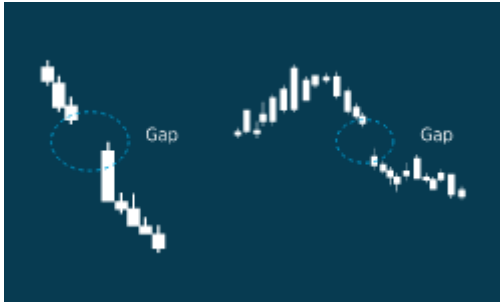


Understanding Market Gaps and Slippage

What are Gaps?

Gaps are sharp breaks in price with no trading occurring in between. Gaps can happen moving up or moving down. In the forex market, gaps primarily occur over the weekend because it is the only time the forex market closes. Gaps may also occur on very short timeframes such as a one-minute chart or immediately following a major news announcement.



Examples of when gapping can occur include:

When economic data is released – particularly if it contains data that the market isn't expecting
As major news events are announced, particularly global and/or unexpected news
When trading resumes after a weekend or holiday – especially if major news is announced in that period

Why are they important?

Gaps can give an idea of market sentiment. When a market gaps up, that means there were zero traders willing to sell at the levels of the gap. When a market gaps down, that means there were zero traders willing to buy at the levels of the gap. They are also important to be aware of because it is possible to gap past a stop order and get filled at a worse price than your stop order.

Gaps sometimes result in corrective price action. In other words, after the gap occurs prices have a tendency to reverse and “fill” the gap.

So how do I use them?

If there is a gap, generally that is a signal to stay out of the market. Gaps can show strength in the direction of the gap or they can “close” by having prices move in the opposite direction of the gap to at least where the gap began. If there is a gap immediately before the entry of a trade, it may be wise to cancel the trade.

What Is Slippage?

Slippage is the difference between the expected price of a trade and the price at which the trade actually executes. Market gaps can cause slippage which may affect stop and limit orders – meaning they will be executed at a different price from that requested.