

Harnessing Fair Value Gaps in ICT Trading



by Arman Shaban





Understanding Fair Value Gaps

Fair Value Gaps (FVGs) are a fundamental concept in the ICT (Inner Circle Trader) method, representing price inefficiencies in the market that offer lucrative trading opportunities. These gaps emerge when there is a noticeable disparity between the buying and selling pressure, leading to a sudden surge or drop in prices that the market is unable to process efficiently.

A Fair Value Gap occurs when there is a noticeable gap between two consecutive candles in the price chart, typically on lower timeframes. This gap indicates a disparity between buyers and sellers, often caused by a sudden influx of orders that the market cannot efficiently process. As a result, there is a "gap" or "void" where price did not trade, creating an imbalance.

Identifying and Analyzing FVGs

1 The Three-Candle Pattern

FVGs typically form between three consecutive candles, where the middle candle's high or low does not overlap with the first and third candles.

2 Spotting the Gap

Examine the price action closely to identify the gap, which is the difference between the highest point of the first candle and the lowest point of the third candle (or vice versa for bearish gaps).

3 Understanding Market Sentiment

FVGs represent areas where the market is out of balance, providing insights into the underlying sentiment and the potential for the price to "fill" the gap and restore equilibrium.

Profitable Trade Setups with FVGs

FVG Reversion Trade

Identify the FVG, wait for the price to return to the gap zone, and then enter a long trade at the lower boundary of a bullish FVG or a short trade at the upper boundary of a bearish FVG. Place a stop loss just beyond the opposite boundary of the FVG and set your take profit at a logical support or resistance level.

Continuation Trade

Determine the prevailing market trend, find an FVG within the trend, and enter the trade in the direction of the trend once the FVG is filled. Place your stop loss just beyond the FVG boundary and use trend-based profit targets.

Reversal Trade

Look for signs of an overextended move followed by an FVG, wait for reversal signals like candlestick patterns, and then enter the trade upon confirmation of the reversal. Place your stop loss just beyond the recent high or low and target the opposite side of the trading range or a key support/resistance level.

Applying FVG Strategies in Practice

1 Identify the FVG

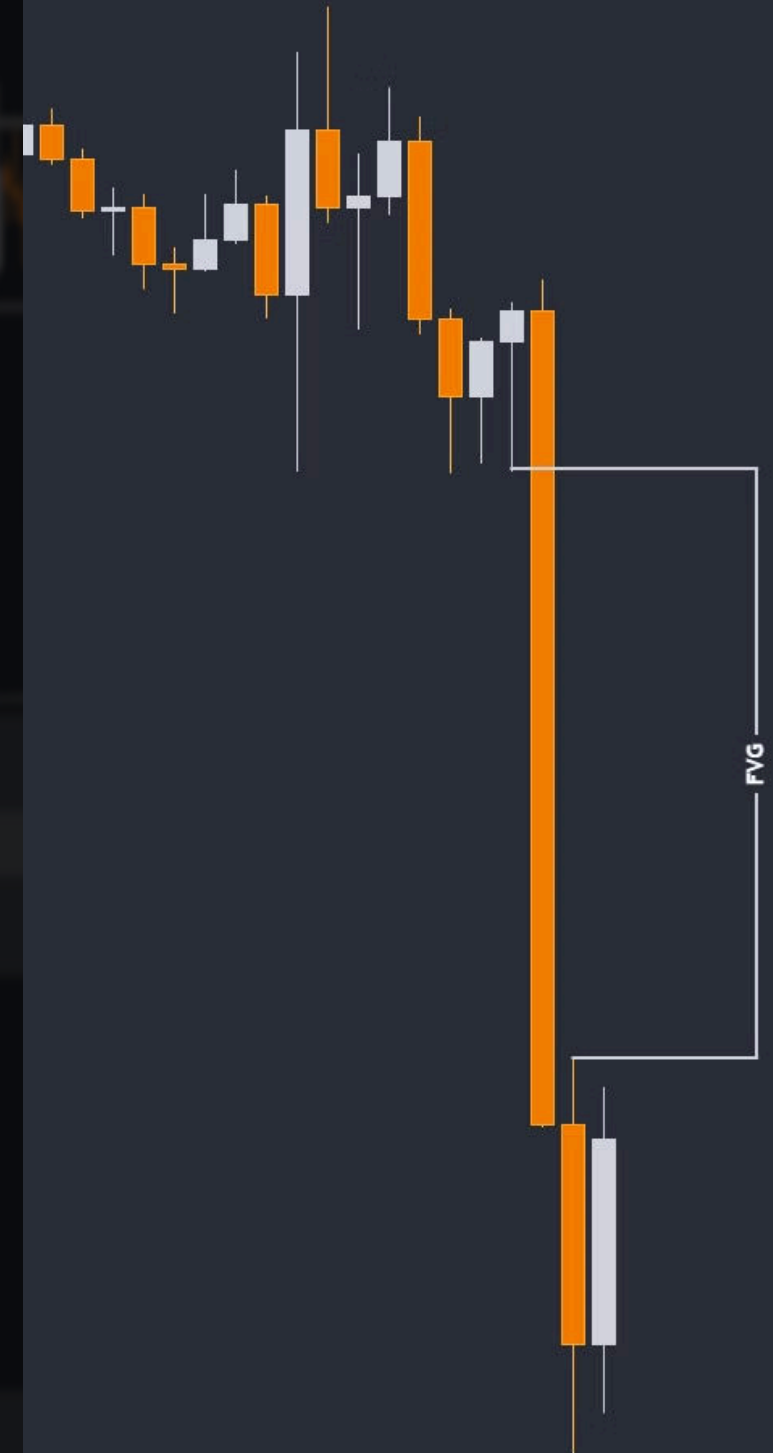
Scour your preferred timeframes to find a suitable FVG, paying attention to the three-candle pattern and the precise price gap. Understand the market context and the potential significance of the FVG.

2 Monitor the Price Action

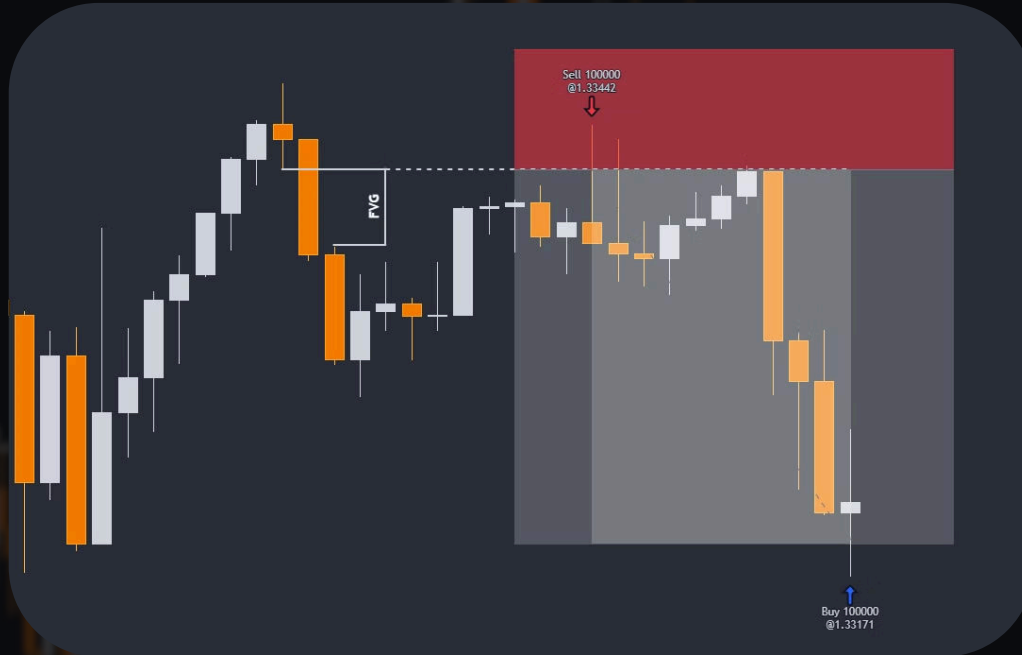
Closely observe the price as it approaches the FVG zone, looking for opportunities to enter your trade based on the specific setup (reversion, continuation, or reversal).

3 Manage Your Risk

Implement sound risk management practices, such as setting appropriate stop-loss levels and position sizes, to ensure that your trades align with your overall trading plan and risk tolerance.



GBP/USD : 15 min TF



Real Example

As observed in the chart, the price entered the **Fair Value Gap (FVG)** zone, filling the liquidity void. This provided a perfect entry point for a Sell position at **1.33442**.

Following the activation of this trade, we witnessed a significant price drop, allowing the position to close with a reward ratio of 3:1.

Additionally, the trade was further validated by the completion of the buy position at **1.33171**, highlighting the precision and effectiveness of our trading strategy.

The Power of Multiple Timeframe Analysis

Broader Context

Analyzing FVGs on higher timeframes can provide valuable insights into the broader market context, helping you make more informed decisions and identify high-probability trading opportunities.

Refined Entries

Combining FVG analysis on higher timeframes with entry setups on lower timeframes can enable you to time your trades more effectively and improve your overall trading performance.

Confluence with Other Tools

Incorporating FVG analysis into your trading toolkit, alongside other ICT concepts like order blocks and market structure, can further enhance the accuracy and reliability of your trading decisions.

Patience and Discipline

Successful FVG trading requires patience and discipline, as it's crucial to wait for the price to return to the gap zone rather than jumping in prematurely. Consistently applying these principles can lead to a more robust and profitable trading strategy.

Leveraging FVGs for Consistent Profits



Market Understanding

Developing a deep understanding of market dynamics and the underlying forces that drive price movements is essential for effectively identifying and capitalizing on FVG trading opportunities.



Disciplined Execution

Adhering to a well-defined trading plan and consistently applying sound risk management principles are critical for turning FVG trading setups into consistent profits over the long term.



Continuous Learning

Embracing a growth mindset and continuously expanding your knowledge through ongoing education, research, and practice can help you refine your FVG trading strategies and adapt to evolving market conditions.



Targeted Execution

Carefully selecting the most appropriate FVG trade setup (reversion, continuation, or reversal) based on the current market environment and your trading objectives can enhance the success rate of your FVG-based trades.

Navigating Market Volatility with FVGs

1

Identify Volatility

Recognize periods of increased market volatility, as they often coincide with the formation of FVGs, providing potential trading opportunities.

2

Analyze Market Dynamics

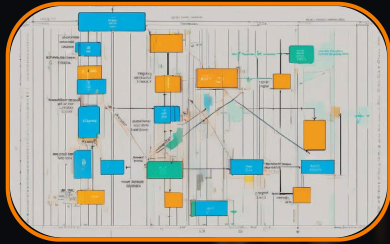
Carefully examine the underlying factors driving the market's volatility, such as news events, economic data releases, or shifts in investor sentiment, to better understand the context of the FVG.

3

Adapt Your Approach

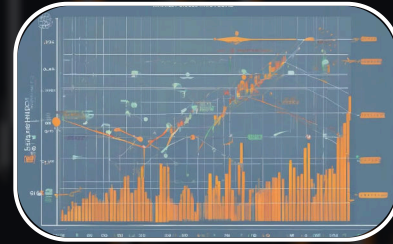
Adjust your trading strategies and risk management protocols to account for the heightened volatility, ensuring that your FVG trades align with the prevailing market conditions.

Combining FVGs with Other ICT Concepts



Order Blocks

Combining FVG analysis with the identification of order blocks can provide additional confirmation and context for your trading decisions, as these two concepts often intersect.



Market Structure

Understanding the broader market structure, including key support and resistance levels, can help you better evaluate the significance of an FVG and determine the most appropriate trade setup.



Volume Analysis

Examining the volume patterns surrounding an FVG can offer insights into the market's conviction and the potential for the price to follow through on the gap.



Candlestick Patterns

Identifying specific candlestick patterns within the FVG zone can provide further confirmation of potential reversal or continuation signals, enhancing the reliability of your trading decisions.

Conclusion: Mastering FVG Trading

Key Takeaways

Fair Value Gaps represent significant price inefficiencies in the market, offering traders opportunities to enter positions with a high probability of success. By understanding the dynamics behind FVGs and implementing effective trading strategies, you can enhance your overall trading performance and profitability.

Continuous Improvement

Mastering FVG trading is an ongoing process that requires a commitment to continuous learning, discipline, and adaptability. Stay attuned to market trends, refine your strategies, and consistently apply sound risk management principles to achieve sustainable trading success.

Unlock Your Potential

Embrace the power of FVG trading as part of your comprehensive ICT trading methodology. By leveraging this valuable concept, you can unlock new opportunities, make more informed decisions, and take your trading to new heights.

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Contact Information

Thank you for reading this document. If you have any questions, feedback, or would like to get in touch with me, please feel free to reach out through the following channels:



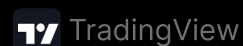
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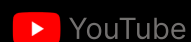
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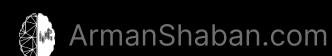
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