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The "M" And "W" Trading Pattern

The "M" and "W" trading pattern is a great little pattern that occurs with enough frequency for you to add it to your trading tool bag.

It is very similar to a triple top or triple bottom - but unlike the triple top or bottom we are trying to enter the market on the bottom of the leg on the "M" pattern and the top of the leg on the "W" pattern.

Normally with triple tops or bottoms you are looking to enter on a break of the neckline line or a pullback to the neckline once the neckline has been breached. With the "W" "M" pattern we will be limiting our risk to a minimal by entering on the bottom of the right leg for the "M" pattern and the top of the right leg for the "W" pattern.

Take a look at the first two charts. This is what the pattern looks like before we start drawing in the lines.





Next, for the "M" pattern - start with the left leg and draw to the top of the left shoulder. From the top of the left shoulder draw down to the middle leg and from there draw up to the top of the right shoulder. From the top of the right shoulder draw down to the bottom of the right leg.

Only once the pattern has all the components of the letter "M" do you have the set up.

Once the "M" is nearing completion we are looking for an entry at or very near to the bottom of the right leg. You can see I have drawn a trend line connecting the bottom of the left leg and the middle leg.

Our entry will be as the market approaches this trend line. You want to enter the market on this trend line with a stop loss order just below the line. This gives you a minimal risk entry. If it turns out not to be an "M" pattern then your loss will be minimal.

If on the other hand you do get an entry, your first target is the top of the right shoulder of the "M". Because the distance between the bottom of the right leg and the top of the right shoulder can be a small range you might want to look for this on larger time frame e.g. 4 hours and up.



For the "W" pattern we are going to reverse the procedure. First draw the left leg down to the bottom of the left shoulder. From there draw a line from the bottom left hand shoulder to the top of the middle leg. From there you draw a line down to the bottom of the right hand shoulder. The last stage is to draw a line to the top of the right hand leg.

As with the "M", the "W" formation is not complete until all the components of the "W" are in place. Once in place you can draw a trend line across the tops of the "W" left hand leg across the middle leg and this is your entry point. A stop is placed just above the trend line to minimize risk with a target of the bottom of the right shoulder.



Now, this pattern does pop up frequently on 5 and 1 minute charts but there is not enough room to make a profit on the length of the leg. But, what you can do however is be aware of the fact that an "M" pattern often signifies the bottom of the move and the market is getting ready to move Up.

This also applies to the "W" pattern. When you see a "W" pattern the market is often topping out and getting ready for a move down.

You can also monitor what happens at the top of the right shoulder on the "M" pattern and the bottom of the right shoulder on the "W" pattern once you are in the trade. If the move looks strong there is no need to exit.

You could measure the distance between the top and bottom of the right leg and project that forward to give you a larger target. This in effect gives you twice the length of the right leg as a target.

At the very least you should keep an eye out for this pattern as it is very good at identifying the fact that a bigger move is just around the corner.

This lesson is part of the "Traders Secret Library"
and is available at <http://www.tradingforbeginners.com>

Good Trading

Best Regards
Mark McRae

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