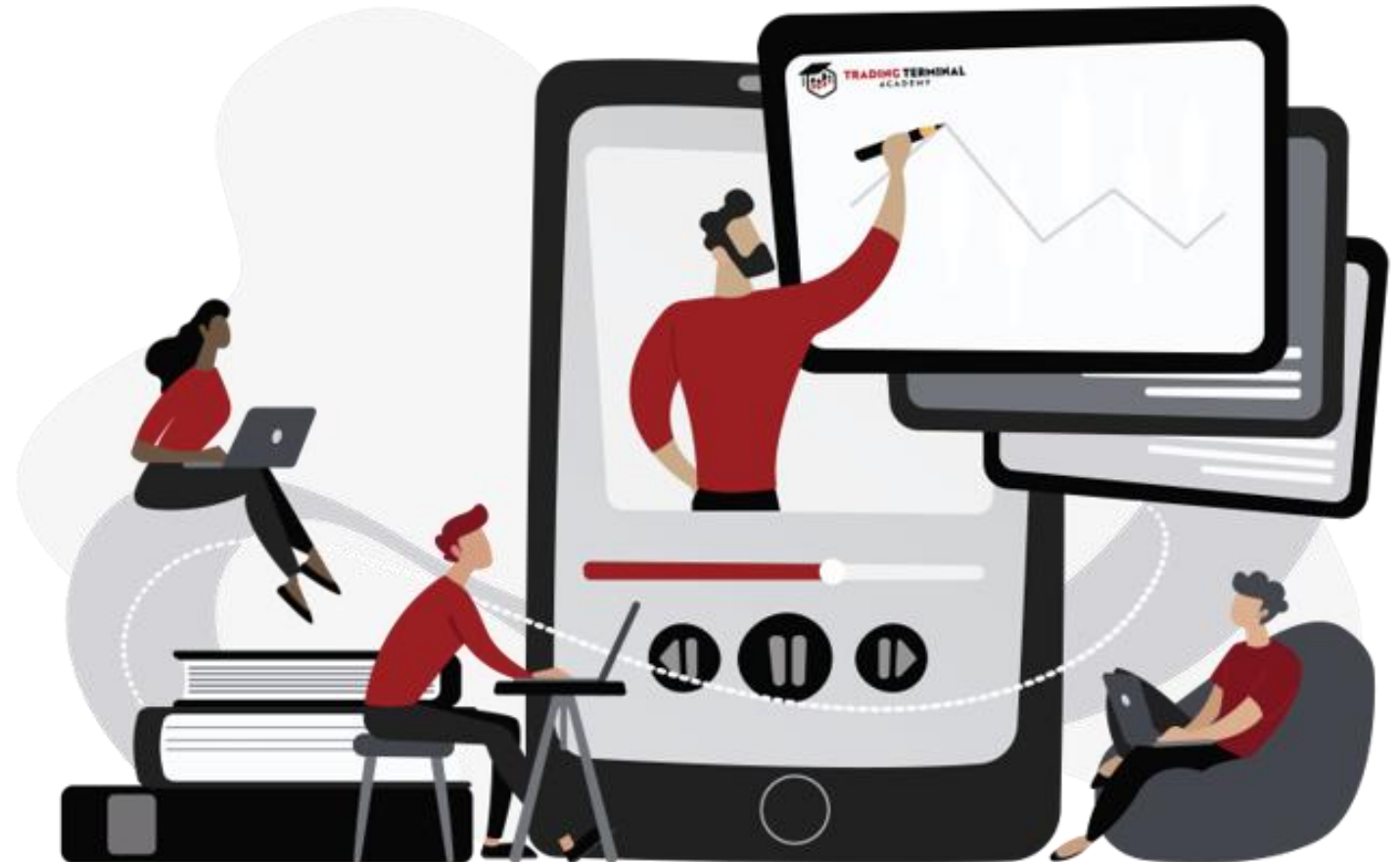


Trading Gap Down and Gap Up at the Open

Overview

- Premarket Process
- Gap Down Scenarios
- Gap Up Scenarios
- Factors that Affect Price Action
- How Do You Know When to Exit
- Moving Averages and VWAP



Premarket Process

- After-market / evening events
- Pre-market scan; Upgrades/downgrades, CNBC, Wall Street Breakfast podcast
- Scanners – start with gap down plays, news on gaps; then move to gap up movers
- Initial watch list based on market action and charts
- Set horizontal lines on pre-market range for SPY and QQQs
- Focus on last 2 – 2 minute candles
- Narrow focus to 2 to 3 securities



Gap Scenarios

- After release of news, 4 possible trading scenarios exist relative to previous day close (PDC) and VWAP:

GAP DOWN FROM PDC



Trading Above the VWAP
The Phoenix



Trading Below the VWAP
The Rising Devil

GAP UP FROM PDC

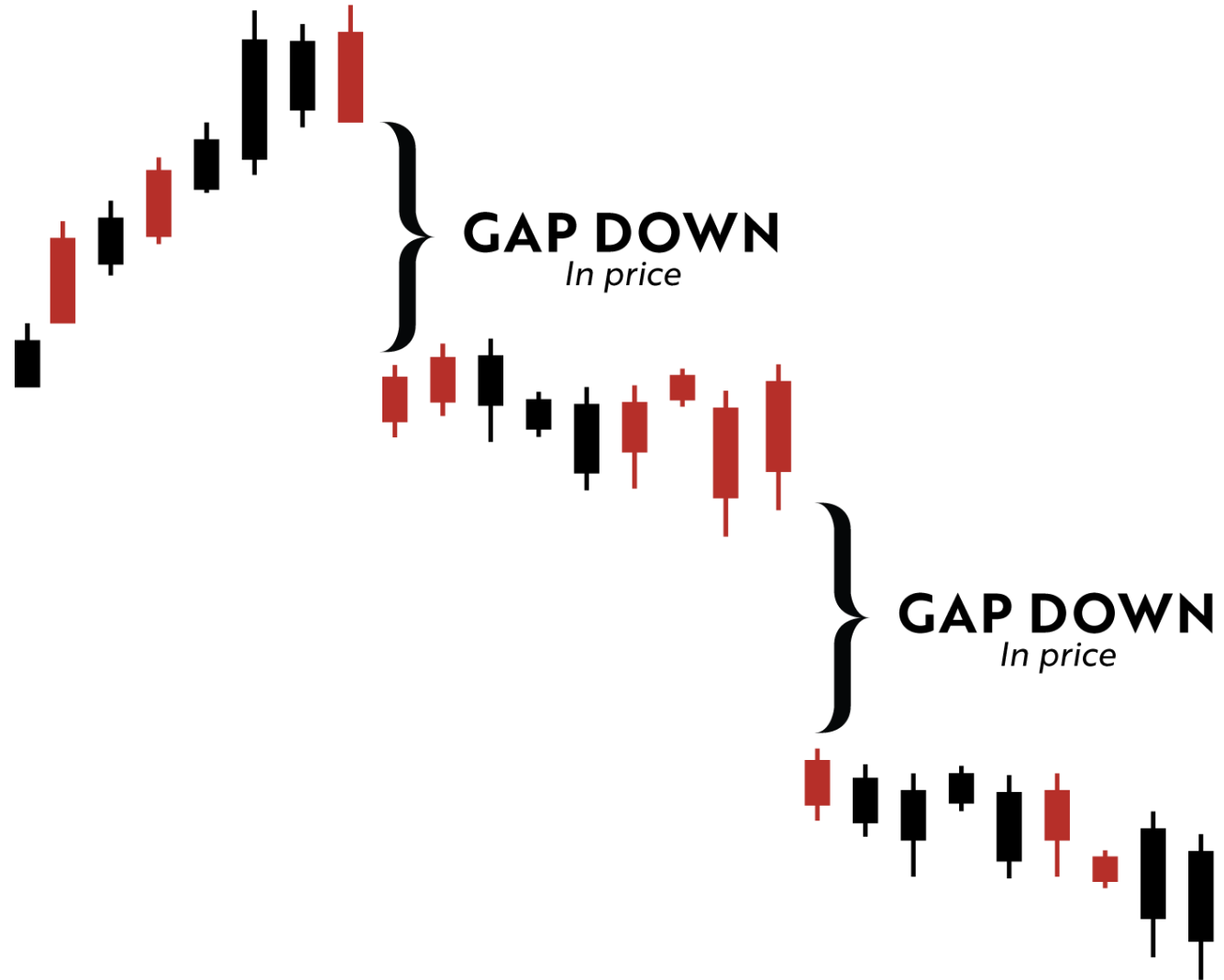


Trading Above the VWAP
The Fallen Angel



Trading Below the VWAP
The Lead Balloon

Gap Down Scenarios



Gap Down: The Rising Devil (Below VWAP)

- Criteria
 - News release causing move.
 - Strong daily chart is best for strategy but not necessary.
 - Gapping down on open on bad news.
 - Trading below the VWAP at open.
 - Weakening into the open best.
- Action
 - Short on pop back up to VWAP at open. May drop a little at start.
 - Stock may not pop back but continue selling off at open.
 - Stop above VWAP.



STNE

Previous day close \$11.66
Gapping down below \$10

Trading below the VWAP

Weakness going into the open

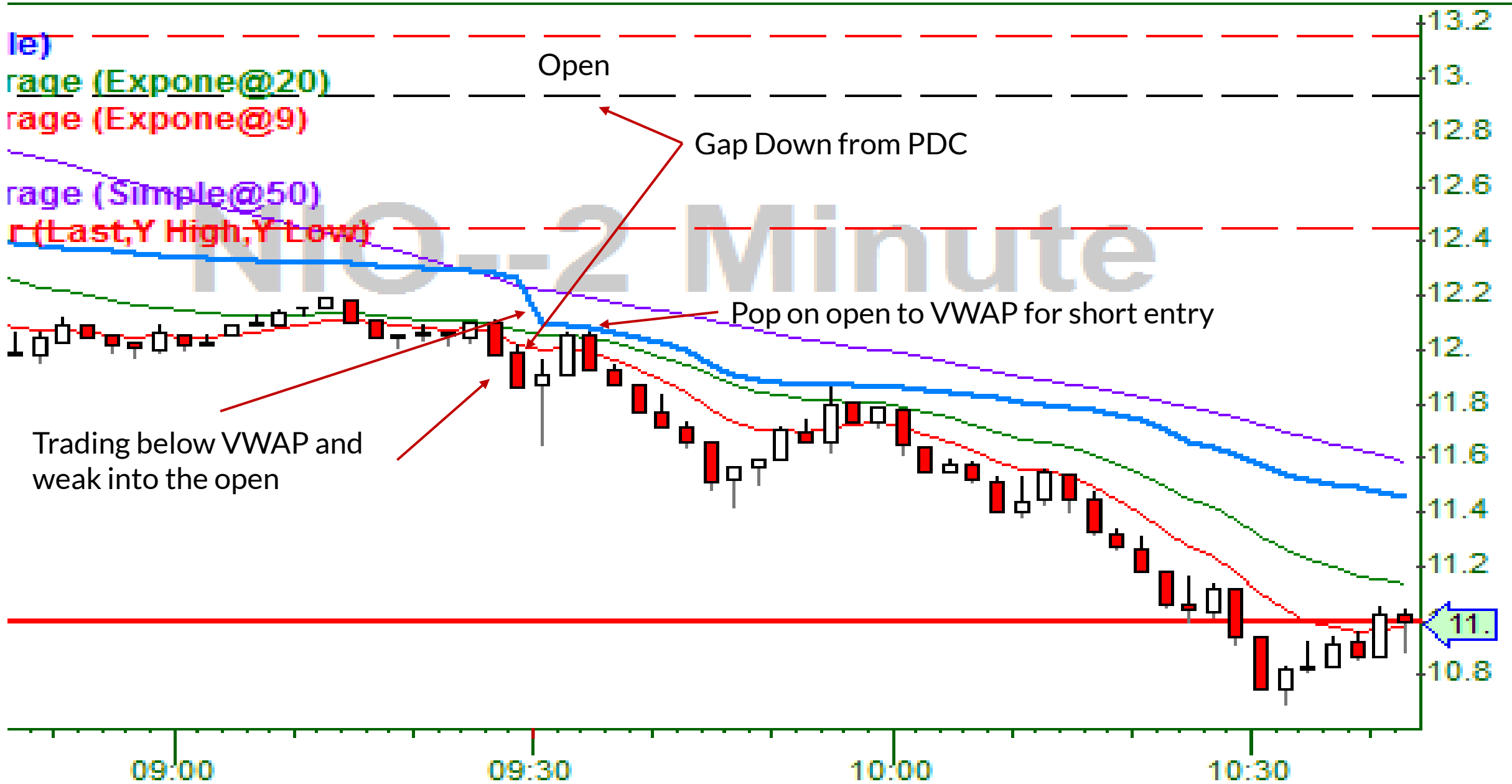
Pop up to VWAP at the open

Consolidation for another leg down

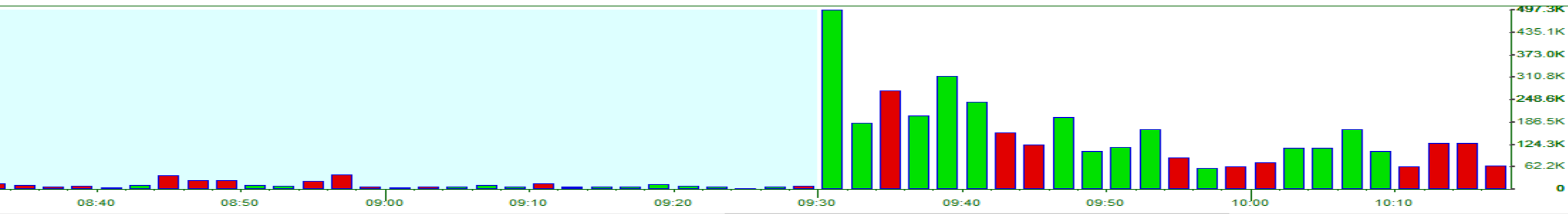
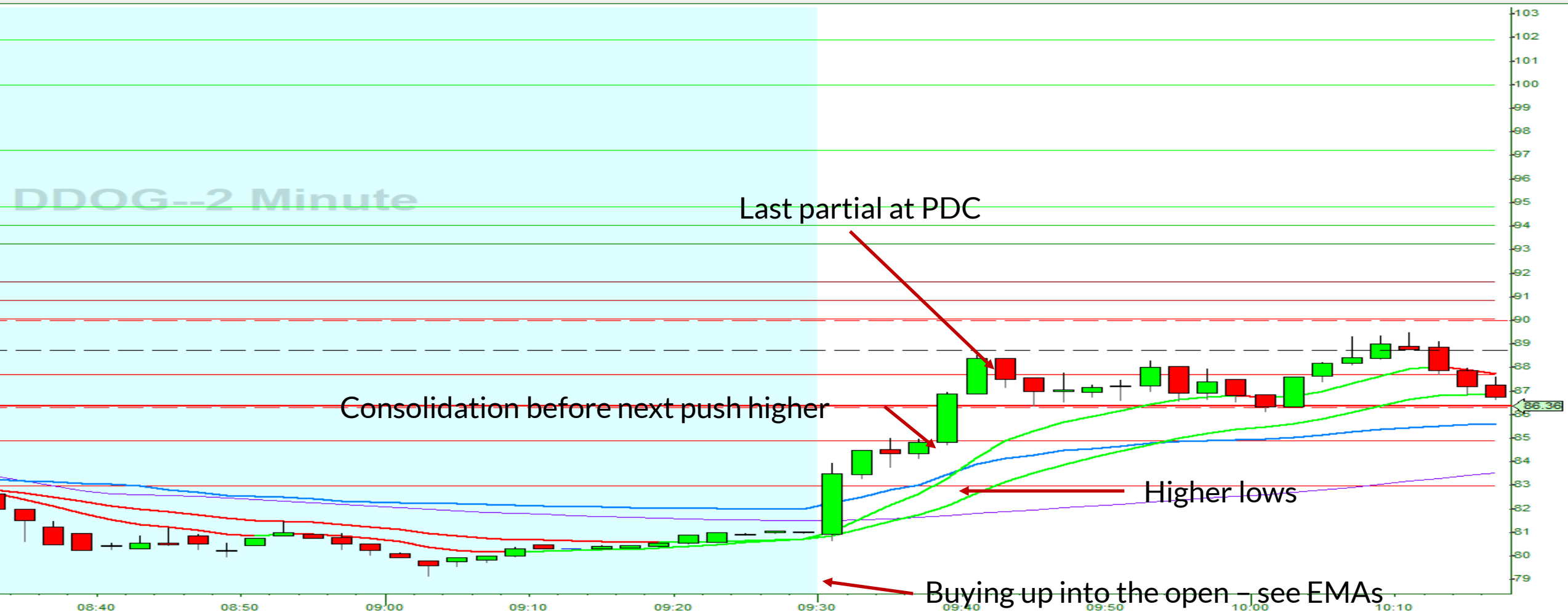


- +

P 100 BUY SELL



DDOG--2 Minute



Indicators: 4

Gapping down from \$60.14 PDC

Open

54.00
 53.50
 53.00
 52.50
 52.00
 51.50
 51.21
 50.85
 50.50
 50.00
 49.50
 49.00
 48.50
 48.00
 47.50
 47.00
 46.50
 46.00
 45.50
 45.00
 44.50
 44.00
 43.50
 43.00



Trading below the VWAP

Stopped out

Shorted

Showing some strength going into the open

08:40

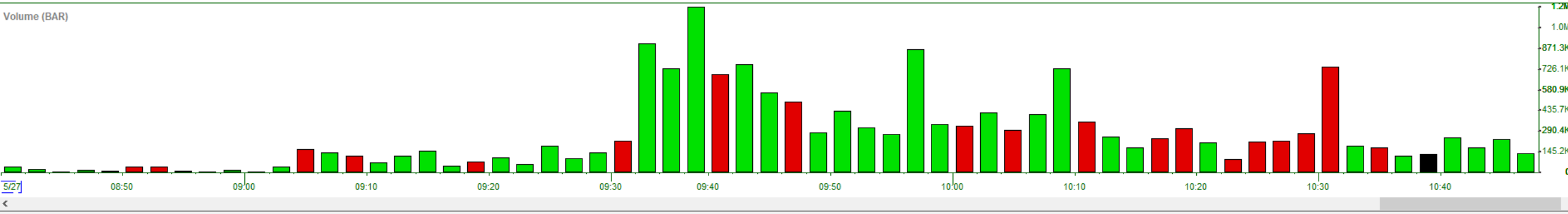
09:00

09:20

09:40

10:00

Price (Candle)
Moving Average (Exponential@20)
Moving Average (Exponential@9)
VWAP (0)
Moving Average (Simple@50)
PriceMarker (Last, Y High, Y Low, Y Close)





Open

DKS - 2 min



Gapping down

Strengthening into open

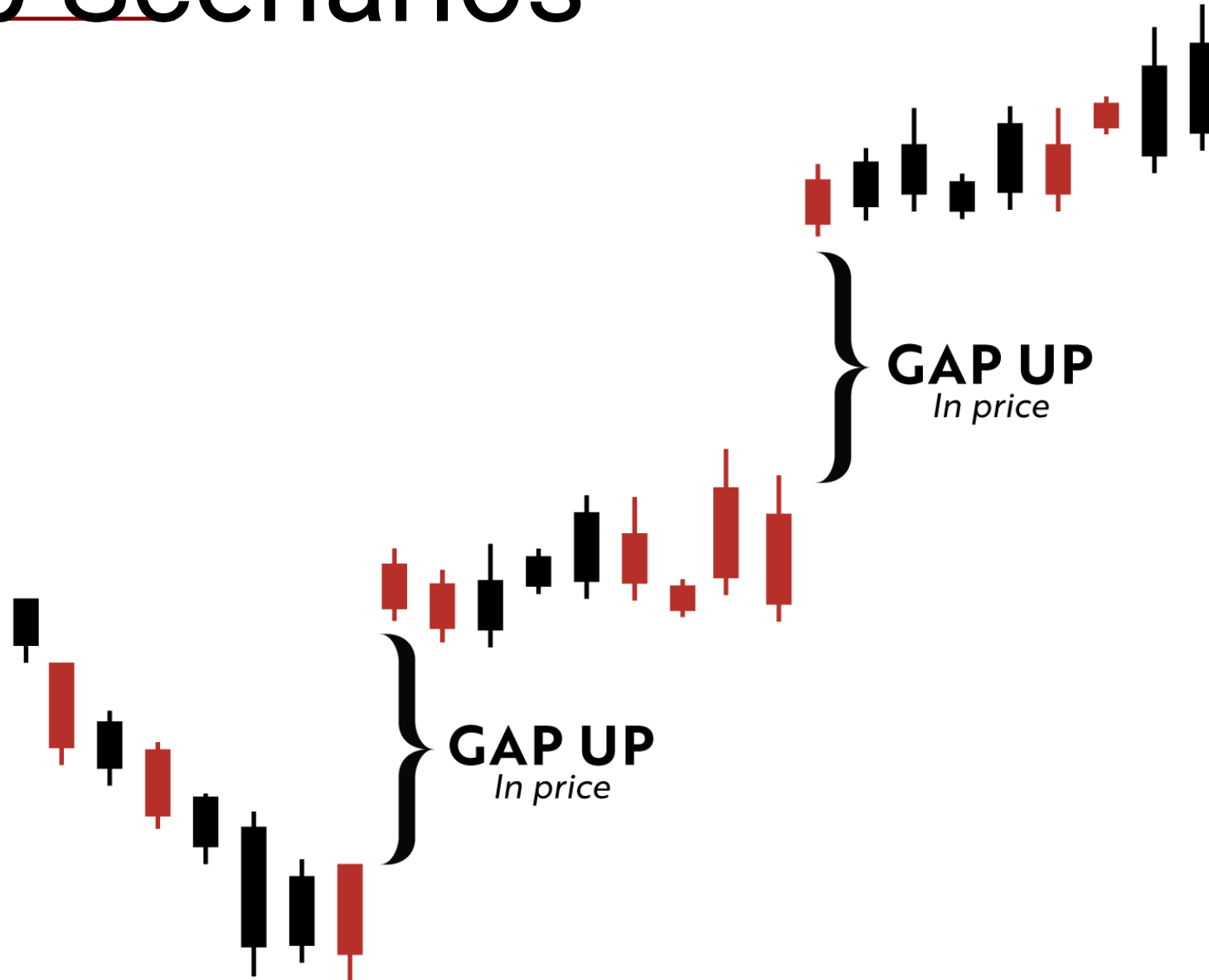
Above the VWAP

Pull back but held VWAP

76.22

68.69

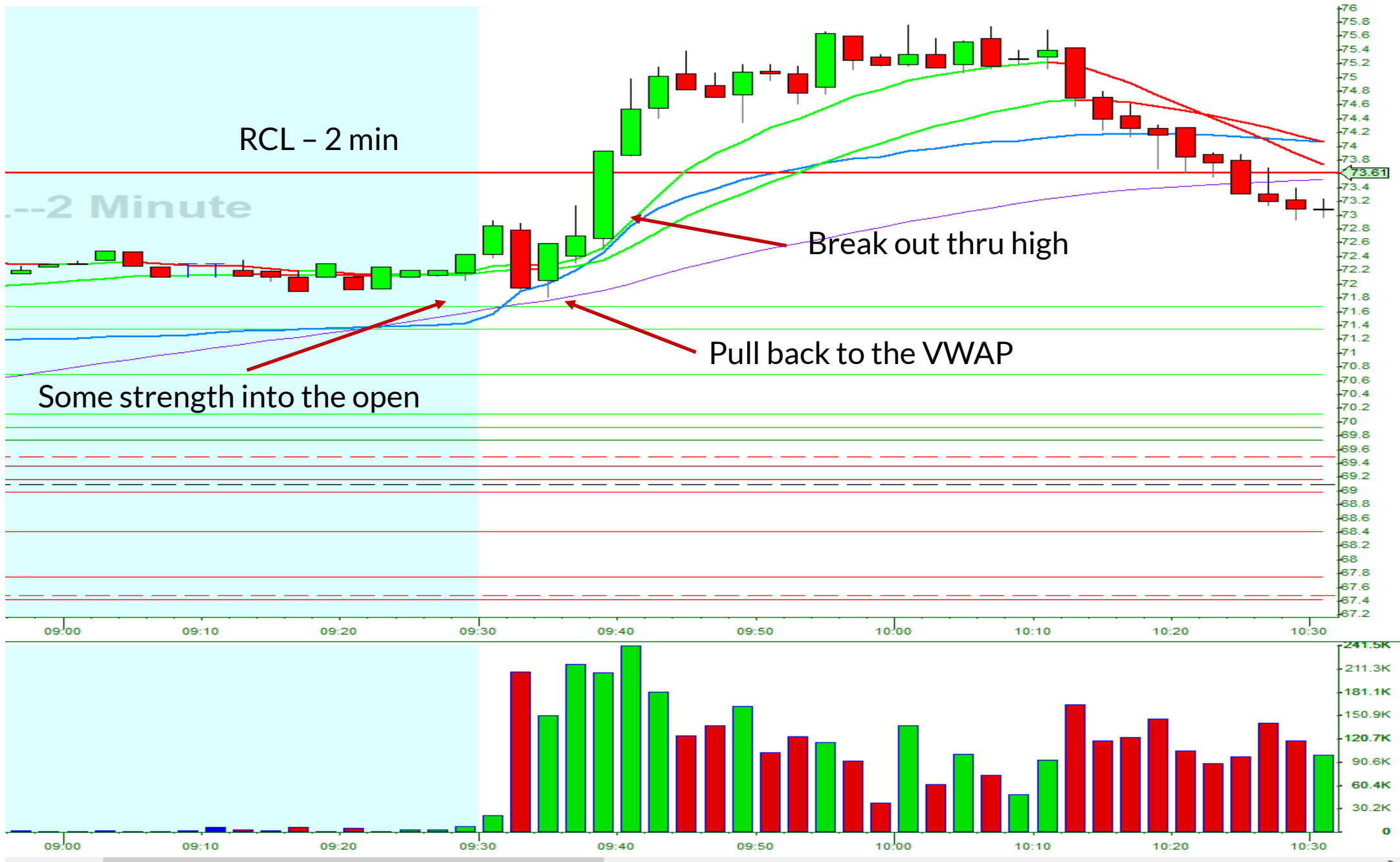
Gap Up Scenarios

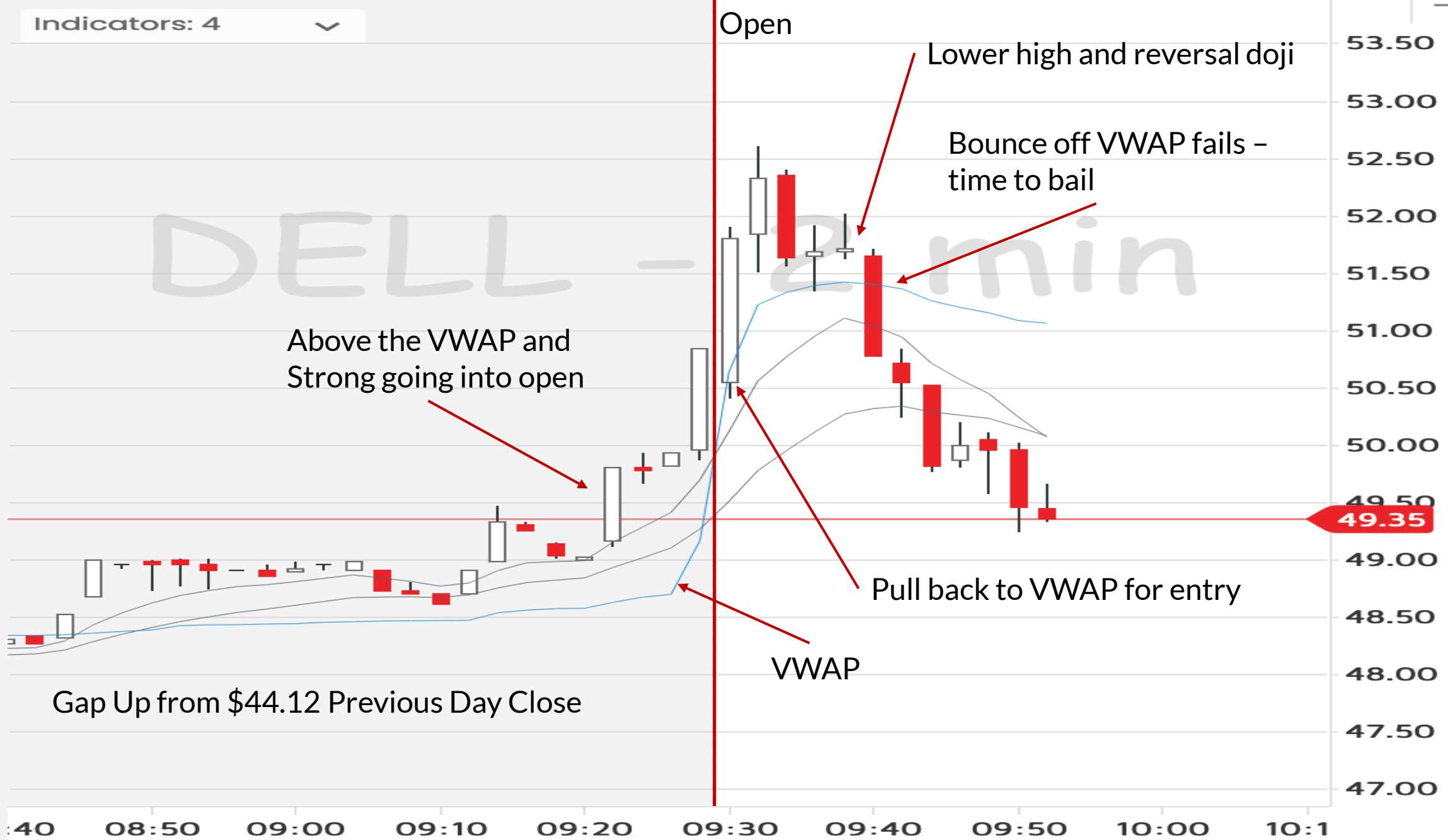


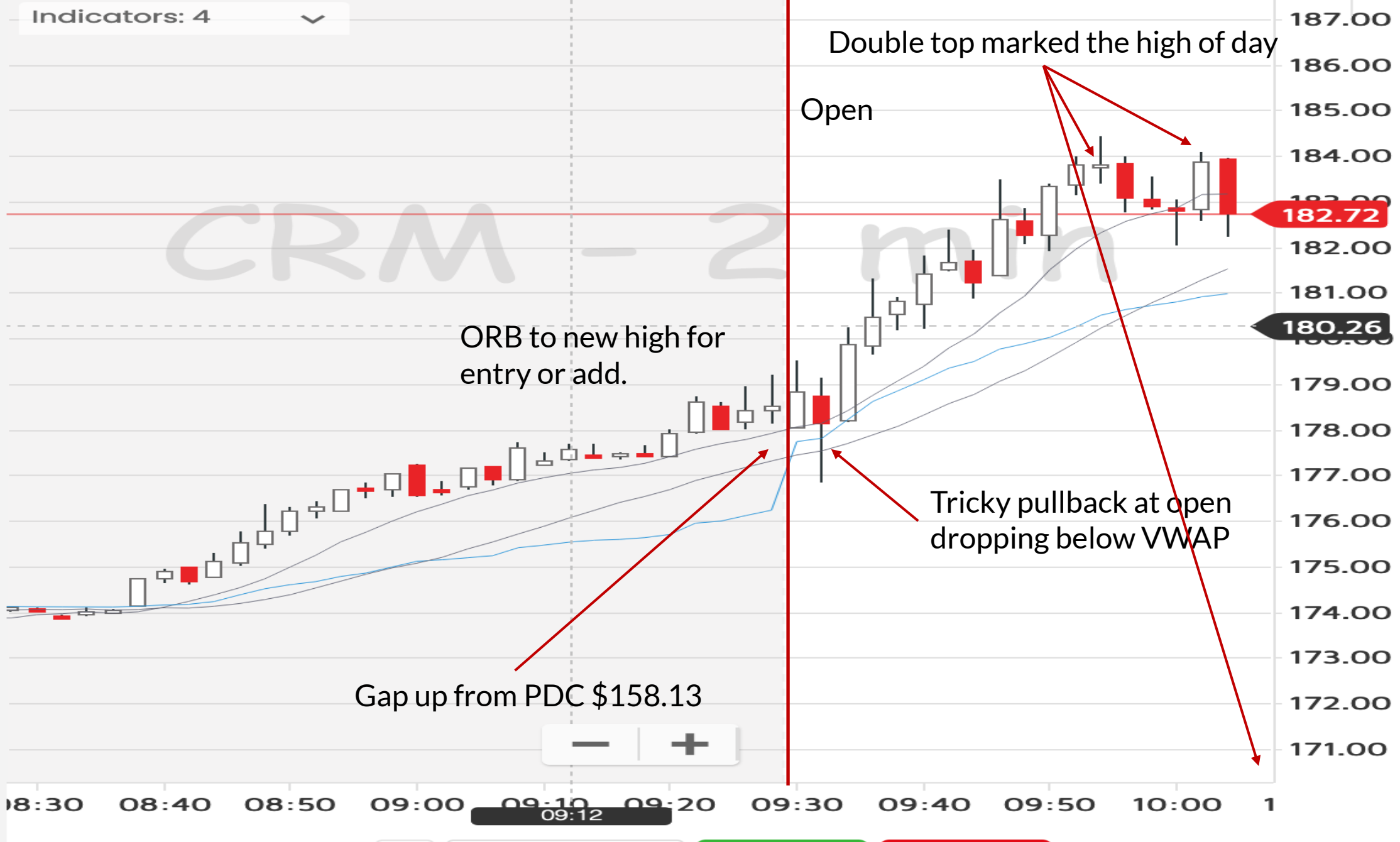
Gap Up: The Fallen Angel (Above VWAP)

- Criteria
 - Good news causing a gap up.
 - Gapping up on open.
 - Trading above the VWAP.
 - Showing strength into the open
- Action
 - Go long on drop back up to VWAP at open or on some bottoming candles after couple of minutes.
 - Stop out on break below the VWAP









Gap Up: The Lead Balloon (Below VWAP)

- Criteria

- Good news causing a gap up.
- Gapping up on open.
- Trading below the VWAP.
- Showing weakness into the open.

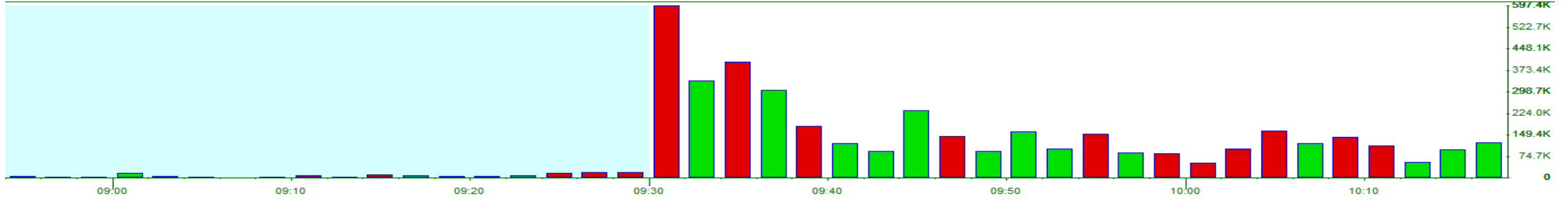
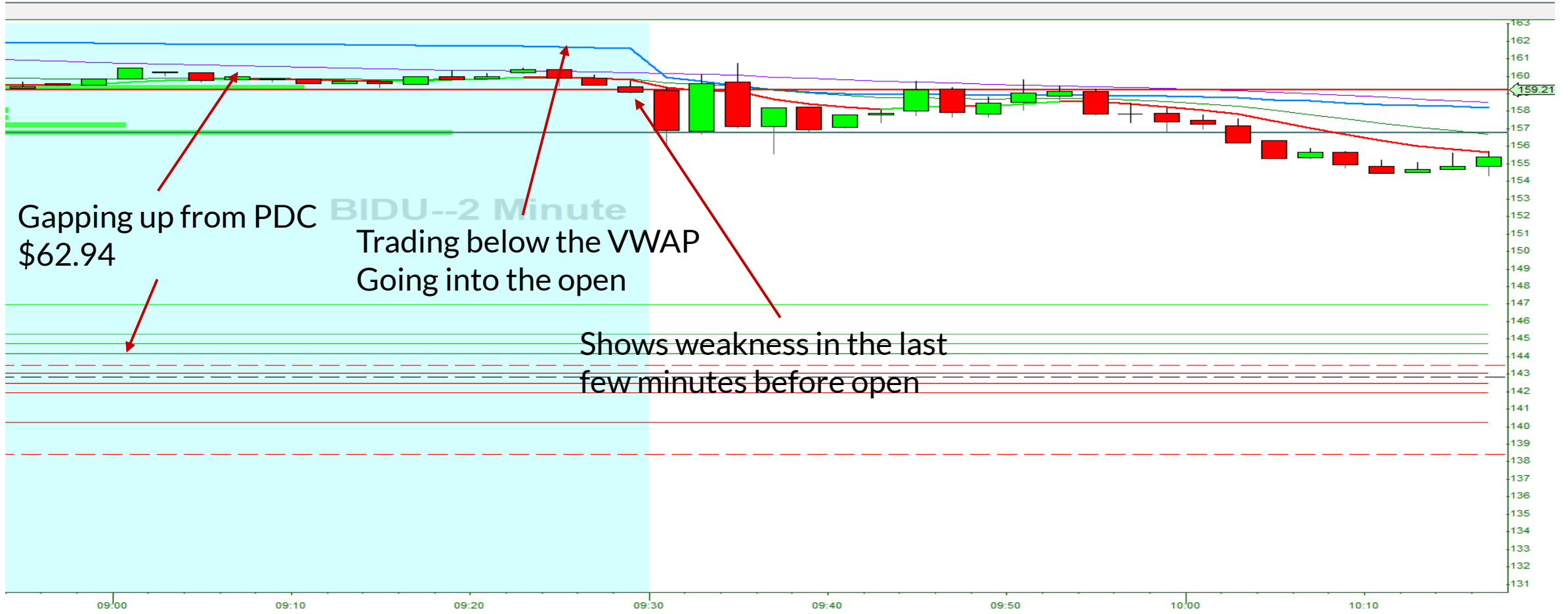
- Action

- Short on a pop back up to VWAP at open or more weakness after open price action.
- Stop out if it starts trading above the VWAP.





BIDU Feb 7th



Factors That Can Affect Price Action

- Short interest – high short (>20%) interest can bring in buyers.
 - On a gap up with good news, shorts may scramble to start covering – more upward pressure
 - On a gap down, shorts may want to start covering some of their positions.
- Market mood – a positive mood in the market can boost buying while a negative mood will limit upside.
 - On a gap up in a positive market mood, buying should be stronger
 - On a gap up, in a negative market mood, traders may be inclined to take profits more quickly
 - On a gap down in a positive market mood, downside might be more limited depending on news
 - On a gap down in a negative market mood, downside could be stronger depending on how far the stock has fallen so far and on the news.

How Do You Know When to Exit?

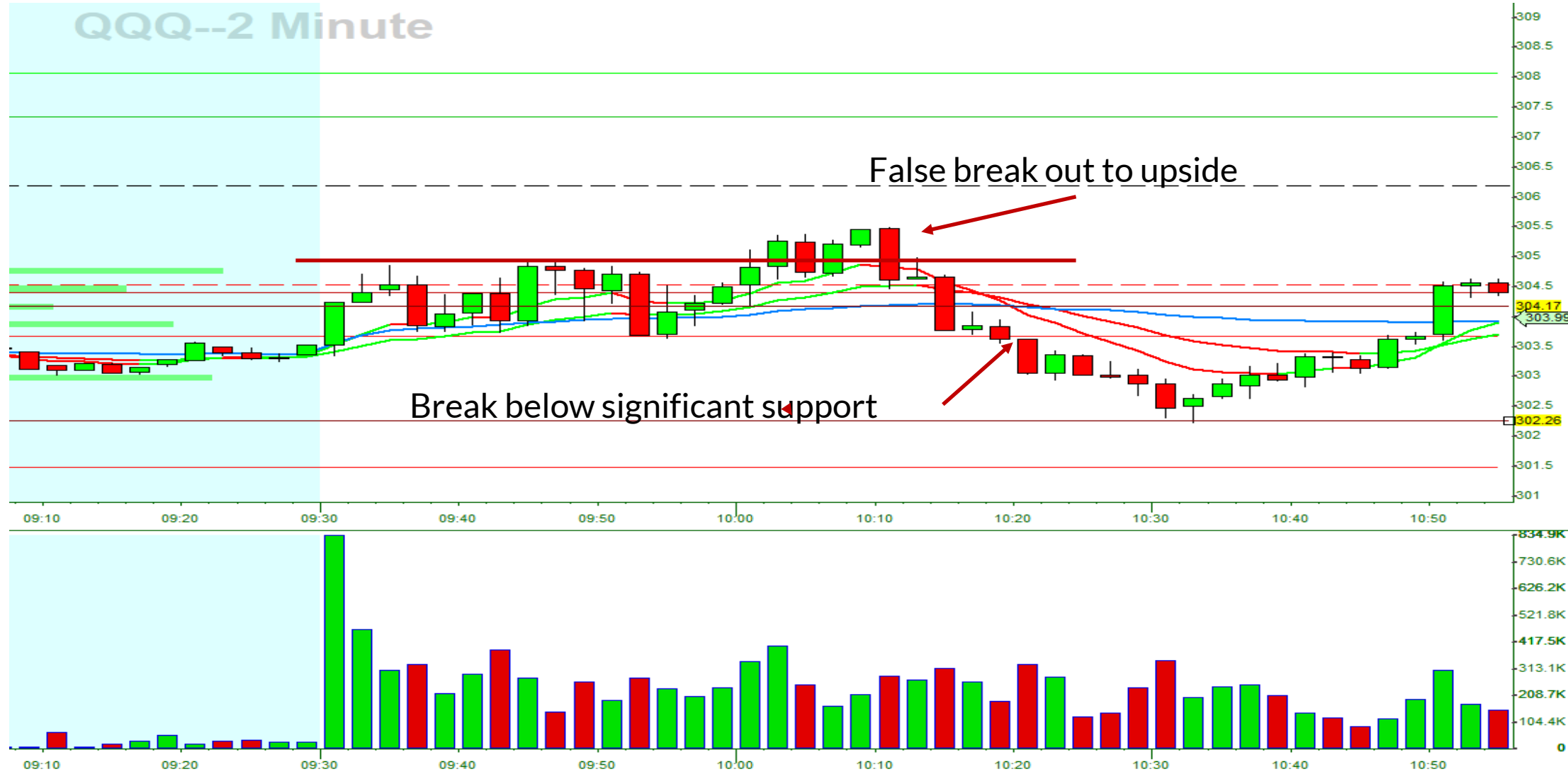
- Price Action – See Para’s presentation on reading areas where there are stubborn buyers or sellers.
- Level 2 turns bearish to bullish or vice versa. See Thor’s presentation and reading the level 2.
- Areas of longer-term support or resistance – See Meghan’s multiple timeframe approach.
- Moving averages and VWAP.
- Patterns that might indicate a top or bottom is in
 - Higher lows / lower highs
 - Failed break downs / break outs
 - Double tops / bottoms
- Time of day



Moving Averages and VWAP



Moving Averages and VWAP





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