

Trading with The Three Dragons

By Islander 20th July 2013

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This work in progress is for experienced traders who wish to trade intra-day in the direction of the Price Action primarily during the London Session, taking regular profits from the intra-day swings.

The only addition to the standard Sonic Charts is the AllAverages indicator (already posted in Sonic's thread) used to show a colour changing EMA as a proxy for the Dragon of a different time frame.

The main chart used is the 1m TF although IMO any trading day should begin with an overview of the higher TF charts and during the day I regularly check the 5m, 15m and 60m charts to remind me of the larger picture, S&R levels etc.

I am now changing my chart layout a little to show the 5m dragon itself using a 120 EMA period as I feel this is a better setting visually for this Three Dragon chart, The other AA settings are the 34 EMA for the 1 min dragon and the 500 EMA for the 15m dragon.

I am also changing from showing up to 3 units / trade – 1 for each of the 3 dragons – to 2 units / trade as it is safer to never trade against the slope of the 5m dragon and I have thus removed the 1m stand-alone entry. A “unit” may consist of any multiple of micro or mini contracts.

Also, when I talk about pips, these are the standard definition of a pip – the fourth decimal place in EurUsd etc and the second decimal place in UsdJpy. The more recently added 5th (3rd) decimals are mini pips.

The 5m Dragon is THE most important part of this system and I am watching the Price Action and (tick) Volumes around Support and Resistance areas and using the 1m Dragon to make OBJECTIVE entries. I have been using a similar methodology for the past 18 months and have slightly adapted it for use here in Sonic's thread.

Trading Discipline and Patience are essential to make consistent profits from this methodology.

Since becoming a regular in Sonic's thread a few months ago, I have moved my main focus to following UsdJpy as – at present UsdJpy has a good Average Daily Range of 120 or more pips and it is active not only during the London Session, but also the Australasian Session and thus will often bring a tradable bias into the LS via a sloping 15m Dragon. Trading when all Three Dragons are sloping in the same direction gives THE best trades.

So my Objective Entry is when a 1m bar closes above (below) the 1m Dragon which has just changed colour (slope) into harmony with the slope of the 5m Dragon. Enter with 1 unit as soon as price moves above (below) that close.

IF the 5m Dragon is in harmony (same slope) as an already sloping 15m Dragon, then enter with 2 units.

These are best seen on a chart and I have chosen recent examples on a basic 1m UJ chart, using the settings mentioned above.

The charts are in the attached folder to enable easy reference to a printed copy of this document – OK, I'm an older Guy and I like paper!

Chart 1. Typical flat, bunched up Dragons prior to FO – here's where the Discipline and Patience are needed.

Wait for the PA to start moving – here above the last shown highs and a Wider Ranged Bar helps – check out WRB Analysis – and OK, I know this is before the guide line of LO, but it's the first example I found on these new “cleaned” charts with my updated set-up.



Chart 2. So we watch the PA, noting the first green WRB – very little pull back, even with higher volume. The second green WRB is another Sonic Bull Climax bar, this time breaking the 99.50 level and offering us a net 20 pips of profit – so let's take it immediately – the time around LO is well known for its reversals and we can always re-enter.

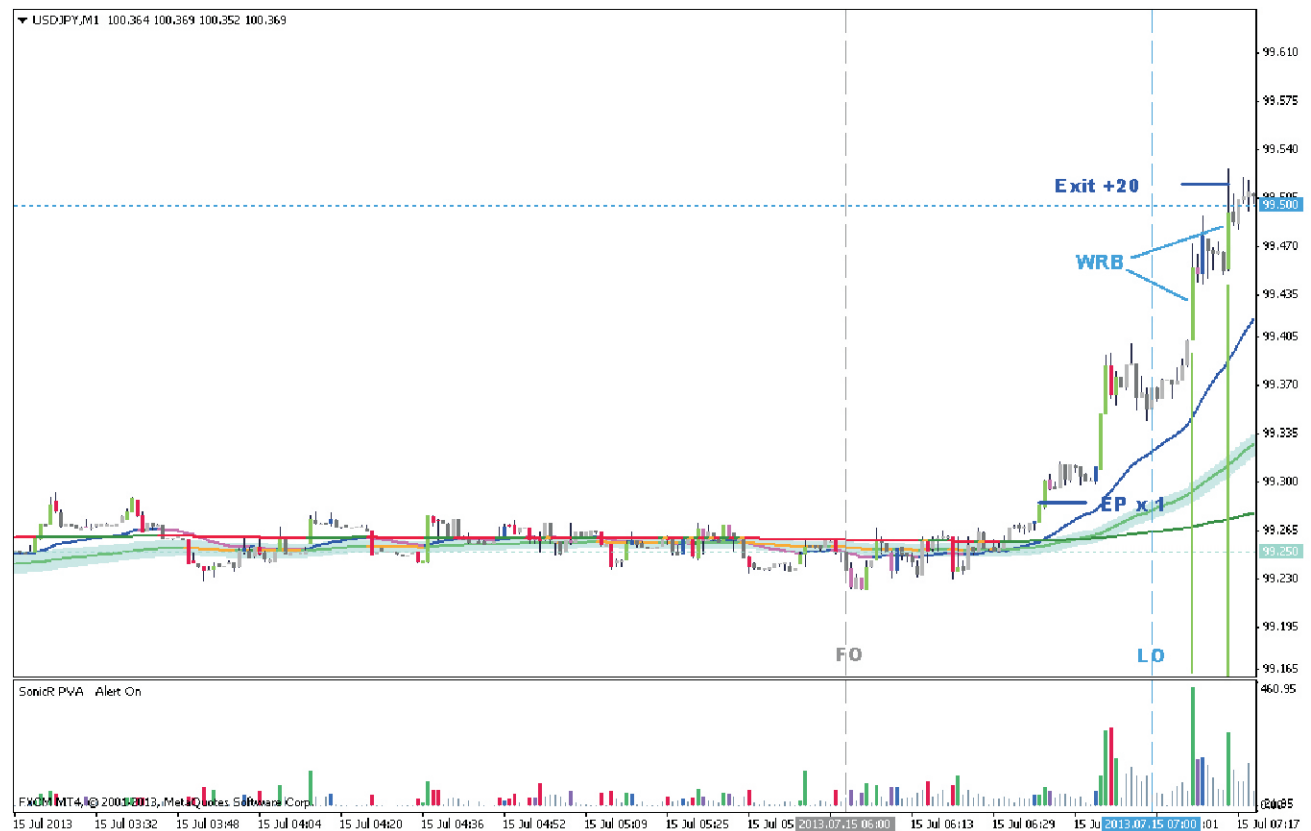


Chart 3 The pull- back stalled at the confluence of the **50 and still rising 1m Dragon, with a good upward slope on both the 5m & 5m Dragons, so now we can enter with 2 lots with again a ~10 pip hard SL behind (under) the 5m Dragon.



Chart 4 So price held ~the **50 level before once again rallying with a succession of green WRBs – including my favorite Marubozzo Candles – before the shorter lower volume green (Bull Climax) candle on lower volume suggested it was a good time to bank ~25 pips.



Chart 5 LOL, when I started following this chart and adding my comments, I was only looking at the PA on the right of the chart – I had not moved out in time, so I apologize for selecting such a great move.

It is not difficult to find additional entries on this chart and I have often mentioned that the hour into the (old) open of the US Bond Markets – NYO 1 – is worth watching.

So these are the basics and I'll expand on them later.....

