

Dragon

Harmonic pattern – Neo-Harmonics

Video version to watch dragon basics:

<https://www.youtube.com/watch?v=ofsUg5wDKos>

MT4 strategy tester trade example :

<https://www.youtube.com/watch?v=mOzOiAw61rU>

Harminic indicators review to read :

https://www.academia.edu/17278713/Harmonic_pattern_indicators_out_in_the_WWWilde_2015

Why to learn, and trade the dragon pattern?

- It has its basic concepts derived from widely known basic chart patterns like double tops and double bottoms. These patterns are traded by many of the traders all around the world.
- Alike the above mentioned patterns, it does have an excellent risk to reward ratio (R:R)
- Involves Fibonacci ratios, and often does serve as an early identification of usually an “irregular” 5 point harmonic pattern, so based on that it will offer an opposite high probability entry point as well at its target profit levels.
- Finally because I found it very rewarding and highly profitable.

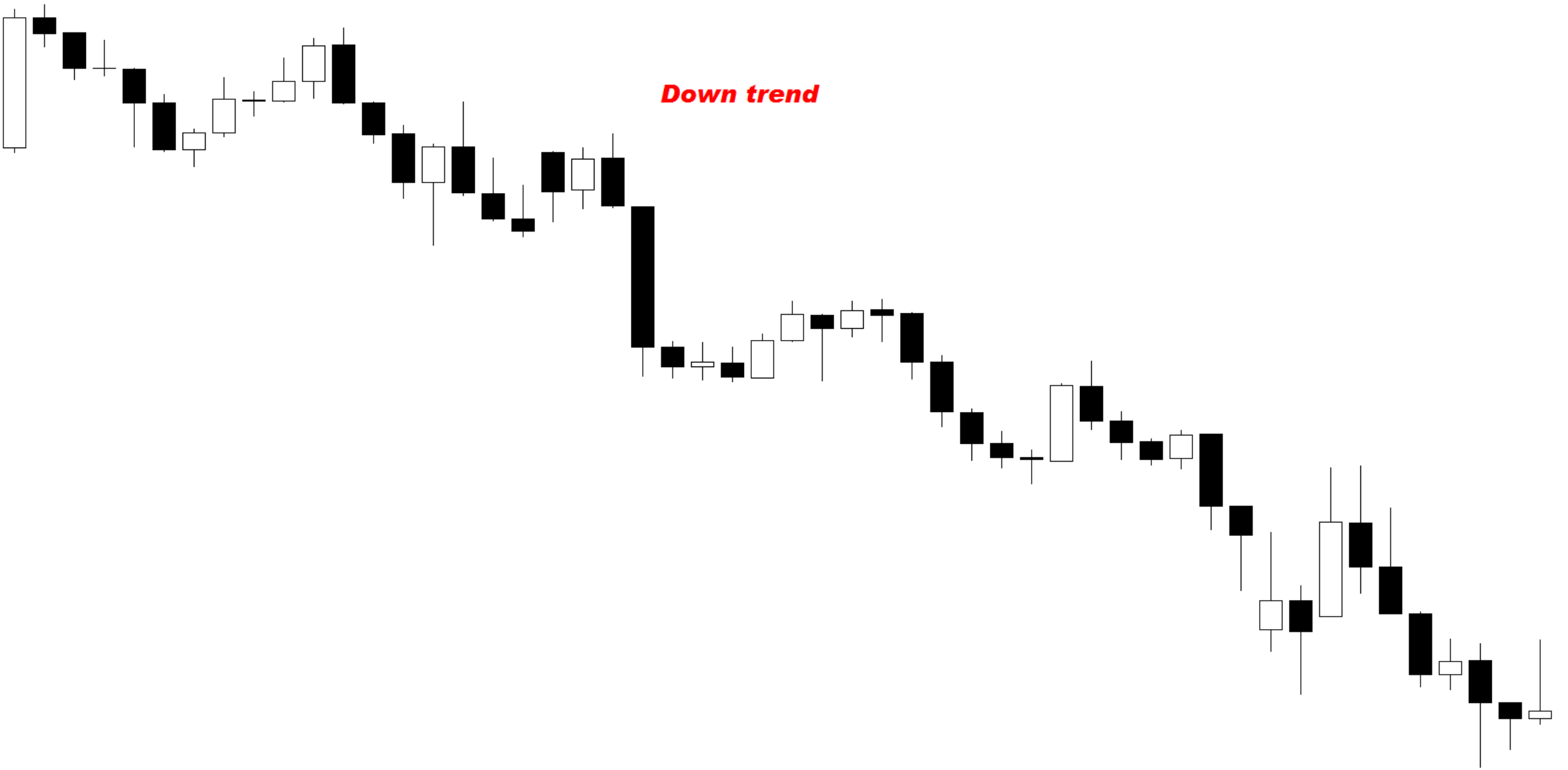
The origins of the dragon pattern

The dragon pattern was described by Suri Duddella, in his book „ Trade Chart Patterns Like The Pros” published in 2007

I was impressed with one of a sentences of his reviewers especially:
“Don` t read this book – MAKE MONEY WITH IT!”

I myself look at the dragon as

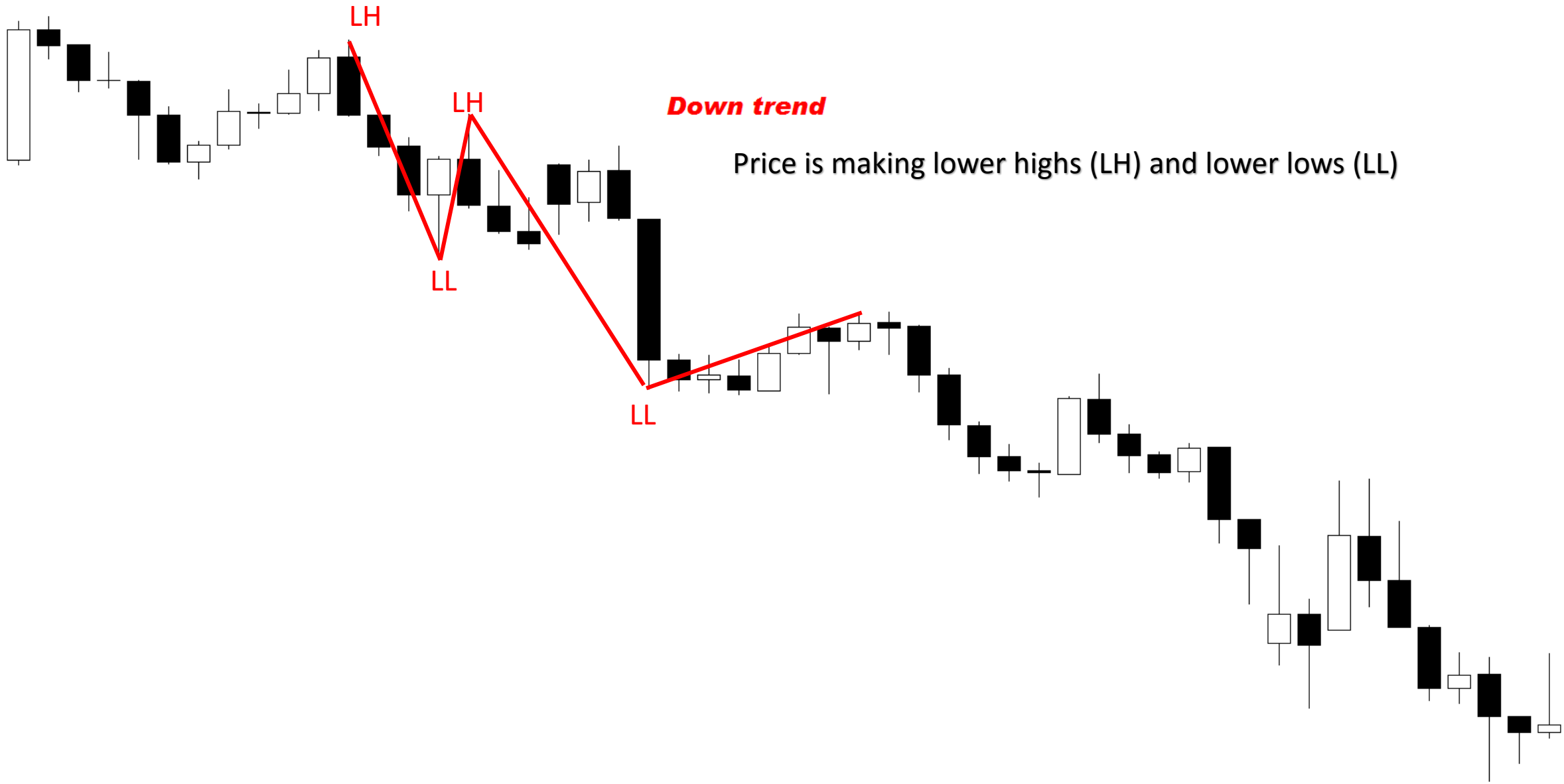
- trading historically well known and effective patterns
like double tops and bottoms
- trading harmonic patterns at an early stage, some refer to it as
an aggressive “C” entry in a 5 point harmonic pattern which has
the 5 points labelled as X A B C and D...
- Dragons have an excellent good R:R (Risk:Reward) ratio.





Down trend

Price is making lower highs (LH) and lower lows (LL)



LH

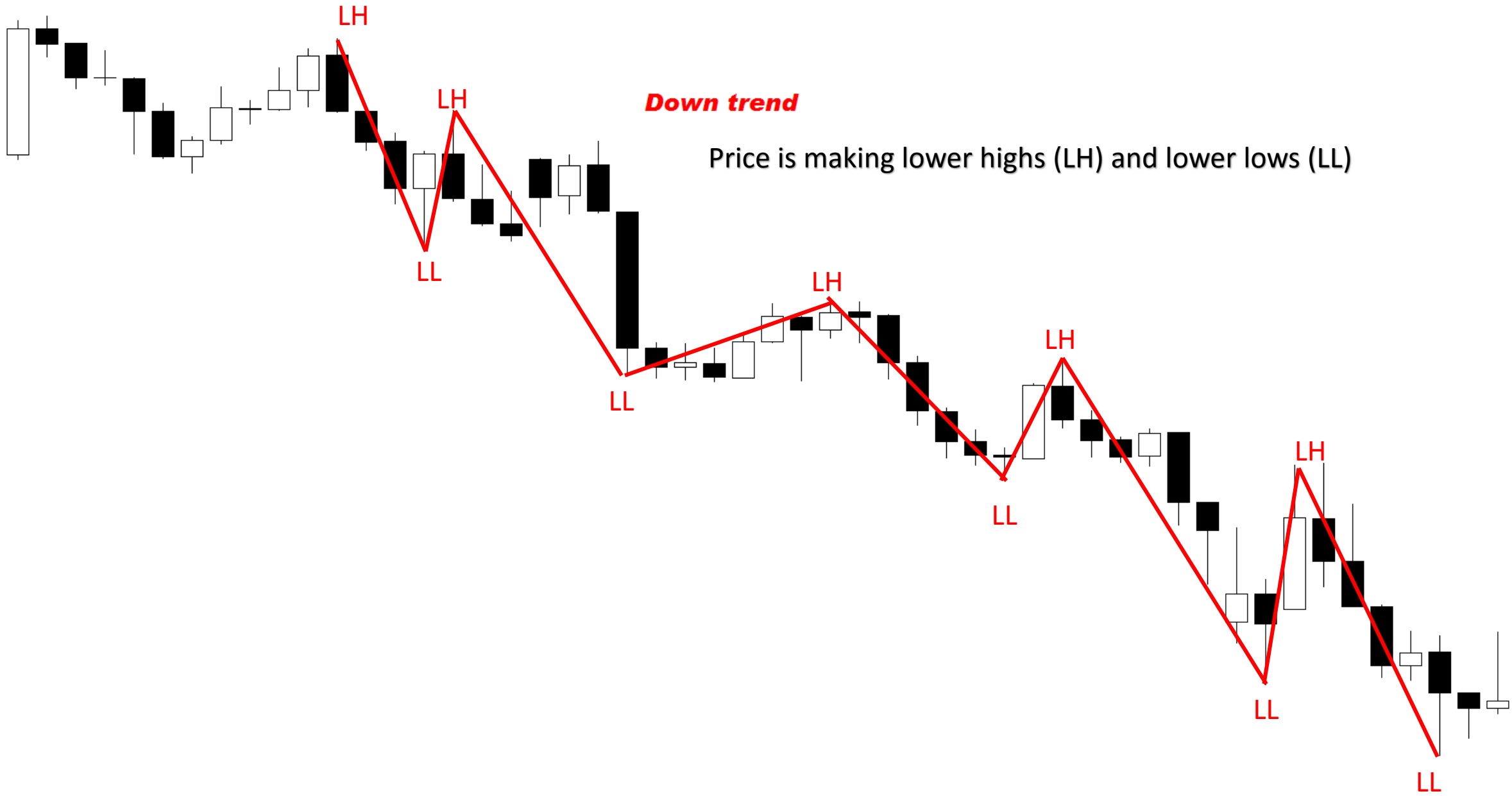
LH

Down trend

Price is making lower highs (LH) and lower lows (LL)

LL

LL



LH

Down trend

Price is making lower highs (LH) and lower lows (LL)

LH

LL

LH

LL

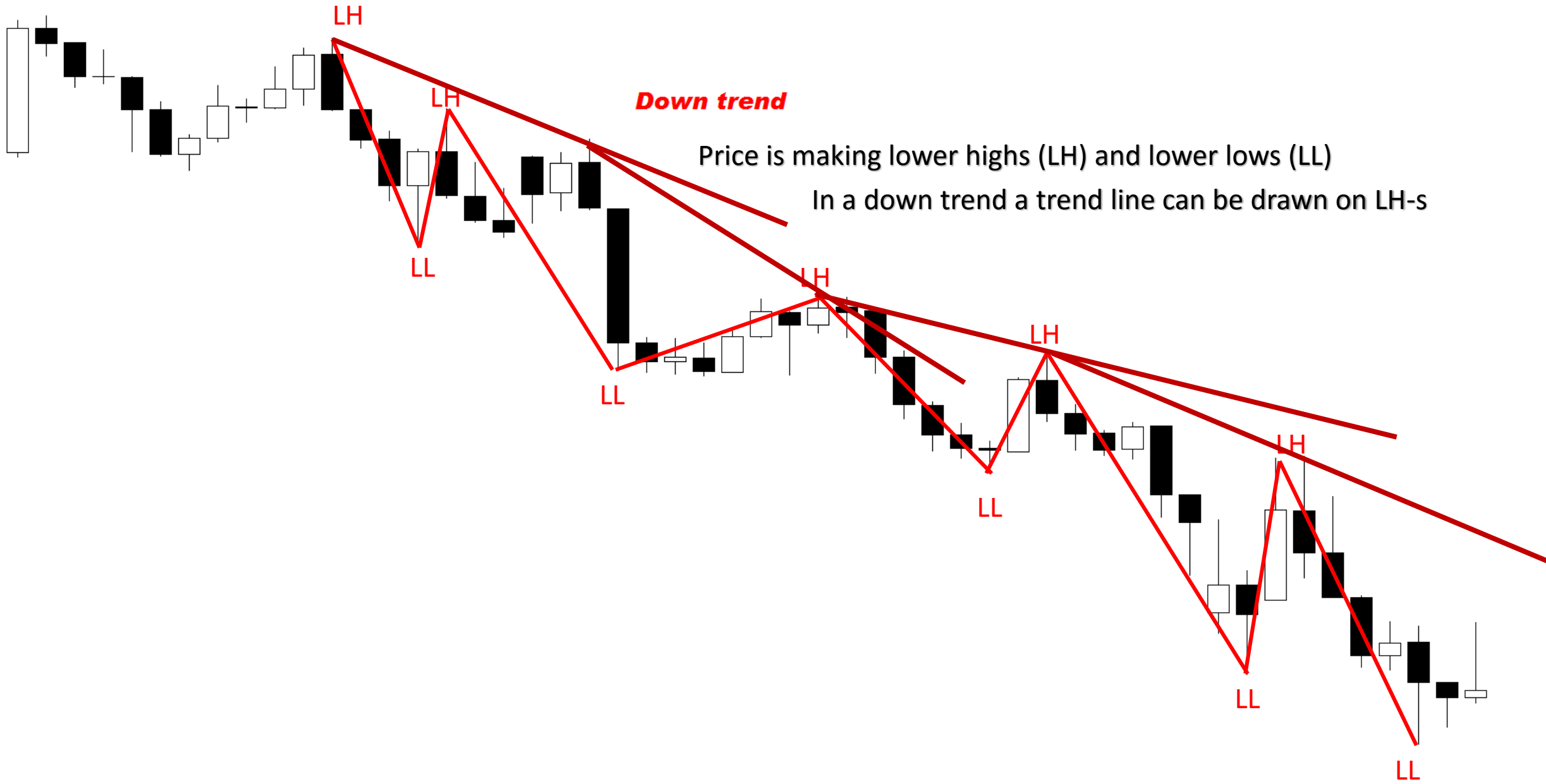
LH

LL

LH

LL

LL



LH

Down trend

Price is making lower highs (LH) and lower lows (LL)

In a down trend a trend line can be drawn on LH-s

LH

LL

LH

LL

LH

LL

LH

LL

LL



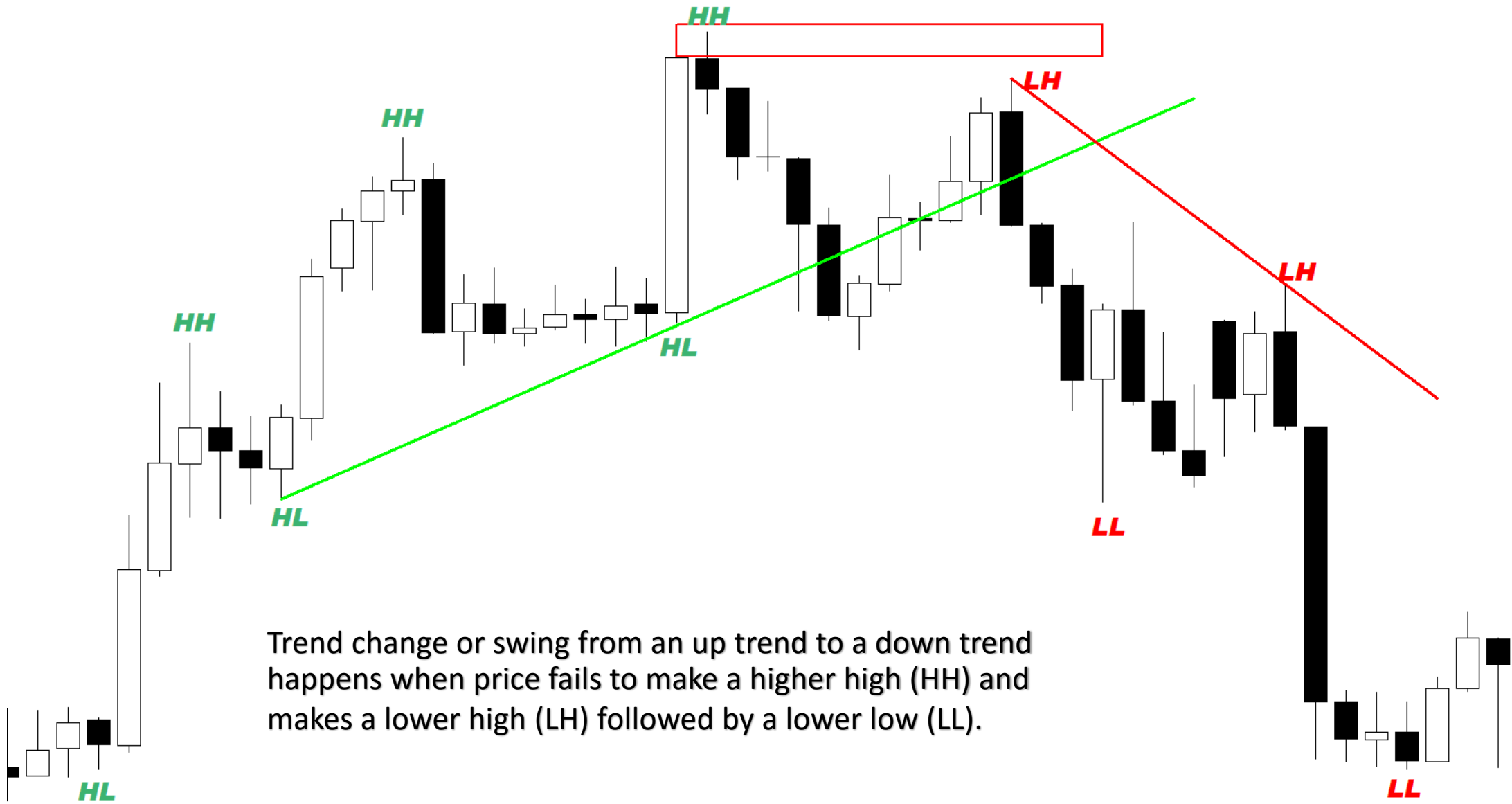
Down trend

Price is making lower highs (LH) and lower lows (LL)

In a down trend a trend line can be drawn on LH-s

Trend change or swing from an up trend to a down trend happens when price fails to make a higher high (HH) and makes a LH followed by a LL.





Trend change or swing from an up trend to a down trend happens when price fails to make a higher high (HH) and makes a lower high (LH) followed by a lower low (LL).



As one can see on the left side of the chart, an up trend is just the opposite of a down trend, when price waves are making higher highs (HH) followed by higher lows (HL) Consecutive HL points can be connected with trend line (green line on the picture)



Why do we talk about trend, when discussing dragon?
 Because dragon pattern often appears when trend fails.
 In this example we have seen how price failed to make
 a higher high in an up trend.
 This failure often leads us to have chart patterns
 defined long ago, and traded by many traders.

What kind of trend failures are we looking for when hunting for dragons?

Usually we are looking for

Double tops (DT)

Double bottoms (DB)

Could be also triple tops (TT) or triple bottoms (TB)

patterns

Lets see some examples of these:

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In an up trend price failed to create a higher high, but formed a double top instead in the red zone. If you look closer it can be also considered as a triple top (TP)

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Usually we are looking for

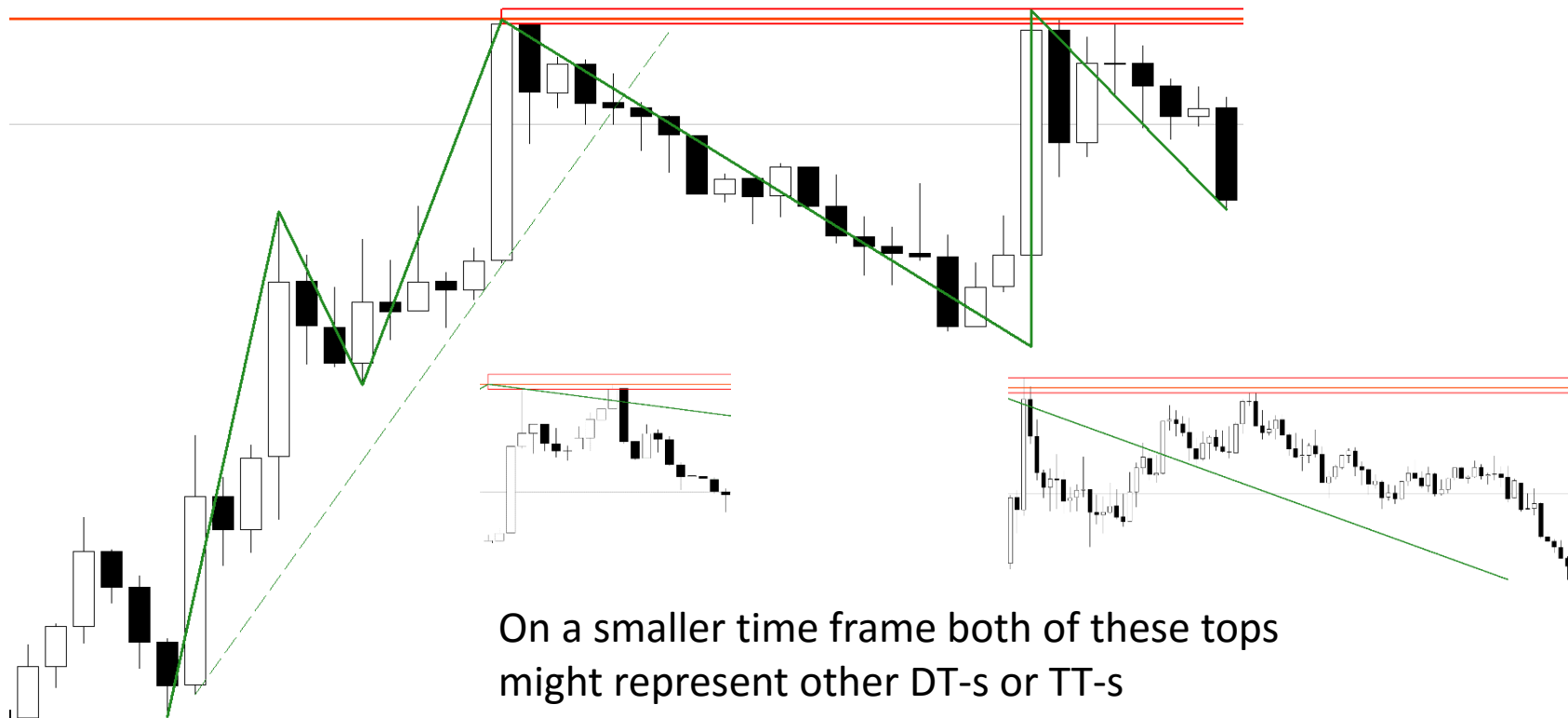
Double tops (DT)

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patterns

Lets see some examples of these:



On a smaller time frame both of these tops might represent other DT-s or TT-s

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Usually we are looking for

Double tops (DT)

Double bottoms (DB)

Could be also triple tops (TT) or triple bottoms (TB)

patterns

Lets see some examples of these:



In a down trend price failed to create a lower low, but formed a double bottom instead in the green zone. If you look closer it might be sometimes a triple bottom (TP) as well.

So far we looked at

- trend definition,
- how to draw trend lines,
- The symptoms of a trend failure
- Classical chart pattern basics like double- and triple- tops and bottoms.

Is it really that simple?

Yes it is, when one is just reading about it, or is looking at a chart in the past.

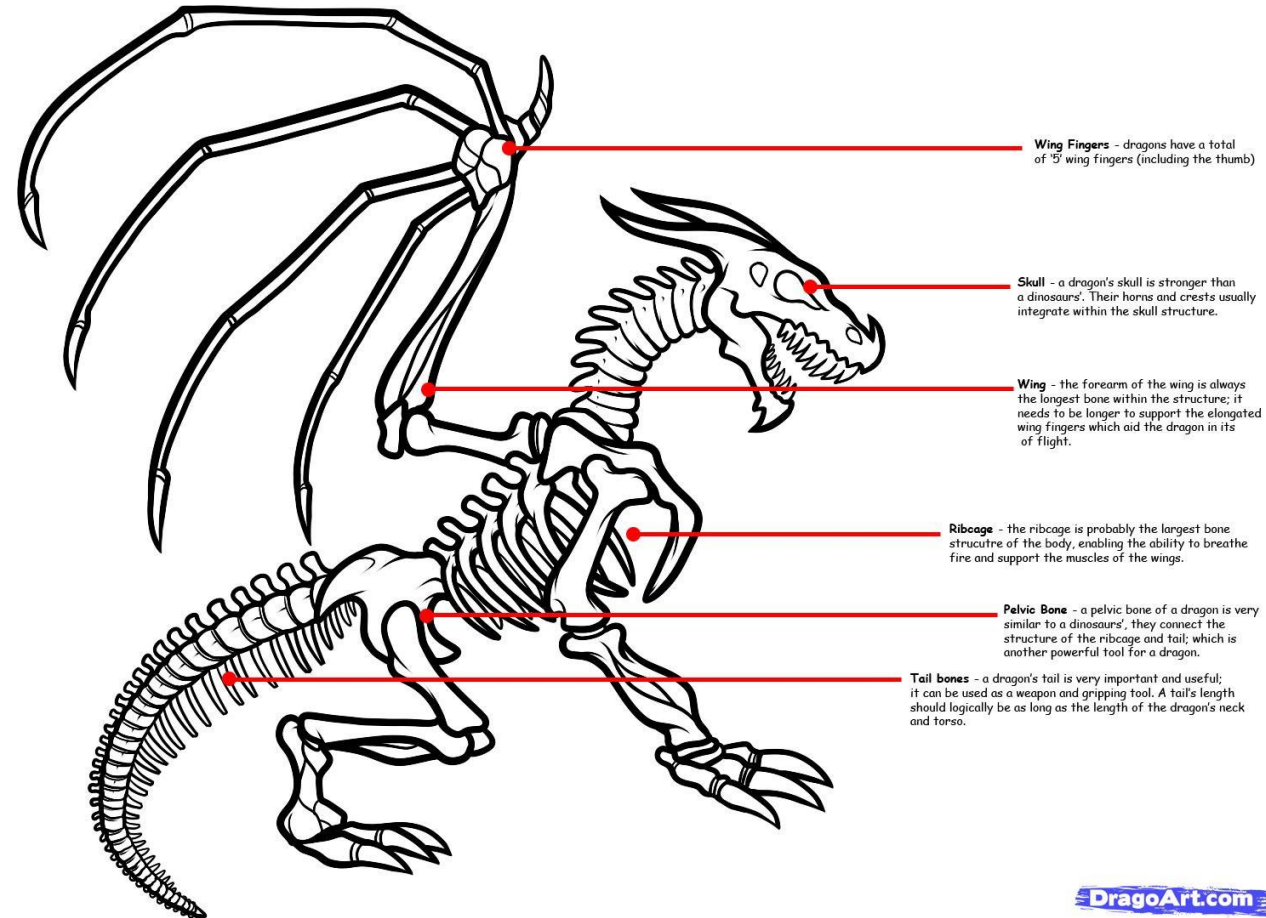
Double top or double bottom, are simple and very well known classical patterns.

But do you

- Have a definition for what these exactly are?
- Know the failure rate with and without confirmation?
- Definition for what confirmation is for you?
- Have enough statistics based on your rules, to prove it can be profitable?

Would you need help with the above, I suggest you to read
Encyclopedia of Chart Patterns by Thomas Bulkowski.

Anatomy of a dragon



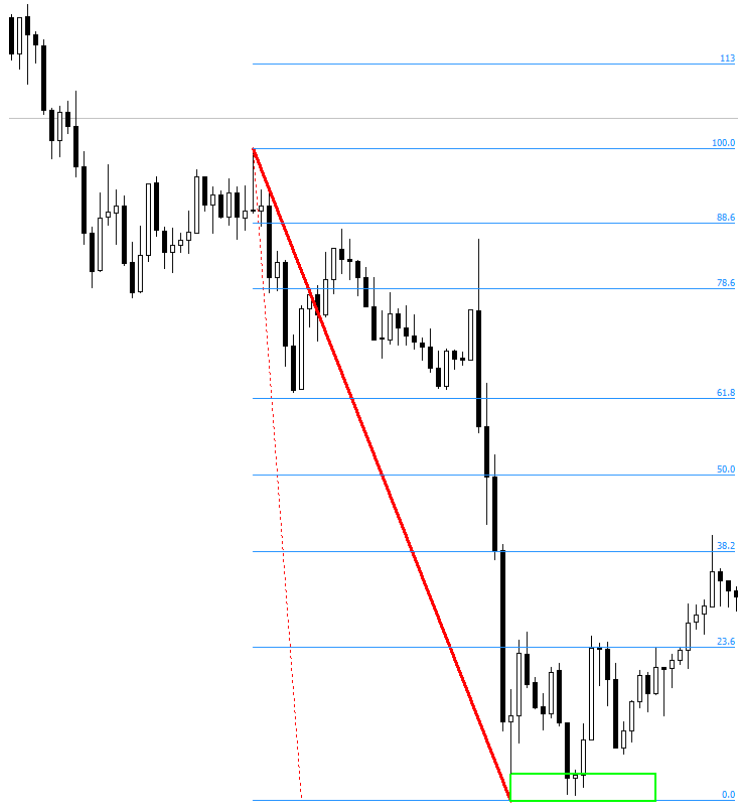
I have always thought differently of the beginning of a dragon, but S. Duddella starts a dragon by its head.

As generally true in harmonic pattern trading, or in fact, in many trade approach, you want to identify first an impulse leg.....



In a downtrend try to pick the most obvious one(s)
My rule for settling on a leg as complete, it must be followed by a minimum of 32.8 % Fibonacci retracement.

As soon as retracement from the selected impulse leg completes anywhere between 38.2 – 61.8 % Fibonacci retracement from the impulse leg, look for a trend failure – DB/ TB in a down trend, or DT/TT in an up trend.



However at the end of the impulse leg we have a tradable DB formation, we are not ready to look for a dragon formation until later, when our retracement from the impulse leg reaches the 38.2 Fibonacci level.

38.2-61.8 are my rules defined for dragon. For specific rules of S. Duddella read his book.

As soon as we have the required retracement from the impulse leg (in the harmonic pattern trading it is referred to as the retracement of the XA leg to form a B point of a 5 point pattern).
In the dragon anatomy it is the “Hump” of our potential dragon.
Now we are ready to look for a second leg of the dragon to be formed.



Dragon starts with its head.

As soon as we have the retracement from the impulse leg, we now can draw a triangle, thus we have an idea of

- where our potential dragon has its back line.

- This line will play an important role in the “How to trade” section, in a different part of this series.

- We also have our first leg formed, which is a line drawn in the search for us, in the search of the second leg.

- Second leg of our dragon must form between 61.8-127.2 Fibonacci levels drawn on the first leg to hump line. In harmonic trading referred to, as AB leg.

- It is marked on the picture with light blue filled rectangle.

Technical analysis tools, indicators to search for the dragons:

- Mt4

TheHarmonicIndi (THI)

EwaveHarminics

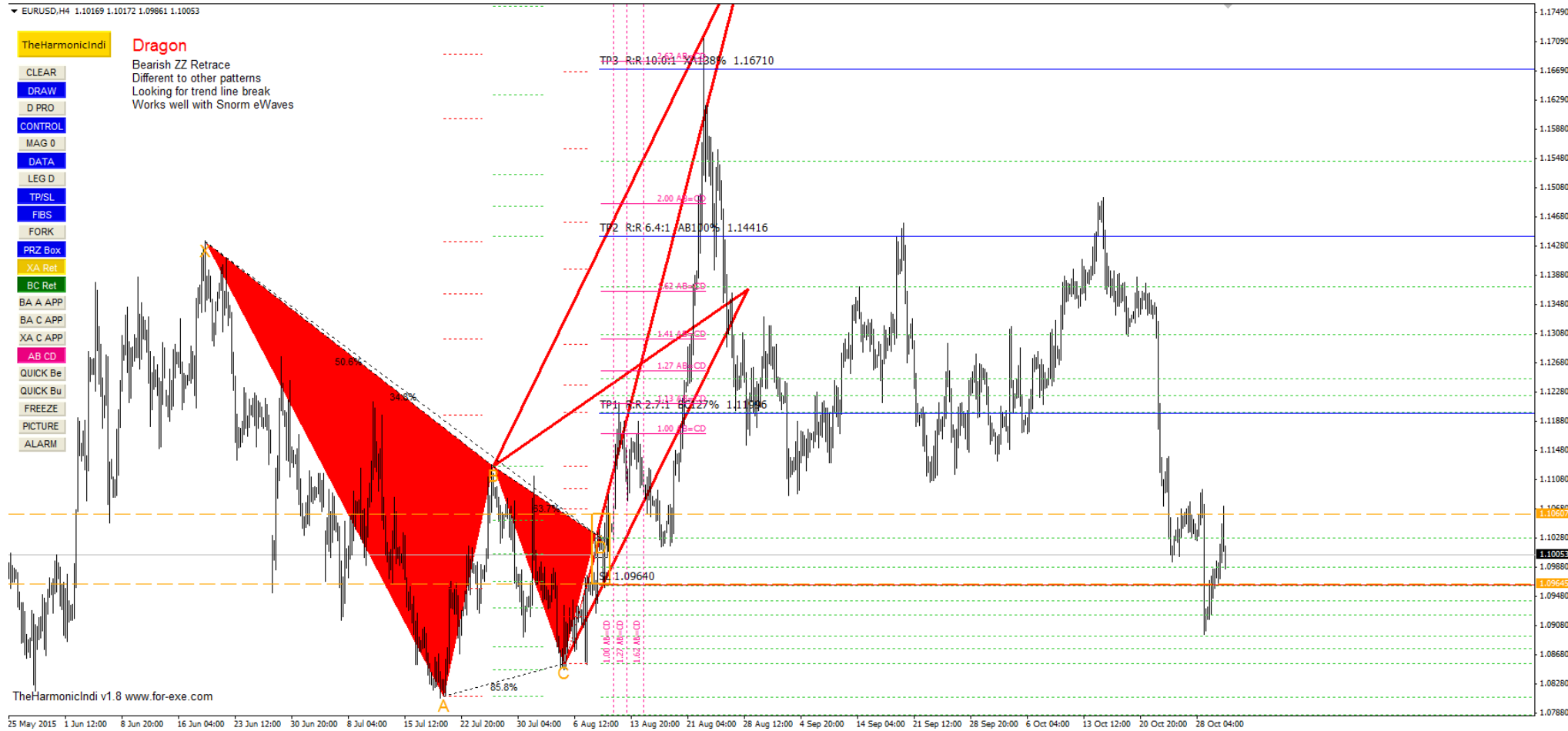
ZUP

- Mt5

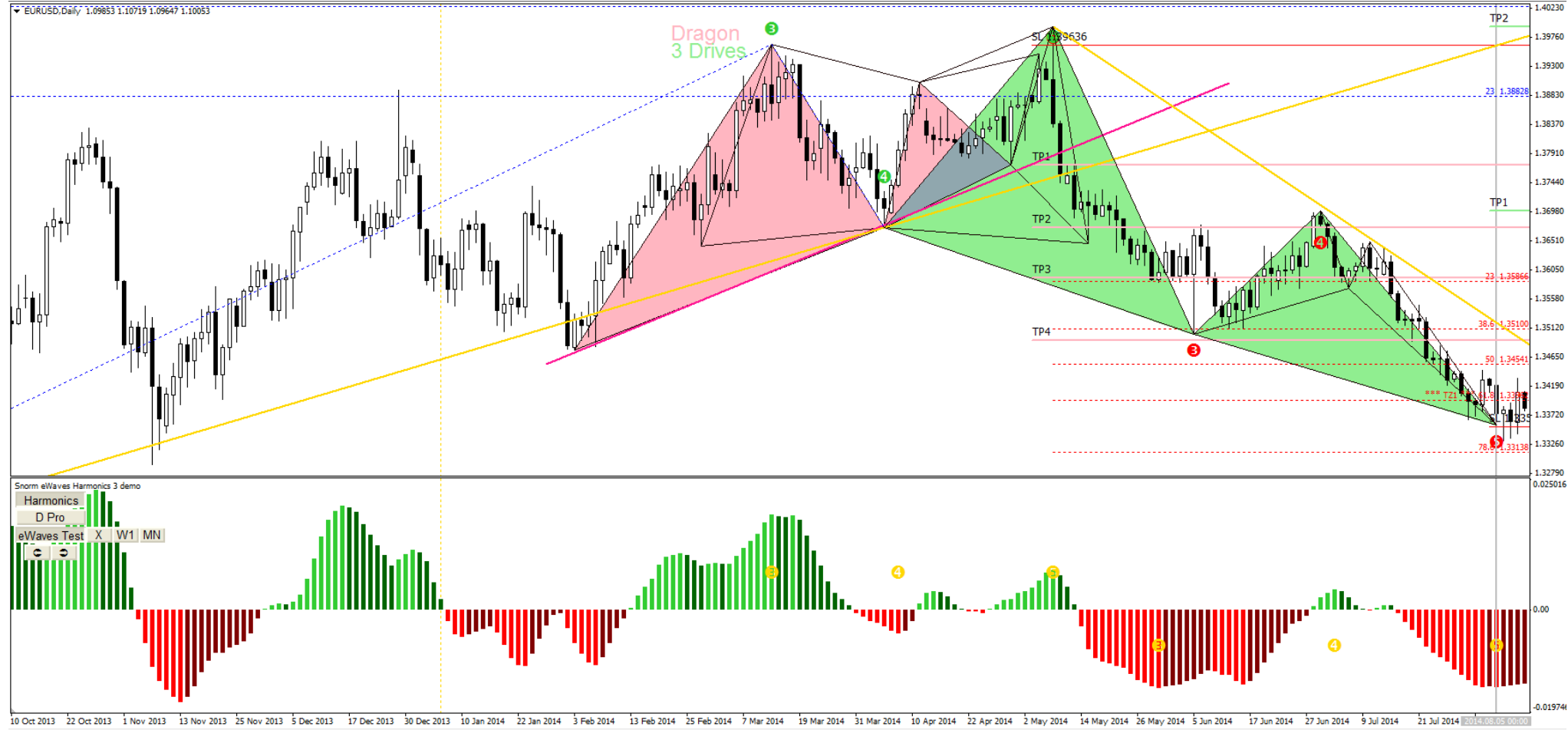
HWAFM (however here Dragon is not spelled out, just shown in grey as a developing pattern in an early phase.

See examples on the next pages.

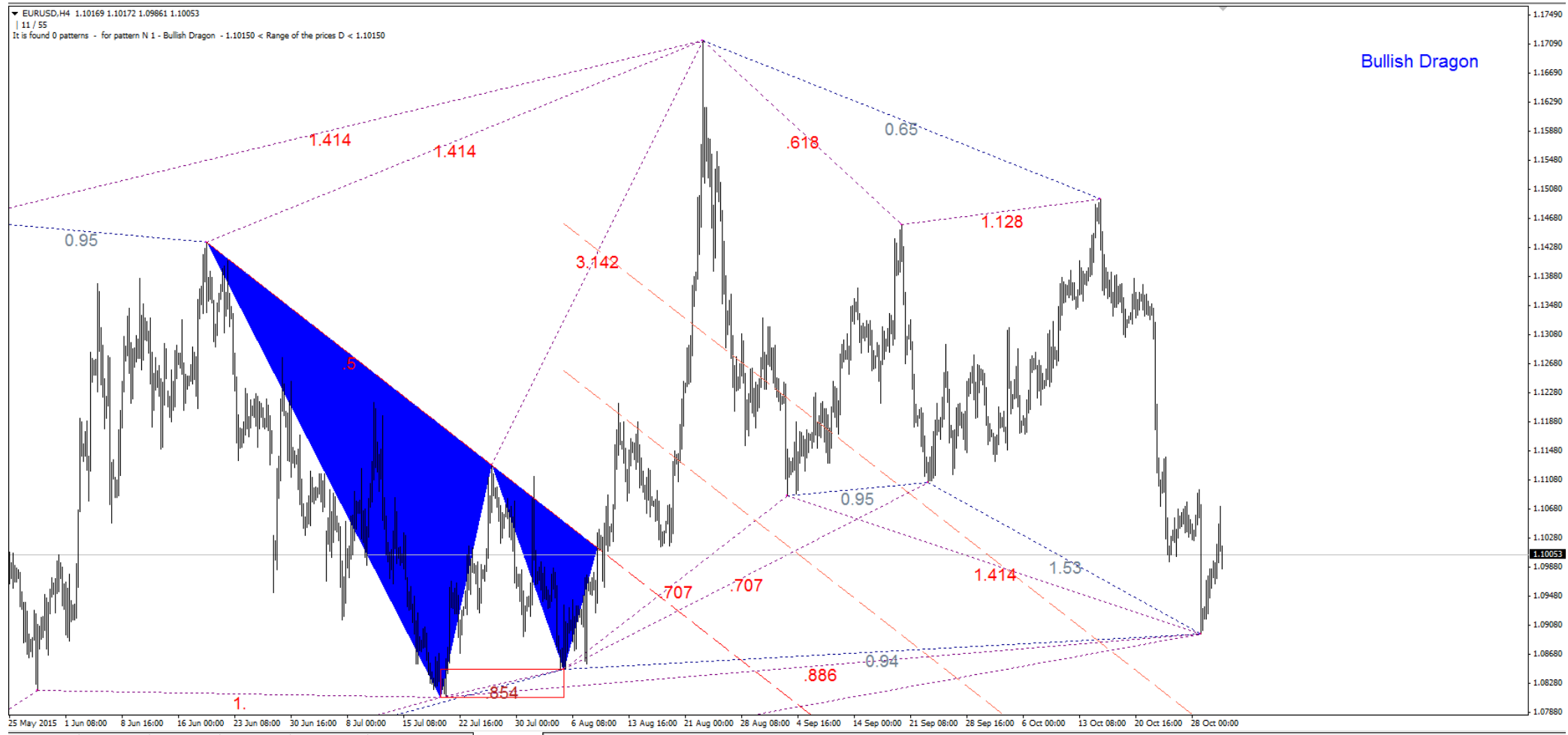
THI The Harmonic Indi



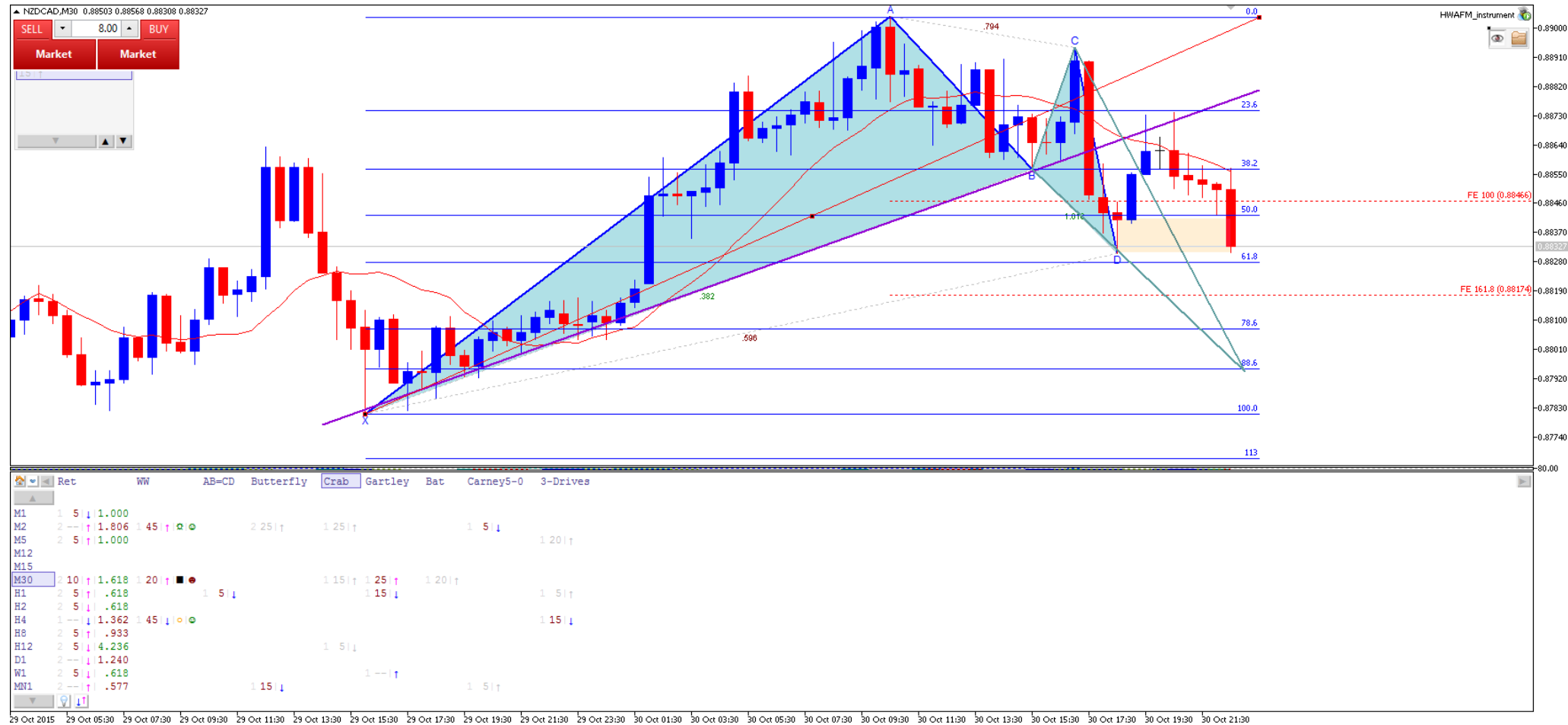
Snorm Ewaves Harmonics (beta)



ZUP MT4 indicator



HWAFM (MT5) – developing patterns



<http://newdigital-world.com/trading-systems/988-patterns-hwafm.html>