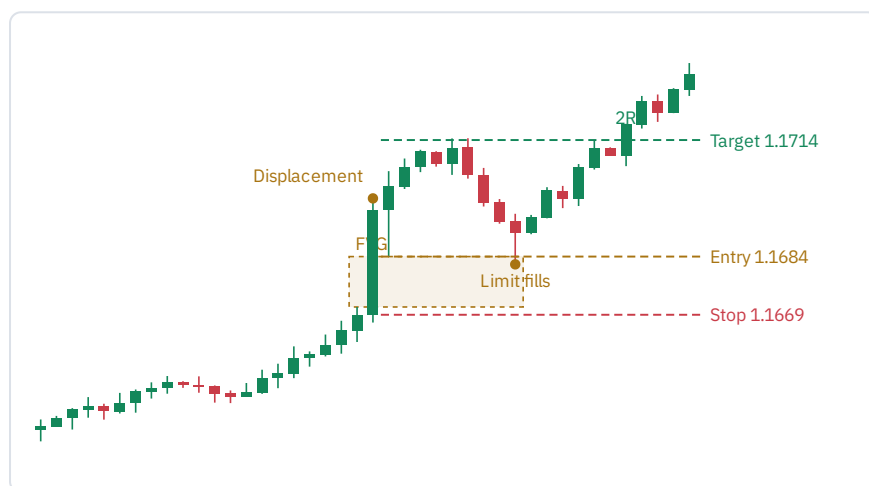


Fair Value Gap (FVG) strategy

How a three-candle gap forms, entry, stop and target rules, a EURUSD example and a free Pine Script. By M. A. Horaira, updated 9 October 2026.

THE RULES

- **The gap:** three candles in a row where the third candle's low is above the first candle's high (bullish), or its high is below the first candle's low (bearish), and the middle candle closes in the direction of the gap
- **Size check:** the gap must be at least $0.3 \times$ the 14-period ATR, so tiny gaps are ignored
- **Entry:** a limit order at the near edge of the gap (or at its middle), waiting for the price to come back
- **Stop loss:** beyond the far side of the gap, plus a quarter of the ATR
- **Target:** twice the risk (2R)
- **Filters:** only longs above the 200 EMA and shorts below it; the order is cancelled if it hasn't filled within 20 candles



Illustrative chart drawn to show the rules, not a real day's prices.

WORKED EXAMPLE

EURUSD: a 13-pip gap from 1.1671 to 1.1684. Buy limit 1.1684, stop 1.1669 (15 pips), target 1.1714 (2R).
 $\$10,000$ at 1% = $\$100 \div (15 \times \$10) = 0.66$ lots: $-\$99.00$ at the stop, $+\$198.00$ at the target.

LOT SIZE

Lots = money at risk $\div$ (stop in pips $\times$ pip value per lot).
 On EURUSD and GBPUSD one standard lot is \$10 a pip. Risk the same 0.5% to 1% on every trade.

BEFORE EVERY TRADE

- ☐ Third candle's low above the first candle's high (or the reverse)?
- ☐ Gap at least $0.3 \times$ ATR?
- ☐ Price on the right side of the 200 EMA?
- ☐ Limit order at the gap edge, not chasing?
- ☐ Cancel if not filled within 20 candles?

BACKTEST IT BEFORE YOU TRADE IT

1. Open the chart on TradingView.
2. Pine Editor → paste the free script → Add to chart.
3. Settings → Properties: add your commission and slippage.
4. Look for 100+ trades, a profit factor above 1 after costs, and a drawdown you can live with.
5. Check the same settings on other dates, then demo trade for a few weeks.
6. Free script: pipledgerfx.com/downloads/fair-value-gap-strategy.pine

For education only, not investment advice. Trading forex and gold on margin carries a high risk of loss, and no strategy wins every time. No backtest results are claimed here; test the rules yourself with your own costs. In India, residents may trade currency pairs only through SEBI-registered brokers on recognised exchanges (NSE, BSE, MSE) and gold on MCX; offshore forex and CFD platforms aren't allowed under FEMA. Full guide: pipledgerfx.com/fair-value-gap-strategy