# Gaps: the structural ones and the rest

> **STRUCTURAL GAP**
>
> The empty space between one session's close and the next session's open on a cash index chart. It appears because the index was not calculated in between, so most gaps are punctuation rather than events. Telling the routine ones from the ones carrying information is a reading skill, and the answer is usually on a different chart.

Open a daily cash index chart and gaps are everywhere. On a traded instrument that would be remarkable. Here it is the normal state, and treating every one as significant is the fastest way to misread the series.

## Why most of them mean nothing

The cash index is not calculated overnight, so any repricing at all shows up as a gap. That is one sentence of mechanism from module 1 and all this lesson needs of it.

The consequence for reading is that gap size is not evidence of anything by itself. A quiet night in which the future drifted produces a gap. So does a night in which nothing whatever happened but the previous close was struck at an auction slightly away from the last continuous price.

## The test that actually separates them

Look at the future's overnight chart. It traded through the hours the cash index skipped, so it has the path the cash chart is missing.

Cash opens inside the overnight range: nothing new. The gap is the cash series catching up to prices that already existed.Cash opens outside the overnight range: something happened at or near the open itself, usually in the auction.The future gapped too: whatever it was, it happened while both were closed - a genuinely discontinuous event.

Most gaps fall in the first category, which is why the honest reading of most of them is "the market moved overnight and the chart could not show it".

## What a gap costs

The reading matters because a gap is where a stop stops being a price. Here is the arithmetic, and it is the same conversion module 1 lesson 8 taught.

**Worked example - figures in USD**

**A 60-point gap on a dollar-settled index, held at $2 per point in a US dollar account. No conversion.**

1. The cash index opens 60 points below where it closed. On the chart that is one empty space between two candles.
2. At $2.00 per point and 1 contract, one point is $2.00 to you.
3. So the gap is $120.00. A stop inside it did not fail - there was no price between the two candles for it to work at.

## Reading gaps as levels

A gap leaves an unvisited range on the chart, and traders draw on it - the gap's edges become levels because they are the last prices before and the first prices after.

Be clear about what that is. Those edges are real prices at which real auctions and trades happened. The space between them is not a level, a target or a magnet; it is an absence of data. Whether price returns through it is module 5's question, and the honest answer to "do gaps get filled" is that it depends on what you count and over what period.

## Check your understanding

**1. The cash index opens 40 points below yesterday's close, inside the range the future traded overnight. What does that most likely mean?**

a. A significant event happened at the open
b. The cash series is catching up to prices that already existed overnight
c. The index provider adjusted the divisor

Answer: b. The future had already traded there. The gap is the cash chart's inability to show hours it was not calculated in, not new information.

**2. What is the space inside a gap?**

a. A level that price is drawn back to
b. An absence of data - no price traded there
c. The average of the close and the open

Answer: b. The edges are real prices. The space between them is where nothing happened, which is why a stop inside it did not fail - there was no price for it to work at.