

Lesson 4: Fair Value Gap (FVG)

Displacement creates imbalances. These are referred to as FVG's. These are areas of interest to add when we have market structure and trend supporting the idea. A FVG is usually coupled with a/an order block(s).



From the last lesson, here is an FVG that is created after taking major yearly SSL. What else can be added to this chart that we now know to look for when have displacement? Order Blocks!



Recall, an OB is an area where you want to buy or sell. In this scenario, the mss is to the upside, therefore, this OB AND FVG is showing us where we can go long! Our targets for longs are the recent swing highs.

How do FVG's work?

Recall an imbalance is an area where we have an incomplete auction of buyers and sellers. They're are orders waiting to be filled within the imbalance. So this FVG is an area of liquidity for buyers and sellers to transact and complete their orders.

Direction comes from our analysis of liquidity and mss. The FVG is just an area where we know price can eventually retrace back into. Just because there is an FVG present, it does NOT mean we should be buying or selling. **The narrative of what price wants to do is what determines our execution process of buying or selling.**



So in this example, the narrative is shifting from shorting the highs to now awaiting an opportunity to go long.

Why do FVG's work?

They're described as an imbalance where we have left orders behind/pending. If our narrative for price is higher, we will look for signs of confluence to add long in a FVG. Vice versa for shorts.

For example, EMA traders will use their specific ema system to add into a trend. Chances are, this is where the FVG overlaps.

Support and Resistance traders will add near support, this is where the FVG and OB structure usually setups up the entry.

Supply and Demand traders like to add in their zones. This is where order blocks and FVG's provide entries.

Order flow traders will look for bullish or bearish flows at specific areas to confirm the trend. This is where FVG's are most likely to be.

Other tools like heatmap that illustrate order sizes at specific levels also overlap with FVG's and OB's.

I personally like to use volume price analysis with an ICT foundation to add my positions inside FVG's and near OB's. Direction is derived from liquidity analysis across multiple assets (advanced).

At the end of the day, the market is there to provide liquidity. Our only job is to understand where price is trying to go, and how we can enter the trend at a discount.

Let's go through some examples showcasing how FVG's work and how you can use your own strategy to trade them.