The gap your stop cannot cover

> **GAP RISK**
>
> The loss beyond your stop when the market reopens past it. A stop is an instruction to transact at the first available price, not a guarantee of the price you named. Between one session's close and the next session's open there are no prices, so there is nothing for it to transact against, and the loss is whatever the reopening decides.

Say it plainly, because it is the thing most likely to be softened and the thing most worth understanding before you hold an index position overnight.

A stop is an instruction to transact. It is not a guarantee of price. Overnight, between the cash close and the next open, there is nothing to transact against - so a stop resting in that space does not fail, it simply has no market to work in. Your loss is set by where the market reopens, and that number is not knowable in advance.

Why this is worse on an index than it sounds

Module 1 established that the cash index stops being calculated when its constituents stop trading. That is not a quiet period of thin liquidity. It is an absence.

So the overnight gap is not an unusual event to be planned around occasionally. It is the normal punctuation of an index chart, as module 2 lesson 4 showed - most sessions open away from where the last one closed. The size varies; the existence does not.

The arithmetic that follows

If a 20-point stop can become a 60-point loss, then the position was never risking what the sizing said it was. The number you calculated was the risk if the stop works, and overnight the stop is exactly the thing that cannot be relied on.

This is not an argument that stops are useless. Inside a session, against ordinary movement, a stop does what it says. The claim is narrower and harder: for the hours the market is shut, your stop is a hope and your size is the only real control you have.

What does not fix it

A tighter stop. It is still inside the space with no prices, so it fills at the same reopening level.A guaranteed stop, unless you have actually bought one - some brokers offer them, they cost a premium, and the guarantee is only as good as the counterparty.Closing before the weekend and reopening on Monday. That is a real answer to weekend risk and does nothing about the other four nights.Watching. The market is shut. There is nothing to watch and nothing to do.

What does

Sizing against the gap rather than against the stop, which is the next lesson, and holding smaller positions overnight than you would intraday. Both are unglamorous and both work, because they act on the one variable that is still under your control after the close.

The honest position

Holding an index overnight means accepting a loss you cannot cap. That is a real cost of the strategy, not a rare accident to be discounted, and it belongs in the decision before the position exists rather than in the explanation afterwards.

Plenty of good strategies hold overnight anyway. They do it having priced this in.

Check your understanding

1. What is a stop order?

a. A guarantee of the price you named
b. An instruction to transact at the first available price
c. A request the broker fills at its discretion

Answer: b. It executes against whatever market exists. Overnight there is no market between the close and the open, so there is nothing for it to execute against.

2. Does a tighter stop reduce overnight gap risk?

a. Yes, it caps the loss sooner
b. No - it is still inside the space with no prices, so it fills at the same reopening level
c. Only if it is inside the previous day's range

Answer: b. Where the stop sits inside the gap makes no difference. There were no prices in there, so every stop in that space fills at the reopening.

3. What actually reduces overnight gap risk?

a. Holding a smaller position, sized against the gap rather than the stop
b. Setting an alert to close the position overnight
c. Placing the stop just beyond the overnight range

Answer: a. Size is the only variable still under your control after the close. The market is shut - there is nothing to watch and nothing to do.