Sizing for the gap, not the stop

> **GAP-SIZED POSITION**
>
> A position whose size is set by dividing the risk budget by a plausible gap distance rather than the stop distance. It is smaller than the stop-sized position - often zero - and it is the only size for which the phrase 'my risk is limited to my stop' is actually true through an event.

Lesson 2's arithmetic took the stop distance on faith. Lesson 4 showed the stop is a fiction across a gap. This lesson re-runs the same division with the honest input.

Same machine, different distance

Nothing new is needed: cash at risk, divided by what a distance costs per contract, floored. The only change is the distance - not where the stop sits, but how far the market might jump across it. For a position meeting an inventory report, that is a report-sized move; the worked example uses $4.00 of WTI, a plausible bad surprise rather than a catastrophe. Divide by that and the size that emerges is the one whose worst scheduled outcome stays inside the budget.

The answer is usually smaller. Sometimes it is none.

Run the example: the same account that held one contract at the $1.50 stop holds zero at the $4.00 gap, in every currency. That zero is not the method breaking - it is the method telling the truth the stop-sized number concealed. A full-size commodity contract through a report is a risk most retail accounts cannot afford at an honest reckoning, which is precisely why lesson 4 offered the alternative no other gap allows: be flat at the minute that is printed on the calendar.

The decision this forces, in writing

Size to the stop and stand flat through events: the budget holds because the gap is never met.Size to the gap and hold through events: smaller or zero size, budget honest throughout.Size to the stop and hold through events anyway: the actual risk is the gap-sized one, whatever the plan says - so write the real number down, or the plan is fiction.

The pairs track's stop lesson said a stop is an instruction to transact - and overnight there is nothing to transact against. Commodities sharpen it: here, the moment there will be nothing to transact against is published in advance. Sizing that ignores a published fact is not risk management. It is hope with a spreadsheet.

Worked example - figures in USD

The lesson-2 account - $100,000, 2% risk, WTI at 1,000 barrels - resized against a $4.00 report gap instead of the $1.50 stop.

1. The same account, the same 2% budget of $2,000 - but the distance is now a report-sized $4.00 gap, not the $1.50 stop. Each contract carries $4,000 through that event.
2. The budget buys 0.50 contracts, and the floor of that is 0. Sized for the gap, this account cannot hold a single contract through the report.
3. That zero is the finding. The honest options are a wrapper that slices smaller, standing flat through the release, or accepting - explicitly, in writing - that the position is sized to the stop and exposed to the gap.

Check your understanding

1. An account holds one contract sized to a $1.50 stop, through a report that could gap $4.00. What is its actual risk?

a. The stop-sized risk - stops execute at their price

b. The gap-sized risk: roughly 2.7 times the budgeted amount, whatever the plan says

c. Zero, because reports are priced in

Answer: b. Through a jump the stop fills on the far side, so the exposure is the gap distance, not the stop distance. The plan's number and the real number differ by the ratio of the two.

2. Gap-sizing returns zero contracts for a position meeting a report. What are the honest options?

a. Tighten the stop until the arithmetic allows one contract

b. A smaller-sliced wrapper, standing flat through the release, or a deliberate written acceptance of gap exposure

c. Ignore it - gaps rarely reach a full $4.00

Answer: b. The zero is information about the account and the event, not an obstacle. Moving the stop changes nothing about the gap - it only re-fictionalises the plan.