

# The Big Shadow Trade

Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work against you as well as for you. Before deciding to invest in foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts.



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This trade is called the big shadow, and soon you will see why.

The big shadow is very similar to the kangaroo tail. However the pattern involves two price bars.

Here is an example of a big shadow (the last price bar is the Big Shadow).



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Here are the characteristics of a Big Shadow, a two bar formation:

1. The big shadow pattern takes place at an extreme.
2. The big shadow pattern takes place at a support/resistance zone.
3. The second bar has a greater range than the first bar.
4. The very best shadow patterns have a lot of "space."
5. The big shadow pattern often indicates a market turning point.

Let us look at each characteristic in isolation.

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The big shadow pattern takes place at an extreme.

The big shadow pattern takes place at a support/resistance zone (red dotted line).



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The very best shadow patterns have a lot of “space.”



The very best big shadows print on the chart with a lot of space. “Space” simply means that the bar has printed in an area on the chart that has not recently seen price action. If you see a big shadow that has printed on an area on the chart and there is a lot of open space to the left of the bar, then this price bar has “space.”

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The second bar has a greater range than the first bar.



The second bar of the Big Shadow formation always has a higher high and a lower low than the first bar.

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Notice how this is not a Big Shadow formation because the first bar has a higher high than the second bar.

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### Rules for the Big Shadow Buy Trade

1. Enter after price goes higher than the high of the Big Shadow bar.
2. Stop loss is placed ten pips below the low of the Big Shadow bar.
3. Profit may be taken at nearby support/resistance zones, or you can let the trade run.



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### Rules for the Big Shadow Sell Trade

1. Enter after price goes lower than the low of the Big Shadow bar.
2. Stop loss is placed ten pips above the high of the Big Shadow bar.
3. Profit may be taken at nearby support/resistance zones, or you can let the trade run.



The Big Shadow can be a powerful reversal signal. Just as it is important to take the KT trade out in space, at an extreme, at a support/resistance zone, it is also important that the Big Shadow trade have these same characteristics.

Have fun backtesting!

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# Personal Trading

[www.fxjake.com](http://www.fxjake.com)

Anymore questions about the Big Shadow Trade? Email me at [wp@fxjake.com](mailto:wp@fxjake.com)

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