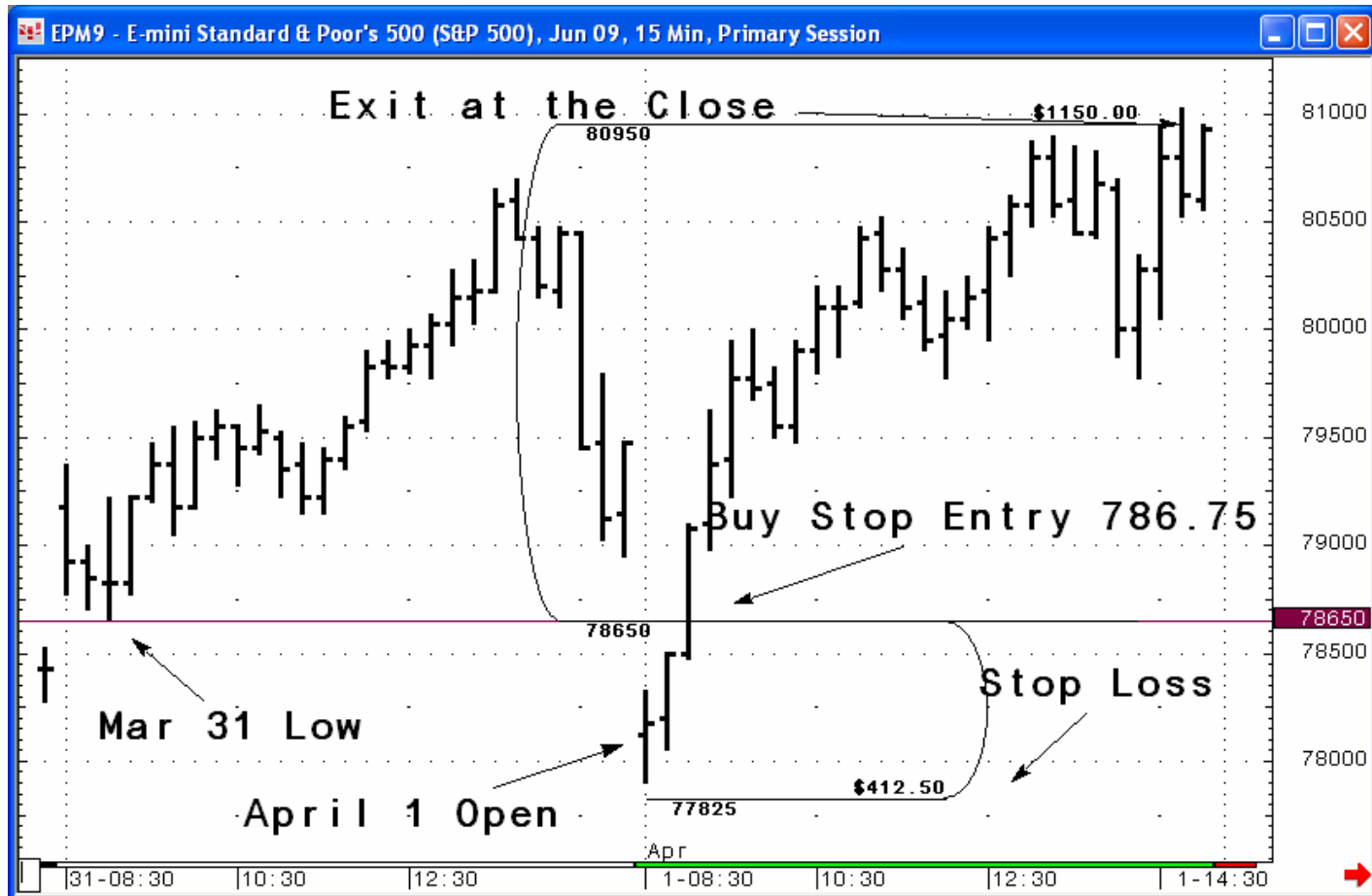
The Psychology of the Gap

- This trading method is based on a change in the traders' perception of the market
- The entry order in a buy gap is placed at a price level where there is a good chance opinions will be changing from bearish to bullish as the failure of a breakaway gap to the downside occurs
- This often causes a quick move or "Scoot" and this is what we are trying to capture.

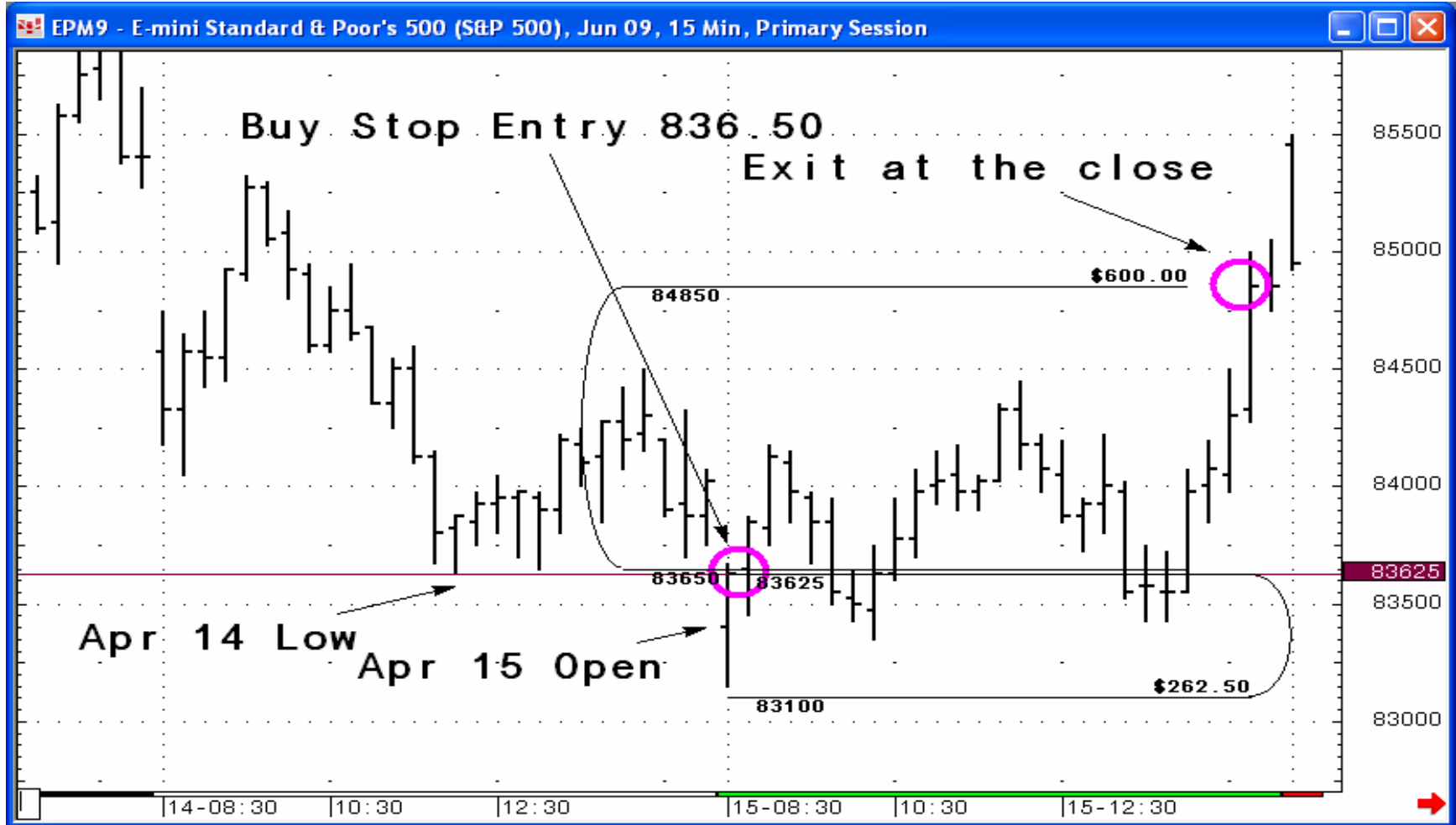
S&P Gaps April - Present



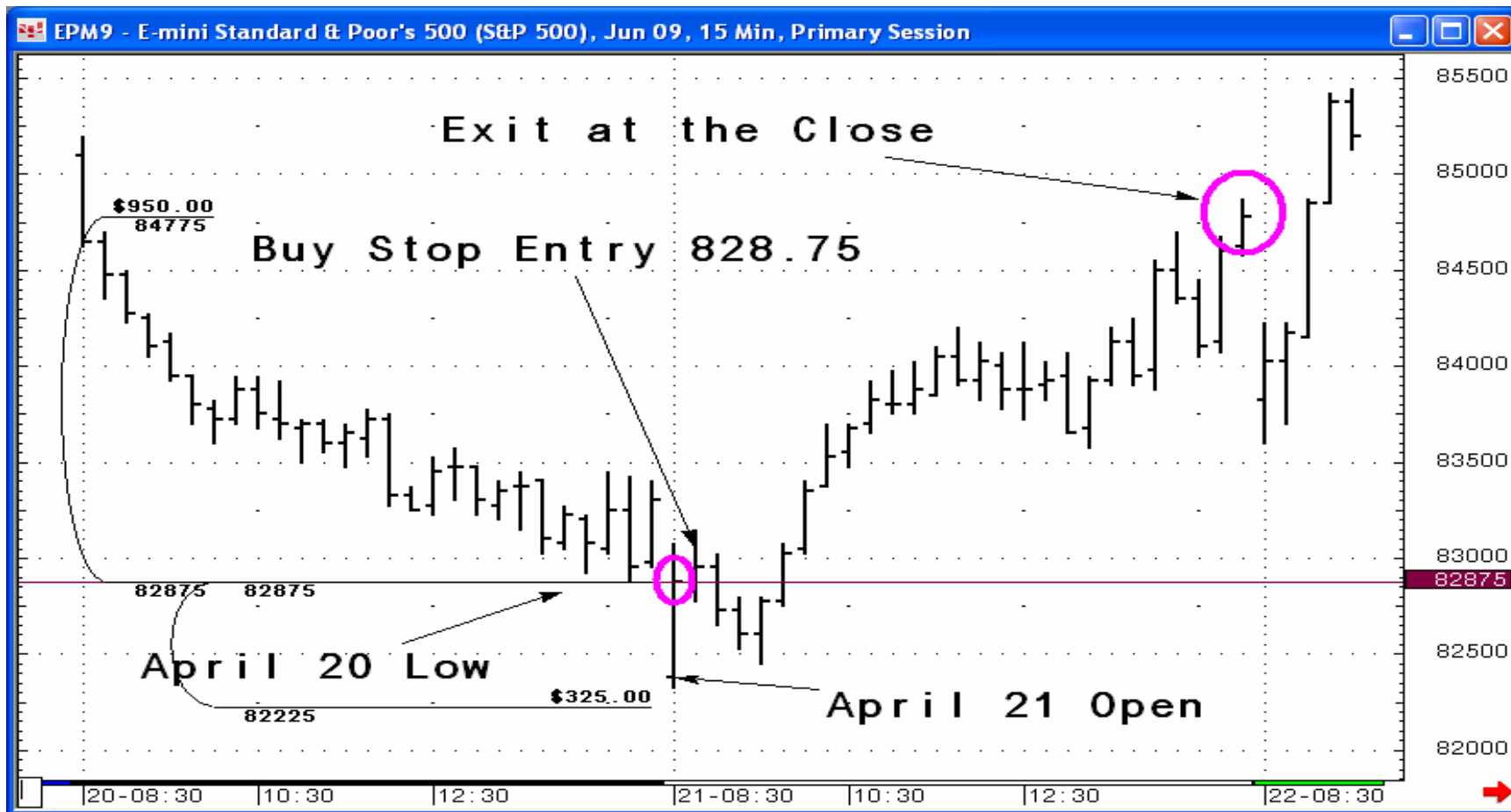
April 1, 2009



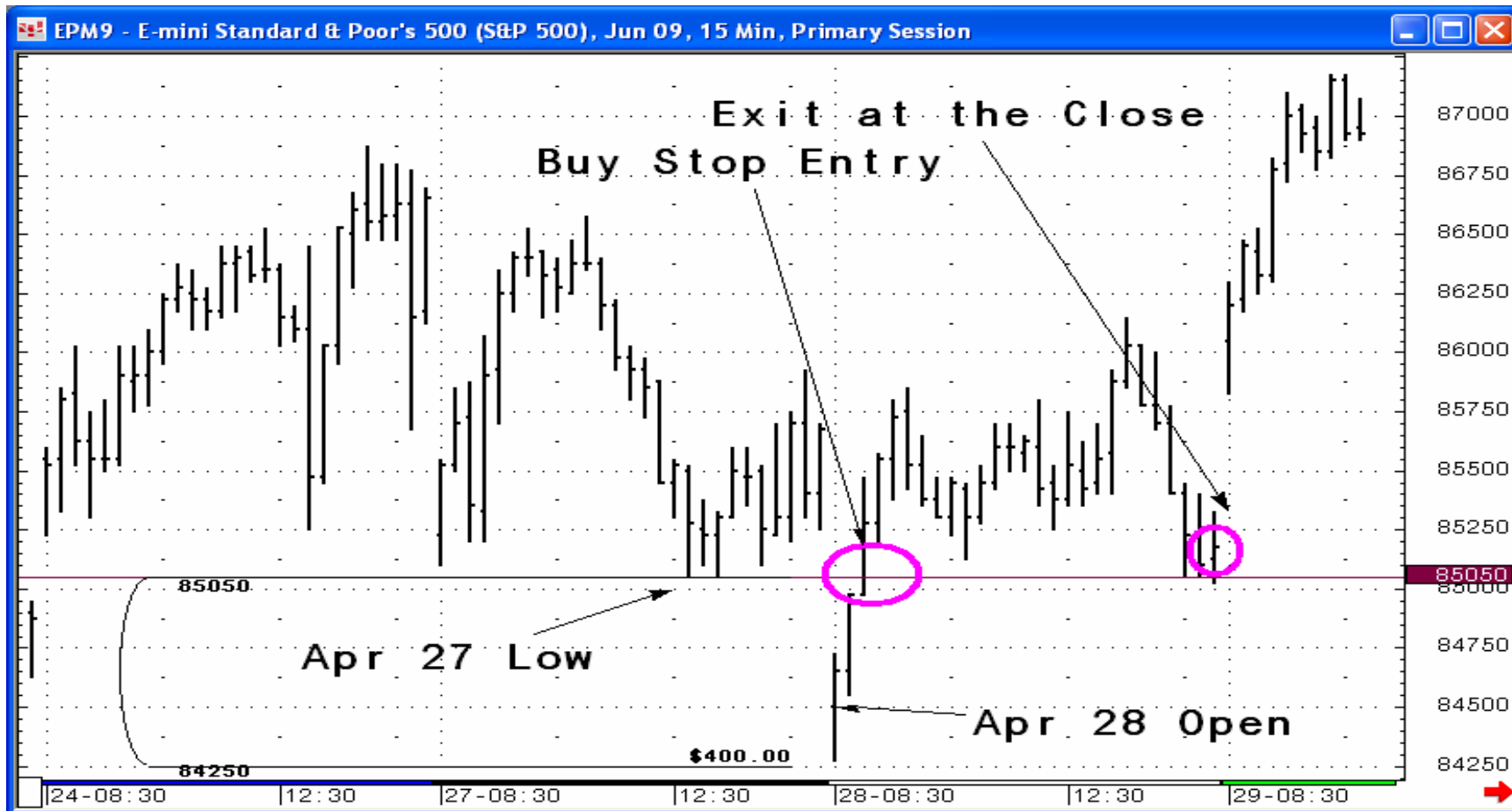
April 15, 2009



April 21, 2009



April 28, 2009



Let's Review May in Training Mode

- In order to get a feel for the decisions and moves these trades make, let's review May's Opening Gap Signals using my charting software bar by bar...
- We will then look to close by reviewing current technical analysis of the major commodity markets in real time

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