

Basics of: “Gap Guides”

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Agenda

- Gap Basics
- Gap Zones and Sizes
- Understanding the Gap Guides
- Summary

Gap Basics

What is a Gap?

The difference between
a security's opening price and its prior day (session)
closing price.

This difference shows up visually on a price chart as an open
space or “gap.”

Example of Gap: IWM 5 Min Chart

Next day
opening price
(9:30 am ET)

Prior day
closing price
(4:00 pm ET)



Price retraces
& fills gap

Basic Definitions

| Term | Definition |
|-----------------|--|
| Fade | Trade in the opposite direction of the gap Gap up = sell short Gap down = buy long |
| Follow | Trade in the direction of the gap Gap up = buy long Gap down = sell short |
| Gap Fill | When price retraces from the opening price to the prior day/session's closing price (a.k.a. closing the gap) |
| Extended Target | A target beyond gap fill |
| Gap Size | Gap up = today's opening price – prior day closing price Gap down = prior day closing price – today's opening price |

“Fade the Gap”

Trade in the opposite direction of the opening gap.

If gap is up: short.

If gap is down, buy.



(five minute chart)

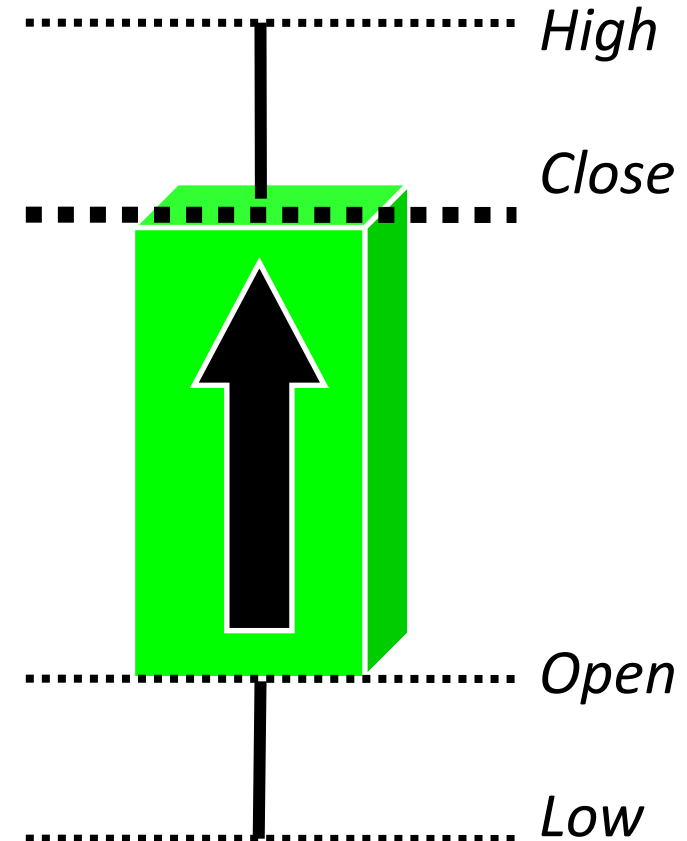
Fading the gap is a popular technique used by intraday traders

Gap Zones and Sizes

Gap Zones

Definition:

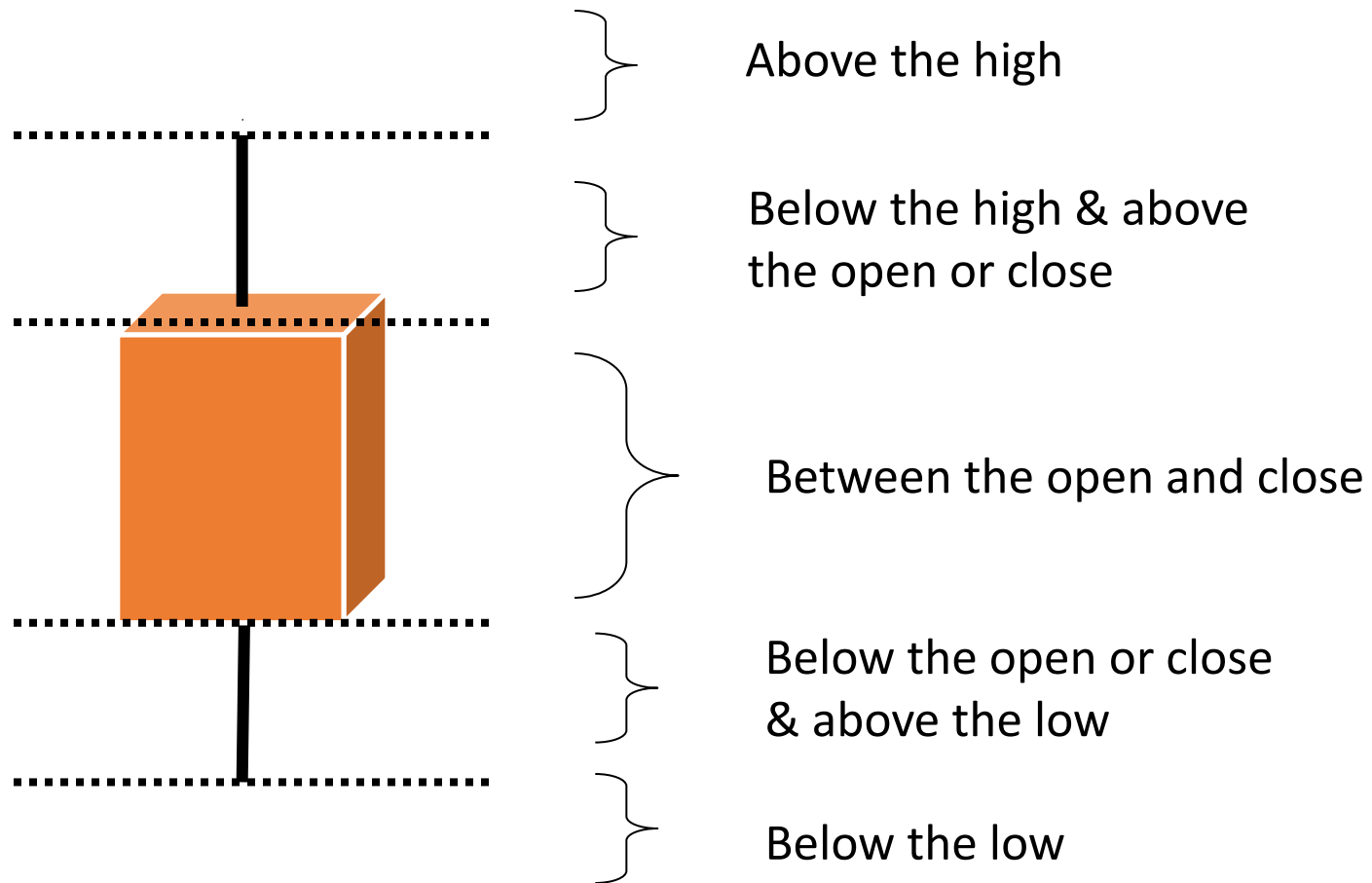
Location of today's **Open** relative to the prior day's **Open, High, Low, Close.**



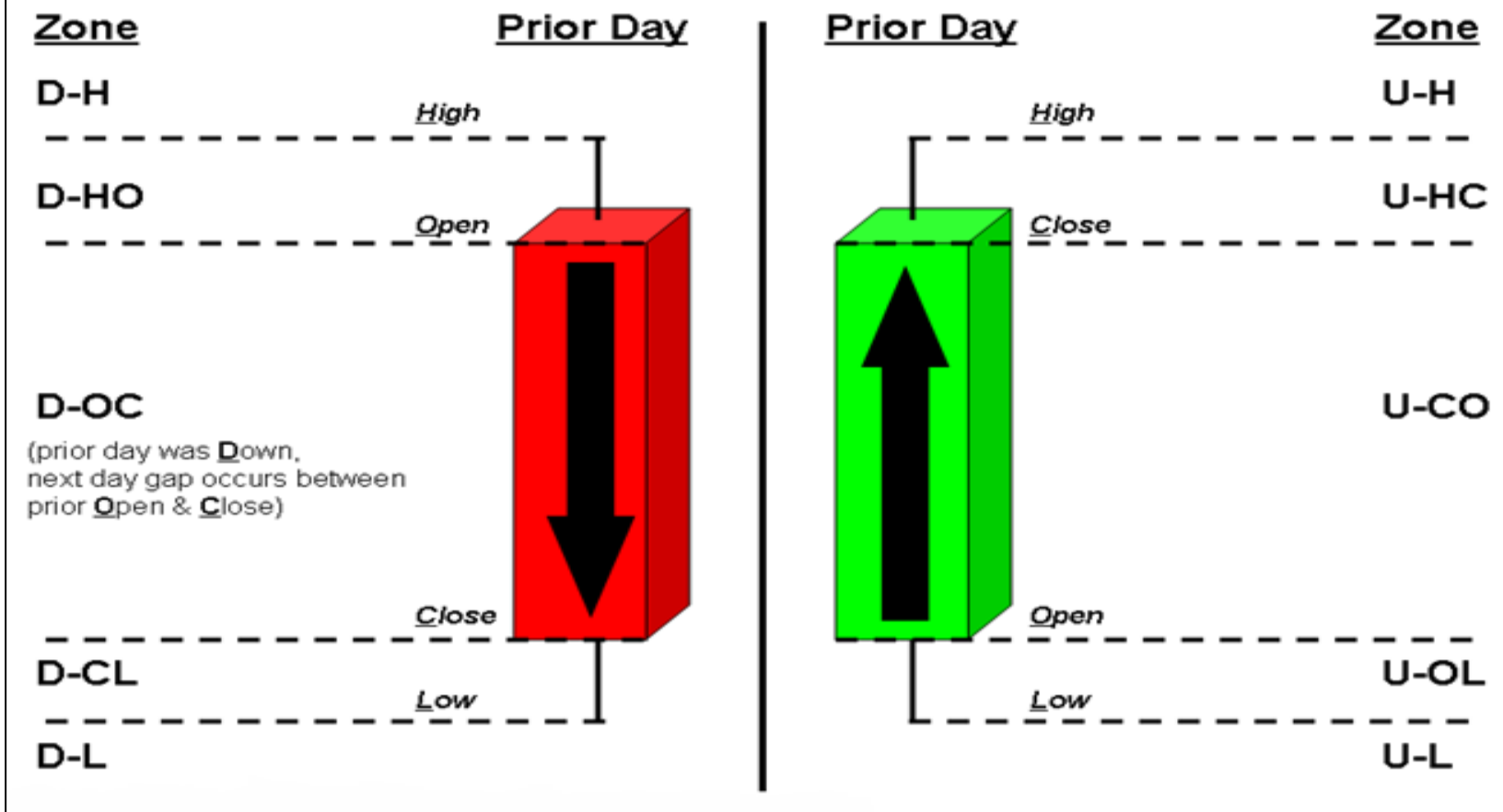
Gap Zone Areas

Prior Day

Potential Next Day Gap Areas



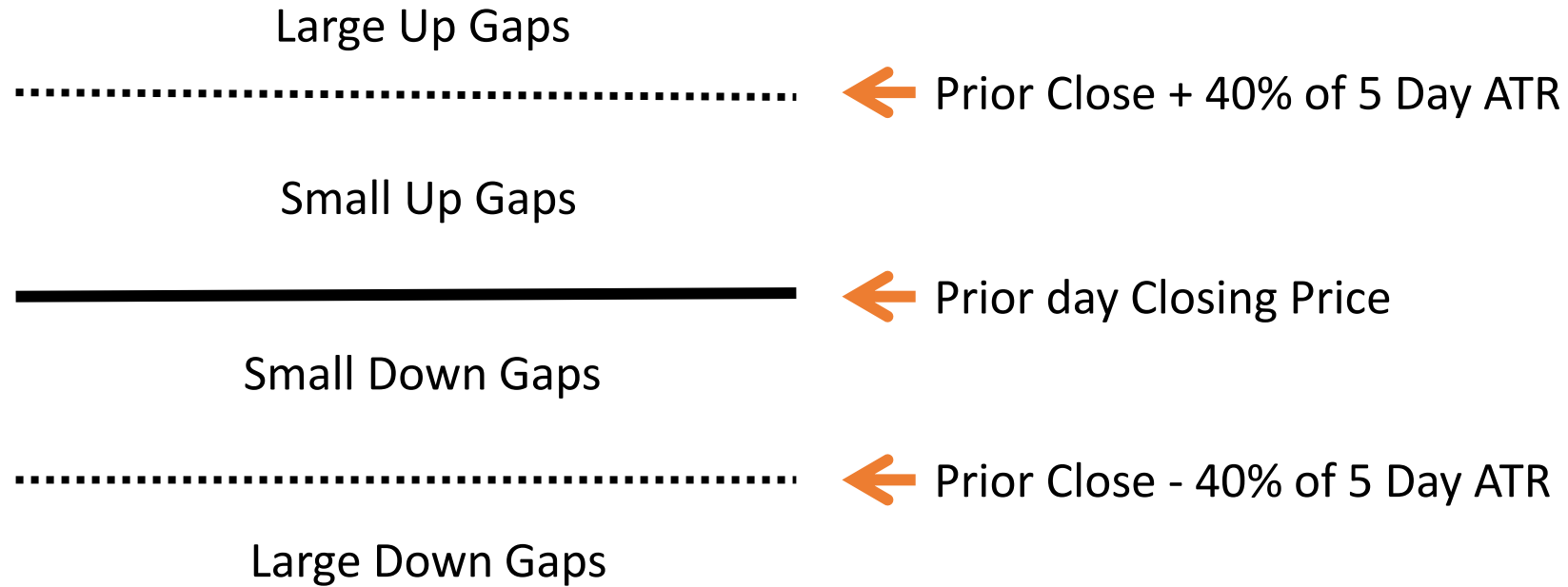
Gap ZoneSM Map



Gap Size Definitions

| Term | Definition |
|--------------------------|--|
| Gap Size | Up gap = today's opening price – prior day closing price Down gap = prior day closing price – today's opening price |
| Average True Range (ATR) | Calculated by measuring the distance between the extreme high and low of a day, including the prior closing price (if it is beyond the day's trading range) By incorporating the prior day close, a more accurate measurement of a market's daily movement can be determined since the overnight gaps are included. It is a useful calculation for measuring market volatility. |
| Small Gap | Gap size < 40% of the 5 day ATR |
| Large Gap | Gap size >= 40% of the 5 day ATR |

Gap Sizes

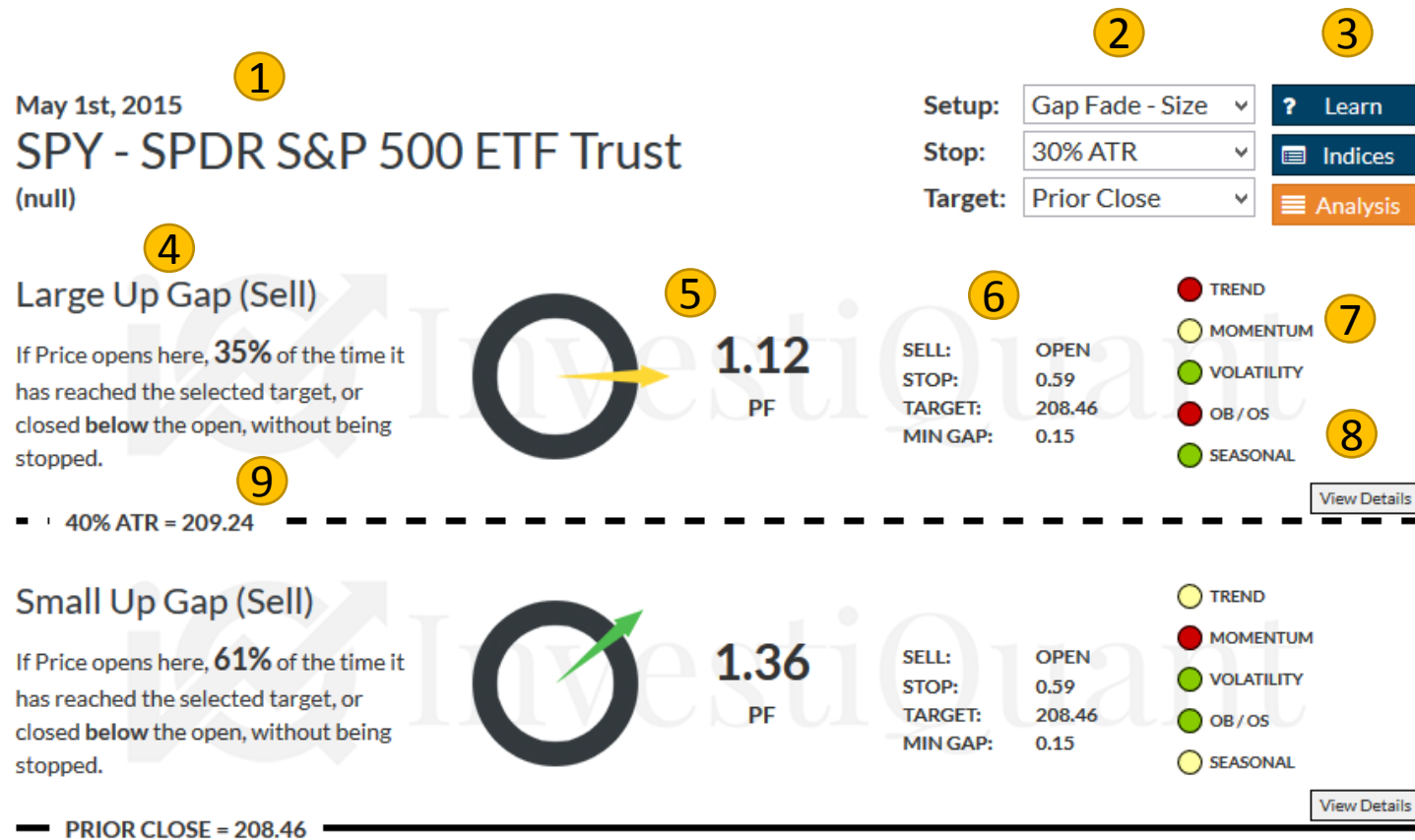


Understanding the Gap Guides

Gap Guide Overview

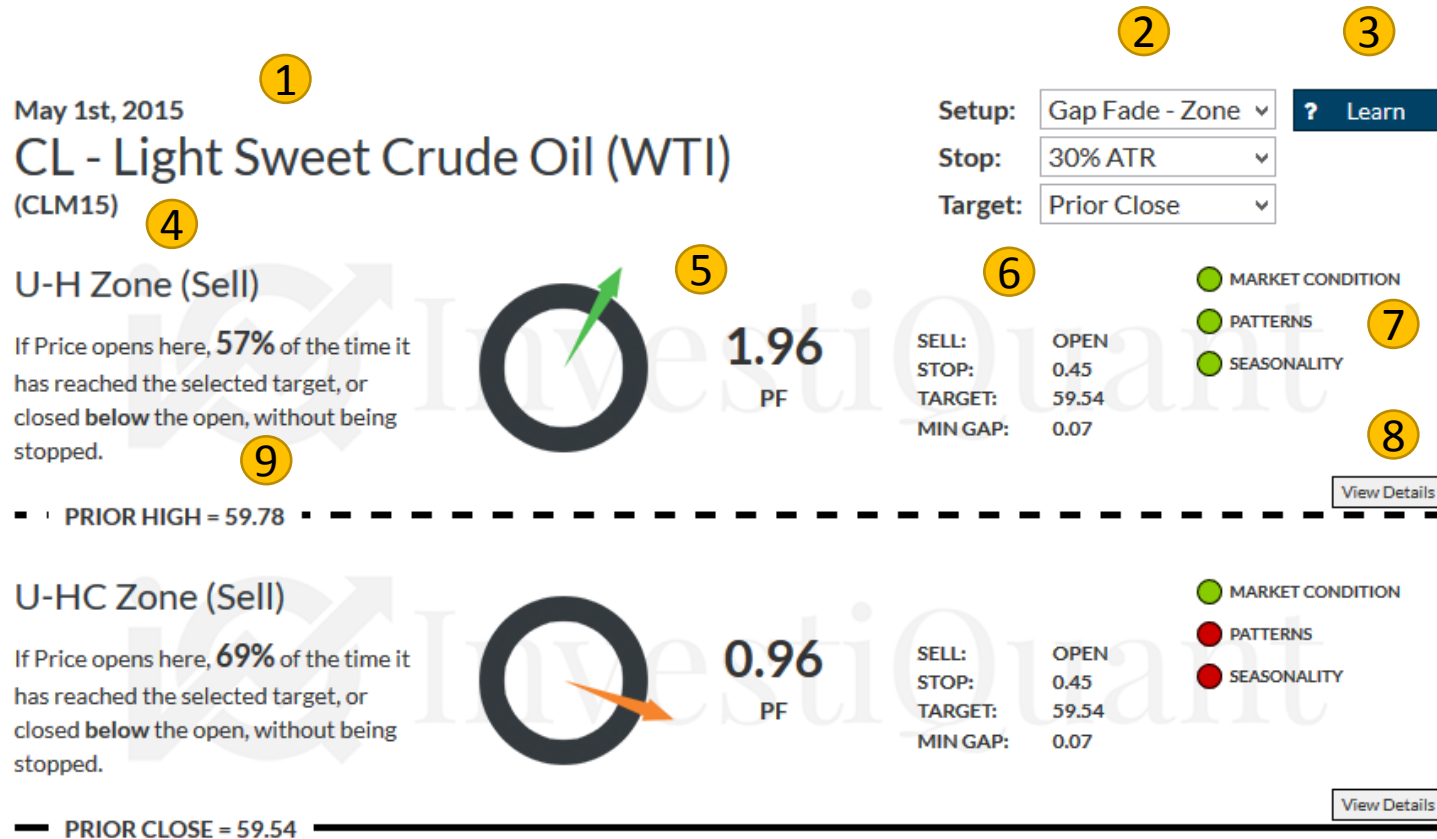
- Designed to assist traders with trade selection
- Goal is to help you avoid the riskiest historical setups and focus on the best historical opportunities
- Multiple ensembles of systems (i.e. Gap Fade by Size, Gap Fade by Zone) are provided for more rigorous analysis
- Data can be used as a “guide” to decision making or a “signal” (i.e. take the trade if certain selection criteria are met)

“Gap Fade by Size” Guide






1. Today's Date & Symbol/Description
2. Trade Setup Options
3. Additional Information Buttons
4. Gap Size & Direction & Historical Win %
5. Profit Factor Gauge & Value
6. Entry/Exit Levels
7. Individual Systems' Profitability
8. View Detailed Results of Individual Systems
9. Price Levels

“Gap Fade by Zone” Guide



1. Today's Date & Symbol/Description
2. Setup Options
3. Additional Information Buttons
4. Gap Zone & Historical Win %
5. Profit Factor Gauge & Value
6. Entry/Exit Levels
7. Individual Systems' Profitability
8. View Detailed Results of Individual Systems
9. Price Levels

System Button Colors

-  Green: Profit Factor ≥ 1.15
-  Yellow: Profit Factor ≥ 1.00 and ≤ 1.14
-  Red: Profit Factor ≤ 0.99

The colored buttons denote historical profitability 'at a glance' for each system.

Drop Down Menus & Buttons

| Menu | Definition |
|-----------------|---|
| Setup | <ol style="list-style-type: none">1. Gap Fade - Size2. Gap Fade - Zone3. Range – 15 Minute4. Range – 60 Minute |
| Stop | <ol style="list-style-type: none">1. 30% of 5 Day ATR2. 60% of 5 Day ATR3. End of Day |
| Target (Gap) | <ol style="list-style-type: none">1. Prior Close2. 15% of 5 Day ATR beyond Prior Close3. End of Day |

| Button | Definition |
|----------|---|
| Learn | The learn button directs you to the IQ Support Center which contains detailed information and training about the specific setup. |
| Indices | Where applicable, the Indices button will appear and open a separate window showing all of the data for the specific guide in table format including a consolidated roll up table at the top. |
| Analysis | Where applicable, the Analysis button will appear and direct you to the expert's comments for that particular setup. |

“View Details” Button

| Small Up Gap (Sell) × | | | |
|------------------------------------|-------|---------------|--------|
| System Name | Win % | Profit Factor | Trades |
| Trend | 60.0 | 1.03 | 127 |
| Momentum | 53.0 | 0.83 | 95 |
| Volatility | 68.0 | 2.01 | 90 |
| OB OS | 69.0 | 1.83 | 72 |
| Seasonal | 57.0 | 1.10 | 61 |
| Weighted Avg | 61.0 | 1.32 | - |
| Average | 61.0 | 1.36 | - |

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| U-H Zone (Sell) × | | | |
|--------------------------------|-------|---------------|--------|
| System Name | Win % | Profit Factor | Trades |
| Market Conditions | 61.0 | 2.56 | 66 |
| Patterns | 55.0 | 1.74 | 44 |
| Seasonality | 55.0 | 1.56 | 51 |
| Weighted Avg | 57.0 | 2.02 | - |
| Average | 57.0 | 1.96 | - |

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Indices “Roll Up” Page

May 4th, 2015

Average of All 8 Indices

Setup: Gap Fade - Size Stop: 30% ATR Target: Prior Close

Setup: Gap Fade - Size ▾

Stop: 30% ATR ▾

Target: Prior Close ▾

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Roll Up Data

| Opening Area | Trend | | | Momentum | | | Volatility | | | OB/OS | | | Seasonal | | | Wtd Avg | | Average | | |
|----------------|-------|------|--------|----------|------|--------|------------|------|--------|-------|------|--------|----------|------|--------|---------|------|---------|------|--------|
| | WR | PF | TRADES | WR | PF | TRADES | WR | PF | TRADES | WR | PF | TRADES | WR | PF | TRADES | WR | PF | WR | PF | TRADES |
| Up > 40% ATR | 34.8 | 0.75 | 445 | 34.6 | 0.81 | 529 | 38.9 | 0.83 | 164 | 41.7 | 1.36 | 337 | 36.9 | 1.11 | 260 | 36.6 | 0.91 | 37.4 | 0.97 | 1735 |
| Up < 40% ATR | 60.9 | 1.02 | 994 | 63.4 | 1.19 | 1146 | 62.5 | 1.09 | 498 | 60.6 | 1.08 | 736 | 63.3 | 0.99 | 622 | 62.1 | 1.08 | 62.1 | 1.07 | 3996 |
| Down < 40% ATR | 63.4 | 1.09 | 759 | 59.9 | 1.01 | 822 | 61.4 | 0.97 | 464 | 68.6 | 1.57 | 553 | 67.2 | 1.61 | 335 | 63.3 | 1.18 | 64.1 | 1.25 | 2933 |
| Down > 40% ATR | 38.2 | 1.12 | 337 | 31.4 | 0.84 | 509 | 37.4 | 1.03 | 218 | 35.7 | 1.16 | 269 | 38.6 | 0.94 | 220 | 35.2 | 0.96 | 36.4 | 1.02 | 1553 |

ES - ESM15 Stop Amount = 7.00 Target = 2102.00 ATR = 23.00 Min Gap Size = 1.63

| Opening Area | Price Max | Price Min | Trend | | | Momentum | | | Volatility | | | OB/OS | | | Seasonal | | | Wtd Avg | | Average | | |
|----------------|-----------|-----------|-------|------|------|----------|------|------|------------|------|------|-------|------|------|----------|------|------|---------|------|---------|------|------|
| | | | WR | PF | Trds | WR | PF | Trds | WR | PF | Trds | WR | PF | Trds | WR | PF | Trds | WR | PF | WR | PF | Trds |
| Up > 40% ATR | - | 2111.20 | 41.0 | 0.89 | 74 | 39.0 | 0.91 | 87 | 54.0 | 1.10 | 13 | 35.0 | 0.72 | 60 | 35.0 | 0.71 | 43 | 39.0 | 0.84 | 41.0 | 0.87 | 277 |
| Up < 40% ATR | 2111.20 | 2102.00 | 64.0 | 1.14 | 96 | 62.0 | 1.10 | 133 | 65.0 | 0.96 | 40 | 67.0 | 1.22 | 108 | 64.0 | 1.47 | 73 | 64.0 | 1.19 | 64.0 | 1.18 | 450 |
| Down < 40% ATR | 2102.00 | 2092.80 | 60.0 | 0.90 | 96 | 55.0 | 0.83 | 118 | 56.0 | 0.78 | 55 | 64.0 | 1.25 | 98 | 70.0 | 1.87 | 37 | 60.0 | 1.04 | 61.0 | 1.13 | 404 |
| Down > 40% ATR | 2092.80 | - | 32.0 | 0.87 | 53 | 35.0 | 0.91 | 75 | 42.0 | 1.57 | 19 | 31.0 | 0.86 | 45 | 39.0 | 1.08 | 31 | 35.0 | 0.97 | 36.0 | 1.06 | 223 |

Testing Assumptions

| | |
|------------------|--|
| Test Window | Rolling 10 years from current date; updates daily. |
| Entry Time | Open of the regular session market hours. For U.S. equities, ETFs and index futures, this is 9:30 am ET. Commodities vary by market and use the open of the pit trading session if applicable. |
| Exit | Trade was closed at the price equal to the selected target -OR- at the price equal to the selected stop size (% ATR) -OR- at the end of the regular session for the instrument (pit session for Futures) - WHICHEVER occurred first on the date of the historical trade. |
| Stop | Based on user selection. X% ATR is a percent of the 5 day ATR. |
| Target | Based on user selection. Prior Close = price of last trade of the prior session. X% ATR is an extended price target and is equal to X% of the 5 day ATR beyond the prior close price. |
| Minimum Gap Size | <p>A blended formula that considers the 5 day ATR and instrument value. Gaps smaller than this minimum amount in the historical data were excluded from analysis.</p> <p>The IQ formula to determine min gap size is:</p> <p>The average of (.001 X Daily Last Price) and (.05 X 5D ATR)</p> |
| Maximum Gap Size | None |
| Commissions | Not included - varies by individual, account, brokerage, and exchange. |
| Slippage | Not included - varies by instrument, liquidity, execution technique, and brokerage. |

Gap Fade – Size Systems

| Term | Definition |
|------------|---|
| Trend | Defined as the general direction of a market or security over a period of time. When a well defined trend can be identified, it often pays to trade in the direction of the trend. There are many ways to measure a trend, but there may be no more useful approach than to simply use the location of an asset's price relative to the high and lows of its prior "X" periods. |
| Momentum | The measure of strength or acceleration of a security's price in a specific direction. The concept is that the stronger the momentum, the greater the likelihood of continuing in that direction. Welles Wilder created two helpful indicators that can be used in conjunction with one another to measure momentum: RSI and ADX. |
| Volatility | Can be tracked in a number of ways, but we prefer to measure it in terms of range contraction and expansion. When gauged across different time frames, it is very effective for identifying when a security is poised and overdue for a significant move in either direction. Vice versa, after periods of extreme movement a security will often consolidate. |
| OB/OS | Describes when an asset's price has moved too far, too fast and may be over or under valued and due for a pause or pullback. Though this technical term is somewhat subjective it can be quantified statistically and can be very helpful for determining the odds of a security closing higher on a given day. |
| Seasonal | Refers primarily to the day of week (e.g. Monday, Tuesday, etc.). |

Gap Fade – Zone Systems

| Term | Definition |
|------------------|--|
| Market Condition | Analysis includes four proven (proprietary) criteria that measure the "market mood" for the short term (past 2 weeks) and mid term (past 8 weeks). |
| Patterns | Analysis focuses on the prior three days price action. |
| Seasonality | Analysis utilizes day of week (Monday, Tuesday-Thursday, or Friday) and short term trend (rising/declining). |

Summary

Summary

- “High probability” does NOT equal “certainty”
- No assurance future results will mimic past performance
- You must develop your own set of rules/guidelines that suit you
- Focus on your annual plan and not daily results
- Keys to success:
 - Consistency
 - Capital preservation
 - Good money management
 - Finding the right balance of risk/reward for you
- Trade at your own risk

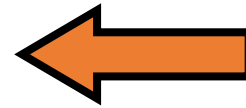
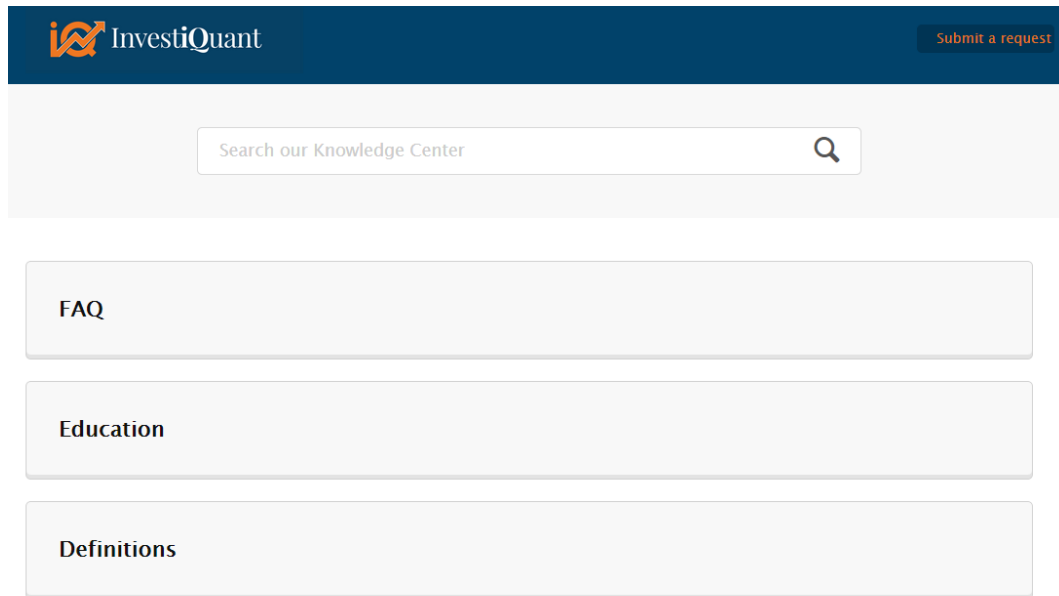
How To Use Intraday Gap Guides

- ✓ Identify if a clear historical, directional bias exists for the open (based on current calendar and market conditions)
- ✓ Make better trade selections (idea: only take trades that are in the same direction, or NOT directionally counter, to the gap bias)
- ✓ Better manage exits for intraday, overnight, swing & other trades (idea: hold winning trades for a larger profit target if supported by Gap Guides).

Use Gap Guides' data to identify most probable biases for the open and trade accordingly.

Tips for Using Gap Guides

- ✓ Pay close attention to those scenarios where the odds are greatly skewed in one direction and the multiple systems are consistent
- ✓ Be sure to check historical results using different stops and targets combinations.
- ✓ Don't over-interpret the data (*the path to fill a gap can be quite varied and volatile*)
- ✓ Use them to help 'guide' your decision-making. Don't expect the future to perfectly reflect the past.
- ✓ When in doubt - sit it out, and wait for the 15 Minute Opening Range Guides.



Have more questions?

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<http://support.investiquant.com>