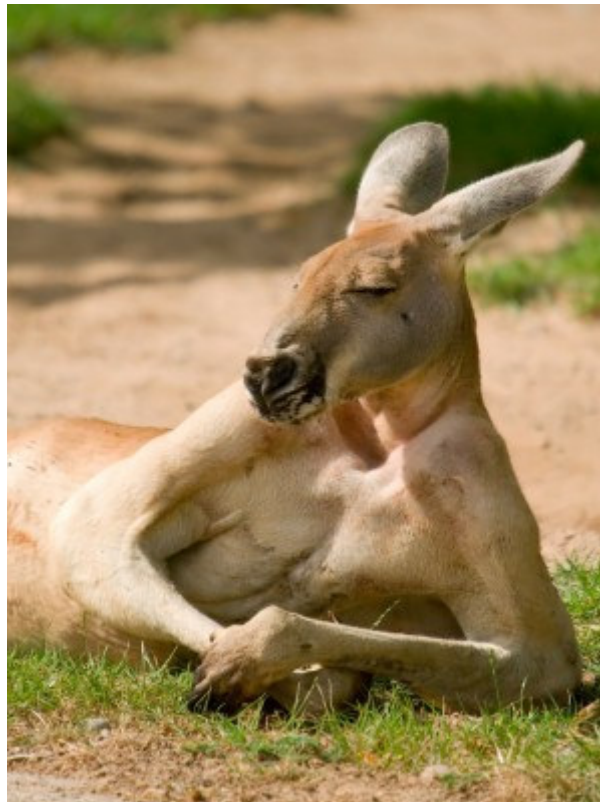


The Kangaroo Tail Trade



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There is one trade that has made me more money than any other trade. It is not even close. This is my favorite trade setup. The first year that I traded only this trade setup I made money on well over 80% of my trades. I made money more consistently with this trade than any other trade setup. I know many traders who trade only this trade setup for a living. You can join this group. There is no reason why you cannot trade only this trade setup for a living. This trade works beautifully.

It will take practice to get good at the Kangaroo Tail trade, and not all Kangaroo Tail trades will make money, but it is a very simple way to make money in the markets, in any market.

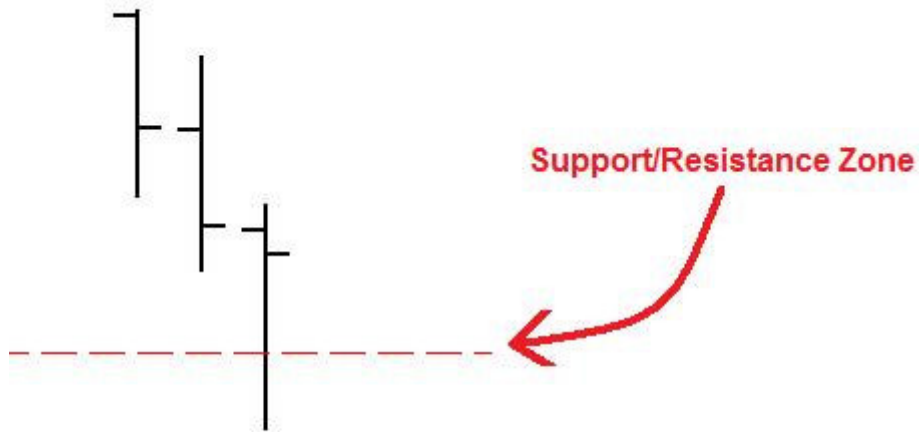
Here's why I like the Kangaroo Tail Trade:

1. There is a high probability of success.
2. There is a fair chance of catching a long term move with this trade.
3. There is no need to watch the markets with the Kangaroo Tail Trade.

The Kangaroo Tail Trade is a simple trade setup. All Kangaroo Tail Trades start with a simple bar formation. The characteristics of the Kangaroo Tail Trade are as follows:

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1. The bar formation occurs on a support/resistance zone.

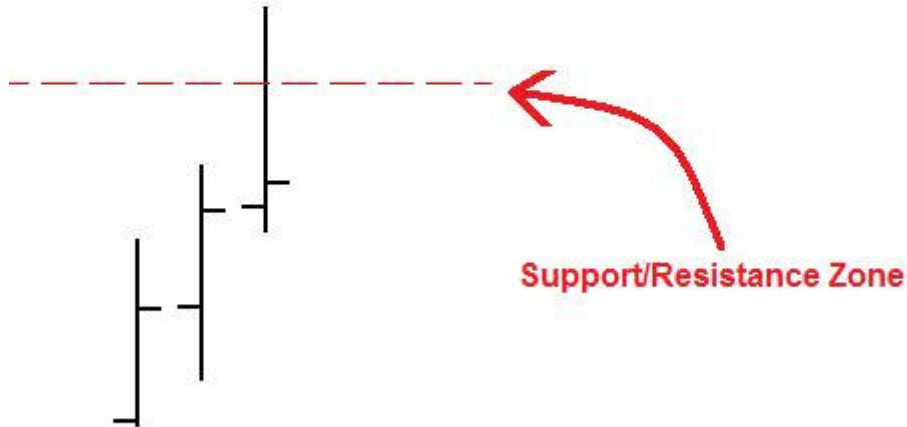


Kangaroo Tail Trade - Buy Setup

The Kangaroo Tail pierces the Support/Resistance zone for a buy setup.

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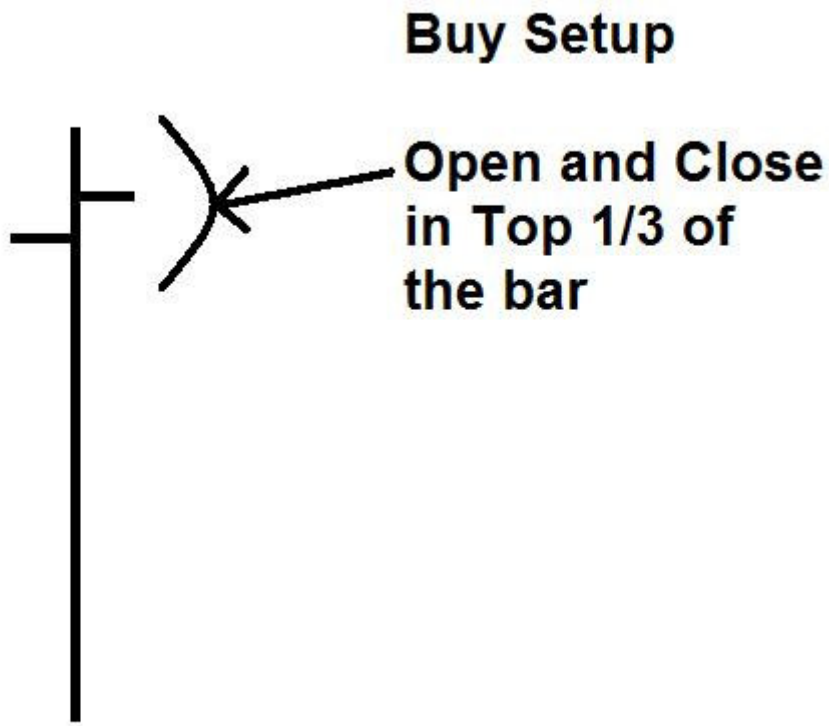
Kangaroo Tail Trade - Sell Setup



The Kangaroo Tail pierces the Support/Resistance zone for a sell setup.

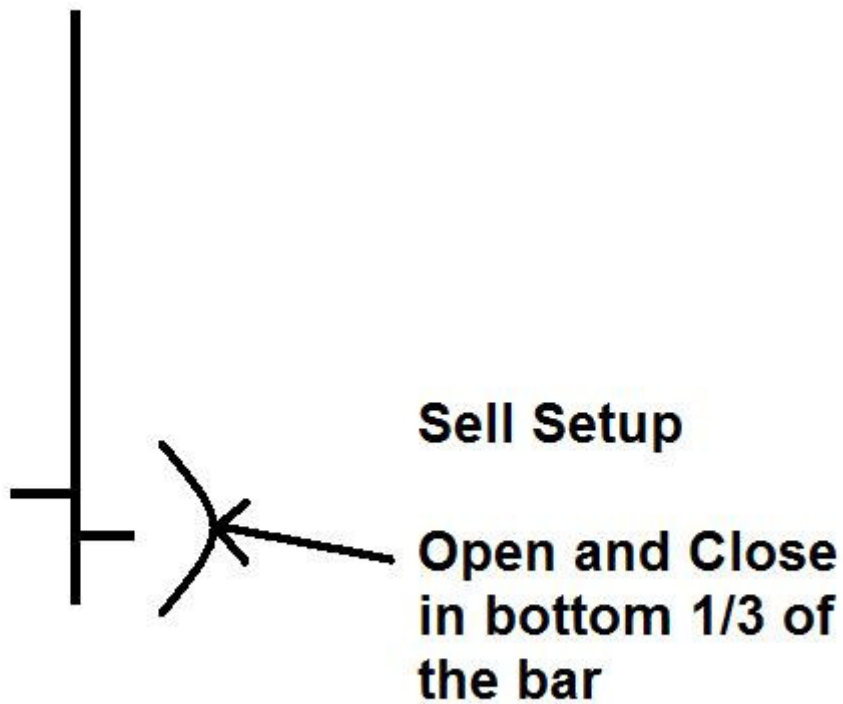
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2. The open and close occur in the bottom 1/3 or top 1/3 of the bar.



The open and close are in the top 1/3 for the buy setup.

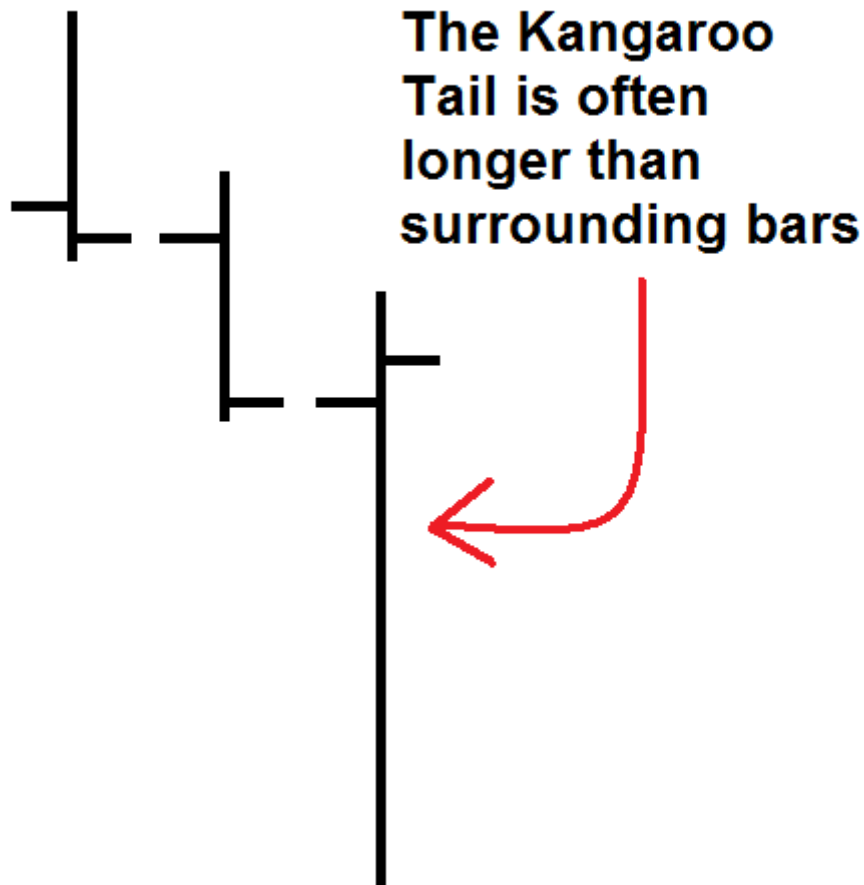
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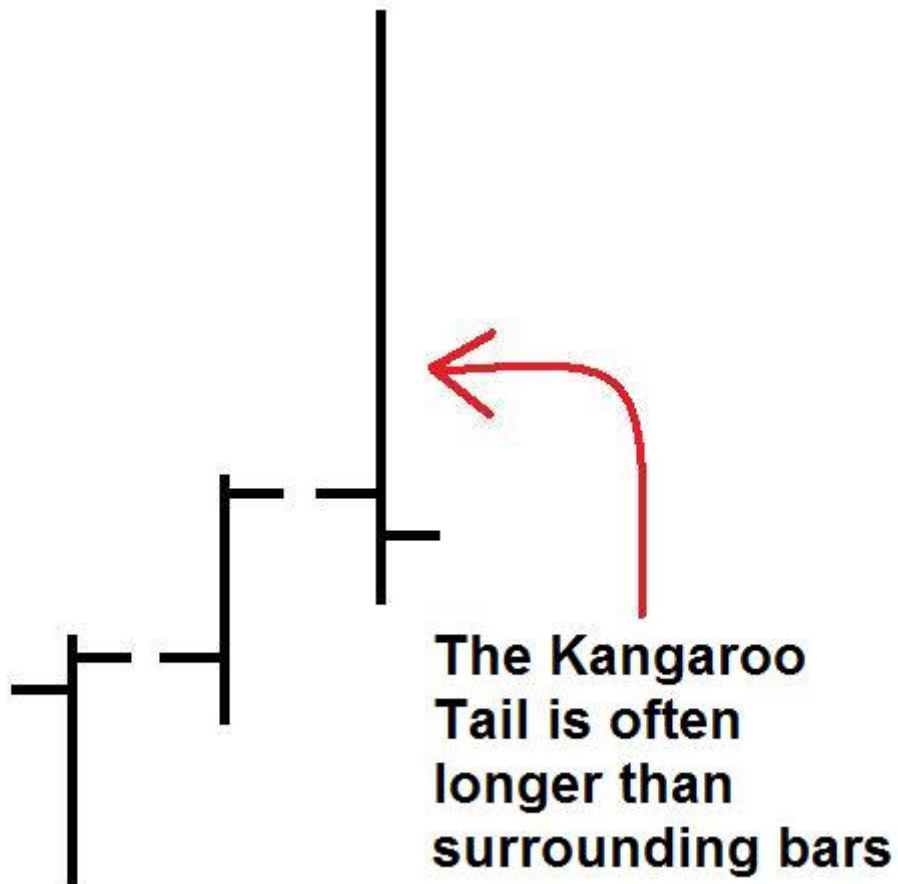
The open and close are in the bottom 1/3 for the sell setup.

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3. The bar is usually longer than most of the surrounding bars.

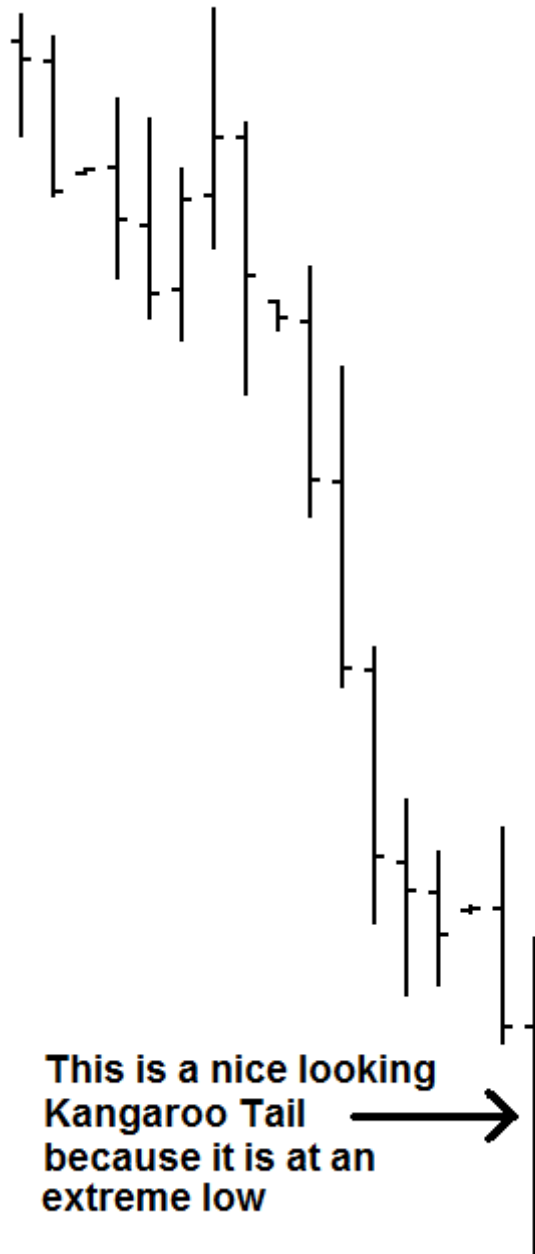


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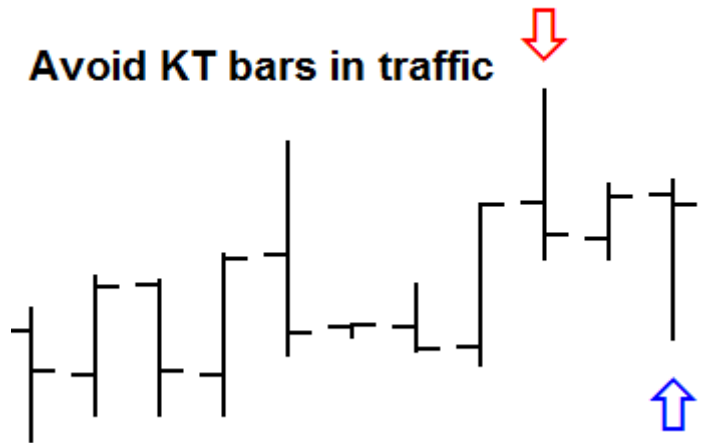
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4. The best Kangaroo Tails are at extreme highs and lows.



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Avoid Kangaroo Tails that are in traffic - amongst other price bars. These bars do not provide high probability signals.



Both of these Kangaroo Tail bars are in traffic, and not at extreme levels, so they would not be considered candidates for the Kangaroo Tail Trade.

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5. We look for Kangaroo Tails that have “space.”

This can be a tricky concept to understand. But the main point is that the Kangaroo Tail “sticks out” from the recent bars and that the Kangaroo Tail is printing on an area of the chart that has not seen price action in some time.

In this example we see that price has not printed in this area for quite some time. So this KT bar has a lot of space, and this is a good thing.



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In this chart we see that price has recently printed at this level, so this KT bar does not have a lot of space, and this is a bad thing.



Price has recently printed at this price, so this Kangaroo Tail bar does not have a lot of "space."

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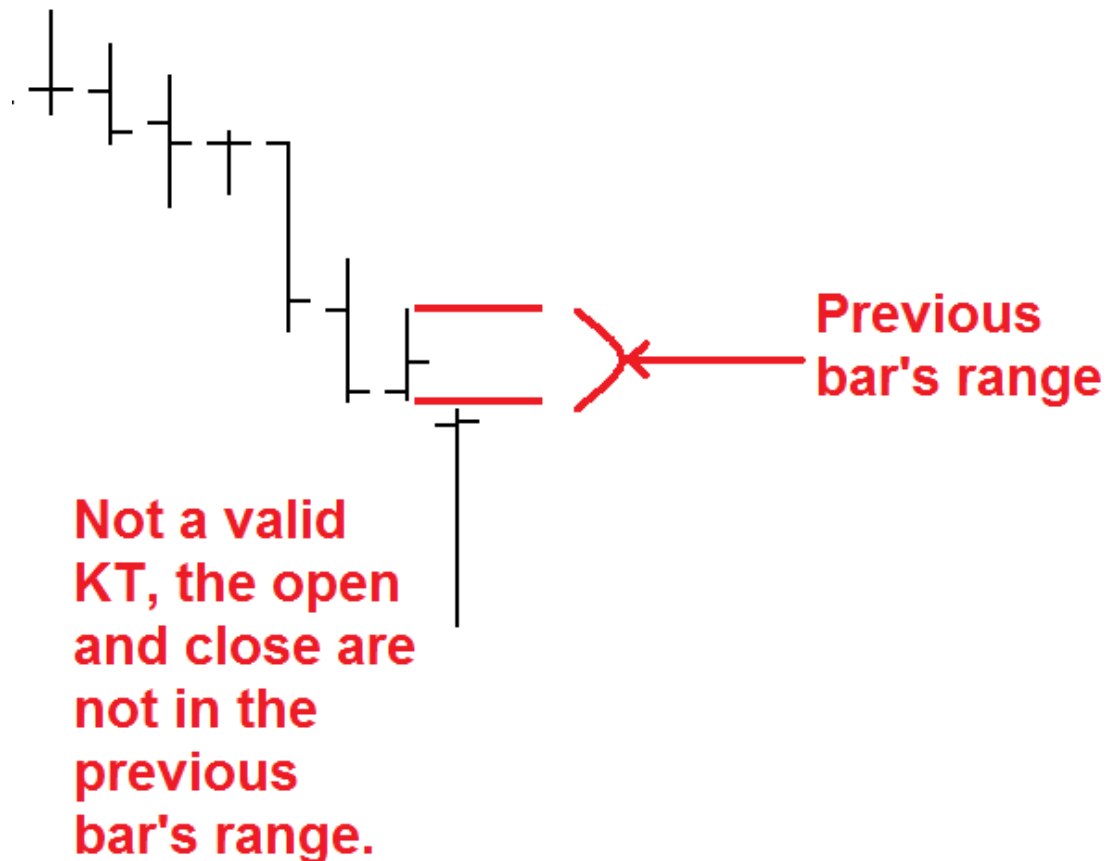
However, this KT bar is well-placed as there is a lot of space. On the chart we do not see where price has last printed here.



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6. The open and close of the Kangaroo Tail bar are contained by the previous bar's range.

This is an important rule. All Kangaroo Tails are only valid if the open and close are contained by the range of the previous bar. If the open or close of the bullish Kangaroo Tail bar is located below the low of the previous bar, then it is not a valid buy signal.

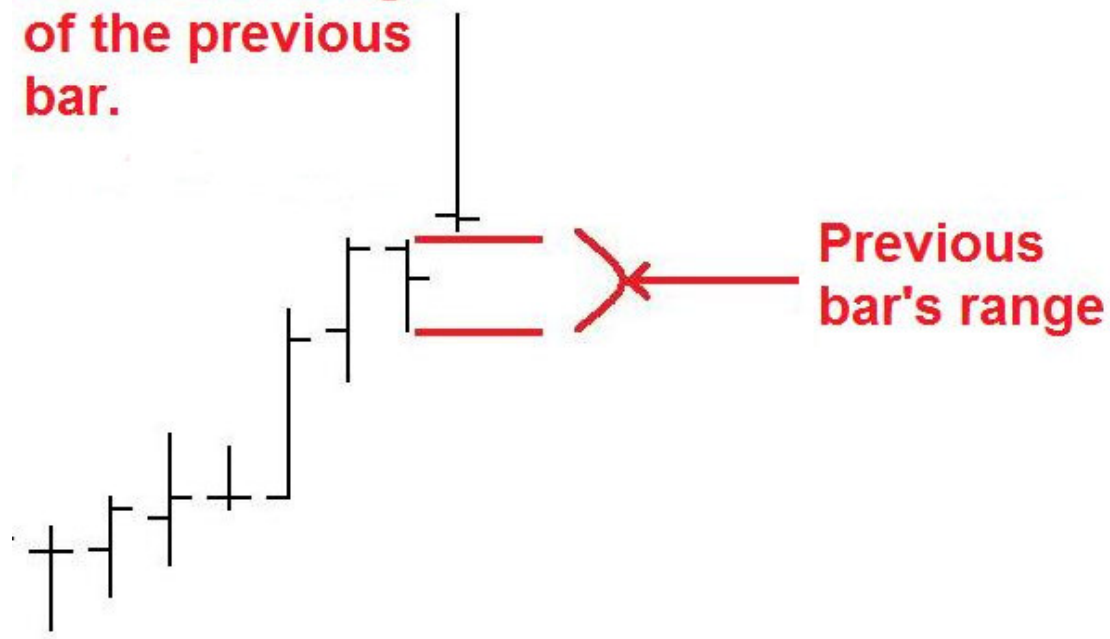


This is not a valid Kangaroo Tail bar because the open and close are not inside of the range of the previous bar.

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Likewise, if the open or close of the bearish Kangaroo Tail bar is located above the high of the previous bar, then it is not a valid sell signal.

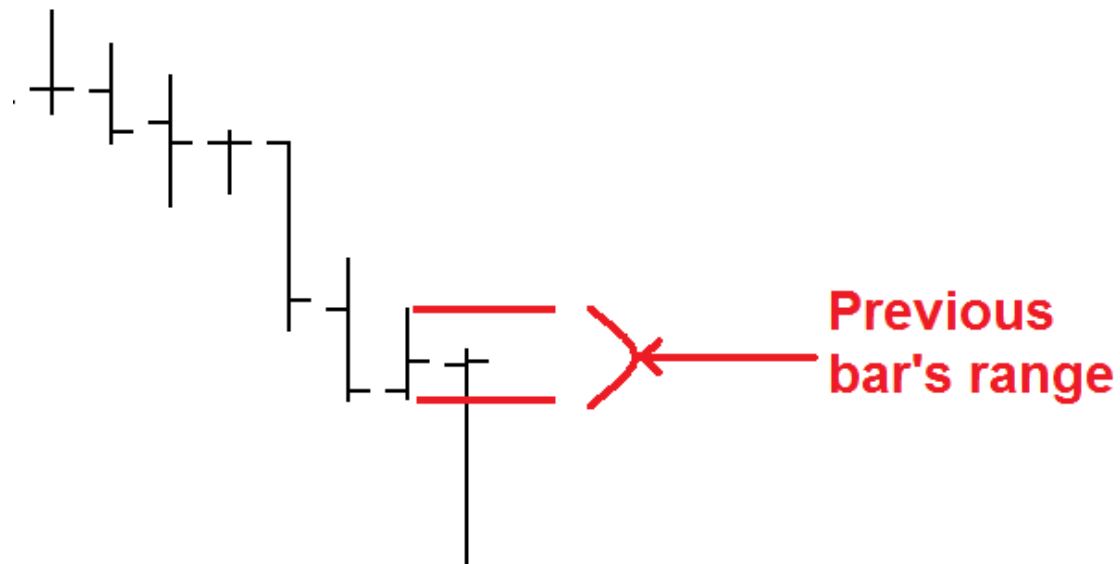
The open and close of the KT bar must be inside the range of the previous bar.



This is not a valid Kangaroo Tail bar because the open and close are not inside of the range of the previous bar.

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If the range of the bar before the Kangaroo Tail bar contains the open and the close of the Kangaroo Tail bar, then the Kangaroo Tail bar is a valid signal.

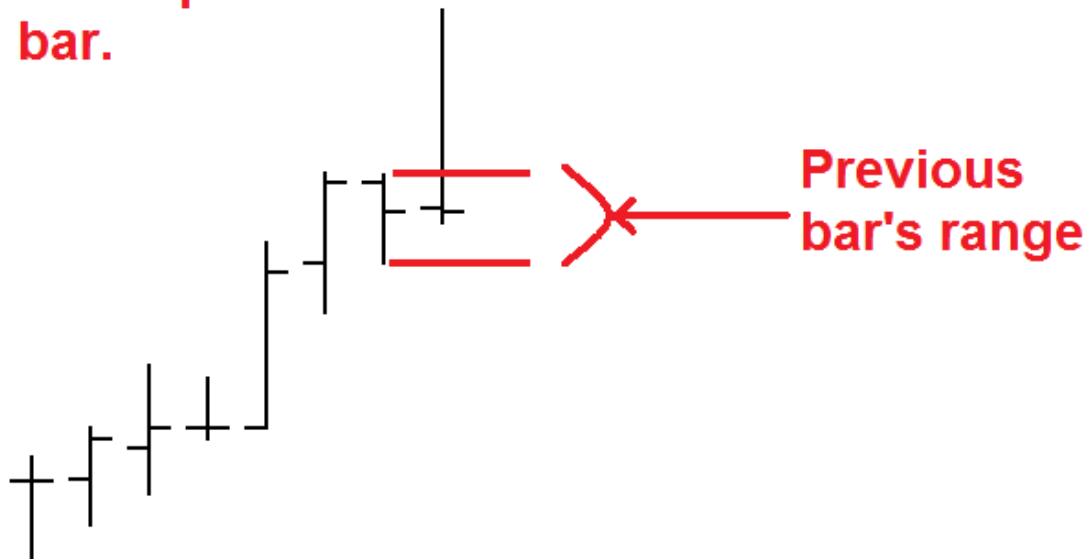


The open and close of the KT bar must be inside the range of the previous bar.

This Kangaroo Tail bar is a valid buy signal because the open and close of the bar are both contained by the range of the previous bar.

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The open and close of the KT bar must be inside the range of the previous bar.



This Kangaroo Tail bar is a valid buy signal because the open and close of the bar are both contained by the range of the previous bar.

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So, in summary, the Kangaroo Tail trade setup has the following characteristics.

1. The bar formation occurs on a support/resistance zone.
2. The open and close occur in the bottom 1/3 or top 1/3 of the bar.
3. The bar is usually longer than most of the surrounding bars.
4. The best Kangaroo Tails are at extreme highs and lows.
5. The best Kangaroo Tails have a lot of space.
6. The open and close of Kangaroo Tails are contained in the previous bar's range.

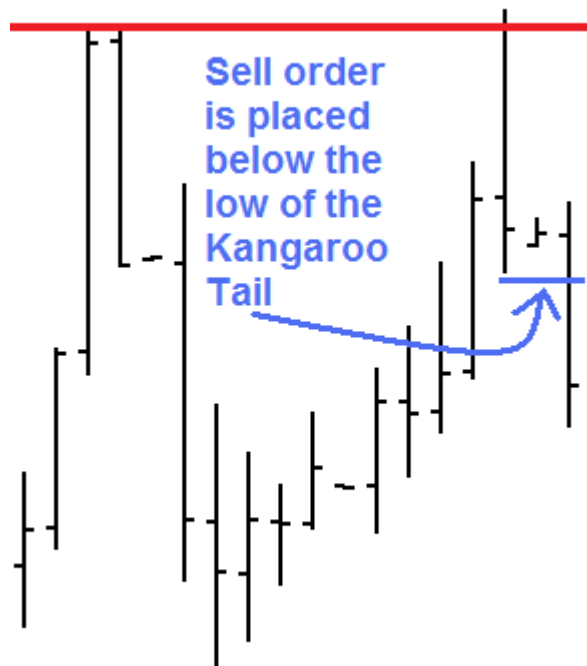


This chart shows the ideal Kangaroo Tail Trade setup.

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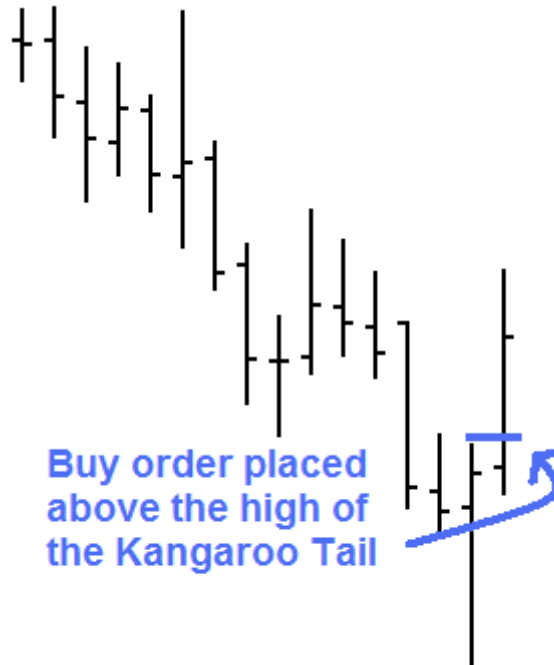
So we know what the Kangaroo Trade setup looks like, but when do we enter the trade?

The simplest entry rule for a Sell Trade is to enter the trade when the market goes lower than the low of the Kangaroo Tail bar.



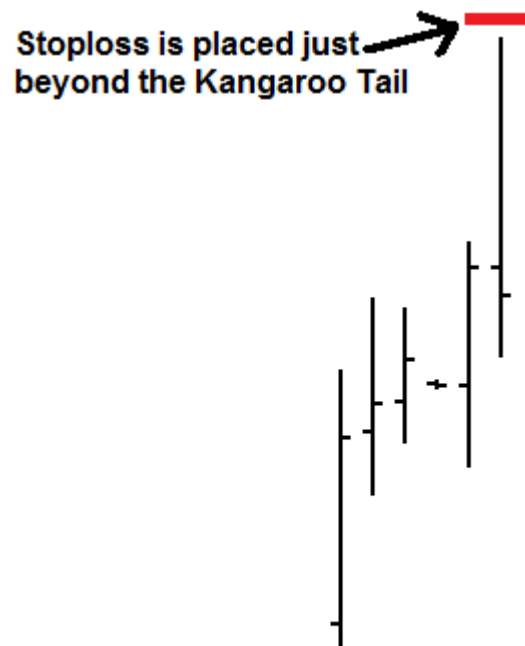
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Likewise, for a Buy Trade you may enter the trade when the market goes higher than the high of the Kangaroo Tail bar.



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Stoplosses can be placed just beyond the Kangaroo Tail bar.



The great advantage of placing stop losses outside of the Kangaroo Tail is that the stop is also placed on the other side of the support/resistance zone.

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Exiting the Kangaroo Tail Trade

Profit targets and trade exits are very personal, and most traders will have their own favorite way to manage a trade. For the Kangaroo Tail Trade you may consider the following possibilities for your exits:

1. Previous high/low

Some traders, like me, have a difficult time holding on to a winning trade. If you find yourself wanting to get out of a trade, and you find it difficult to hold on to a developing trend, then you may want to shoot for short, quick profit targets.

One way to do this is to exit near a previous high/low. These previous highs (or lows) will nearly always be at a support/resistance zone. So you can simply put a take profit order near this support/resistance zone and let the trade go.

The drawback of this exit strategy is that you will miss out if the market continues trending. This can be very difficult to stomach for some traders.

2. Two Profit Targets

This is my favorite exit technique. It may not be the most profitable, but it certainly is psychologically easy to handle. This strategy is easy for many traders to put into practice because it allows for a quick profit AND it allows for you to cash in on a trends.

Using two profit targets means that you can target a close, easy-to-achieve target and allow the market to run further in the direction of the trend. This means that you can profit if the market hits your close profit target and then reverses and you can profit if the market continues on in the direction of the trend.

This is how I use this exit strategy. I enter a trade with two positions. For the first position I will set the profit target at the nearest support/resistance zone. If the trade goes in the expected direction then this support/resistance zone is the most likely place that the market will reverse. If this first target is hit I will move the stoploss on the second position to break even (or plus 5 or 10 pips). This way I will not lose money on the trade. Sometimes the market will reverse and stop out the second position, and this is fine. But sometimes the market will continue on trending and I will have a rather large profit. I will generally watch how the market reacts to each of the support resistance zones and if it looks like the market is going to reverse at one of the support/resistance zones, I will exit this second position.

I never know if price will halt and continue once it hit's a support/resistance zone, but if the pair has trended a long way and then retreats a bit at a support/resistance zone I am often happy to take profits on the second lot.

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Personal Trading

www.fxjake.com

Any more questions about the Kangaroo Tail Trading Systems? Email me at wp@fxjake.com

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