PRECISION PIPS ACADEMY | TRADING FROM ZERO · LESSON 09

DISPLACEMENT & FAIR VALUE GAPS (FVG)

Recognising strong price movement, imbalances and potential areas of interest

Welcome Back, Fam

Today we study two ICT/SMC concepts that often work together: displacement and fair value gaps. You may have seen XAUUSD move aggressively, break a meaningful high or low and leave a gap-like area between candles, then return to that area before continuing. By the end you should recognise bullish and bearish displacement, identify a three-candle FVG, distinguish an FVG from an ordinary gap and understand it as an area of interest, not a guaranteed entry. (All prices are hypothetical.)

1. What Is Displacement?

Displacement is a strong, decisive movement suggesting one side is exerting significant pressure over the observed period. **Bullish:** large bullish bodies, strong closes near the highs, consecutive upward candles, a decisive break above a meaningful swing high, often an FVG forming. **Bearish** is the mirror. These are observations, not proof of what specific institutions are doing: strong moves occur for many reasons including news and shifts in order flow. Example: gold consolidates around 4,020–4,035, rallies from 4,025 to 4,060 and breaks a short-term high at 4,040: bullish displacement. Displacement describes the strength and character of the move; the structural break and context determine how meaningful it is.

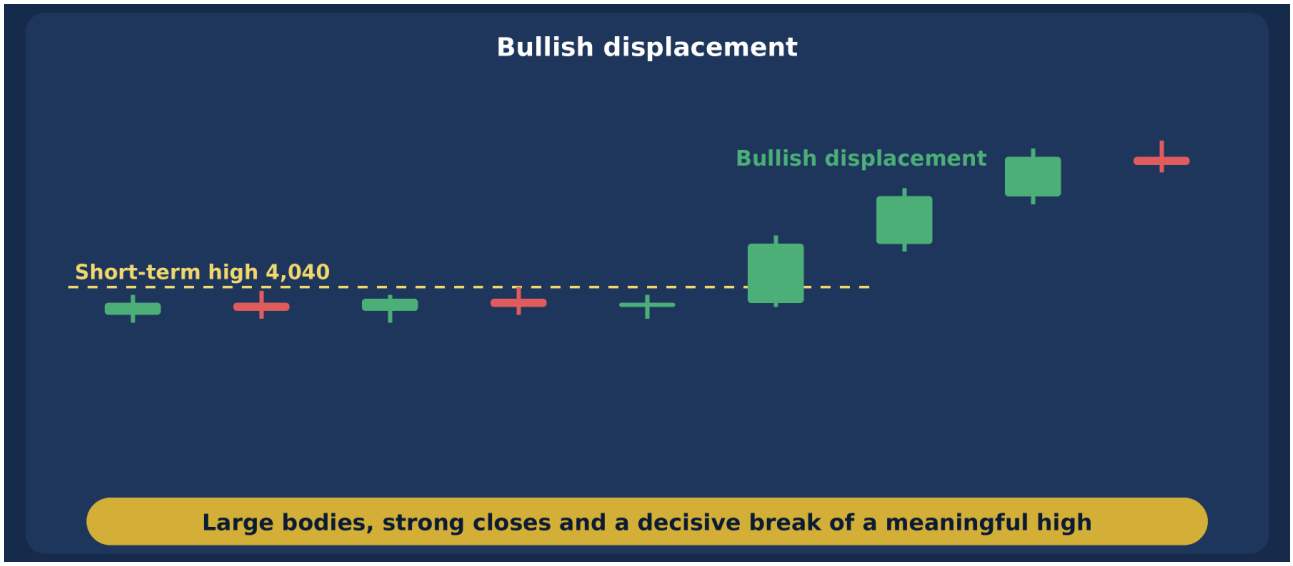


Figure 1: bullish displacement.

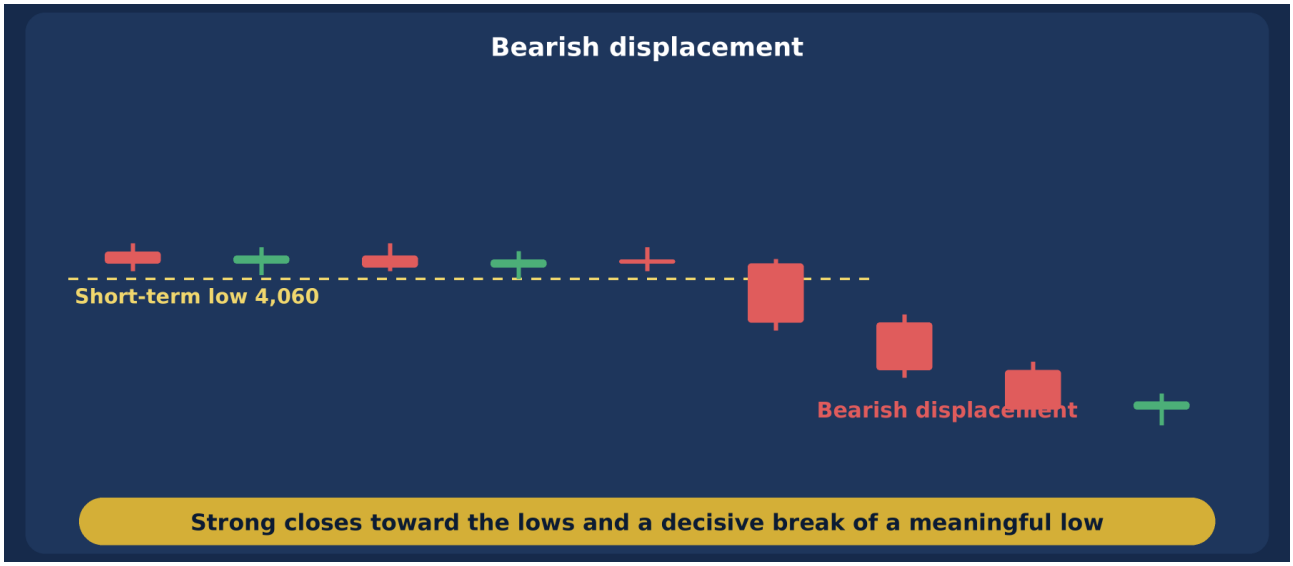


Figure 2: bearish displacement.

2. What Is a Fair Value Gap (FVG)?

An FVG is a three-candle pattern where the first and third candles do not overlap across their relevant wicks. It is read as a price imbalance that may become an area of interest if price later retraces into it. Candle 1 is the first, candle 2 the middle (often the displacement candle) and candle 3 the third; the gap is assessed between the wick of candle 1 and the wick of candle 3, not just the middle body.

3. How to Identify a Bullish FVG

A bullish FVG exists when the **high of candle 1 is below the low of candle 3**. Example: candle 1 high 4,025 and candle 3 low 4,035 leave a bullish FVG between 4,025 and 4,035. Traders may watch the zone if price pulls back. Price may enter and continue upward, fill part or all of it first, move through it and continue down, or consolidate inside it. There is no rule that price must return, and no rule that an FVG must hold.

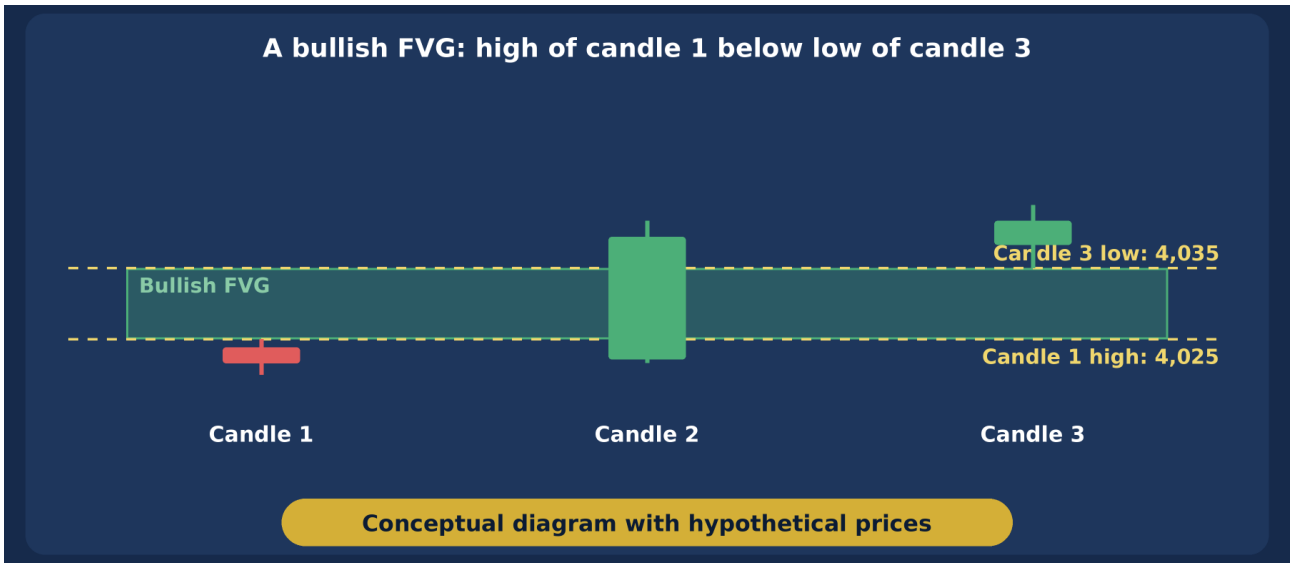


Figure 3: a bullish FVG.

4. How to Identify a Bearish FVG

A bearish FVG exists when the **low of candle 1 is above the high of candle 3**. Example: candle 1 low 4,085, candle 3 high 4,075: the bearish FVG lies between 4,075 and 4,085. A trader may monitor it if price retraces upward, and see whether sellers respond and structure supports a bearish scenario. It can fail: price may trade through it and continue higher. Do not sell simply because price has entered a bearish FVG.

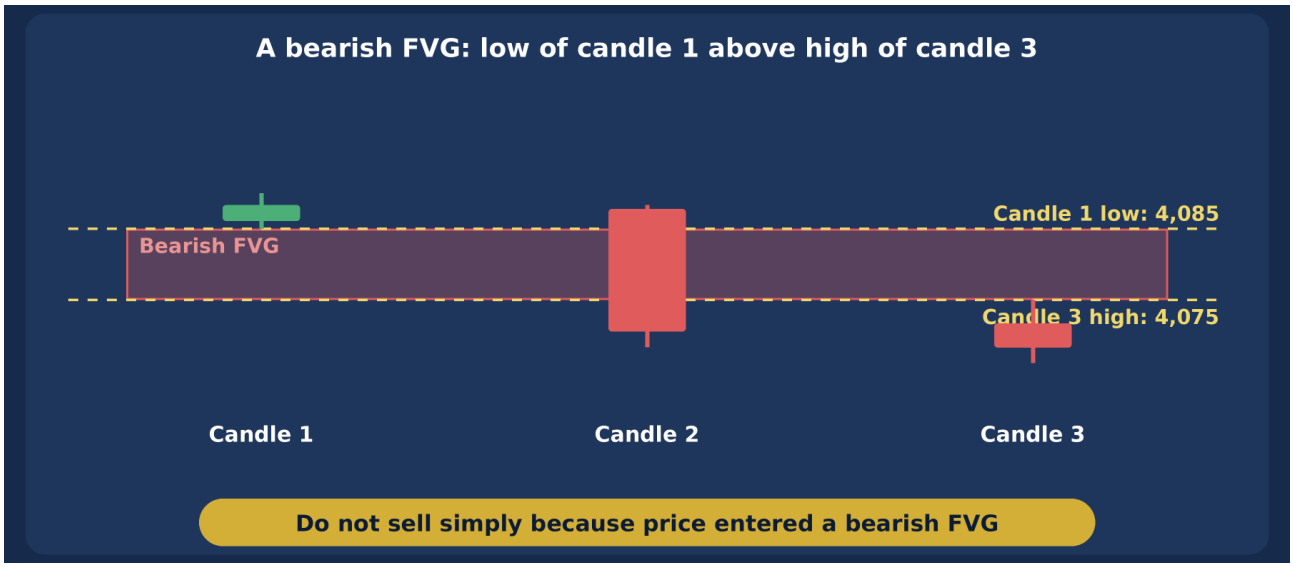


Figure 4: a bearish FVG.

Added: the midpoint

Some traders also pay attention to the 50% midpoint of an FVG, often called consequent encroachment. It is one more reference inside the zone, not a guarantee of a reaction.

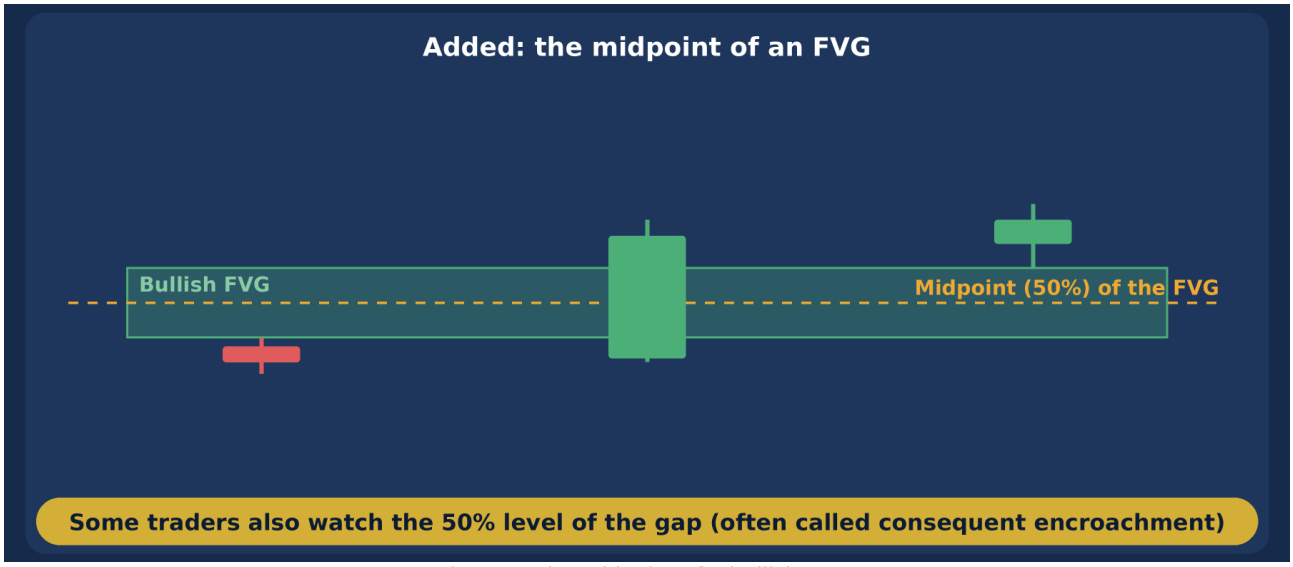


Figure 5: the midpoint of a bullish FVG.

5. Is an FVG the Same as a Price Gap?

Not exactly. In everyday chart language a gap is price opening substantially above or below the previous range, as can happen after a weekend. An ICT/SMC FVG is a three-candle pattern based on non-overlap between candle 1 and candle 3, and it can form during a continuous session even without an opening gap.

Feature	Traditional price gap	ICT/SMC FVG
How it forms	Price opens away from the previous trading range	Three-candle wick relationship leaves a non-overlapping area
Requires three candles?	No	Yes
Can form in an active session?	Yes, depending on market behaviour	Yes
Must price return to it?	No	No

Figure 6: traditional gap versus FVG.

6. What Does It Mean When an FVG Is Filled?

When price later trades back into an FVG, traders describe it as mitigated or filled to varying degrees. Terminology differs between educators, so be precise about what price did. With a bullish FVG at 4,025–4,035, a retrace to 4,032 is a partial fill, reaching 4,025 crosses the whole zone, and a fall below 4,025 means price traded through it. Some traders prefer partially retraced FVGs and others full fills; there is no universal rule. What matters is how your strategy interprets the reaction.



Figure 7: partial fill, full fill, or trading through.

7. Why Displacement and FVGs Work Together

An FVG can appear in a market with no trend or structural break and not every FVG deserves equal attention. In many ICT/SMC models the interest lies in FVGs created during displacement because they form as price moves decisively away from an area. The sequence helps organise analysis but is not a formula that guarantees success.

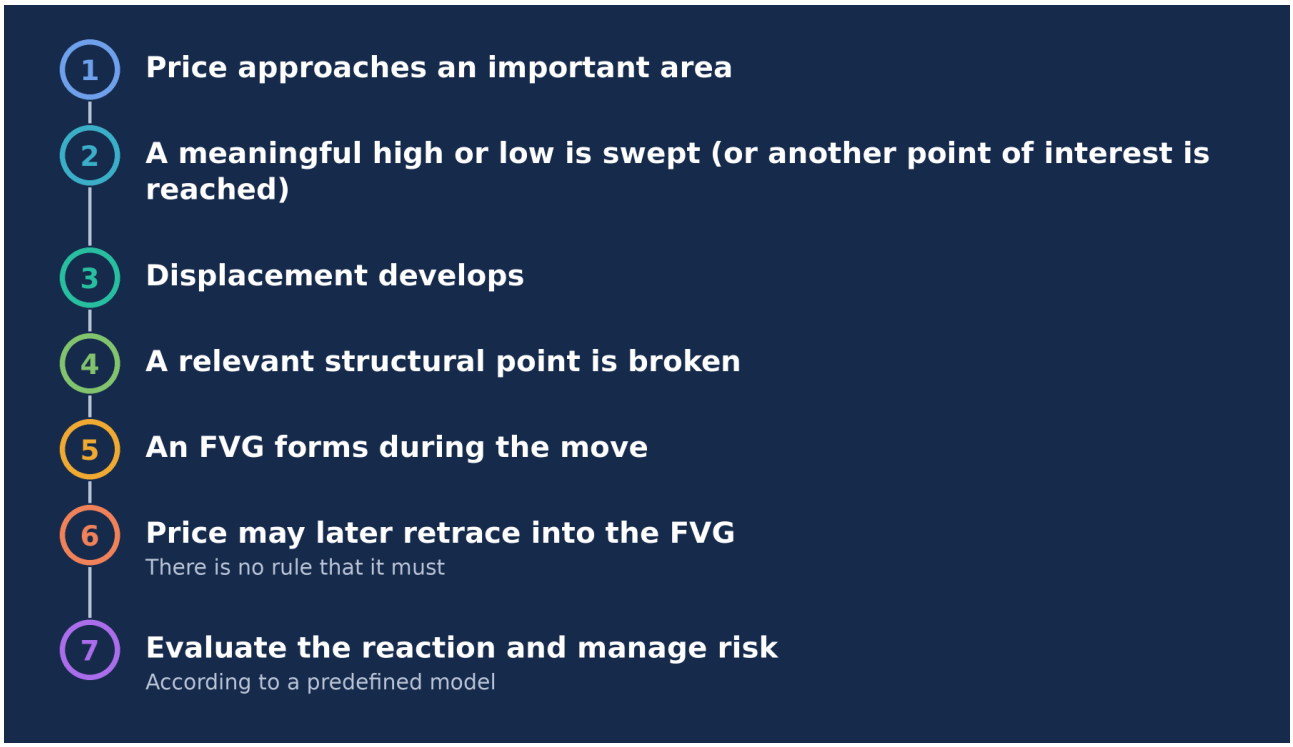


Figure 8: a typical sequence.

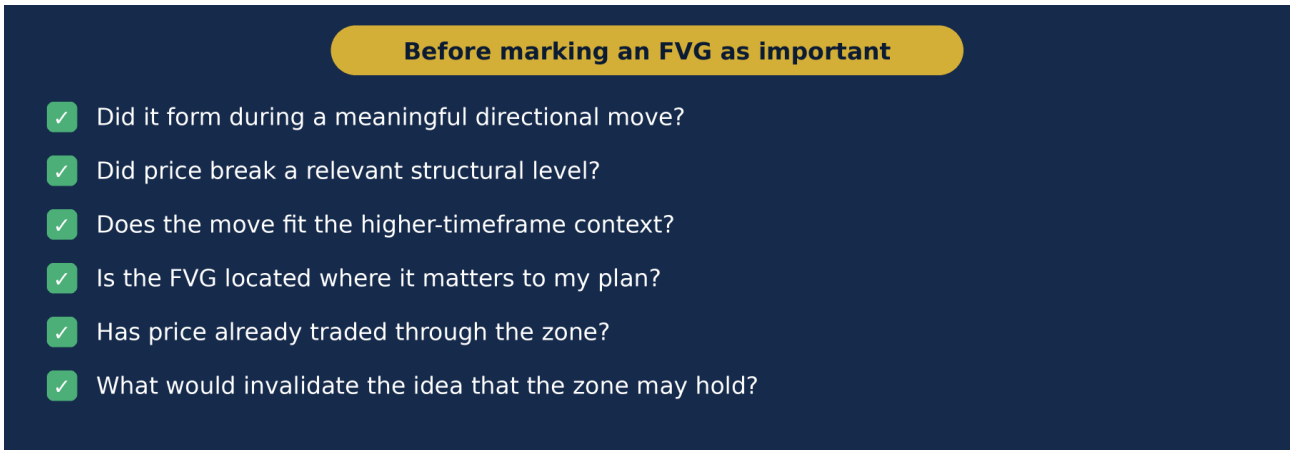


Figure 9: a practical filter before marking an FVG.

8. Using FVGs With Market Structure

H4 structure is bullish but M15 pulls back. Gold falls below a recent low around 4,020, then quickly reclaims it, rallies and breaks an M15 swing high at 4,040, and a bullish FVG forms between 4,028 and 4,034 during the displacement. The trader sees bullish H4 context, a liquidity event, structural evidence, displacement and an area of interest, and may monitor the FVG if price retraces. Before any trade the entry criteria, invalidation, stop, target and size must be defined. If price never returns, do not chase; if it trades through the zone, the idea may no longer be valid.

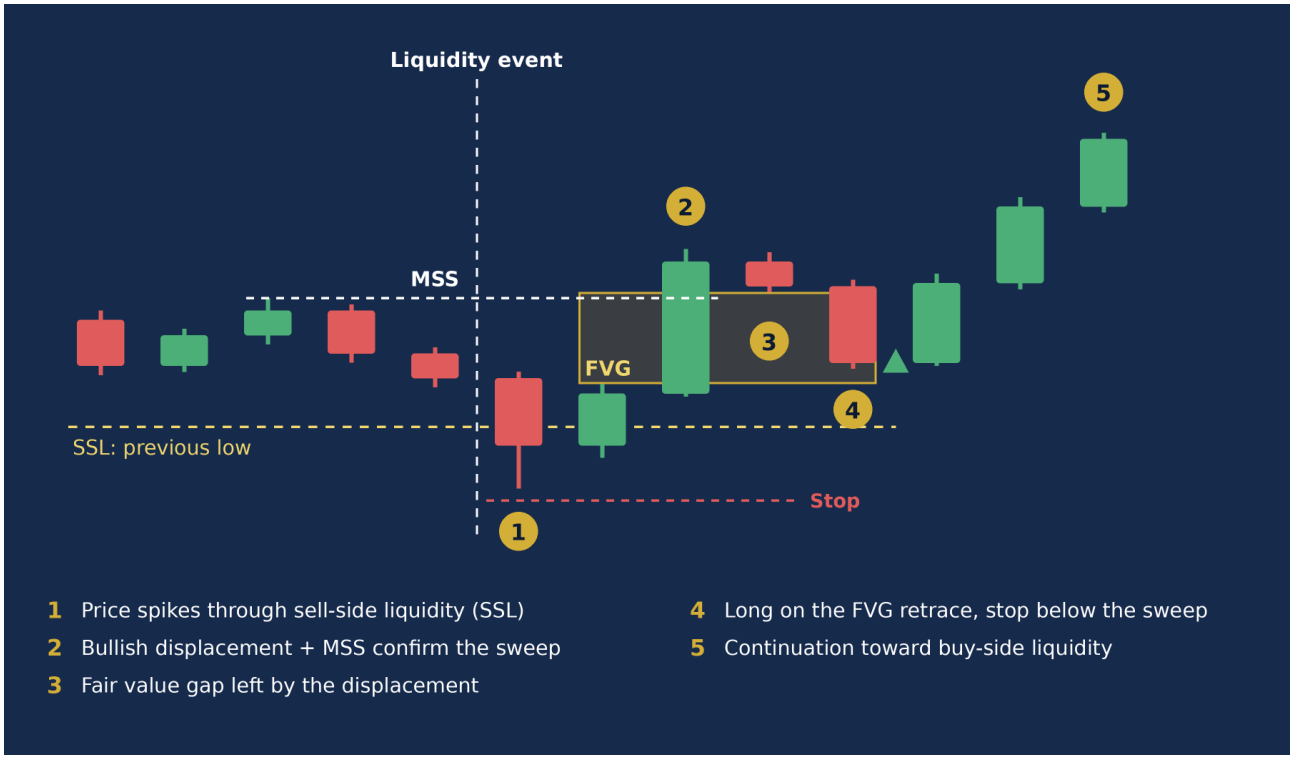


Figure 10: a bullish sweep, MSS and FVG retrace (illustrative schematic).

9. Premium and Discount: Where Does the FVG Sit?

ICT/SMC traders ask whether a zone sits in a relevant part of the dealing range. For a chosen range the upper half is **premium**, the lower half **discount** and the midpoint **equilibrium**. For a range 4,000–4,100 the midpoint is 4,050: below it is discount and above it premium. Some bullish models prefer looking for buys in discount and bearish models for sells in premium, but this is a contextual preference, not a market law. Different swing points produce different boundaries.

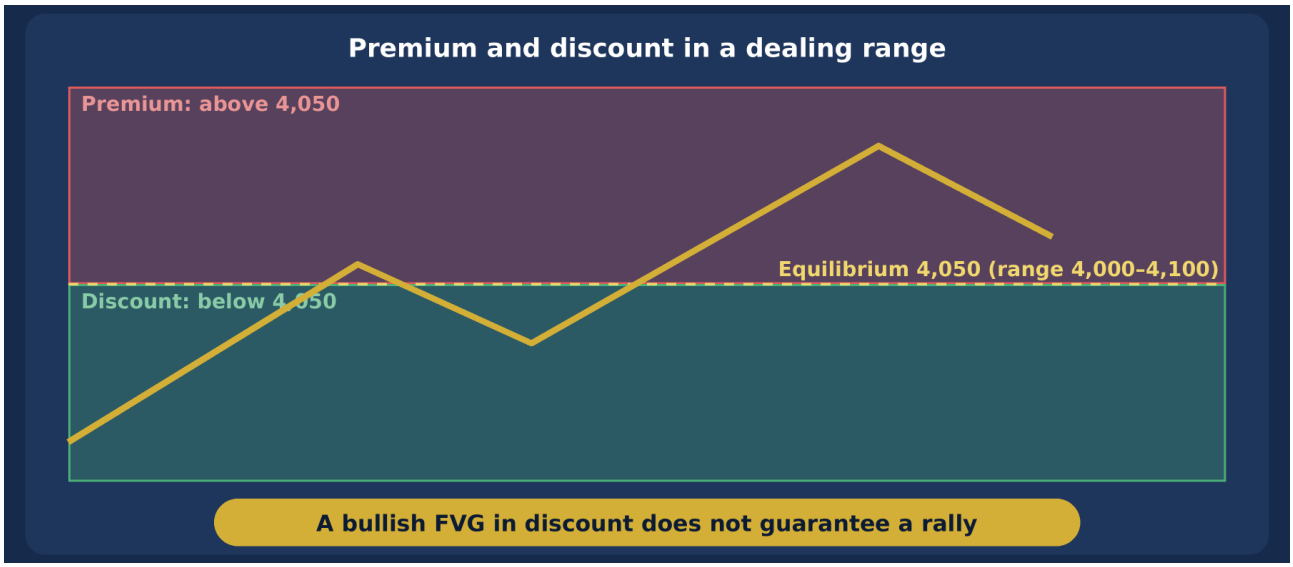


Figure 11: premium and discount.

10. Common FVG Mistakes



Figure 12: nine mistakes.

11. Your Practical XAUUSD Routine

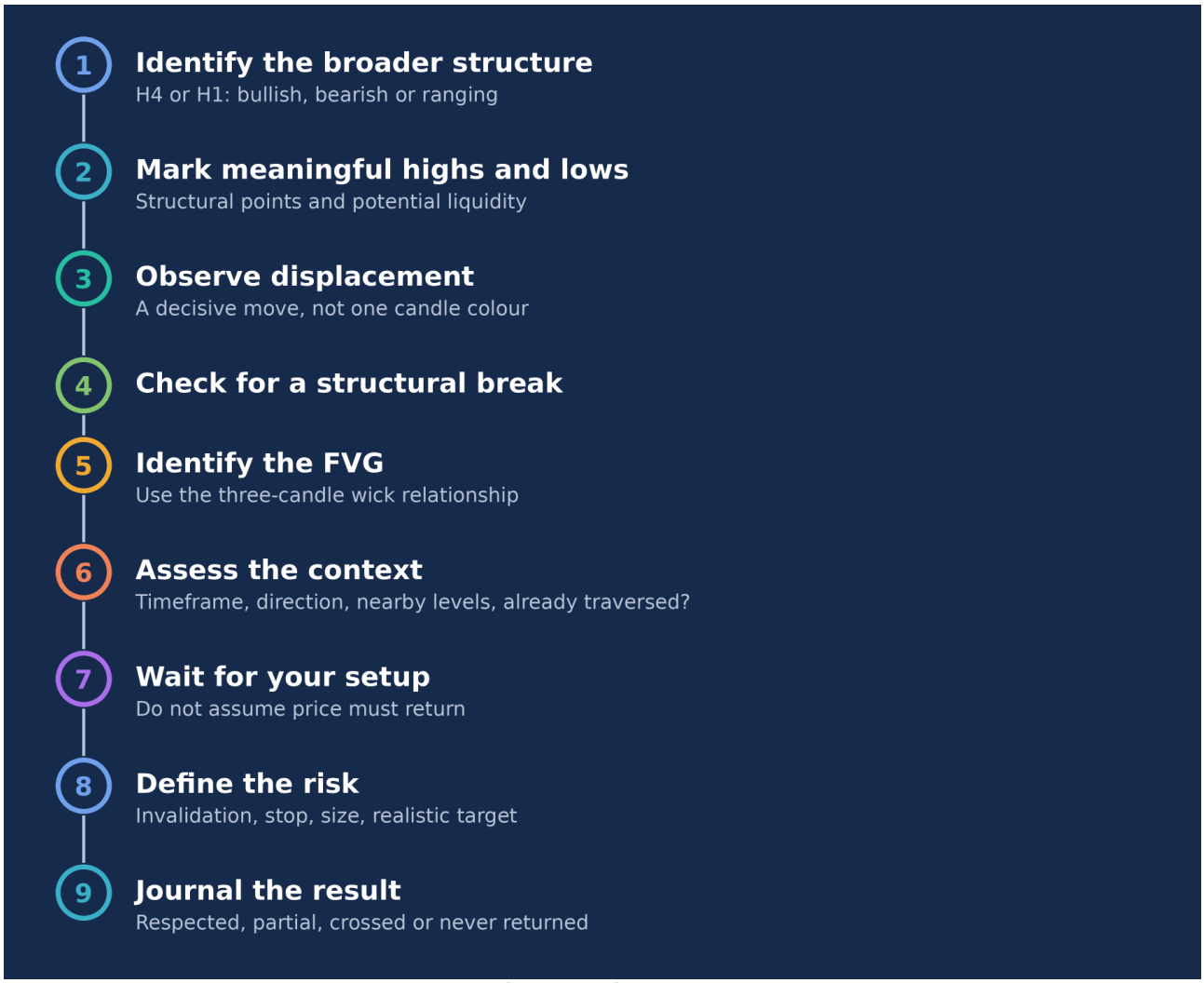


Figure 13: nine steps.

Key Takeaways

- Displacement describes decisive price movement.
- An FVG is a specific three-candle non-overlapping price area.
- Market structure gives context to the move.
- Liquidity identifies important highs and lows.
- An FVG is not a promise that price will return, and a return is not a promise of a reversal.
- Risk management protects the account when your interpretation is wrong.

Knowledge Check

Q: What is displacement in ICT/SMC?

A: A strong, decisive price movement away from an area.

Q: Which three candles identify an FVG?

A: Candle 1, candle 2 (often the displacement candle) and candle 3.

Q: Bullish FVG: high of candle 1 below low of candle 3?

A: Correct.

Q: Bearish FVG: low of candle 1 above high of candle 3?

A: Correct.

Q: Is an FVG the same as a traditional gap?

A: No: it is a three-candle wick relationship and can form during an active session.

Q: Why might an FVG created during displacement interest ICT/SMC traders more?

A: It forms as price moves decisively away, often with a structural break.

Q: Must price return to an FVG?

A: No.

Q: If price returns to a bullish FVG, does it hold?

A: Not guaranteed.

Q: Partial fill vs trading through?

A: Partial fill enters part of the zone; trading through crosses it and continues beyond.

Q: Why define risk before an FVG trade?

A: Because the zone can fail and price can pass through it.

Homework: Find Displacement and FVGs

- Part A: on H1 or M15 find a bullish FVG (candle 1 high below candle 3 low), mark it, note whether it formed in strong upward movement and whether a swing high was broken.
- Part B: find a bearish FVG (candle 1 low above candle 3 high) and do the same for a downward move.
- Part C: for each FVG record the timeframe, boundaries, displacement direction, whether structure broke, whether price returned, whether the fill was partial, full or through, and what price did next. If it never returned, record that too.
- Part D: write your conclusions and one mistake to avoid. Judge the pattern by accuracy of identification, not only by whether it would have won.

Added: Glossary

Term	Meaning
Displacement	Strong, decisive movement away from an area.
FVG	Fair value gap: a three-candle non-overlapping area.
Mitigation / fill	Price trading back into a gap.
Premium / discount	Upper / lower half of a dealing range.
Equilibrium	Midpoint of the range.

Next lesson

Lesson 10: Order Blocks. How to identify potential institutional areas, understand their context and avoid marking every candle as an order block.

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