📉 Gap and Fade

Low float stock gaps up 50–100%+ on weak or no catalyst. Short the fade for an all-day selloff.

> ⓘ This playbook covers the gap and fade short setup. We are looking for stocks that have gapped up massively — ideally 50% or more, sometimes 100%+ — on no real news or news that does not justify the move. The trade is a short, targeting an all-day continuation selloff as early buyers get trapped and the stock bleeds back down. Entry and exit strategies are documented separately.

🧠 What This Playbook Is About

This is a short-side setup. A stock — often low float, often in biotech or biopharma but not limited to any sector — gaps up violently pre-market. The gap is not supported by real, material news. It could be a vague press release, a minor catalyst that does not justify a 100% move, paid promotion, or pure retail speculation. The stock flies, traps early buyers, fails to hold, and then sells off all day as the hype unwinds.

The opportunity is in identifying the failure early — when the stock can not hold its pre-market high, loses VWAP, and begins a systematic grind lower with no real buyers stepping in.

🔍 What We Are Looking For

The Stock Profile

- **Low float** — typically under 20 million shares. Low float stocks move violently on low volume because there are fewer shares available. This is what creates the 50–100%+ gap.
- **Sector** — biopharma and biotech are the most common, but this setup appears in any sector where low float speculative names trade. Do not limit the scan to one sector.
- **Gap size** — minimum 50% gap up. The ideal setup is 75–150%+. A 10–20% gap is not this playbook.
- **Market cap** — typically small cap or micro cap. Large caps do not gap 100% overnight.

> 📄 The bigger and more unjustified the gap, the better the fade setup. A 150% gap on a vague biotech press release is a much cleaner fade than a 50% gap on actual trial data — because the bigger the gap, the more trapped buyers there are when it fails.

The Catalyst (or Lack Thereof)

This is the most important filter. The gap and fade setup works best when:

- **No news at all** — pure speculative buying, often from social media or pump-and-dump activity

- **Weak or vague news** — a press release about a partnership, a letter of intent, a minor milestone that does not justify a 100% move
- **Biopharma catalyst that does not move the fundamental picture** — a phase 1 trial update, a poster presentation at a conference, anything that is not a major phase 3 result or FDA approval
- **Reverse split** — stocks that gap up following a reverse split are classic fade candidates

> ⊗ Do NOT fade a stock with a legitimate, material catalyst — an actual FDA approval, a real acquisition offer at a significant premium, a phase 3 trial success. Those gaps can continue for days. The catalyst quality is the first and most important filter.

Pre-Market Behavior

Once the catalyst is assessed, watch pre-market price action closely:

- **Gap is 50%+ and holding pre-market** — the stock is elevated but volume is thinning as the open approaches
- **Pre-market high is forming** — price made its high early in pre-market and has been drifting or consolidating below it since
- **Volume is tapering** — the early spike in volume is fading. Buyers are not piling in — the move is losing energy
- **Stock is extended well above any meaningful support** — there is nothing but air below

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📊 The Setup at and After the Open

The open is where the setup either confirms or invalidates. Here is what to watch:

Failure at the Pre-Market High

The single most important signal. If the stock opens and immediately attempts to take out the pre-market high but fails — especially with a rejection candle and declining volume — the fade is setting up.

- Price pushes toward or tags the pre-market high
- Buyers can not sustain it — the push stalls and reverses
- Volume on the push is lighter than volume on the reversal — sellers are overwhelming buyers

VWAP Rejection or Loss

VWAP is the intraday line in the sand. On a true gap and fade:

- Stock opens above VWAP initially (it gapped up, so this is expected)
- As selling pressure builds, price starts to lose VWAP

- Once price breaks and holds below VWAP, the bias is firmly short
- Bounces back to VWAP from below that get rejected are continuation short entries

The All-Day Selloff Structure

The best gap and fade setups do not just drop once — they grind lower all day in a stair-step pattern:

- Lower highs, lower lows throughout the session
- Each bounce attempt fails at a lower level than the last
- Volume picks up on the selloff legs and dries up on the bounces
- By midday the stock is often 30–50% off the pre-market high

> 🗒 The all-day fade is a multiple-entry setup. You do not have to be in from the first failure. Each failed bounce at a lower high is a fresh entry opportunity with a tighter risk point than the first entry.

🚦 Green Light vs. Red Light

✅ Green Light

- Gap is 50%+ with weak or no real catalyst
- Low float — under 20 million shares
- Pre-market volume is thinning into the open
- Pre-market high formed early and has not been taken out
- Stock fails the pre-market high at or shortly after the open
- VWAP rejected or lost within the first 30 minutes
- Lower highs forming on the intraday chart
- Broader market is neutral to bearish

🚫 Red Light — Do Not Fade

- Catalyst is legitimate and material (real FDA approval, real acquisition, real phase 3 success)
- Short interest is already extremely high — squeeze risk present
- Stock is continuing to make new pre-market highs into the open — buyers still in control
- Volume is accelerating to the upside — not fading
- Broader market is ripping — rising tide lifts all boats including garbage stocks
- The stock has already faded 50% from the high — the easy money is gone, chasing the short late is dangerous

The most dangerous version of this trade is fading a legitimate catalyst or fading into a short squeeze. Always know the float and always assess the catalyst quality before shorting. A 200% gapper with real news can go to 400% and destroy a short.

📋 Pre-Trade Checklist

- [ ] Gap is 50% or more
- [ ] Float is low — under 20 million shares preferred
- [ ] Catalyst assessed — weak, vague, or nonexistent
- [ ] Pre-market high identified and marked on the chart
- [ ] Pre-market volume pattern checked — thinning or still elevated?
- [ ] Short interest checked — squeeze risk understood
- [ ] Broader market direction noted
- [ ] VWAP level noted for the session

⚠️ Common Mistakes on the Gap and Fade

- **Fading too early pre-market** — the stock can continue running pre-market before it fades; the setup confirms at or after the open
- **Not checking the float** — fading a high-float stock on a 50% gap is a different setup with different risk; this playbook is built around low float
- **Ignoring the catalyst** — the single biggest mistake; a real catalyst means the gap can hold or extend
- **Not managing the short squeeze risk** — if the stock starts making new highs after you are short, do not hold and hope; the loss can be catastrophic on a low float name
- **Averaging into a losing short** — if the stock is not fading and you are adding size, you are compounding a mistake
- **Missing re-entry opportunities** — if you missed the first entry, each failed bounce is another chance; do not force a late entry into a falling knife just because you missed the ideal entry

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Track every gap and fade trade in MyPropJournal with the gap percentage, the float, and the catalyst quality noted. Over time the data will show you exactly which gap size and catalyst type produces the cleanest all-day fades for your style.