



Mastering the Open Gaps Down and Gaps Up

PRESENTED BY:

Brian Pezim

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The 4 Horse-persons

- Rising Devil (Gap Down)
- Phoenix (Gap Down)

Little to No Reaction

- Fallen Angel (Gap Up)
- Lead Balloon (Gap Up)

Gap Scenarios

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

- GAP DOWN from PDC
 1. TRADING ABOVE the VWAP
 2. TRADING BELOW the VWAP

- GAP UP from PDC
 1. TRADING ABOVE the VWAP
 2. TRADING BELOW the VWAP

Gap Down Scenarios

GAP DOWN – Trading BELOW the VWAP at Open

The Rising Devil

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.







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T&S

Indicators: 4



Open

Gapping down from \$22.5 PDC

Pop up above VWAP at open
- possible short here

Possible add on break lower

Real weakness, some buying
(short covering?) then more weakness
going into the open

Consolidation before another leg lower

18.19

18.00

17.75

17.50

17.25

17.00

16.75

16.61

16.50

16.25

16.00

15.75

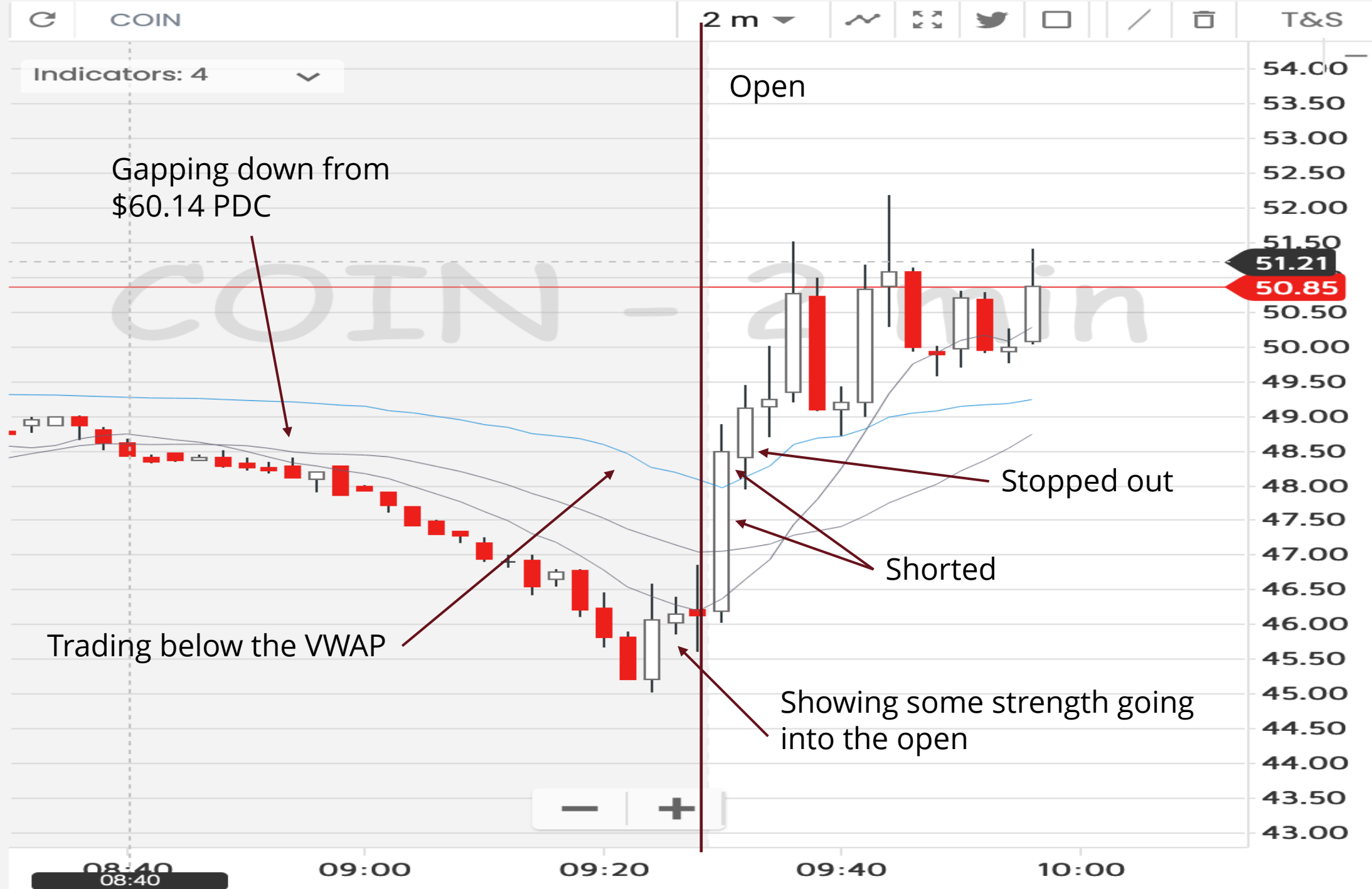
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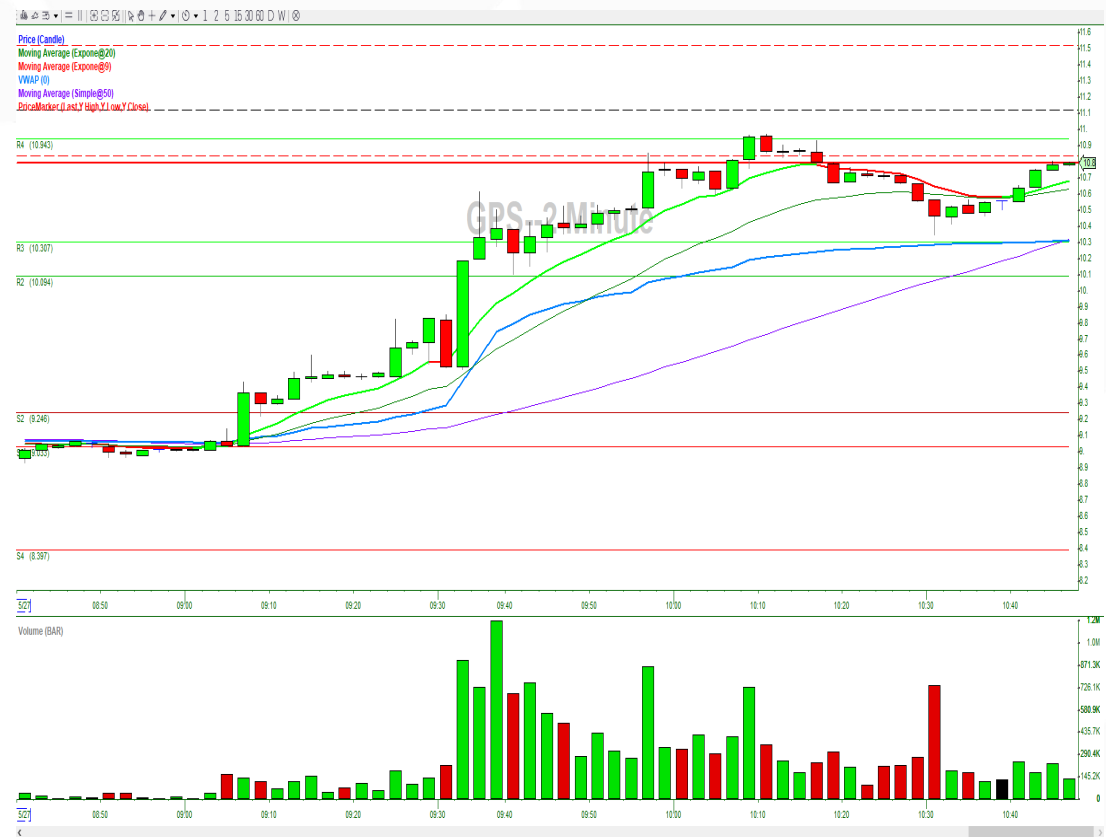
GAP DOWN – Trading ABOVE the VWAP at Open The Phoenix

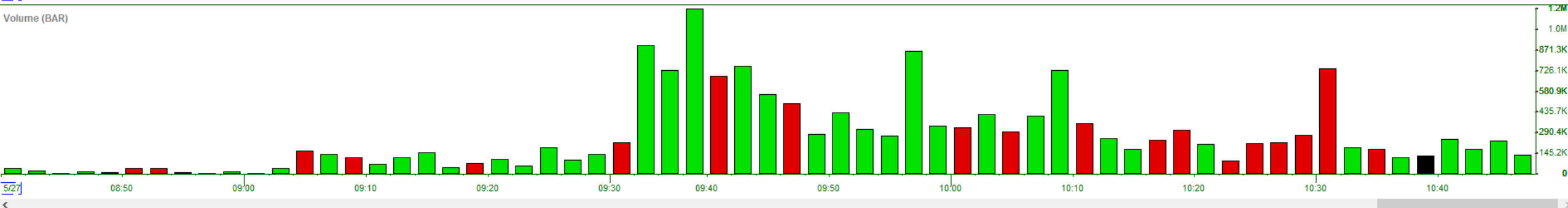
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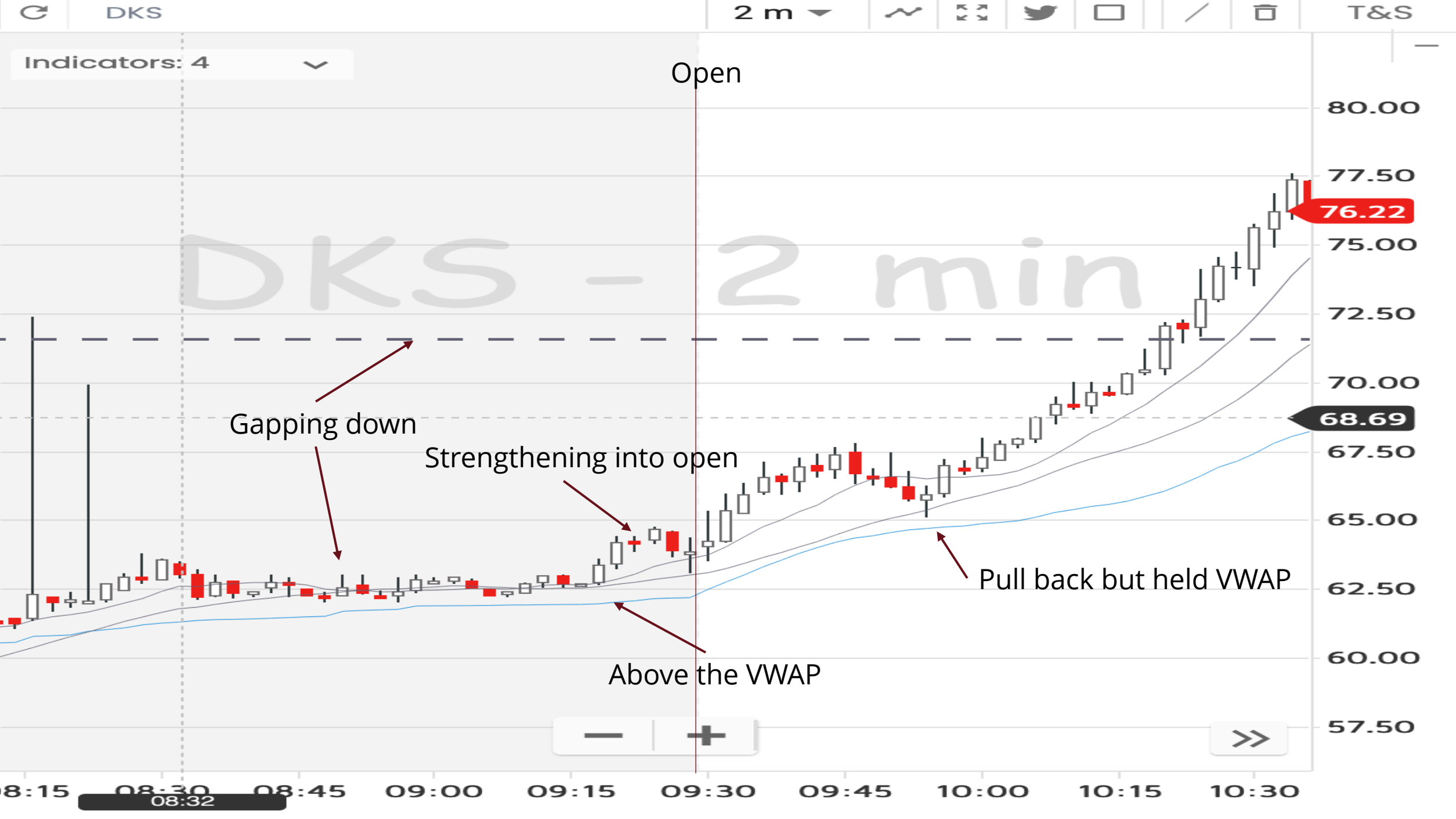
- News released – could be direct news or peripheral damage from a company in a similar sector.
- Gapping down, trading above VWAP going into open.
- Best if it shows strength in last 5 mins prior to open.

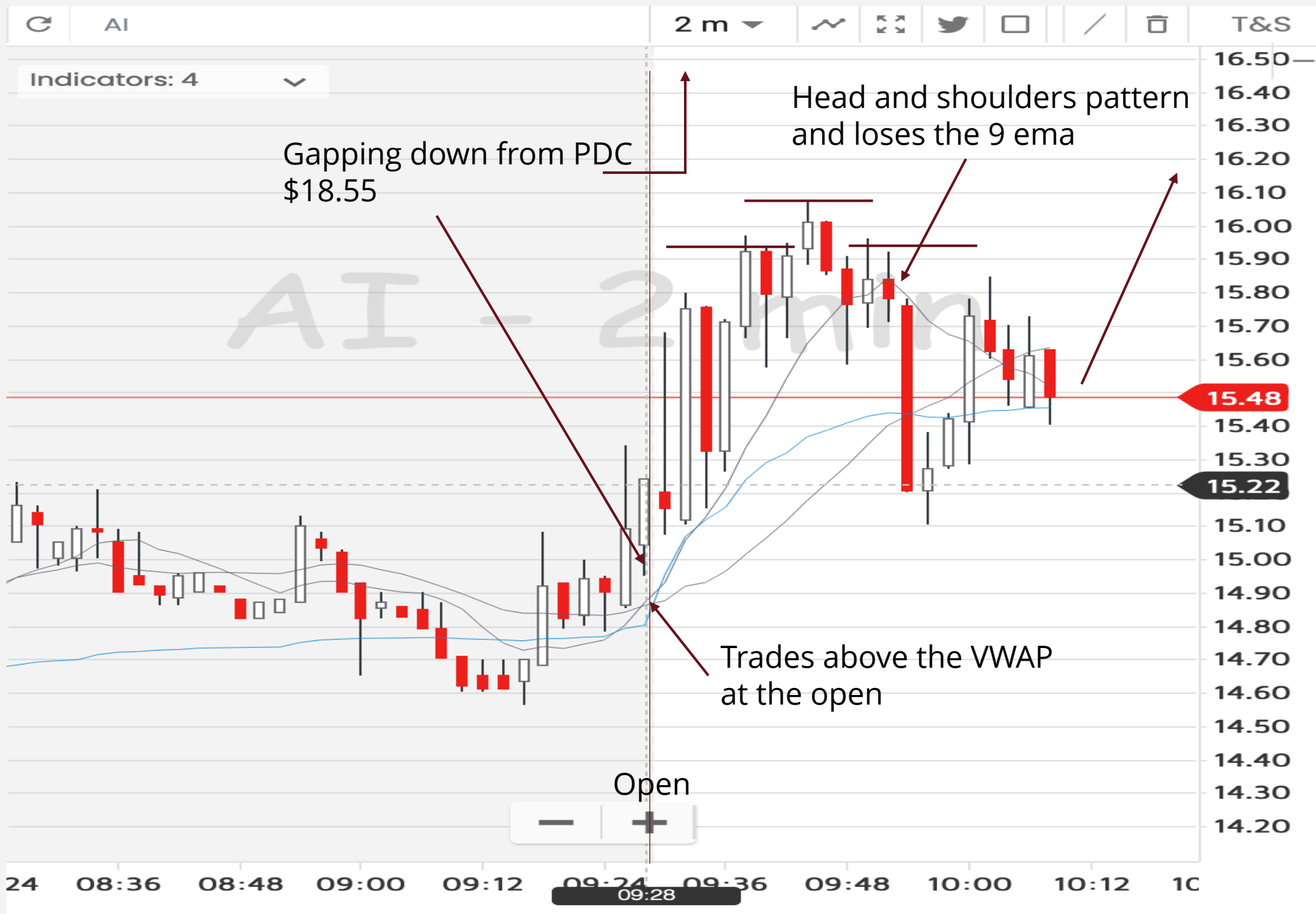
Action

- Pull back to VWAP at open go long.
- Add on break of high of day possible.
- Stop below VWAP or premarket low.









Gap Up Scenarios

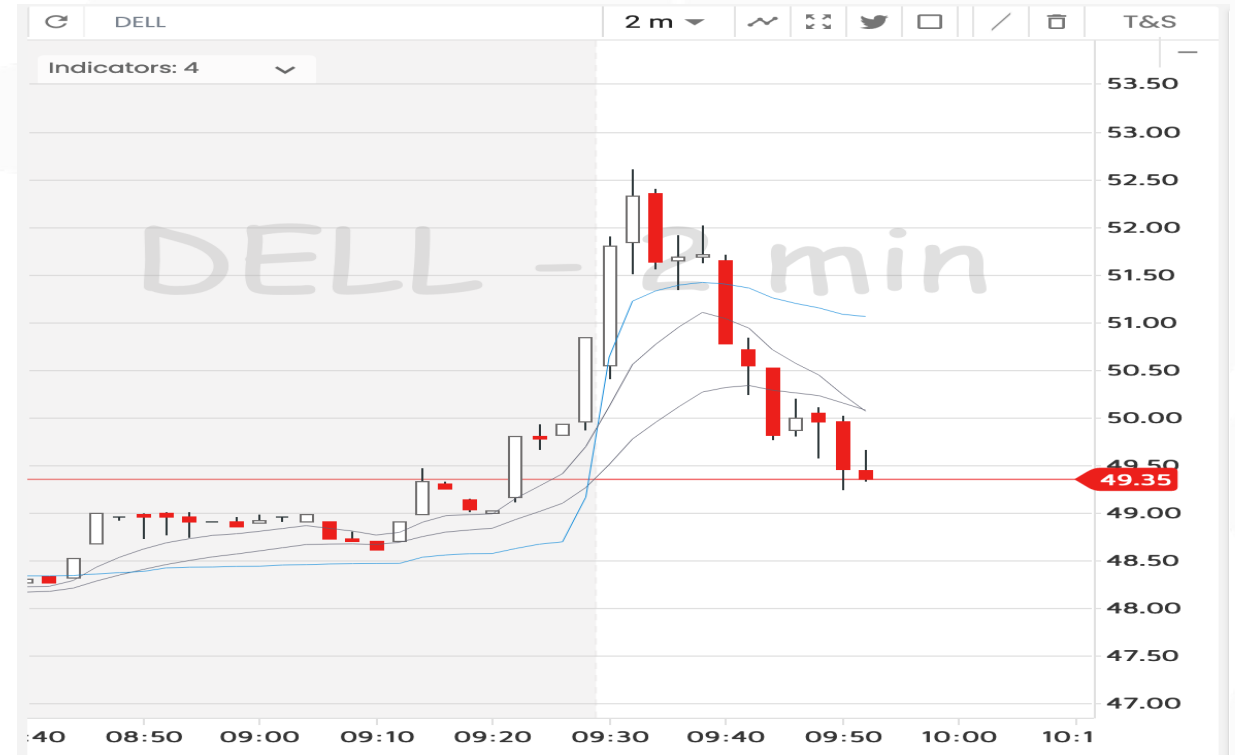
GAP UP – Trading ABOVE the VWAP at Open The Fallen Angel

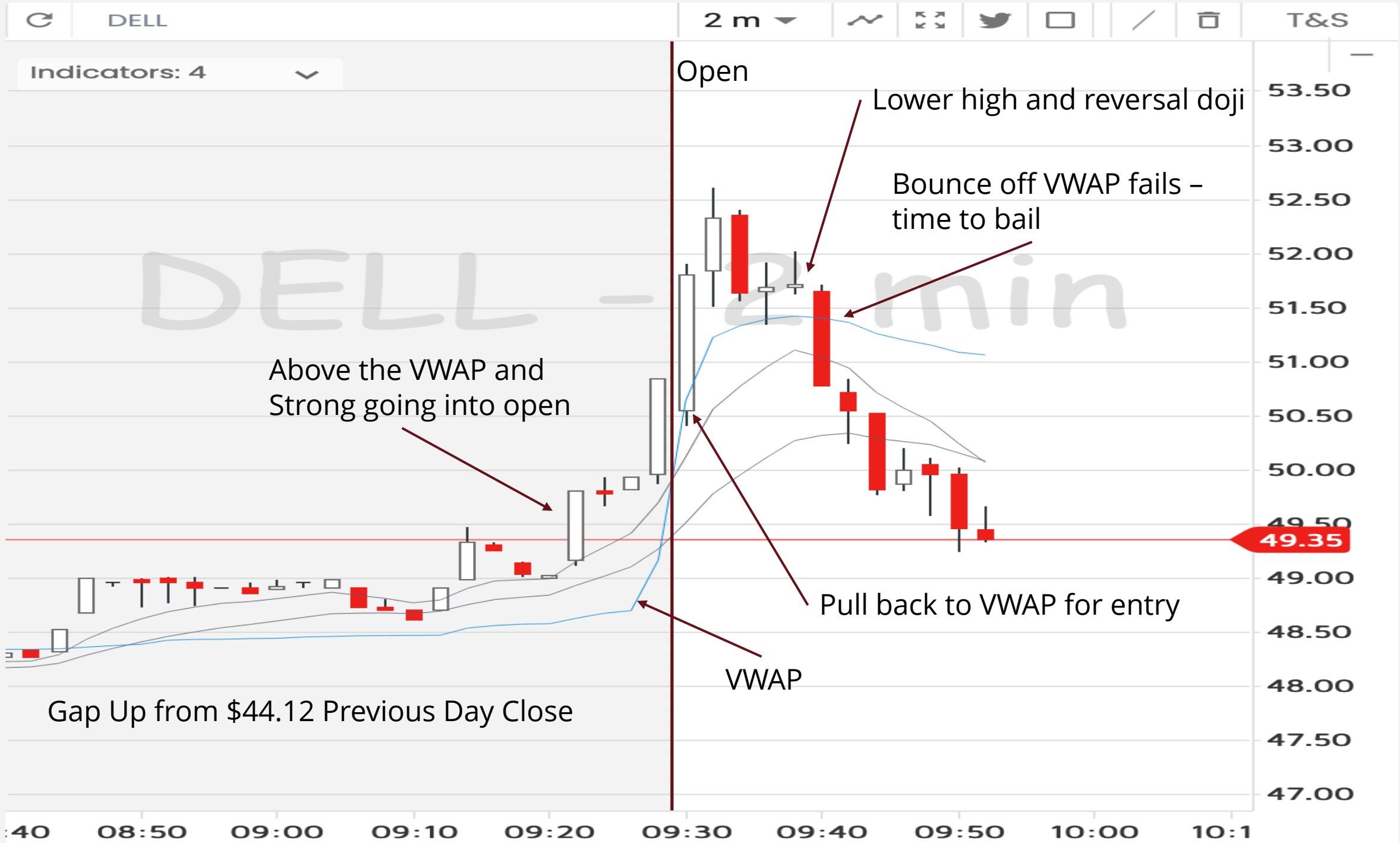
Criteria

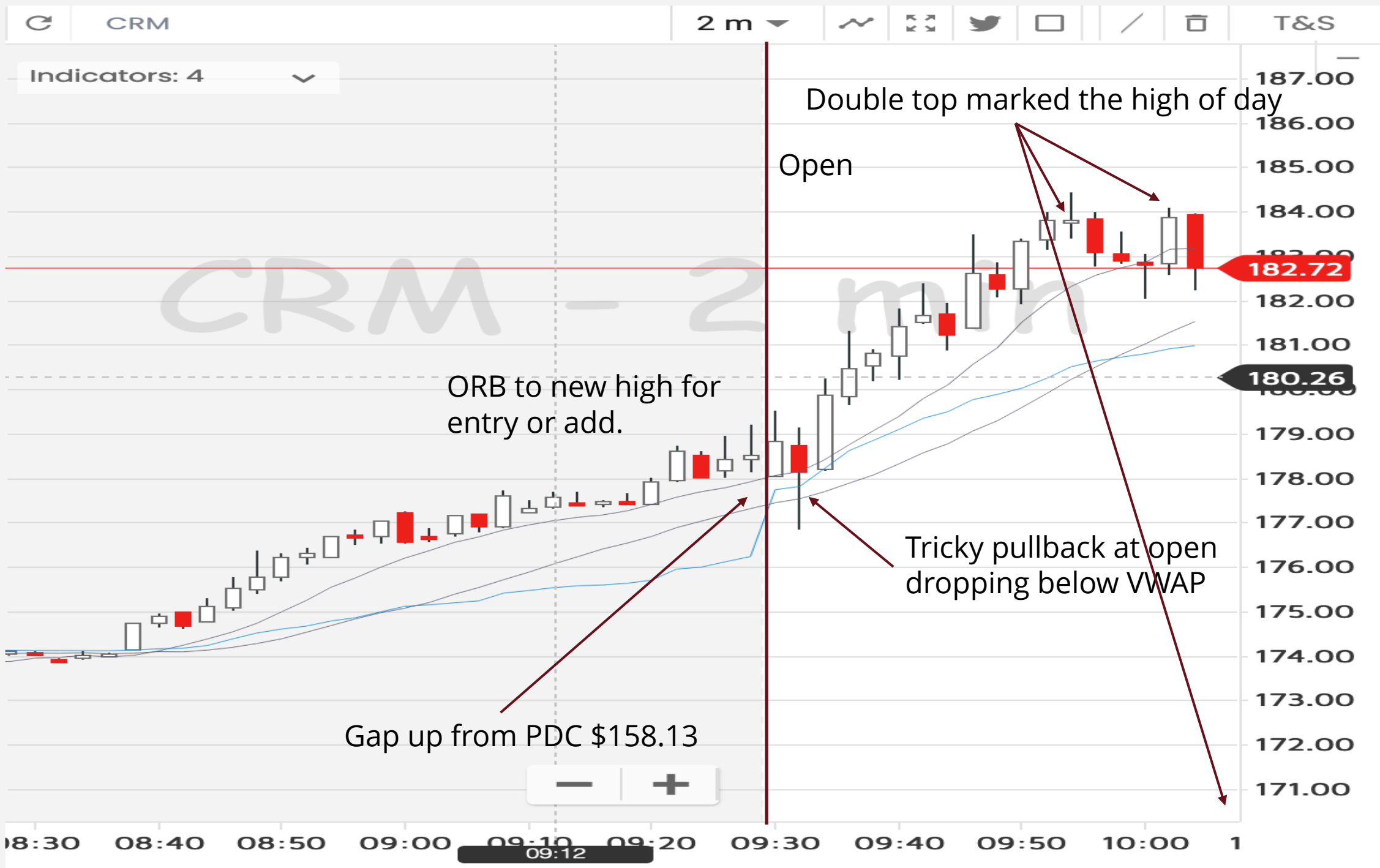
- Good news causing a gap up.
- Gapping up on open.
- Trading above the VWAP.
- Showing strength into the open.

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 – Trading BELOW the VWAP at Open

The Lead Balloon

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.







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
 - 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.



Questions?