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## A Gap in the Market

### Tactical Strategies for Short-Term Traders

As an active trader, whether intraday, short or medium-term, an analysis of the price chart provides you, an Unum Capital client, with a better understanding of the potential opportunities at hand. The chart itself forms a large part of the trade motivation, while being used in conjunction with other tools such as news flow and potentially, underlying fundamental data.

As researchers and analysts whose focus is on finding trading opportunities and analyzing the broader market, multiple strategies are employed to uncover trades on both the buy/long and sell/short side. Among those are: major support and resistance levels, moving averages, linear regression, as well as relative strength. These types of strategies form a base from which a trader can use to enter and exit the market, at a higher-than-normal probability of success.

While these strategies form a guide, they can also be seen as risk management tools.

One of the strategies we often utilize is the 'gap fill'.

For those who may not be familiar, price charts often create gaps from either an opening move at the start of the session, which can be driven by numerous factors that are either stock specific (for example, earnings) or market related, such as overnight strength that would see significant buying at the open above the prior day's closing level. These types of moves leave the chart with 'unfilled gaps' that have the potential to be closed in the near term.

While this is the case for most shares, not all gaps are filled immediately, with some being created by strong or weak earnings that leave what's known as a 'breakaway gap'. For most other gaps on the chart, there is strong potential for it to be 'filled', creating an opportunity to profit from this market dynamic.

A recent example of this market phenomenon was **Sappi (SAP:JSE)** – a name that we have managed to find success with, both in the short and long term.

A pre-earnings long trade idea, the share rallied strongly on the back of earnings exceeding market expectations. With the earnings announcement having been made before the market's open, the share traded higher, creating an opening gap which would, over the next 3 weeks, act as both a downside target and a level to buy/add.

As the first gap was closed, Unum Capital clients were alerted to a potential buy/long opportunity which also coincided with the share being sold off on low volume relative to its peers in the industrial sector.





# A Gap in the Market

Sappi 07 March 2020 (Intraday/Real-Time)

LD\_Perspectives published on TradingView.com, Mar 07, 2022 12:22 UTC+2



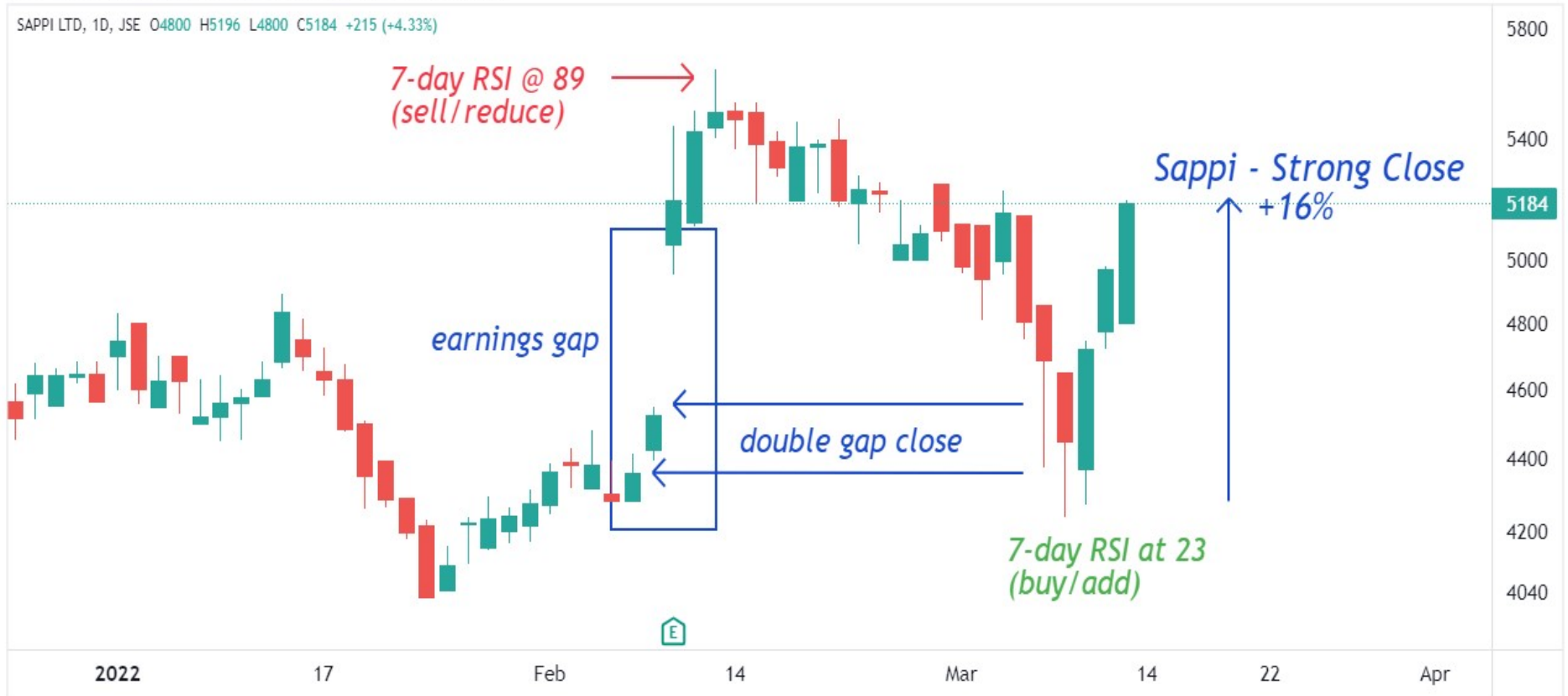
TradingView



# A Gap in the Market

Sappi 11 March 2022 (EOD)

LD\_Perspectives published on TradingView.com, Mar 13, 2022 16:37 UTC+2





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Another example of this occurrence was on one of the most traded shares on the JSE, **Sasol Ltd (SOL:JSE)**.

In our client research published in Q4 2021, on Tuesday 19/10, we highlighted the prior day intraday chart, with the 5-minute time frame being used in the analysis.

On the chart, 3 gaps were identified – 1 bullish and 2 bearish, with the scenario being highlighted and levels identified as potential targets. Incorporating the previous sessions' price action and key levels, we knew that the 28300c-28500c area was a significant resistance zone i.e. sellers have been most active and strong here. With the potential for the price to fail at around or below this area, the downside gaps would act as targets for the trader looking to go short or an entry for the trader looking to participate in a potential rebound after the gaps have been filled.

Our pre-market comment, with the accompanying chart was as follows:

*“Sasol (SOL, 27883c). A few gaps on this chart should act as short-term targets. On the upside, the 28280c level is where the price has continued to find resistance, while 27570c and 26932c are the downside gaps which the share may potentially fill before rebound. Look for a potential failure at the upside gap, with the downside gaps as ultra short term targets. For an intraday opportunity, I'm monitoring in real-time. Chart: 5-Min. Time Frame: Intraday”.*





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Sasol Pre-market chart: 19/10



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By the end of the session, the share closed both of its downside gaps to settle in negative territory on the day.



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## Sasol EOD Chart: 19/10

Lester\_Davids published on TradingView.com, Oct 19, 2021 19:08 UTC+2



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For the active trader seeking an intraday or short-term opportunity, Sasol's gaps provided a potential sell/short, helping the trader to take advantage of the downside move by selling around resistance with the gaps as price targets.



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## A Gap in the Market

These types of “gap” trading setups are often found on the JSE, as well as in international markets, allowing the active trader the ability to profit.

For those looking to take a more active approach around their core portfolio positions while also profiting from short term volatility, the Unum Capital Trading Desk has the tools and research to make this possible.

For more information on how to go about this, get in touch with us today.

### **Lester Davids**

Analyst, Unum Capital

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