

The



Big Shadow Trade

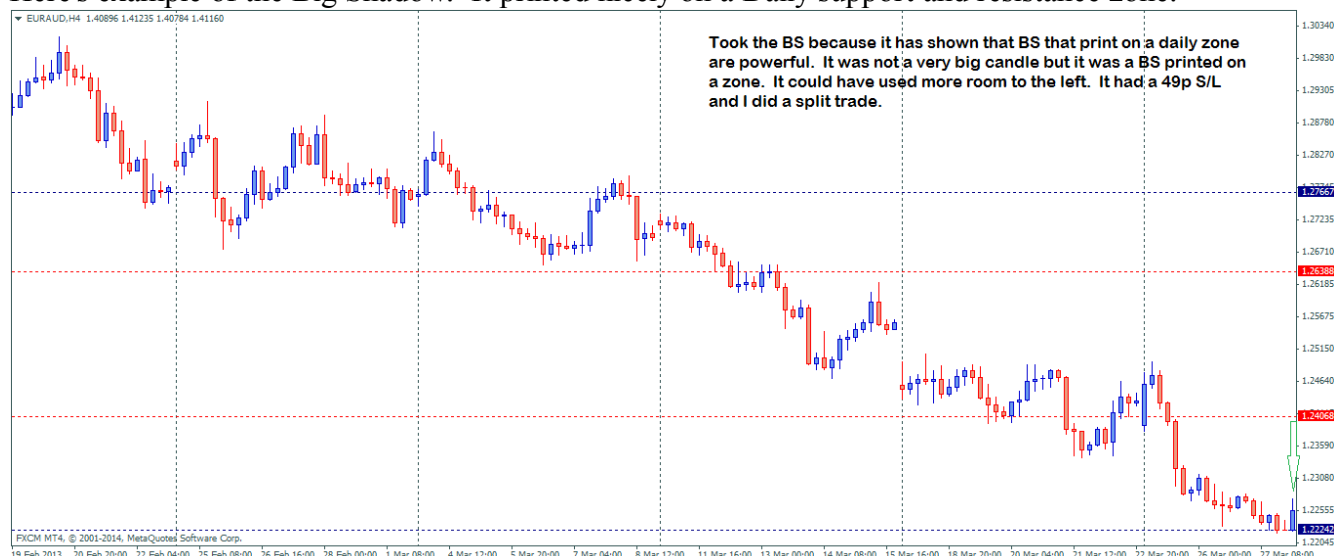
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The Big Shadow is a two candlestick formation. Its name says it all. It is a candlestick that overshadows the previous candle. If you're not a Naked Trader you would consider a Big Shadow an Engulfing Candle, but it's more than that, but for the Naked Trader its more than that. Here's the difference:

- The Big Shadow is a two candlestick formation. The second candle in this two candlestick formation is called the Big Shadow.
- The Big Shadow must print on a zone.
- The Big Shadow candle will always have a range that is greater (or larger) than the preceding candlestick. It should have a higher high and a lower low. If it does not, it does not qualify as a Big Shadow.
- The Big Shadow should be the largest candle that you've seen in the previous 6-10 candles.
- Definition of range: It is defined by the high and low of the entire candle, not the open and close. Therefore you want the Big Shadow to have a higher high and a lower low of the previous candle.

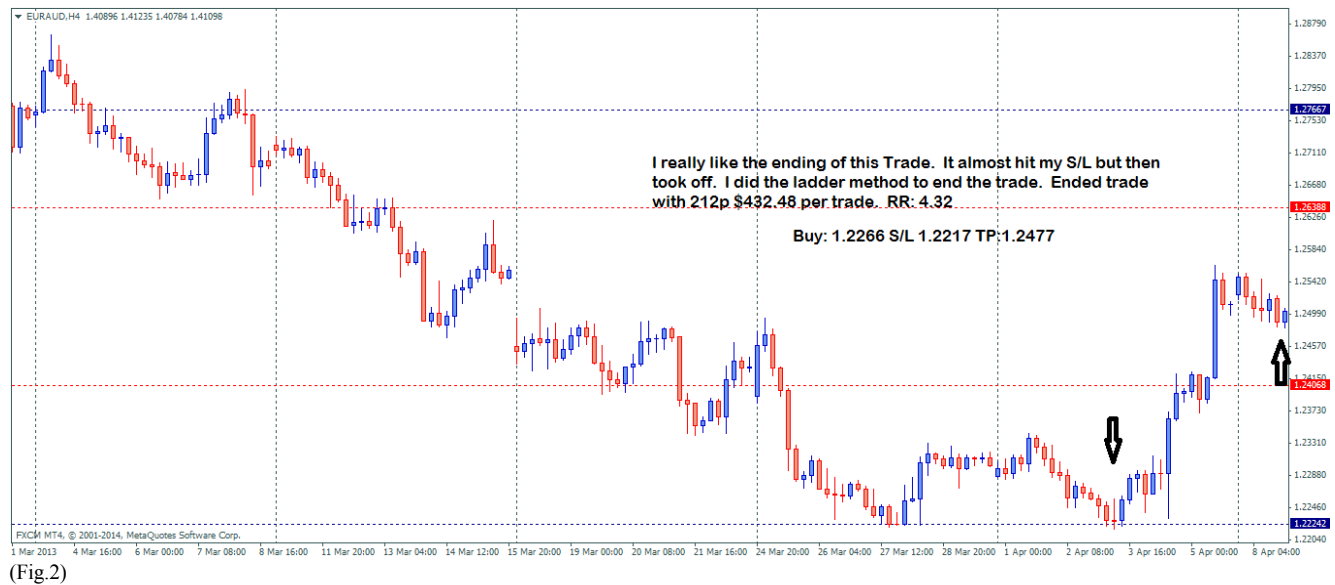
Here's example of the Big Shadow. It printed nicely on a Daily support and resistance zone.



(Fig.1)

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 objective, level of experience and risk appetite. The possibility exist 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 of the risk associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts.

The results of the Big Shadow that printed EUR/AUD.



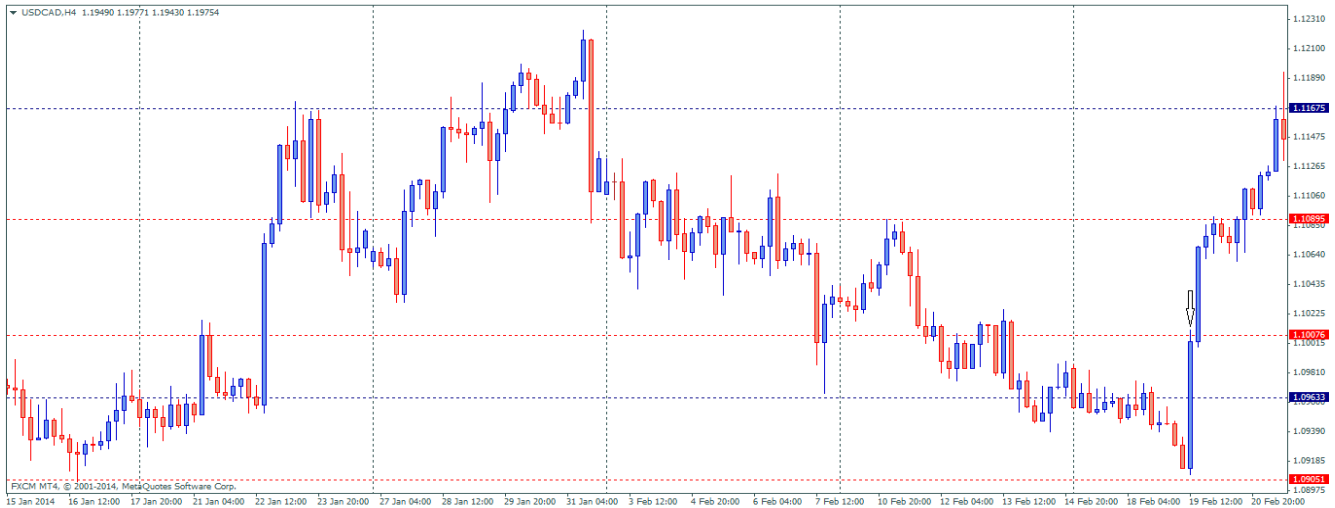
(Fig.2)

As you can see this one was a winner. With the Ladder exit It ended up generating 212 pips.

One thing to keep in mind concerning support and resistance zones is that they are flexible. A candlestick formation does not necessary have to print perfectly or squarely on the zone. You may from time to time find that the Big Shadow does print slightly either above or below a zone. The important thing to keep in mind is that the Big Shadow candle must have a larger range than the previous candle.

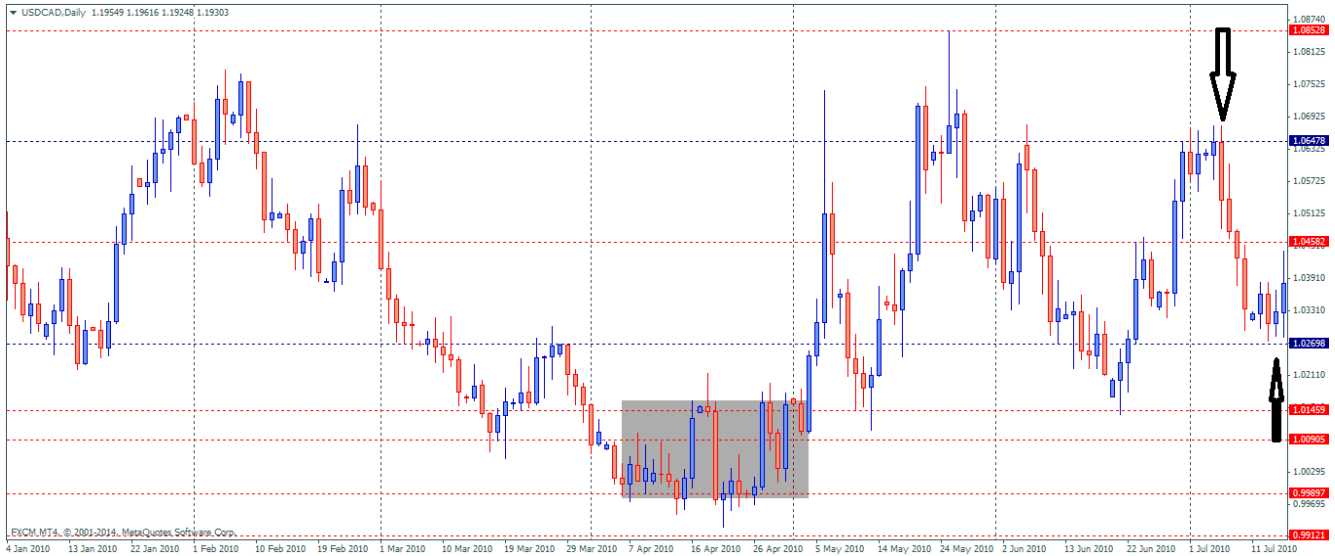
Below is a picture of a Big Shadow from the USD/CAD H4 February 19, 2014. I want to point out that not all Big Shadow candles have to be this large. This is one that is just massive and as you can see it went for quite a few pips approximately 249 pips.

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(Fig.3)

Now let's take a look at a Bearish Big Shadow (Fig.4). As you can see this Bearish Big Shadow has printed on a Daily Zone (which I have highlighted in blue dotted lines). In this example the Bearish Big Shadow has an equal high than the previous candlestick. It is not the largest candle that we have seen in the last 6 candles and in some trade set-ups you might decide to take Big Shadows like this. Remember, you have to decide based on your back-testing which types of Big Shadows you will trade with.



(Fig. 4)

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Bearish Big shadow- For a Sell trade we will enter the trade with a Sell Stop a few pips below the low of the Bearish Big Shadow candlestick. The stop loss is placed a few pips below the low of the Big Shadow candlestick.

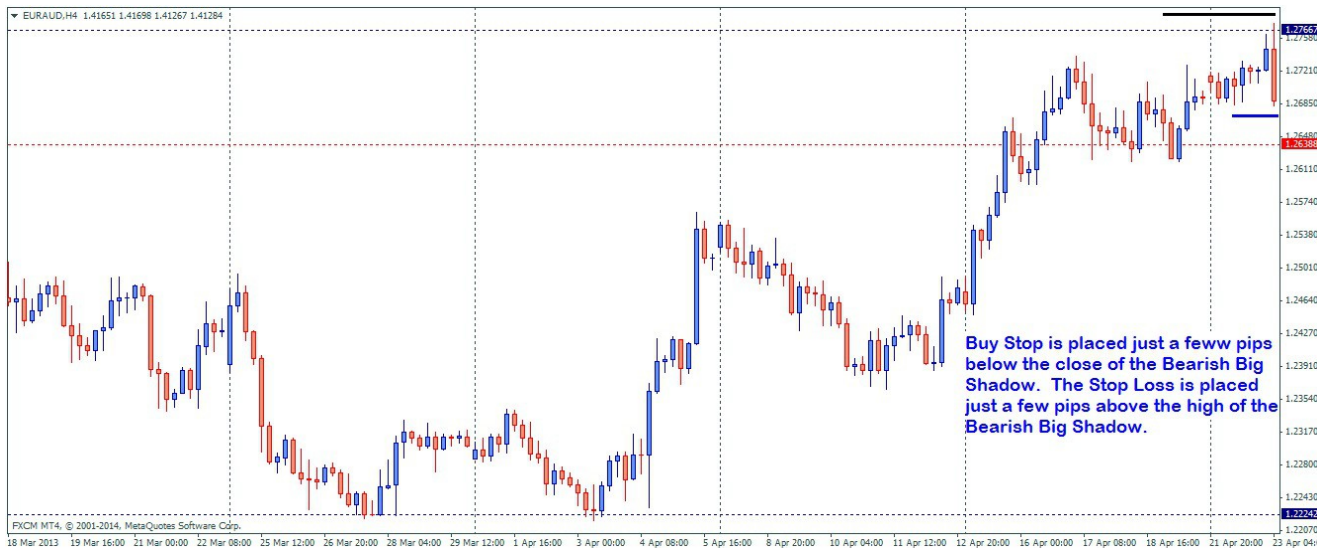


Fig.6

Let's talk about space to the left. In fig. 5 you can see that the Bearish Big Shadow has printed on a Daily zone and there hasn't been any activity on this zone in a very long time. If you combine the two wicks of the Bearish Big Shadow candlestick formation you will see that it stretches a great distance.



Fig. 7

This is the kind of set-up that we are looking for as this Bearish Big Shadow has:

1. Room to the left. (The very best Big Shadow will have this optimizer).
2. A greater range than the previous candlestick.
3. It printed on an extreme high zone
4. It printed on a strong support and resistance zone.
5. Has largest range in the last 10+ candlesticks.

I invite you to back-test the Big Shadow using [Forex Tester2](#) software and see the power of this catalyst in your Forex Trading tools.

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