Fair Value Gap PDF

What is a Fair Value Gap?

A Fair Value Gap (FVG) is a price imbalance that forms during strong market moves. It typically occurs when one side of the market dominates with such force that price skips over certain levels, creating a visible 'gap' in the candle structure.

This gap can often be seen as an area where no trades occurred. Institutional traders use this imbalance to re-enter or reposition during a retracement to that zone. It's a key sign of smart money activity.

Example: Bullish Fair Value Gap

Candle Structure and Gap Logic

The classic FVG forms over three candles:

1. Candle 1: Normal movement before the impulse

2. Candle 2: Aggressive expansion candle

3. Candle 3: If it doesn't overlap Candle 1's wick = gap confirmed

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The area between the high of Candle 1 and low of Candle 3 is the Fair Value Gap.

Bullish vs Bearish FVGs

- Bullish FVG: Gap forms as price surges up and skips over sellers.
- Bearish FVG: Gap forms as price crashes down and skips over buyers.

These are often revisited before continuation and offer reliable trade zones.

Why Do FVGs Matter?

FVGs give insight into market mechanics. They are footprints left by institutional volume, and price tends to return to those areas to rebalance before moving again. Recognizing them can significantly improve entry timing and trade accuracy.