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Decode The Market Code

Fair Value Gaps

Imbalance, Fills & Trading Strategy

A Fair Value Gap is **unfinished business** left behind by a forceful move — a zone many traders expect price to revisit before continuing. Learn what creates an FVG, how to grade a genuine imbalance from noise, and the entry and target approach traders use around **FVG fills and Consequent Encroachment**.

A FREE STUDY RESOURCE BY CHART CODE

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About This Guide

Under normal conditions, price moves through a range with genuine two-way trading — buyers and sellers meeting and transacting at almost every level. When a move is sudden and forceful enough, that back-and-forth doesn't have time to happen at every price, and a visible gap gets left behind on the chart. That gap is what traders call a Fair Value Gap (FVG).

Because that range never saw normal two-sided trading, many traders treat it as “unfinished business” — a zone price may be drawn back to later to let that fairer, two-way trading finally occur, before continuing in the original direction. That expectation is what turns a Fair Value Gap from a curiosity into a tradeable zone.

Fair Value Gaps (FVG) & Trading Strategy

What creates a Fair Value Gap, how to tell a genuine imbalance from noise, and the entry and target approach traders use around FVG fills.

How to Actually Read Fair Value Gaps

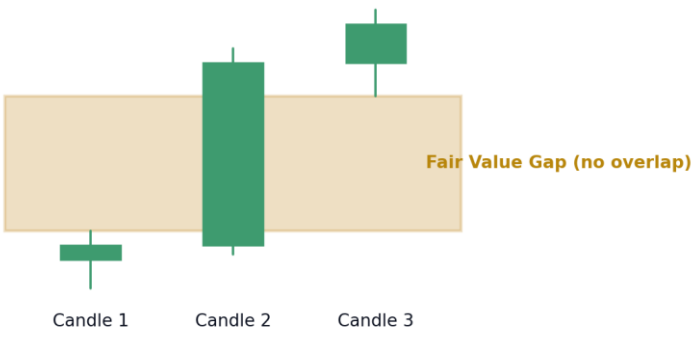
The most common beginner mistake with FVGs is marking every small gap between candles as significant, when most tiny gaps in normal price action carry little weight. A useful FVG is usually the exception during a genuinely forceful move, not something found on nearly every candle. Before treating any gap as tradeable, run it through three quick filters:

- **Was it formed by real displacement? —** a gap left behind by a sharp, high-momentum move matters more than one from a slow drift.
- **Is it large relative to recent candles? —** a gap noticeably bigger than the surrounding price action stands out for a reason.
- **Does it align with the higher-timeframe trend? —** a bullish FVG inside a strong uptrend is generally treated with more confidence than one fighting the dominant bias.

1. What Is a Fair Value Gap?

CORE CONCEPT

A Fair Value Gap is a three-candle pattern: the high (or low) of the first candle and the low (or high) of the third candle don't overlap, leaving a visible gap sitting between them. That gap represents a price range the market moved through without the usual two-sided trading — an imbalance between buying and selling.



Visualising it: candle 2 is the forceful move; the gap sits between candle 1's high and candle 3's low, with no overlap between them.

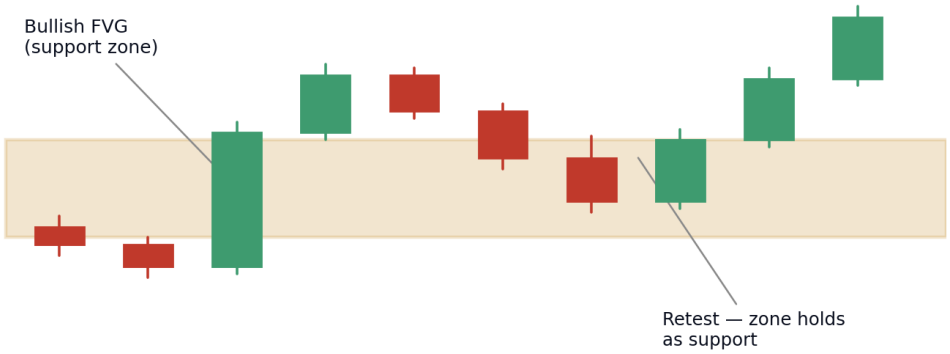
How to Read It

The middle candle is usually the largest and most forceful of the three — it's the one doing the actual displacing, while candles one and three simply mark the gap's two edges.

2. Bullish Fair Value Gap

SUPPORT ZONE

A bullish FVG forms during a sharp rally — the gap sits below current price, and is treated as a potential support zone if price pulls back into it later. The expectation is that leftover buying interest may still be present in that unfilled range.



Visualising it: the gap left behind by the rally later holds as support when price retests it.

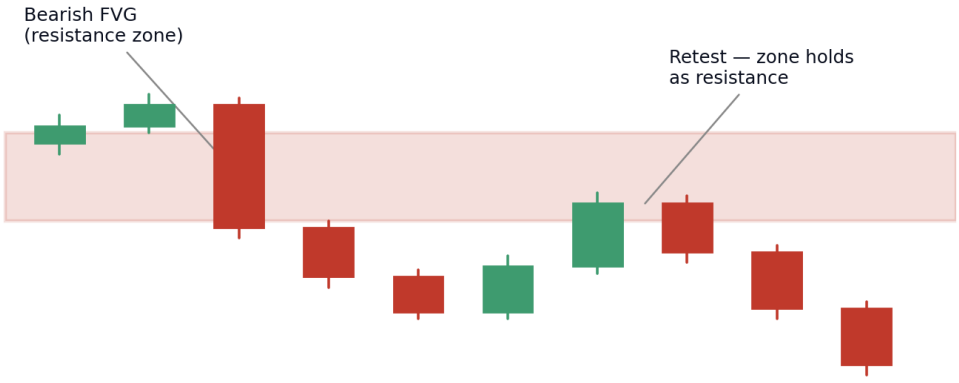
How to Read It

A bullish FVG that formed while also breaking a swing high is generally treated as more significant than one that formed in the middle of an unremarkable range.

3. Bearish Fair Value Gap

RESISTANCE ZONE

The mirror image: a bearish FVG forms during a sharp decline, with the gap sitting above current price. It's treated as a potential resistance zone if price rallies back into it, on the idea that leftover selling interest may still be present there.



Visualising it: the gap left behind by the decline later holds as resistance when price retests it.

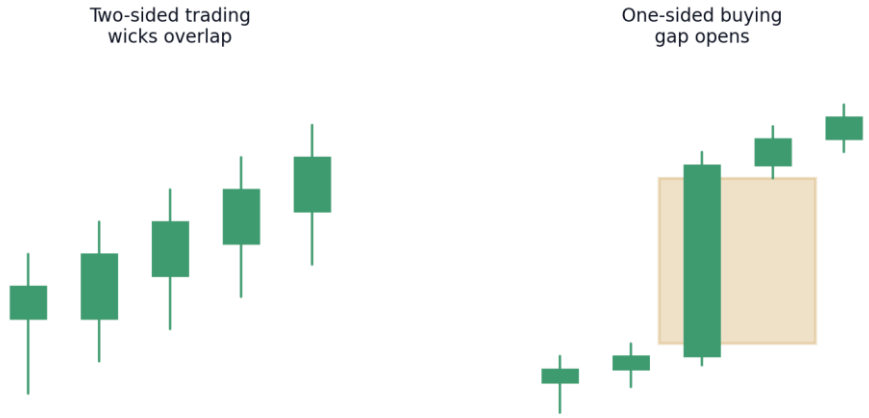
How to Read It

As with the bullish version, a bearish FVG accompanying a break of a swing low carries more weight than one sitting in the middle of an otherwise directionless range.

4. Why Fair Value Gaps Form

CORE CONCEPT

In calm, two-sided trading, each candle's range typically overlaps with the next, since both buyers and sellers are actively transacting at similar prices. When buying (or selling) pressure becomes overwhelmingly one-sided — often triggered by a large institutional order or a news catalyst — price moves so quickly that the next candle opens and trades well beyond the previous one's range, leaving the gap behind.



Visualising it: normal candles overlap wick to wick; a forceful, one-sided move leaves a visible gap instead.

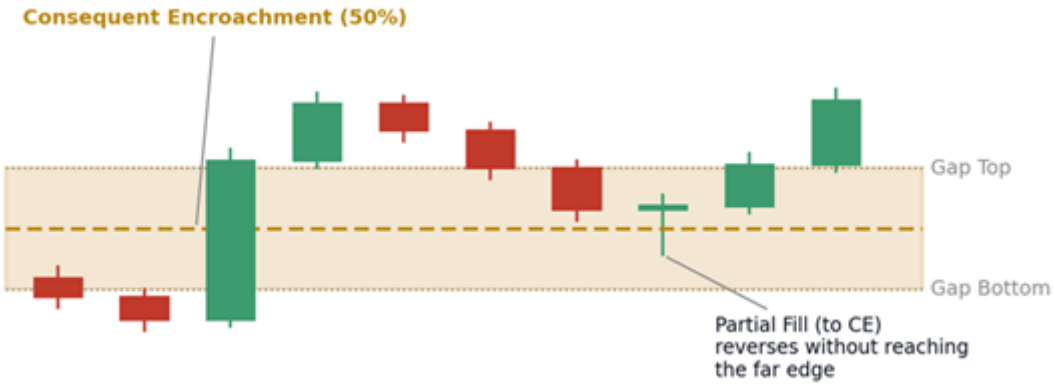
How to Read It

The size of the gap is a rough proxy for how one-sided the move was — a wide gap generally reflects more aggressive, more one-directional participation than a narrow one.

5. FVG Fill & Consequent Encroachment (CE)

CORE CONCEPT

A “fill” simply means price has traded back into the gap. A partial fill reaches only part of the way in — commonly measured against Consequent Encroachment (CE), the midpoint of the gap. A full fill means price has traded all the way through to the gap's far edge, closing the imbalance completely.



Visualising it: price reacts right at the CE midpoint without needing to reach the gap's far edge — a partial fill.

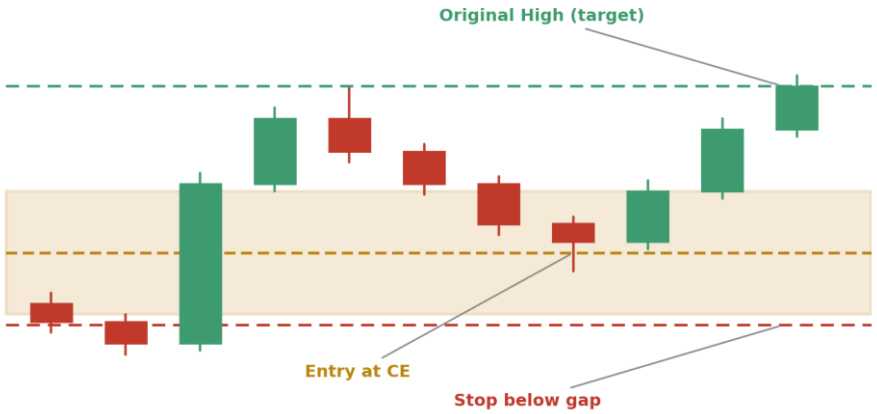
How to Read It

Many traders watch specifically for a reaction at the CE level rather than waiting for price to reach the very edge of the gap, since the midpoint is often treated as the more decisive reference point.

6. FVG Entry Strategy

ENTRY FRAMEWORK

A common way to trade an FVG is to wait for the displacement move to complete, then wait for price to pull back into the gap — often as far as the CE midpoint — before entering in the direction of the original move. A stop-loss typically sits just beyond the far edge of the gap, with an initial target back near the high (or low) of the original displacement.



Visualising it: entering at CE, with a stop beyond the gap and a target back at the original displacement high.

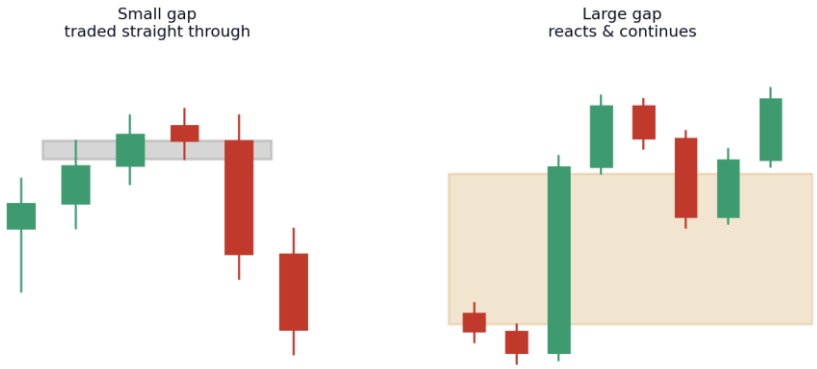
How to Trade It

Entering right at the first touch of the gap is riskier than waiting for some confirmation — a smaller-timeframe reaction, or a corresponding order block inside the gap — before committing.

7. Grading FVG Quality

CONFLUENCE FRAMEWORK

Most charts have far more Fair Value Gaps than are worth trading. Larger gaps, relative to recent candles, formed by strong displacement, aligned with the higher-timeframe trend, and accompanying a genuine structural break tend to be respected far more often than small gaps sitting inside choppy, directionless price action.



Visualising it: a small gap gets traded straight through with no reaction, while a large, displacement-driven gap reacts at CE and continues.

How to Read It

Treat FVGs as a ranked list rather than a simple checklist — the more of these quality signs a gap shows, the more confidence many traders place in a reaction actually occurring there.

Common Fair Value Gap Mistakes to Avoid

1. Marking every tiny gap: Small, unremarkable gaps that form during ordinary price action rarely carry the same weight as gaps from genuine displacement.

2. Expecting every gap to fill: Large, trend-aligned gaps are often left partially or fully unfilled for a long time — treating a fill as guaranteed leads to poorly-timed trades.

3. Ignoring Consequent Encroachment: Waiting for price to reach the very far edge of a gap, rather than watching the 50% midpoint, can mean missing the reaction entirely.

4. Trading against the higher-timeframe trend: A bearish FVG fighting a strong uptrend deserves far less confidence than one aligned with the dominant bias.

5. Confusing FVGs with ordinary order blocks: An FVG is a three-candle price gap, not a single candle's range — mixing the two up leads to mismarked, confusing zones.

6. Entering on the very first touch: Reacting the instant price taps the gap, without any confirmation, means risking entry into a gap price simply trades straight through.

Spotting a genuine imbalance is the foundation — combining it with order blocks and liquidity context is the next skill we build hands-on in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

Your FVG Confirmation Checklist

Before trading any Fair Value Gap in this guide, run through this five-point check:

- **Real displacement —** Was the gap formed by a sharp, forceful move, or a slow, unremarkable drift?
- **Meaningful size —** Is the gap noticeably larger than the recent candles around it, rather than a barely-visible sliver?
- **Trend alignment —** Does this gap sit in the same direction as the dominant higher-timeframe trend?
- **Reaction at CE —** Did price show an actual reaction near the midpoint, rather than slicing straight through the whole gap?
- **Defined risk —** Do you know exactly where you'd be proven wrong, and have you placed a stop-loss just beyond the gap before entering?

EDUCATIONAL CONTENT ONLY

This guide explains a chart pattern and is not investment advice or a recommendation to buy or sell any security. Not every Fair Value Gap fills, and reactions at CE are not guaranteed. Always use a defined stop-loss.

Frequently Asked Questions

What is a Fair Value Gap in simple terms?

A Fair Value Gap (FVG) is a three-candle pattern where the wick of the first candle and the wick of the third candle don't overlap, leaving a visible price gap between them. It marks a range that traded through very quickly, without the usual back-and-forth of buyers and sellers meeting at every price.

Do all Fair Value Gaps eventually get filled?

Many do get at least partially revisited, but not all, and there's no guarantee for any single gap. Larger gaps formed by strong displacement, aligned with the higher-timeframe trend, are generally treated as less likely to be fully filled than small, low-momentum gaps formed in choppy conditions.

What is Consequent Encroachment (CE)?

Consequent Encroachment is the midpoint (50%) of a Fair Value Gap. Many traders treat this level as the point where a partial fill becomes meaningful, and often look for entries or reactions specifically around this midpoint rather than only at the very edges of the gap.

What is the difference between an order block and a Fair Value Gap?

An order block is a single candle — the last one trading against the move — treated as a zone of institutional orders. A Fair Value Gap is a three-candle pattern marking a price range that traded through without normal two-sided activity. The two often form together during the same displacement move, but they're identified differently on the chart.

Should I trade every Fair Value Gap I see on a chart?

No. Most charts have many small, low-quality gaps that carry little weight. Grading a gap by its size relative to recent candles, whether it aligns with the higher-timeframe trend, and whether it formed alongside a structural break filters out the majority of gaps not worth trading.

Get in Touch

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