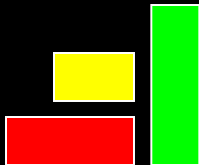


The Basics of MTG Gap Guides

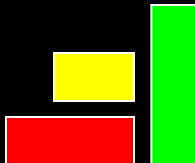


Disclaimer

This material is intended for educational purposes only and is believed to be accurate, but its accuracy is not guaranteed. Trading and investing has large potential rewards and large potential risks. You must be aware of, and fully understand, these risks and be willing to accept them in order to invest in equity, futures, options, currencies and other financial markets.

Do not trade with money that you cannot afford to lose. This material is neither a solicitation nor an offer to buy or sell equities, futures, options, or currencies. No representation is being made that any account will or is likely to achieve profits or losses similar to those discussed. The past performance of any trading system or methodology is not necessarily indicative of future results. The presenter is a not a certified financial planner or commodity trading advisor.

Use this information at your own risk!!



Agenda: Lesson 2

- Gap Basics
- Gap Zones and Map
- Gap Guide Overview
- Gap Guide Terms
- Trade Filters and Ideas
- Summary



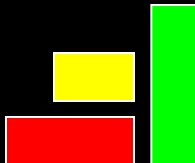
Gap Basics



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.”



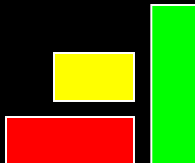
Example of Gap: IWM 5 Min Chart

Next day
opening price
(9:30 am ET)

Prior day
closing price
(4:00 pm ET)



Price retraces
& fills gap



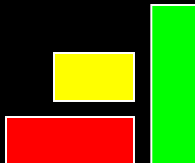
Basic Definitions

Fade: trade in the opposite direction
gap up = sell short
gap down = buy long

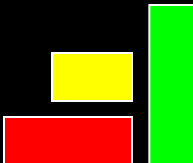
Follow: trade in direction of the gap
gap up = buy long
gap down = sell short

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



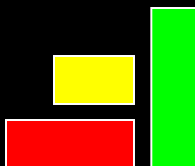
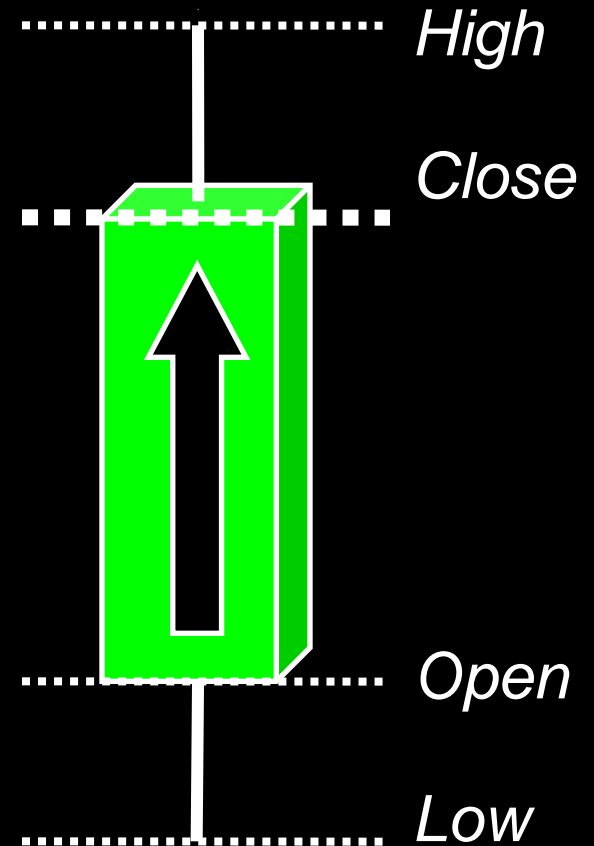
Gap Zones and Map



Gap Zones

Definition:

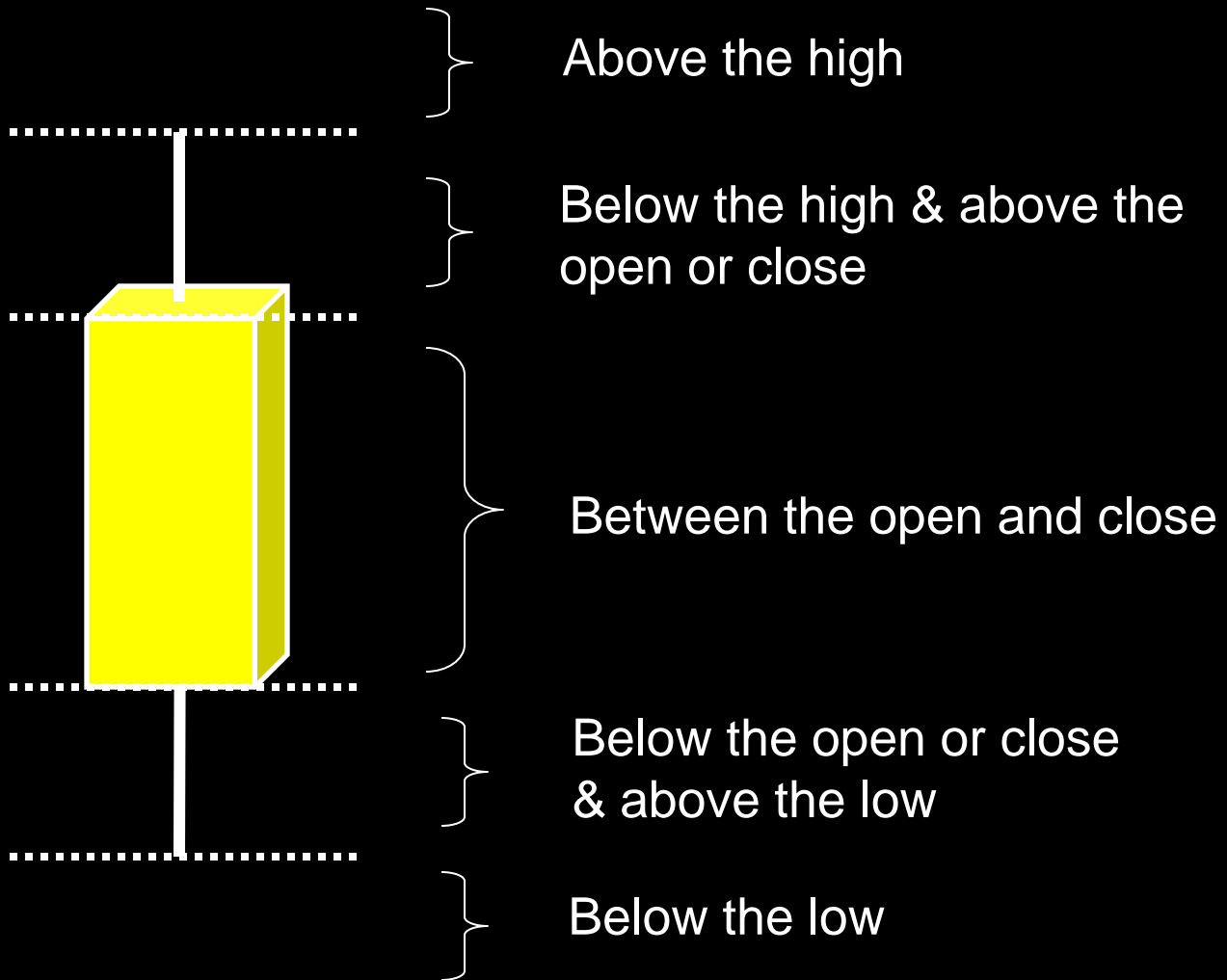
Location of today's **Open** relative to the prior day's **Open, High, Low, Close**.



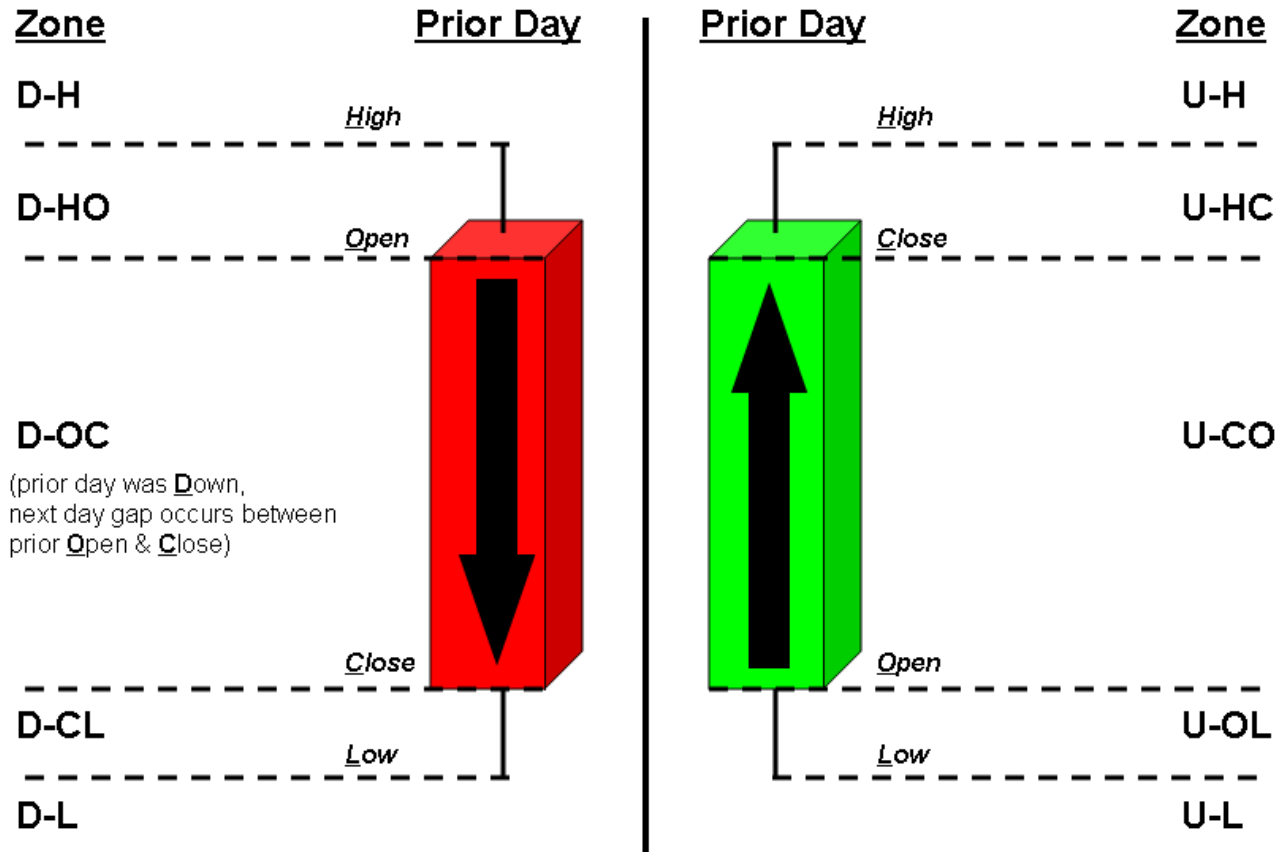
Gap Zone Areas

Prior Day

Potential Next Day Gap Areas



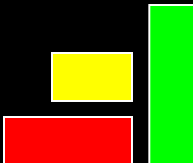
Gap ZoneSM Map



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Gap Guide Overview



Gap Guide Overview

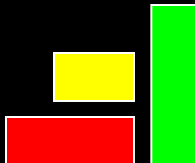
- Designed to assist traders with trade selection
- Goal is to avoid historically the riskiest setups and identify the best setups
- Data is best used as a “guide” to decision making
- Posted daily between 6pm and 9pm ET



Gap Guide Assumptions

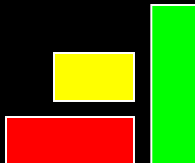
Markets:

Description	Futures	ETF's
S&P 500	ES	SPY
Dow 30	YM	DIA
Nasdaq 100	NQ	QQQQ
Russell 2000	TF	IWM



Gap Guide Assumptions

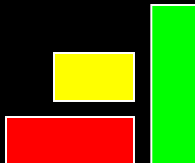
- Based on 7-10 years of data for each market
(min 1,500 total gaps)
- Technique: “fade the gap”
(short up gaps or buy down gaps)
- Entry at 9:30 am ET
- Exits *(whichever occurs first)*
 - Yesterday closing price *(last trade)*
 - Stop
 - End of day (4:00pm ET for ETF’s, 4:15pm ET for futures)
- Commission included, slippage not included



Gap Guide Assumptions

➤ ATR: Average True Range

- 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
- Useful calculation for measuring market volatility

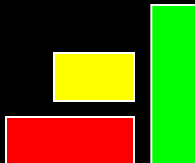


Gap Guide Assumptions

➤ Minimum gap sizes:

Market	Minimum
ES	1
YM	10
NQ	2.5
TF	.5
SPY	.10
DIA	.10
QQQQ	.05
IWM	.05

➤ Maximum gap size: 1 x 5 day ATR for each market



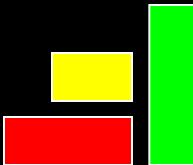
Gap Guide Assumptions

Stop size = 30% of 5 day ATR with min/max per market

Market	Minimum	Maximum
ES	5	12
YM	50	120
NQ	12.5	30
TF	2.5	6
SPY	.50	1.2
DIA	.50	1.2
QQQQ	.25	.60
IWM	.25	.60



Gap Guide Terms



Gap Guide Terms

- ATR = 5 day Average True Range
- Target = is Gap Fill or 15% of 5 day ATR beyond ("Extended" or "Ext.Target")
- Stop = 30% of 5 day ATR for each market
(with a min & max amount per market)

E-Mini S&P 500 Futures

ES														03/07/11			
Gap Zone SM	Market Condition				Patterns				Seasonality				Weighted Average				
	Gap Fill		Extended		Gap Fill		Extended		Gap Fill		Extended		Gap Fill		Extended		
	Win %	PE	Win %	PE	Win %	PE	Win %	PE	Win %	PE	Win %	PE	Win %	PE	Win %	PE	
D-H	46%	1.00	31%	0.67	73%	2.92	53%	1.93	33%	0.53	33%	0.87	56%	1.77	41%	1.26	
H 1330.50																	
D-HO	55%	0.99	41%	0.78	52%	1.24	41%	0.74	33%	0.50	33%	0.62	48%	0.98	39%	0.73	
O 1329.50																	
D-OC	59%	0.95	59%	1.57	79%	1.98	65%	1.38	61%	1.36	53%	1.25	73%	1.63	61%	1.39	
C 1320.00																	
D-CL	79%	2.01	69%	2.25	75%	1.20	61%	1.32	44%	0.41	33%	0.45	70%	1.30	58%	1.45	
L 1311.25																	
D-L	53%	0.96	42%	0.82	38%	0.42	36%	0.56	43%	0.63	43%	0.77	42%	0.59	38%	0.66	
ATR: 17.61						Stop: 5.28						Ext.Target: 2.64					

(- indicates a max or min stop instead of 30% of ATR)

Gap Guide Terms

- Win % = % of trades that hit target
(or finished profitable by EOD)
- PF = Profit Factor (ratio of historical profits to historical losses)
PF of 1 = breakeven, <1 = money loser, >1 = profitable

E-Mini S&P 500 Futures

ES														03/07/11			
Gap	Market Condition				Patterns				Seasonality				Weighted Average				
	Gap Fill	Extended		Gap Fill	Extended		Gap Fill	Extended		Gap Fill	Extended		Gap Fill	Extended			
Zoc SM	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	
D-H	46%	1.00	31%	0.67	73%	2.92	33%	1.93	33%	0.53	33%	0.87	56%	1.77	41%	1.26	
H 1330.50																	
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ATR: 17.61				Stop: 5.28				Ext.Target: 2.64									

(** - indicates a max or min stop instead of 30% of ATR)

Gap Guide Terms

- Market Condition based upon short (2 wks) & mid-term conditions (8 wks)
- Patterns based on past 3 days of price action
- Seasonality based upon day of week (M, T-T, F) and recent trend

E-Mini S&P 500 Futures

ES														03/07/11			
Gap Zone SM	Market Condition				Patterns				Seasonality				Weighted Average				
	Gap Fill		Extended		Gap Fill		Extended		Gap Fill		Extended		Gap Fill		Extended		
	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	
D-H	46%	1.00	31%	0.67	73%	2.92	53%	1.93	33%	0.53	33%	0.87	56%	1.77	41%	1.26	
H 1330.50																	
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ATR	17.61				Stop: 5.28				Ext.Target: 2.64								

(** - indicates a max or min stop instead of 30% of ATR)

Gap Guide Terms

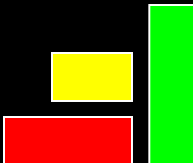
- Weighted Average: Shows average of 3 filters based upon number of historical events for each filter for that day/session
- Data with less than or equal to 10 comparable historical events are highlighted in yellow; trade with caution

E-Mini S&P 500 Futures

ES														03/07/11			
Gap Zone SM	Market Condition				Patterns				Seasonality				Weighted Average				
	Gap Fill		Extended		Gap Fill		Extended		Gap Fill		Extended		Gap Fill		Extended		
	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	
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ATR: 17.61				Stop: 5.28				Ext.Target: 2.64									

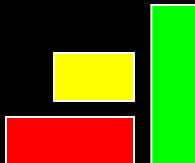
(** - indicates a max or min stop instead of 30% of ATR)

Trading Concepts

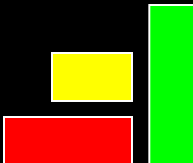


Trading Concepts

- Utilize weighted average for decision to enter
(idea: reduce size if one filter is extremely weak)
- Position size 1/3 per filter
- External trigger for entry *(moving average crossover, etc.)*
- Advanced Techniques
 - Gap size is $\leq 40\%$ of previous day's range or ATR
 - Scott's pre market research/comments
(Special days, FOMC, Options Expiration, 1ST of the month, etc)
 - Equivalent ETF/Future meets selection criteria as well
 - All futures and/or ETF's opening in same direction

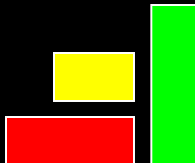


Summary

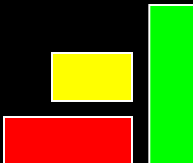


Summary

- “High probability” does NOT equal “certainty”
- No assurance future results will mimic past performance
- YOU must develop your own set of rules/guidelines
- 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!



End of Lesson 2



Questions?

Something confusing?

Email: tim@masterthegap.com

