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Trading Plus



PropIQ
Prop Trading Insights

THE FAIR VALUE GAP (FVG) TRADING GUIDE

*A practical strategy guide for traders using
simulated prop trading programs.*

Disclaimer: This guide is for educational use only and is based on simulated trading environments. No real or regulated funds are traded. Nothing herein constitutes financial advice or a solicitation to trade or invest.

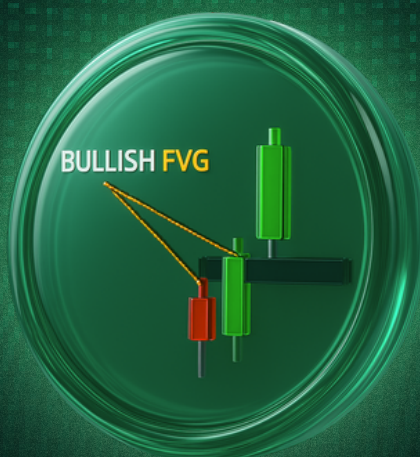


1. CONTEXT

The Fair Value Gap (FVG) concept has been used by traders for many years. It has been adopted for Smart Money Concepts (SMC) and the Inner Circle Trader (ICT) methodology.

An FVG shows an imbalance between buyers and sellers. It appears when price moves too quickly in one direction, leaving behind unfilled orders. According to this theory, markets often retrace to “fill” these inefficiencies before continuing in their intended direction. There are several ways to trade Fair Value Gaps.

In this guide, we focus on identifying and trading FVGs within **trending market conditions**, using them to refine trade entries with **price action confluence**.



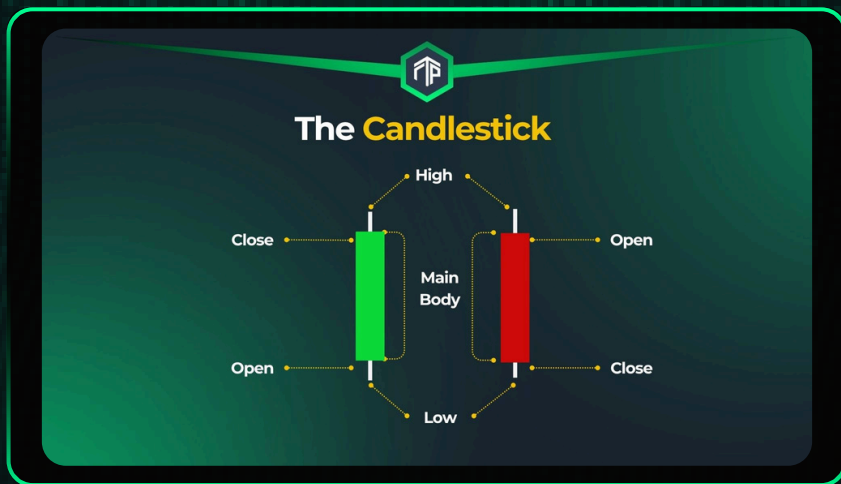


2. HOW IT FORMS

THE THREE-CANDLE FORMATION

A candlestick pattern shows five key data points within any chosen timeframe:

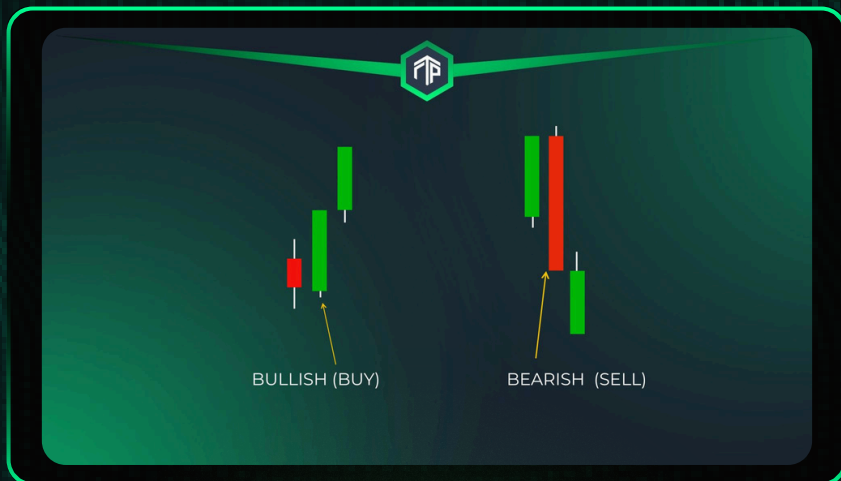
- The Open
- The Close
- The High
- The Low
- The Colour (bullish candle = buyers in control; bearish candle = sellers in control)





DETERMINING TREND DIRECTION

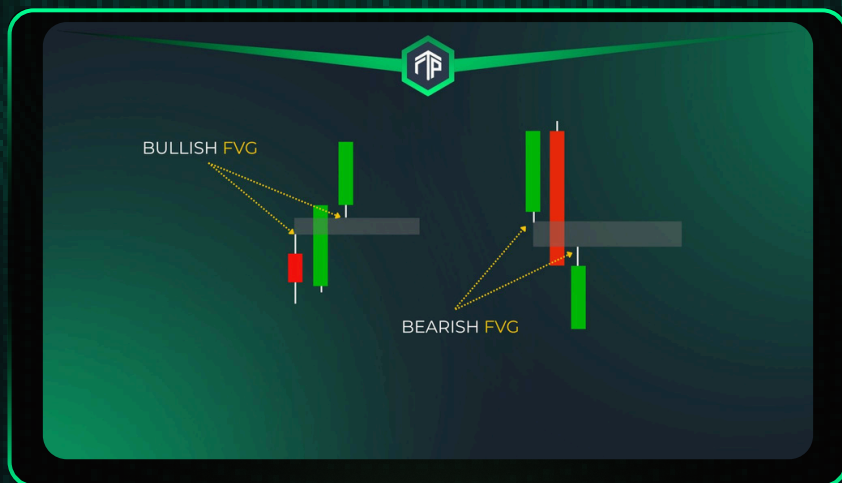
The main body of the centre candle within the three-candle pattern defines the trend direction when following trends.





BULLISH AND BEARISH FAIR VALUE GAPS

- A **Bullish FVG** forms when the high of the first candle does **not** overlap the low of the third candle.
- A **Bearish FVG** forms when the low of the first candle does **not** overlap the high of the third candle.





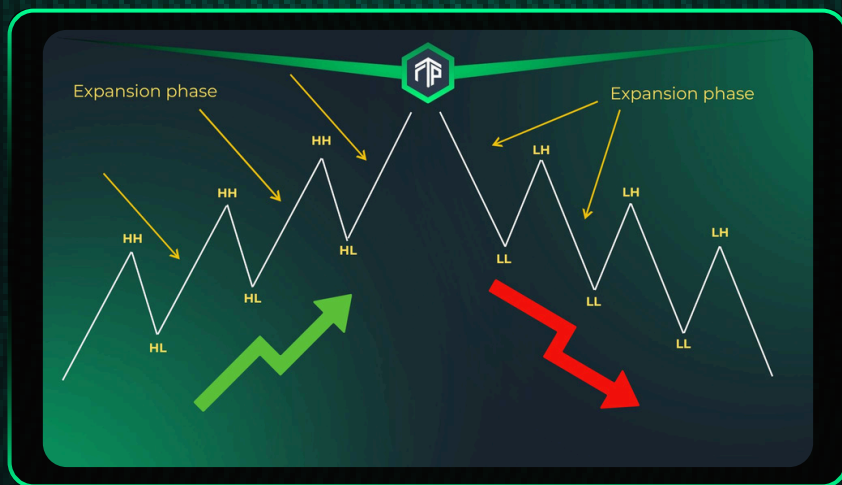
3. THE STRATEGY SETUP

This strategy works best in **strong trending markets**, identified through higher-time-frame analysis.

1. Use the **4-hour chart** to determine trend direction.

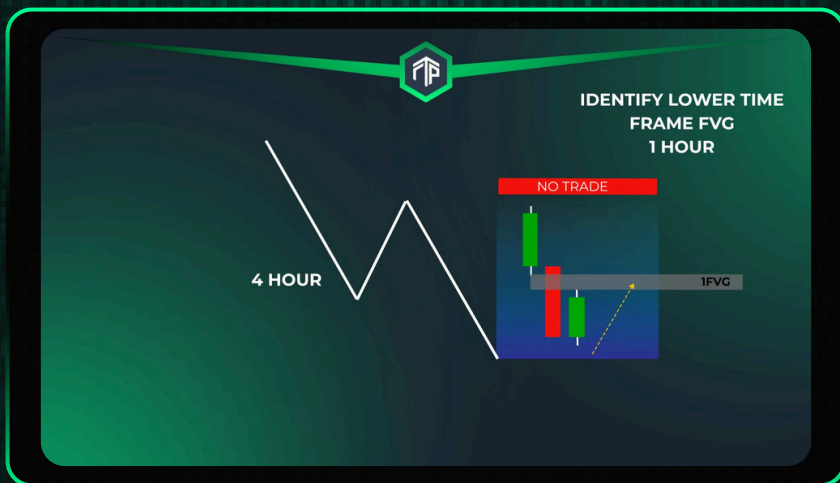
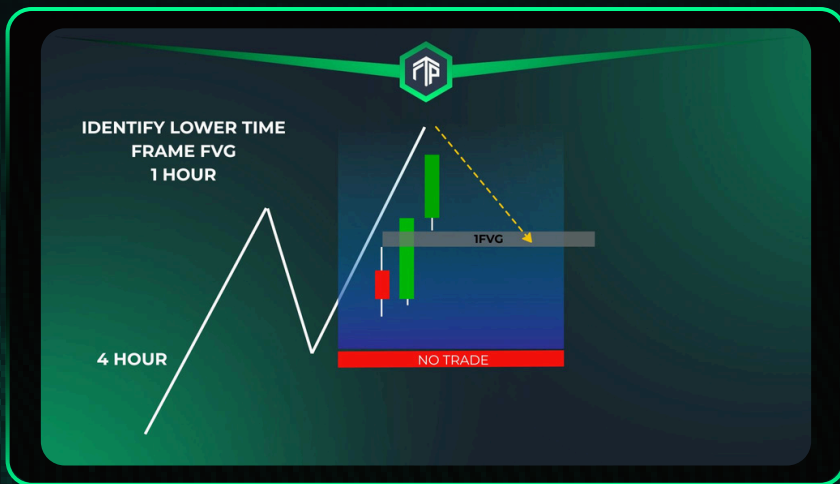
- In an uptrend, look for higher highs and higher lows.
- In a downtrend, look for lower highs and lower lows.

The larger move that breaks a high (in an uptrend) or low (in a downtrend) is called the **expansion phase**.



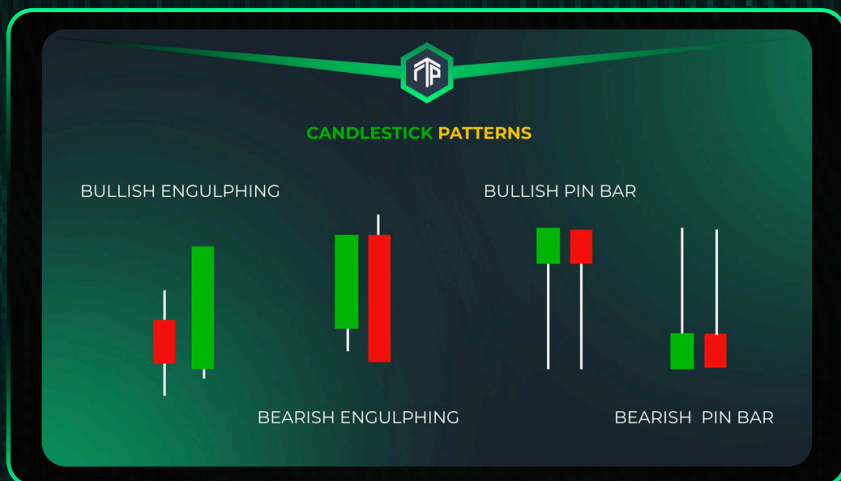
2. Once a clear trend is confirmed, switch to the **1-hour chart** to look for a Fair Value Gap that forms during a **pullback** within the latest expansion phase.

- If this pullback **breaks market structure** (e.g., trades below the previous low in an uptrend or above the previous high in a downtrend), the setup is **invalid**.





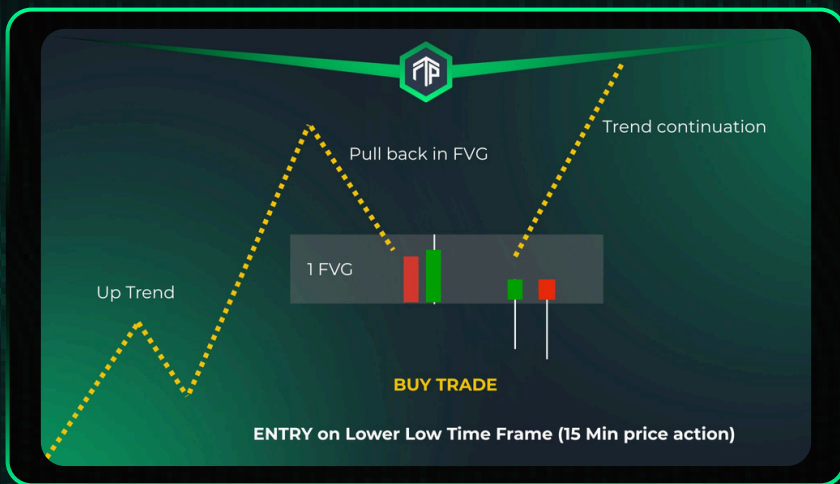
3. When price **retraces into the FVG area**, move to the **15-minute chart** and look for **candlestick confirmation** that signals continuation with the main trend.



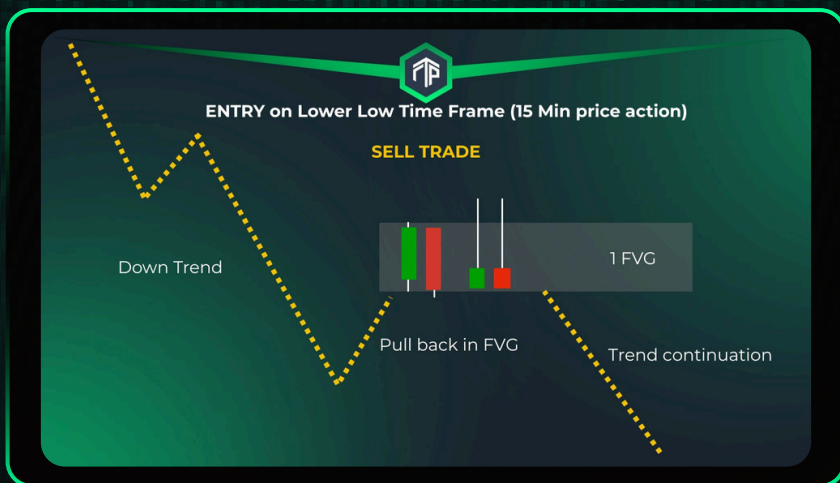


4. THE ENTRY

Buy Trade Example



Sell Trade Example

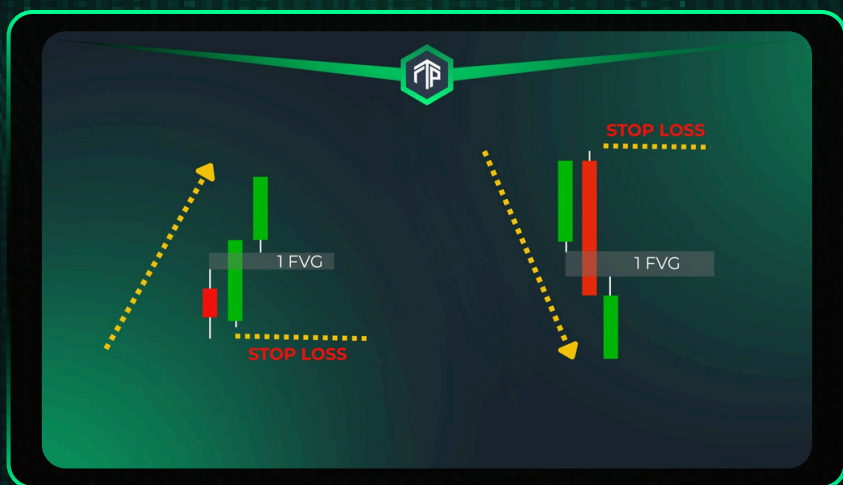




5. RISK MANAGEMENT

Your **initial stop loss** should be placed just beyond the opposite side of the middle “momentum” candle in the three-candle pattern.

If price moves beyond this level, the setup is considered **invalid**, as the imbalance may have been fully filled and a deeper retracement or reversal could follow.



6. TAKE PROFIT TARGETS & TRADE MANAGEMENT

Once a trade is open and price confirms continuation of the trend, manage the position with structure and discipline.

- In **uptrends**, take profits near previous swing highs
- In **downtrends**, target previous swing lows



These points often act as **liquidity levels** where price reacts.

A common approach is **scaling out**:

1. Place your first target at the high/low that created the pullback.
2. When that target is hit, move your stop to **break even**.
3. Hold remaining positions toward the next structural level (new highs or lows).

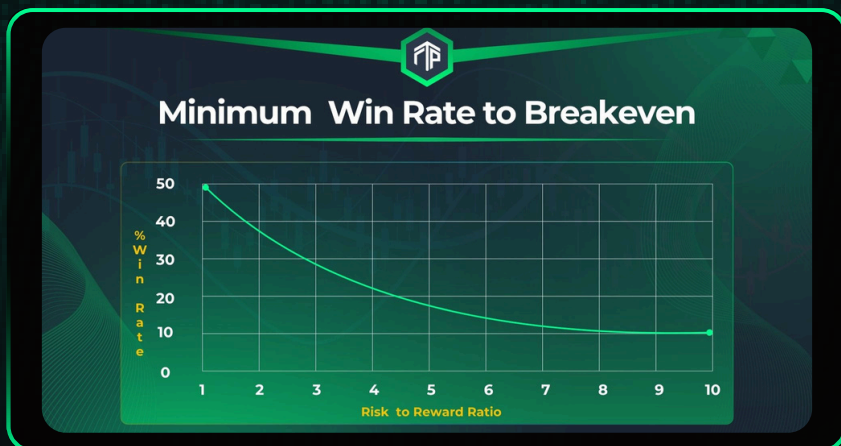
If price stalls or shows reversal signs near targets, consider closing part or all of the trade to protect profits.

The goal is to participate in the main trend, while keeping drawdown minimal.

7. BASIC RULES FOR TRADING ON SIMULATED PROP ACCOUNTS

Maintain at least a **1:1 risk-to-reward ratio**.

Higher ratios allow for lower win rates but often bring more frequent losses, so manage your emotions and expectations accordingly.





SIMULATED CHALLENGE GUIDELINES

Daily Drawdown Limits

If your challenge has a 4% daily drawdown limit, risking 1% per trade means that four consecutive losing trades would break the rule. Adjust position size to stay safe.

Maximum Daily Loss per Asset

Many programs cap losses at 2% per asset per day. Stay aware of each position's size and total exposure.

Market Correlation

Correlated markets often move together. Multiple positions in similar pairs (e.g., USD-related assets) can compound losses if trends reverse. Consider total correlation risk before entering multiple trades.

News Events

High-impact news releases often create volatility. Always check the economic calendar before trading to avoid unexpected swings that can breach limits.

8. SUMMARY

The Fair Value Gap strategy helps traders align with strong trends and identify high-probability entry zones where the market may rebalance before resuming its path.

Used with structure, patience, and risk control, it's an effective approach for prop traders working within simulated environments.

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