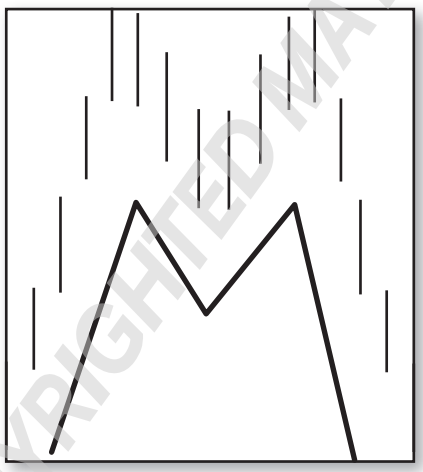
Big M



I fired up my computer and typed "big M chart pattern" into a search engine and my website (thepatternsite.com) came up first on the list. That tells me not a lot of research has been done on the big M.

You might think that the big M is a burger joint, but in technical analysis, it is a variation of a double top chart pattern. The difference between a double top and a big M is that the big M has tall sides (when it works). When it fails, the left side remains tall, but the right side is amputated.

Let us take a closer look.

Behavior at a Glance

Figure 1.1 shows the typical behavior after a big M chart pattern forms. The big M is shown in a slightly thicker line.

The launch price is where the uptrend begins that leads to the big M. Often the run up to a big M is a straight-line affair, not a rounded turn. The climb lasts as long as bullish enthusiasm drives price higher. Eventually, however, the stock peaks and retraces. That retrace forms the first peak of the big M.

Bulls gather and attempt a new high, but price stalls at or near the price of the first high and drops back. This up-and-down movement forms the second peak.

When price closes below the valley between the two peaks, it confirms the chart pattern as a valid one and signals a breakout. Timber!

Price drops an average of 17% below the breakout price, but that is for more than 1,300 perfect trades. Do not expect to duplicate those results. You might hurt yourself.

Comparing the ultimate low with the launch price, we find that 60% of the big Ms see price returning to or dropping below the launch price. That also means 40% remain above the launch price.

- After a big M, the stock returns to the launch price 60% of the time.

Pullbacks

Figure 1.2 shows what happens to big M patterns 63% of the time.

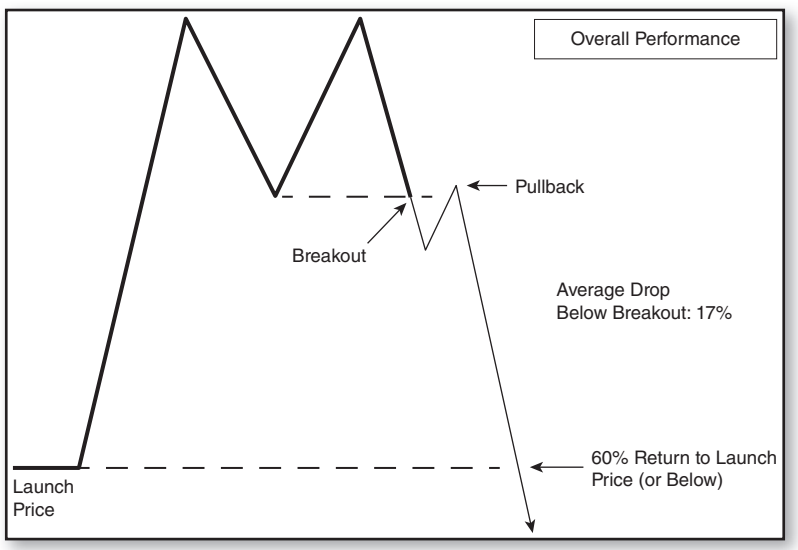


FIGURE 1.1 This is the typical behavior of a big M chart pattern.

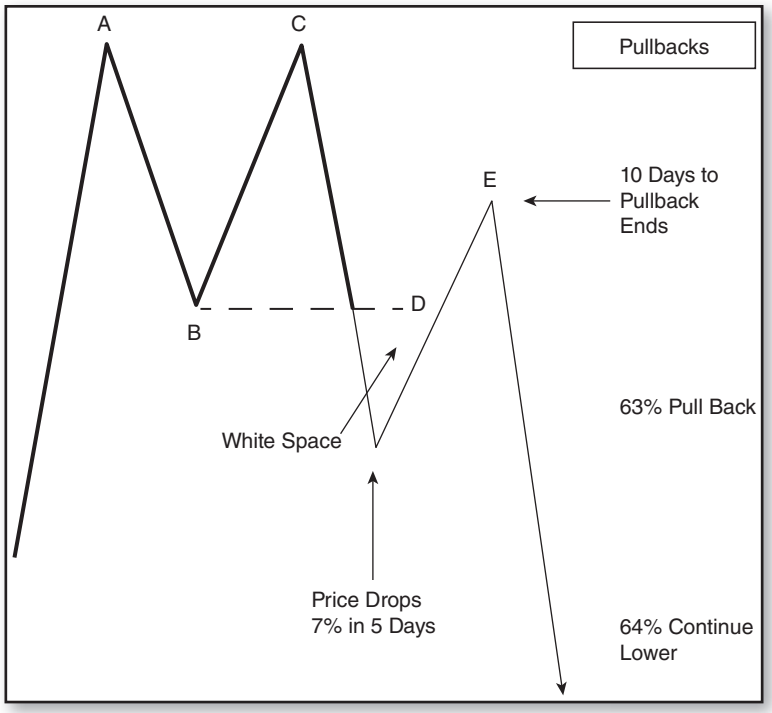


FIGURE 1.2 Statistics related to pullbacks.

A big M appears as peaks AC with B marking the lowest valley between the two peaks (the so-called confirmation, or breakout price). A close below the price of B means a downward breakout. If price closes above the highest peak (A or C) *before* closing below the breakout price (B), then you do not have a big M.

D represents a pullback when the stock returns to the breakout price within a month after the breakout. The one-month window is arbitrary, but it serves as a good benchmark. I prefer that white space appear between the breakout and pullback as shown in the figure.

After a downward breakout, price drops an average of 7% in 5 days. Price reverses and retraces the drop for 5 more days (10 calendar days total since the breakout) until it peaks again at the top of the pullback (E).

Thirty-six percent of the time price continues higher, often leaving traders with a loss on their ledgers. However, the vast majority of the time (64%) price continues lower.

- A pullback occurs 63% of the time and price continues lower 64% of the time.

Busted Tops

Figure 1.3 shows the performance of busted big M chart patterns. A pattern busts after a downward breakout when price drops less than 10% before reversing and closing above the top of the chart pattern.

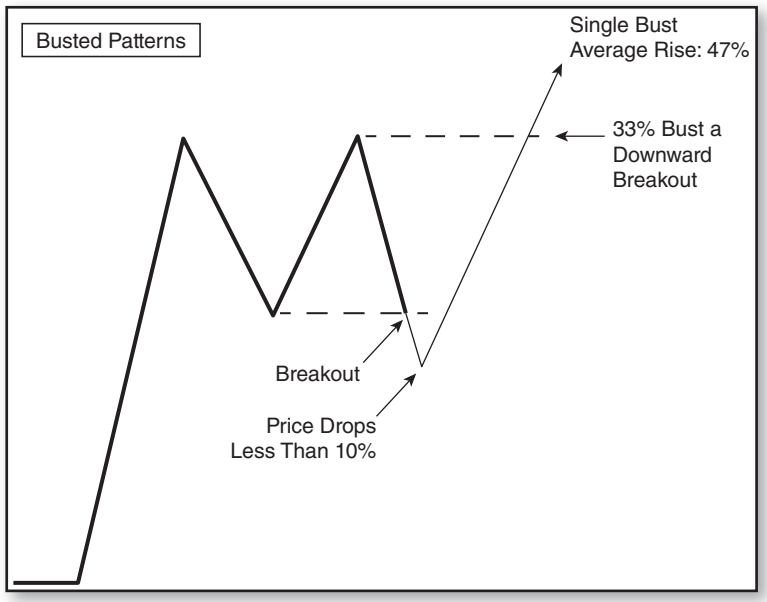


FIGURE 1.3 The average performance of big Ms that bust a downward breakout.

I found that 33% of big Ms will bust a downward breakout in a bull market. That means 1 in 3 trades will likely lose money. However, if you see a busted big M, then buy it. The average rise for a single busted chart pattern is a mouthwatering 47%. Of course, a single bust can turn into a double or triple bust, too. That is a risk. I will explain double and triple busts later or you can visit the glossary, which shows a picture (see Figure G.1).

- Big Ms bust 33% of the time.

Identification

Figure 1.4 shows an example of a big M chart pattern. The launch price is at A. The bulls get excited about the stock and bid it up, day after day, so that a straight-line run forms and takes price much higher, to the first top (B).

The first peak's shape can vary from rounded looking (as in this case) to a one-day needle ready to draw blood. Following the first peak, price tumbles to C when the bears take charge of the stock, often forming a V-shaped turn. The BC drop averages 10%.

The bulls counterattack and force the price back up. Those buying the stock near the first peak say, "as soon as I get my money back, I'm selling." And they are as good as their word. That forms peak D near the same price as B. The two peaks need not match the same price exactly. However, I found that the average price difference between the two is about 1%.

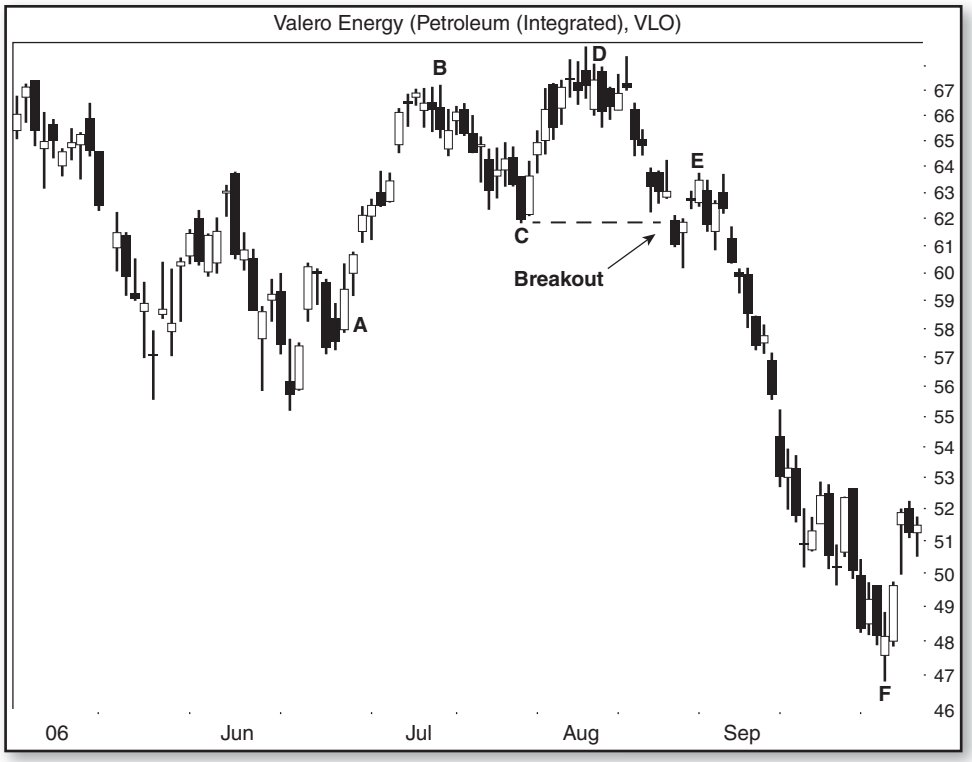


FIGURE 1.4 This big M looks like a double top with tall sides.

When people sell near the second peak, that selling pressure forces the stock lower. When it closes below the price of the valley between the two peaks (C), it breaks out and confirms the chart pattern as a valid big M. In this case, price pulls back to E before continuing lower.

Table 1.1 shows the identification guidelines for finding big Ms.

Rise. Price should rise quickly, often in a steep, straight-line run leading to the first peak. The move from A to B in Figure 1.4 shows an example of a typical move higher.

Avoid selecting potential big Ms with a rounded turn on the rise leading to the first peak. I show an example of that in **Figure 1.5**. BD is a double top, not a big M. The inset shows the difference between the two chart patterns.

- Avoid selecting potential big Ms with a rounded-looking turn leading to the first peak.

The rise from A to B starts as a nice straight-line run, but it is not long enough when compared to the size of the drop from the first peak (B) to the valley floor (C). The AC price distance is shorter than CB.

TABLE 1.1 Identification Guidelines

Characteristic	Discussion
Rise	Price makes a steep move higher, often in a straight-line run, leading to the first peak.
Height	The height from the launch price to the first peak should be extensive, often twice as tall as the distance from the first peak to the bottom of the valley between the two peaks.
Twin Peaks	Two peaks top out near the same price but allow variation. The average price difference between the two peaks is about 1%.
Breakout	When price closes below the lowest valley between the two peaks, a breakout occurs and you have a valid big M. If, instead of breaking out downward, price first closes above the highest peak, then you do not have a big M.
M Shape	The chart pattern should look like an M once it completes.

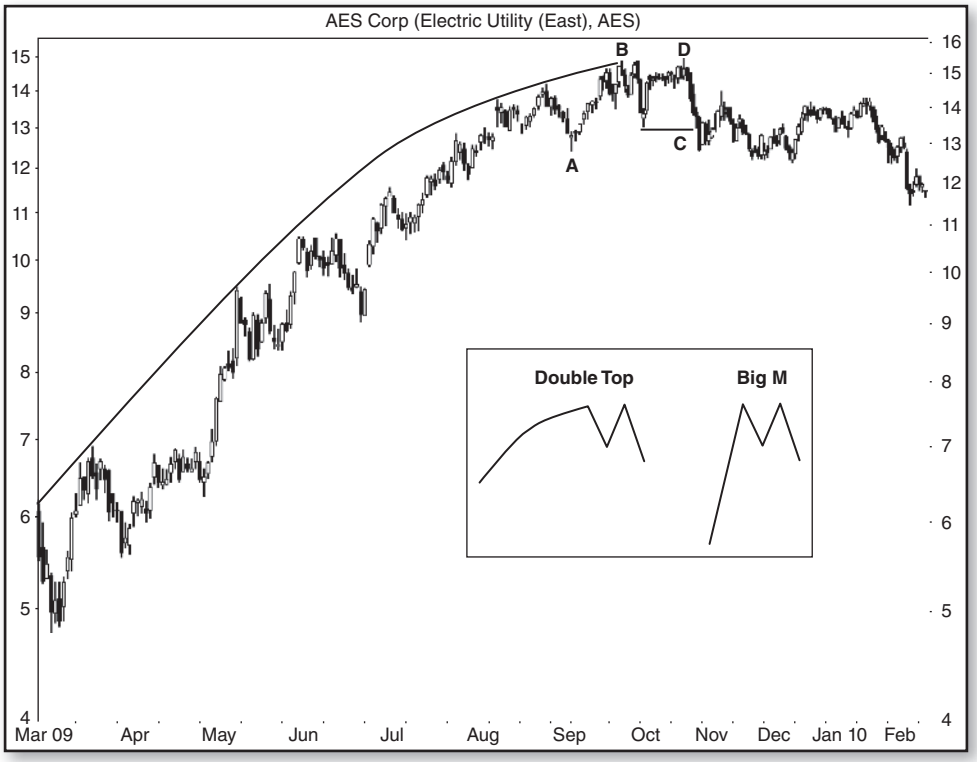


FIGURE 1.5 The ABCD pattern is a double top and not a big M because of the rounded turn leading to peak B.

For valid big Ms with peaks spaced months apart, the rise to the first peak is often more sedate (less vertical) than for big Ms with narrower peaks. Use common sense when looking for big Ms.

Height. The height of the big M is an important feature. Consider the big M in **Figure 1.6**. The launch price is at A1, and the stock flies up quickly to C1. The run is straight, almost vertical, not curved like that shown in the approach to A in Figure 1.5.

Look at the inset of Figure 1.6. The horizontal line at B marks the valley floor between the two peaks of the big M. The price difference from A to B should be at least as big as the move from B to C.

The measure is like playing horseshoes or tossing hand grenades: close is what counts, but allow variations. On the stock chart, the price change from A1 to B1 is about the same as the change from B1 to C1.

Take care when comparing the move visually. The logarithmic price scale can make a visual examination difficult. Either switch to the linear scale or whip out your calculator and tabulate the price difference if it concerns you.

- Beware using a log scale when visually inspecting a chart pattern.

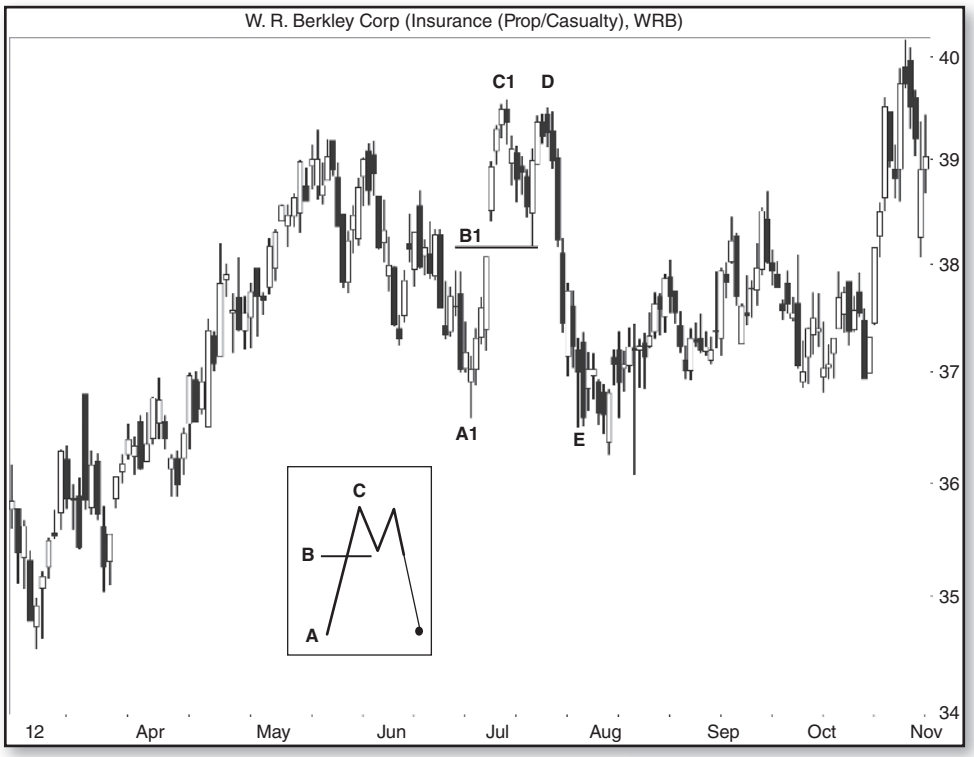


FIGURE 1.6 A swift move higher from A1 to C1 forms a big M pattern when price closes below B1 on the way to E.

Twin Peaks. Price should form two peaks in the big M. The peaks can be any shape from gently rounded turns to needle-thin spikes. Both peaks should top out near the same price.

Breakout. A breakout occurs when price *closes* below the valley between the two peaks. In Figure 1.6, that means a close below the price of B1 as the stock drops on the way to E. When a breakout happens, it changes squiggles on a price chart to a valid big M chart pattern. If price first closes above the top of the big M (C1, the taller of the two peaks in this example) before confirmation (before price closes below B1), then you do not have a big M.

M Shape. Finally, look for the overall pattern to resemble an M with tall sides. Figures 1.4 and 1.6 show this.

Identification Variation

Figure 1.7 shows an identification variation I saw many times as a big M formed. In this case, after price climbed off the March low (A), it paused and retraced for a few weeks, forming what I call a handle. Then price resumed its climb to the first peak (B), dropped some, and climbed back to the second peak (C), before plunging to E and completing the big M.

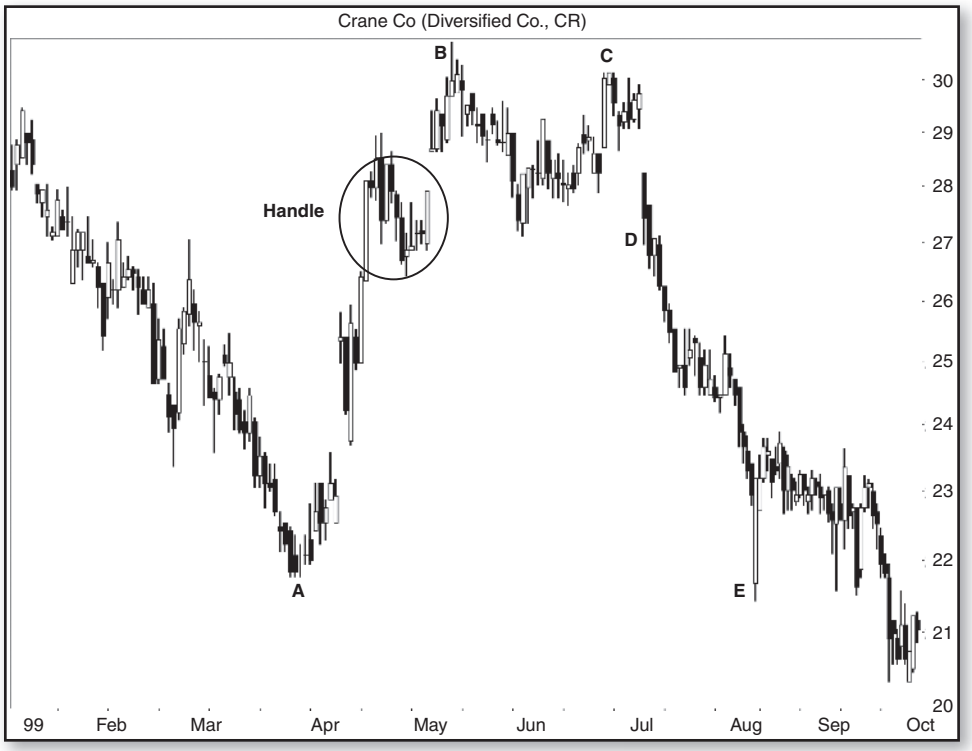


FIGURE 1.7 Price pauses on the way to forming a big M.

Handles on the way up to the first peak are rare and may obscure identification of a big M. If another handle forms on the drop to D, which mirrors the one on the left, then you probably have a complex head-and-shoulders top chart pattern. That would be a pattern with two heads and two shoulders. In such a case, you should treat it not as a big M, but as a complex head-and-shoulders top.

- A handle sometimes forms on the rise to the first peak.
- A handle on both sides of the big M means the pattern is a complex head-and-shoulders top and not a big M.

Buy Setup 1

The following setups use bull market data (only) from August 1996 to May 2014. I found 1,323 big Ms in 501 stocks.

Look at the inset of **Figure 1.8**. Price forms a big M (A–E) with a valley at C. Price breaks out downward and drops to E. However, the price of E is less than 10% below C. After E, the stock rises. When it closes above the top of the big M, it busts the pattern. That is the buy signal.

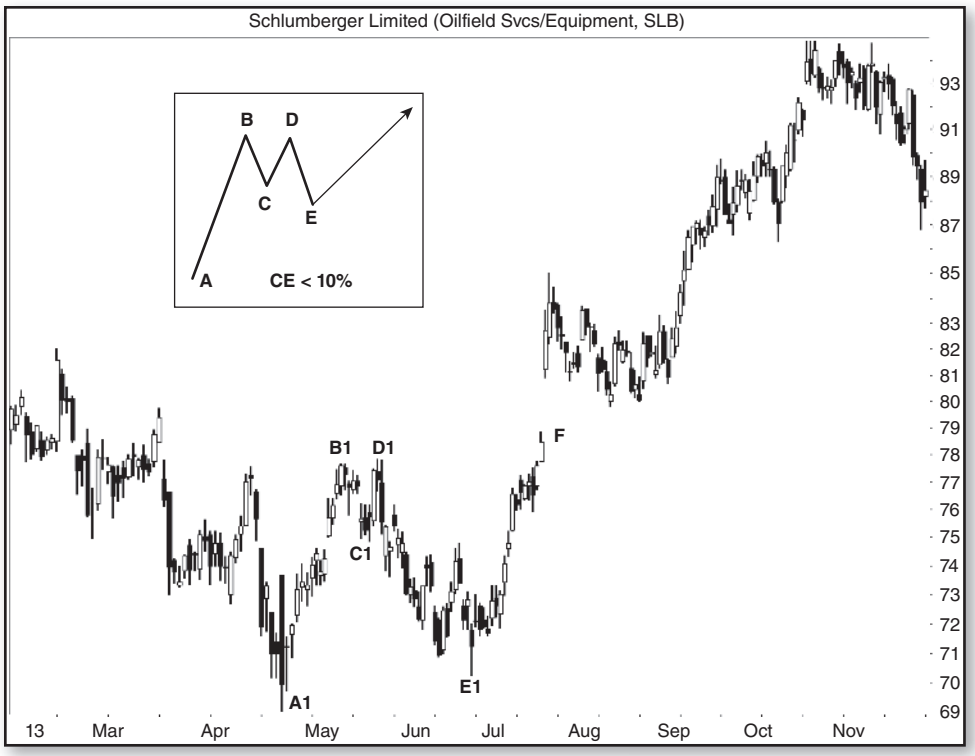


FIGURE 1.8 A busted big M leads to a good move higher.

The stock chart shows an example of a busted big M at A1 to E1. The drop from C1 to E1 measures 6% in this example, within the 10% window for busted patterns. When price climbs to F, it closes above the taller of the two peaks (D1) and busts the pattern. Since price rises more than 10% above D1 (the taller of the two peaks), it completes a single busted big M. The rise ended in July 2014 at almost 119.

Here are the steps to use this setup.

1. Qualify the chart pattern using the identification guidelines shown in Table 1.1.
2. The stock must confirm the big M by closing below the price of the valley between the two peaks (below C in Figure 1.8).
3. Price must drop less than 10% below the valley before reversing (the C to E drop).
4. Price rises and closes above the taller of the two peaks of the big M.
5. Buy at the open the next day.
6. Place a stop-loss order a penny below the bottom of the chart pattern or at a location of your choice.

Table 1.2 shows a few statistics for busted big M patterns.

1. Percentage of busted big Ms. Of the 1,323 big Ms I looked at, 33% of them busted. That means a third of the time price fails to drop more than 10% after a breakout before closing above the top of the big M. The number suggests that if you are looking for a large decline (more than 10%), then you have a 33% failure rate to start, which is huge.

2. Average rise after busting. The average rise of all types of busted big Ms (meaning single, double, and triple+ busts) is 31%.

3. Average rise after single bust. This is where busted chart patterns shine. After a big M busts, the average rise from the top of the chart pattern to the ultimate high is 47%. That gain is for big Ms that single bust only.

TABLE 1.2 Busted Big M Statistics

Description	Result
1. Percentage of busted big Ms	33%
2. Average rise after busting	31%
3. Average rise after single bust	47%
4. Percentage of single busts	62%
5. Percentage of double busts	17%
6. Percentage of triple+ busts	20%

4-6. Percentage of single/double/triple+ busts. Sorting the 33% of big Ms that bust into single, double, and triple busts, we find that 62% of them bust once. Double busts cross the finish line at 17%, and three or more busts (triple+) finish at 20%.

In other words, your chance of having a single busted pattern is quite good.

Four Sell Setups

Figure 1.9 shows four setups, two you should look for and two you should avoid. I will discuss the performance statistics in a moment.

The trend start is the highest high or lowest low before which the stock drops or rises, respectively, at least 20%. Look for the trend start *before the launch price* of the big M. See the glossary for more details on finding the trend start.

Look at Setup 1 in the upper left of the figure. From the trend start to the first peak of the big M, the stock makes a small rise that takes a long time to reach the big M. That combination of small price rise and a long time is bad for post-breakout performance.

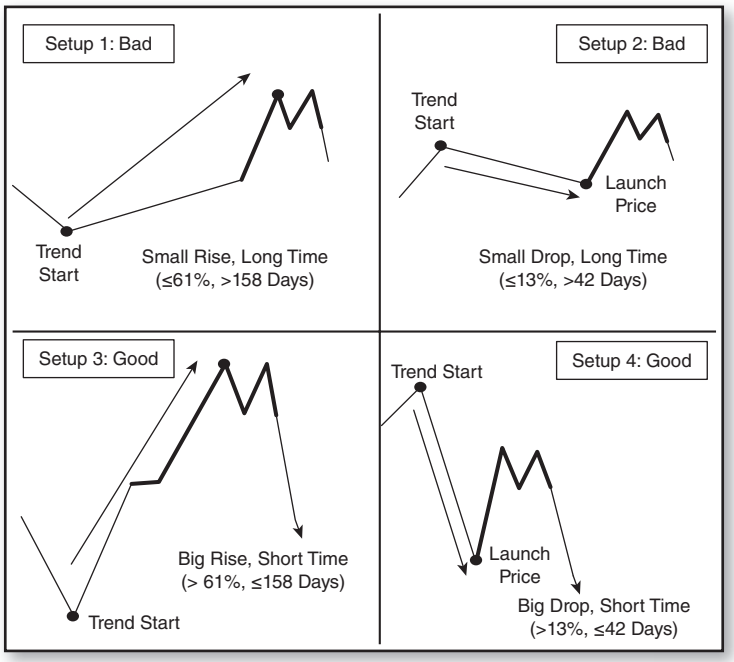


FIGURE 1.9 Four sell setups for big Ms.

Setup 2 shows another bad combination of price and time. This one has price trending *lower* to the launch price. The drop from the trend start to the launch price is small, representing a shallow decline, but it takes a long time.

Setup 3 is the first of two good variations. Look for a rising price from the trend start to the first peak in the big M. The rise should be short and yet the percentage gain should be large. That combination of short and steep can lead to a large decline after the breakout.

Similarly, Setup 4 shows a big drop in a short time from the trend start to the launch price. Those types of downdrafts tend to pull the stock lower after the breakout.

Setups 1 and 3 have price rising from the trend start and Setups 2 and 4 have it declining. A rising or falling inbound trend is important to the setups.

Setup Numbers

I measured the median time for the stock to *rise* from the trend start to the first top (158 days). The median percentage rise over that time from the low at the trend start to the high at the first top was 61%.

Using these two numbers as benchmarks, I mapped how well big Ms performed post-breakout, and **Table 1.3** shows the results. The differences between the numbers may seem minor, but a 19% drop is 46% bigger than a 13% drop. When traders speak of having an "edge," this is what they are talking about.

To reach the first peak of a big M, patterns that took longer than the median 158 days and climbed more than the median 61% showed price declining an average of 16% after the breakout.

Big Ms that had a large rise but took less time, showed the largest drops in the table: 19%. That combination corresponds to Setup 3 in Figure 1.9. When looking for big Ms that will outperform, search for a big rise (more than 61%) in a short amount of time (less than or equal to 158 days). After the breakout, the stocks tends to give back more of that rise than the other combinations of rise and time.

Since more samples will likely change these numbers, be flexible. Concentrate not on the numbers but on the shape: A big rise in a short time leads to a larger post-breakout decline. It will not always happen, of course, but that is the way to bet.

TABLE 1.3 **Rising Inbound Trends: Average Loss versus Time and Percentage Drop**

Description	Big Rise (>61%)	Small Rise (≤61%)
Long time (>158 days)	−16%	−13%
Short time (≤158 days)	−19%	−17%

The worst performance comes after a small rise (less than or equal to 61%) after a long time (more than 158 days) leading to the first peak of a big M. Big Ms with that combination showed post-breakout drops averaging 13%. I show that combination in Figure 1.9, Setup 1.

To put this finding in a positive light, if you own a stock long and wish to hold onto it, then the smallest decline comes from big Ms with a small rise in a long time leading to the first top.

Table 1.4 shows the performance numbers when the inbound trend *declines* from the trend start to the launch price.

I found that the median drop was 13%, and it took 42 days for price to decline from the high at the trend start to the low at the launch price. Once I had those numbers, I could map the performance of big Ms, which Table 1.4 shows.

For example, stocks that made a big drop (more than 13%) in a short time (less than or equal to 42 days) leading to a big M, saw price decline the most after the breakout: 23%. That scenario corresponds to Setup 4 in Figure 1.9.

The worst post-breakout performance was a drop of 16%. That happened when stocks dropped less than or equal to 13% (small drop) and took longer than 42 days to reach the launch price of a big M. That combination appears as Setup 2 in Figure 1.9.

Again, use the numbers as guidance of what to look for, but pay attention to the shape of the inbound trend: short or long, steep or shallow.

Although the numbers in Tables 2.3 and 2.4 show results close to each other, give yourself an edge and trade big Ms with the best performance and avoid the worst performers. The trade may still fail, but the probabilities suggest you will do better by trading the right combination of time and price drop consistently.

Here are the steps for using the best performing setups (3 and 4).

1. Qualify the big M using the identification guidelines shown in Table 1.1.
2. Find the trend start. The trend start is the highest peak or lowest valley before which price falls or climbs (respectively) at least 20%.
3. If the trend start is above the launch price (Figure 1.9, Setup 4), then look for a steep drop of more than 13% in 42 days or fewer from the trend start to the launch price (between the black dots in the figure).

TABLE 1.4 **Declining Inbound Trends: Average Loss versus Time and Percentage Drop**

Description	Big Drop (>13%)	Small Drop (≤13%)
Long time (>42 days)	−17%	−16%
Short time (≤42 days)	−23%	−19%

4. If the trend start is below the launch price (Figure 1.9, Setup 3), then look for a steep rise from the trend start to first peak (between the black dots in the figure). The rise should be more than 61% but takes 158 days or less.
5. If both steps 3 or 4 do not apply, then the probability of a losing trade increases. Consider looking for a different big M.
6. The stock must confirm the big M by closing below the price of the valley between the two peaks.
7. Short at the open or sell a long holding the day after a breakout, or place an order to short/sell a penny below the valley between the two peaks.
8. Place a stop-loss order a penny above the top of the big M or at a location of your choice.

Best Stop Locations

If you trade a big M, where is the best place to put a stop-loss order in case the trade blows up? **Table 1.5** shows how often price hits two stop locations.

1. **Penny above the pattern.** Placing a stop a penny above the highest peak of the big M means the chance of being stopped out is just 1%. The average loss is 9%, and those missed trades would go on to drop 16% below the breakout price. All of the numbers are averages.
2. **Within the pattern.** Stops placed somewhere between the tallest peak and lowest valley of the big M means a 69% chance of the stop being hit. The loss is small, 3%, and those trades went on to lose an average of 17%.

The numbers suggest that a stop placed a penny above the top of the big M is the best stop location, providing you can stomach a 9% loss.

I suggest you measure the potential loss from the breakout price (use the low price of the valley between the two peaks) to the stop location. If that distance represents too large of a loss, then choose a more suitable location.

- Place a stop-loss order a penny above the top of the big M and trail it downward as price drops.

TABLE 1.5 Stop Locations for Big Ms

Description	Chance of Being Hit	Average Loss	Missed Trades, Loss
1. Penny above the pattern	1%	9%	16%
2. Within the pattern	69%	3%	17%

Configuration Trading

I gleaned the configurations in this section from visual inspection of 283 big Ms on the weekly charts, sorted by the largest decline in bull markets.

To trade these configurations, follow these basic guidelines.

1. Find a big M on the *daily* chart that obeys the identification guidelines shown in Table 1.1.
2. On the *weekly* scale, compare what you see on your chart to find a configuration that matches.
3. The day after a breakout (daily chart), short at the open, sell a long holding, or place an order to short/sell a penny below the valley between the two peaks.
4. Place a stop-loss order a penny above the top of the big M or at a location of your choice.
5. Ideally, the stock will drop to just above the launch price before the trend reverses. Close out your position then or if the stock finds substantial support along the way down. Do not let a pullback flush you out of the trade prematurely.

Figure 1.10 shows the first configuration that happened 41% of the time in the stocks I looked at.

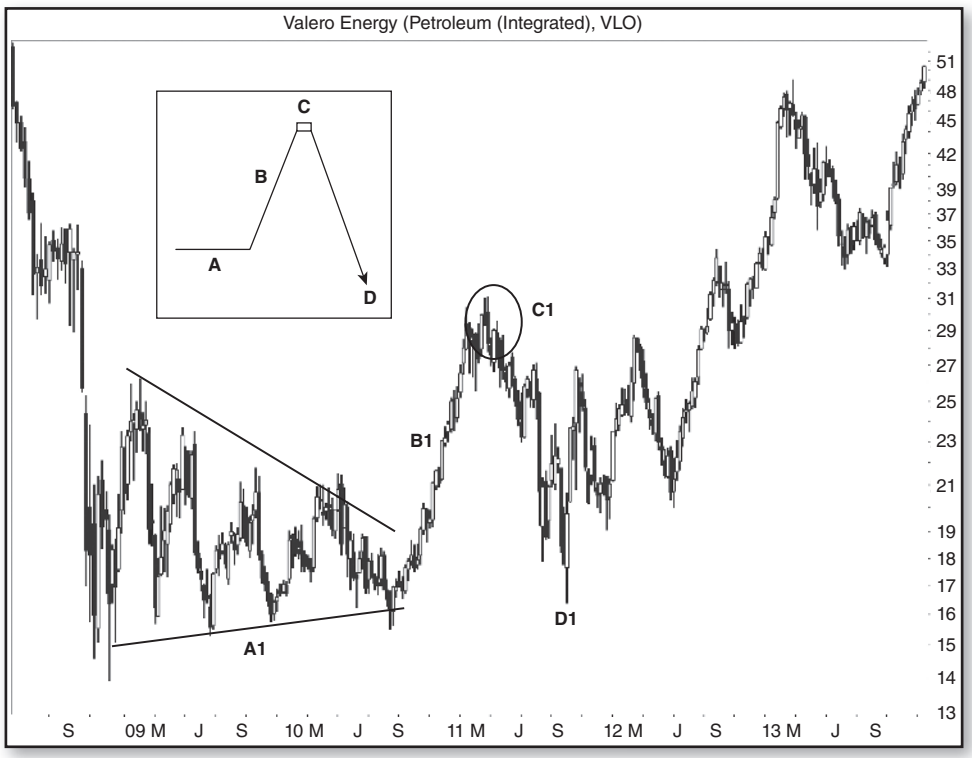


FIGURE 1.10 This is the most popular big M configuration that led to a large decline.

The ideal conditions begin at launch price A, but the trend does not have to be flat like that shown. Sometimes the price trends downward and sometimes it trends upward, so be flexible.

At B, however, often a straight-line run takes price higher, eventually forming a big M at the end of the run, C (shown as a rectangle for convenience). The run is steep and forms a straight line (few consolidation regions) most of the time, but allow exceptions. I did not put time restrictions on this since they varied all over the place.

After a downward breakout from the big M, price drops. The extent of this decline (D) varies. Price may stop above the launch price (A) to below it (I show below it in the inset).

The stock chart shows an example of this configuration. At A1, price trends up, down, or even sideways, depending on how much alcohol is in your system and which trendline you wish to use. This horizontal movement corresponds to trend A in the inset.

The B1 rise takes price higher in a nice straight-line run, heading to the big M.

At C1, buried in the weekly data, a big M appears. Price returns to earth at D1 before taking off again.

Chart Pattern Big Ms **Figure 1.11** shows the next configuration. I show three variations in the inset as A, B, and C. Version A is a double top with the big M represented by the rectangle. Notice that the big M is on the second peak, not the first one.

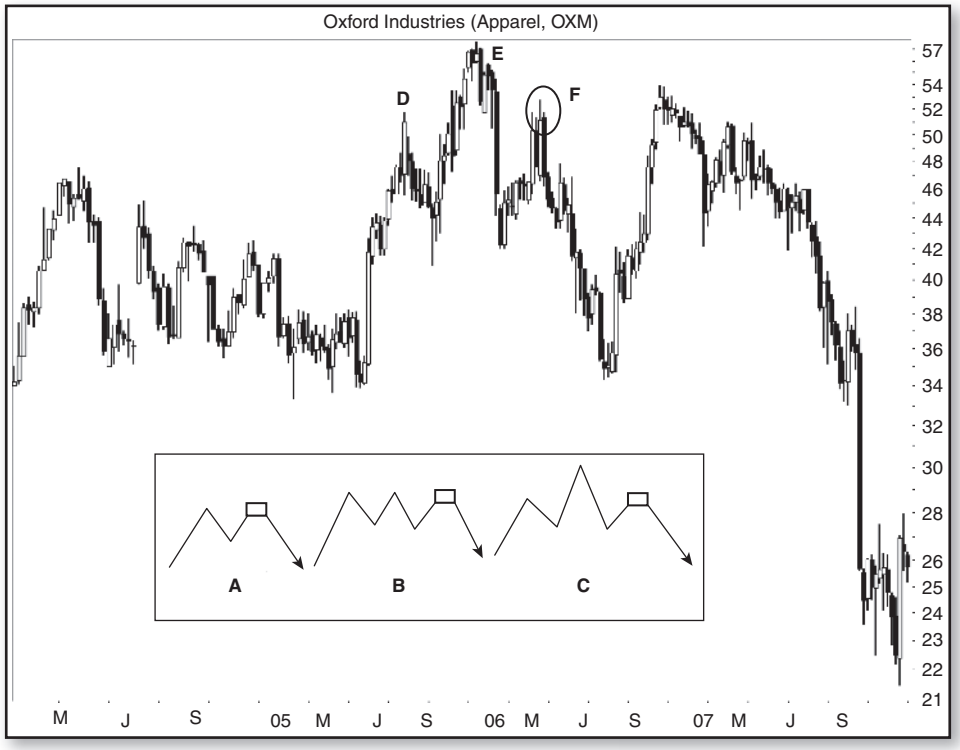


FIGURE 1.11 Big Ms form ending three types of chart patterns.

Version B is a triple top with the big M appearing on the third peak, and type C is a head-and-shoulders top with the big M on the right shoulder. The topping shape (double top, triple top, head-and-shoulders top, and so on) can be most any chart pattern, but a big M forms to end the pattern. The three shown are the most common patterns.

In these variations, price climbs to overhead resistance and forms a reversal pattern like that shown in the inset (the big M is the small box). That reversal completes and sends price tumbling. I found this configuration in 41% of the big Ms I looked at.

The stock chart shows an example. DEF is a head-and-shoulders top on the weekly scale. The big M appears buried at F, circled, but you cannot tell from the figure. Price drops after F, returning to the launch price of the DEF pattern (near 34).

The Downtrend Variation **Figure 1.12** looks like a complicated setup, but it is not. Price peaks at A and then starts a long downward trend. The stock bottoms (B) at the launch price of the big M (C). The stock rises, forms the big M, and then drops (D). Sometimes the stock will return to the launch price, reverse just above it, or go below it as I show in the figure.

The stock chart shows an example of this variation. Price makes a strong push higher to A1. There is a big M tucked in there, but that is not the big M I wish to discuss.

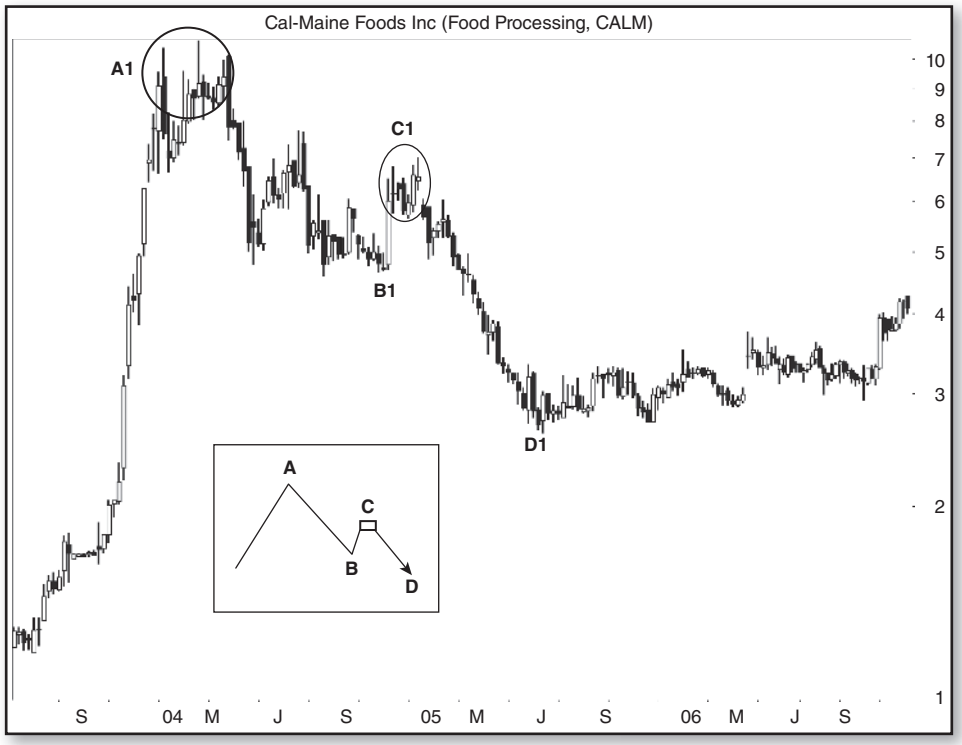


FIGURE 1.12 This big M variation occurs in a downward price trend.

Rather, price drops to B1, the launch price, and then rises to C1 where it forms a big M. When price breaks out downward, it joins with the existing downtrend (A1 to B1) and the stock digs a hole on the way to D1.

This setup is rare, happening 18% of the time.

Downward Breakout Failures

Not all configurations work as expected. Here are the ones that fail to see price drop at least 10% after the breakout from big Ms.

Figure 1.13 shows the first of two failure types. Price peaks at A, backtracks for a time, and then forms a second peak, B. B is where the big M appears. Price drops but only to C, less than 10% below the bottom of the valley between the two peaks of the big M, before a recovery ensues. The stock climbs to D, busting the big M.

The rise to D may be long or short, but (single or triple) busted patterns often perform well. The stock chart shows an example of this configuration where the stock double busts and kills a long upward gain.

After the 2009 bear market ended, the stock climbed until hitting overhead resistance, eventually forming peak A1. A big M took shape at the two peaks to the right

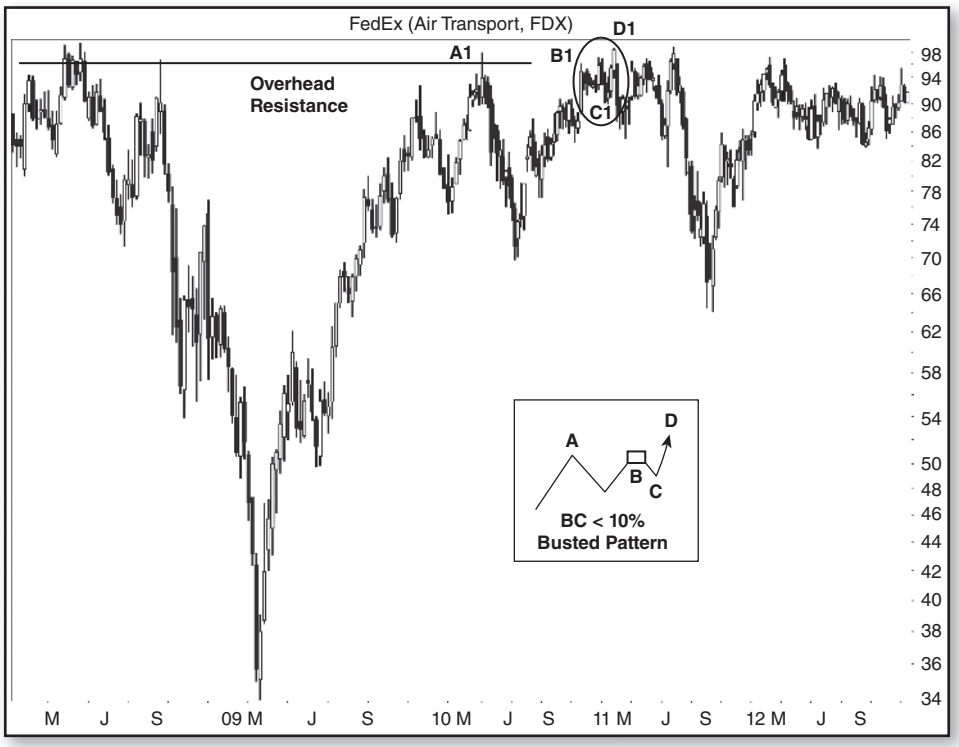


FIGURE 1.13 A twin peak pattern fails to confirm as a double top.

of B1, but it is difficult to see it on this weekly chart. A downward breakout sent the stock lower to C1, before the bulls pushed it back up to D1. In this case, the stock busted the big M and then double busted it when price closed below the bottom of the big M.

Notice that this inset is a variation of Figure 1.11, A. In Figure 1.11, the stock forms a double top that sees price make a dramatic swing lower. In Figure 1.13, the stock's bullish enthusiasm stops the decline and busts the big M just for grins. Overhead resistance kills the upward momentum, sending the stock declining.

- This variation occurs most often: 54% of the time.

Uphill Run Not Over **Figure 1.14** shows a configuration different from the prior figure. Price makes a sustained move higher from A to B. At B, the big M acts as a reversal and sends price lower. The stock drops a short distance to C (less than 10% below the breakout) before moving higher to D. The CD move busts the downward breakout from the big M. This configuration occurs 44% of the time.

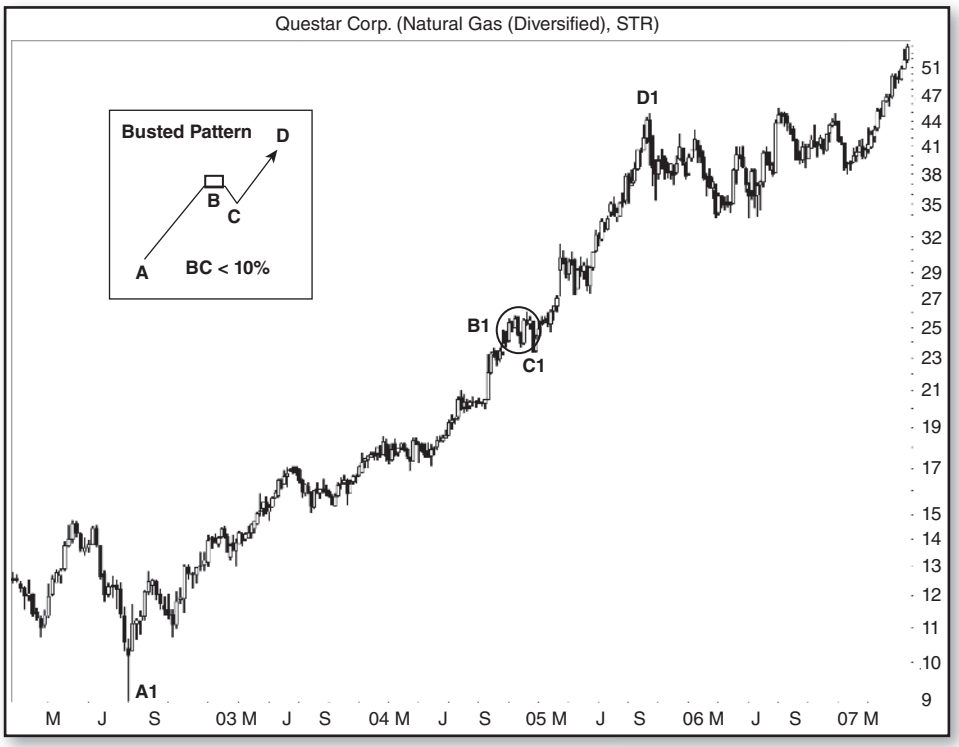


FIGURE 1.14 The upward run is not over when the big M appears.

The stock chart shows an example, but it is difficult to see on the weekly scale. Price starts the upward move at A1. That move takes the stock to B1, where it forms a big M in a large congestion region, circled.

Traders might think that after such a long uptrend, the upward move *must* be over. After the downward breakout, they know they are right and pile in. Once everyone has sold the stock short, there is no one left to push the stock lower (C1). Bullish buying whips the stock upward, launching another stage on its rise to the sky (D1). A buying frenzy unfolds when the shorts cover their losing positions.

Figure 1.14 is similar to Figure 1.10 except that price dropped from C to D in Figure 1.10. In Figure 1.14, the stock has enough bullish momentum to bust the big M and soar.

Measure Rule

The measure rule is not a rule at all, but a guideline that suggests how far price might decline below the breakout.

Figure 1.15 shows an example of how the measure rule works.

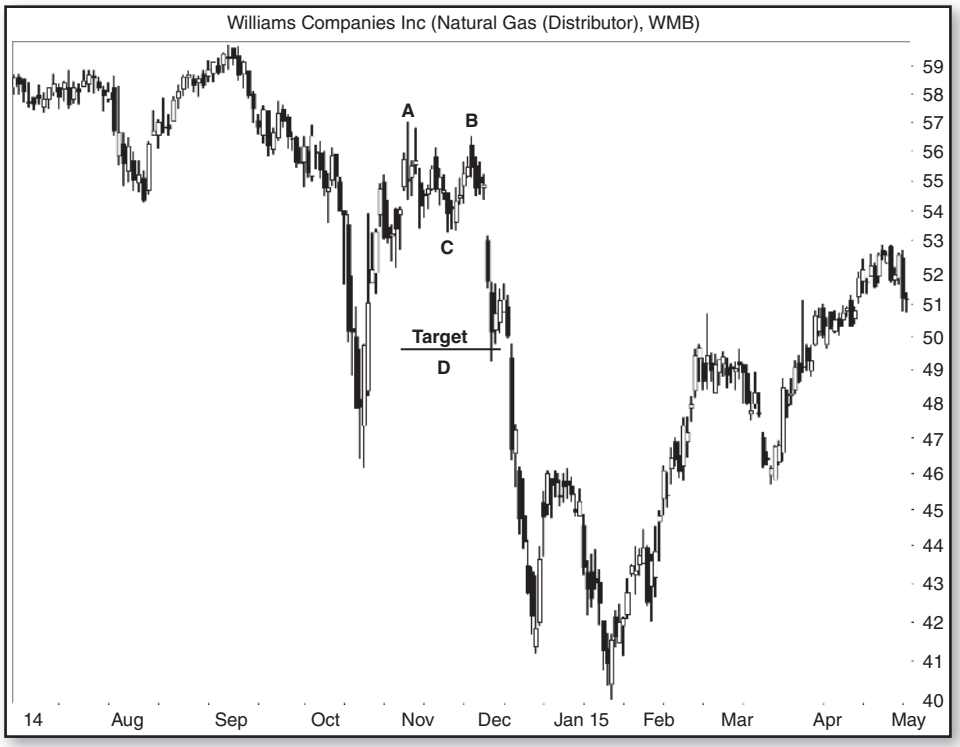


FIGURE 1.15 Use the height of the big M to help gauge the decline.

The big M appears at AB with C forming as the lowest valley between the two peaks. A is the higher of the two peaks, and it has a high price of 57.00. C is the lowest valley, and it has a low price of 53.30 for a big M height of 3.70.

Subtract the height from the valley (C) to get a target: 53.30 − 3.70, or 49.60. I show the target as D. In this example, the stock easily reaches the target, but that is not always the case. In fact, this rule works just 57% of the time.

For a more dependable target, use half the height in the computation. Thus, the new target would be 53.30 − 3.70/2, or 51.45. The half-height works 82% of the time.

Rather than rely on a computation, I prefer to search for areas where the stock might stall or rebound. I use the measure rule to give me a target, but then I look for nearby support where the stock might run aground and stop sinking.

Also, consider the launch price as a target. I found that the big M will decline to or below the launch price 60% of the time. To be safe, add a margin onto the launch price. In other words, do not depend on the stock dropping all the way down to the launch price. In my trading, I found a target above the launch price to work well.

- The measure rule works 57% of the time.

Trading

Let us divide trading tactics into trading styles. For people who like to buy and hold, also known as investors, a big M is nothing to worry about. The average drop below the breakout price is 17% and the median is 14%.

A prudent long-term investor should monitor his or her holdings. If price makes a significant decline, such as when a company is on the way to bankruptcy, then consider exiting the position. Use fundamental analysis to confirm the dire situation and act accordingly.

You should avoid shorting a stock showing a big M when holding for the long-term unless conditions at the company are desperate. The 17% average drop is for 1,323 perfect trades. You may get in late and exit early, cutting the trade's profit and risking a loss.

Instead, why not buy a busted big M? I cover that next.

Position Traders

How often does a big M lead to a large drop? A trend change (from rising to falling) means a drop of at least 20%. In a bull market, 33% of big Ms see price drop more than 20% after the breakout. Thus, if you are long the stock and a big M appears, then you could suffer a big hit to the wallet or purse a third of the time, on average.

If you are short the stock, then 2 out of 3 trades (67%) will not make a large (greater than 20%) decline. I do not think that big Ms represent a good chart pattern to short just by themselves. To make money, your timing has to be exquisite or the company's situation is precarious. Look for additional factors that would cause the stock to drop by a large amount.

A better strategy is to find a big M that busts and take a long position when price closes above the top of the chart pattern. Recall that the average rise after a single bust is a mouthwatering 47% (but the median is only 32%, which is still tasty). Yum.

Figure 1.16 shows a big M that appears at AC (the peak-to-peak price variation is just 3%), and it confirms as a valid big M when price closes below B.

The stock drops to D (a decline of 7% below B) and then reverses. A buy signals the day after E. E is where price closes above C, the highest peak in the big M.

Look at how far price soars in this example! Not all busted patterns will perform this well, of course.

Swing and Day Traders

For swing and day traders, a big M is tailor made. Place a sell-short order a penny below the breakout to get in when the chart pattern confirms. Place a stop a penny

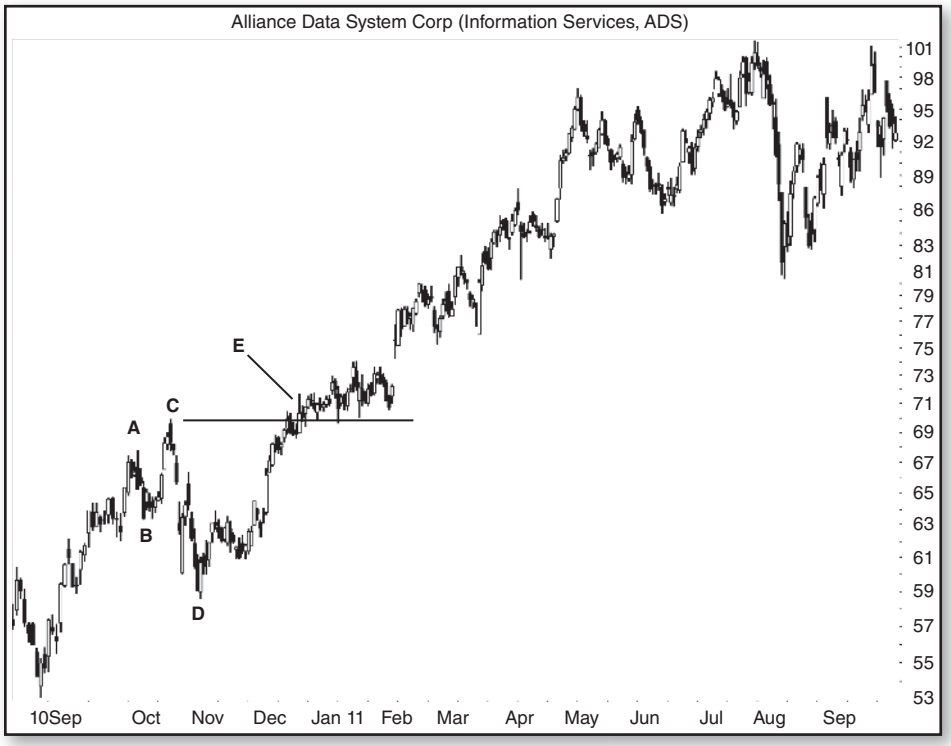


FIGURE 1.16 This is an example of trading a busted big M.

above the top of the big M and lower the stop as price drops. Then ride the stock down.

Watch for a pullback, which happens 63% of the time. Do not get shaken out of the trade because of it. Because pullbacks happen frequently, you may want to wait for a pullback to occur and short after the pullback ends. **Figure 1.17** shows an example of this.

The big M appears at CD and it confirms at E when the stock closes below the horizontal line. Notice that this big M has a handle (B). I discussed that in "Identification Variation."

Suppose that you were on vacation or missed the opportunity to short the stock on the breakout (E). Recognize that the ultimate low happens 36% of the time between the breakout and the pullback (between E and G). I would be concerned with the depth of the plunge during the pullback (F), because the stock makes its way down to support before rebounding.

A pullback sucks price back up to G. I would wait for price to close below the low of the valley between CD, just to confirm that a downtrend is happening. That occurs the day before H.

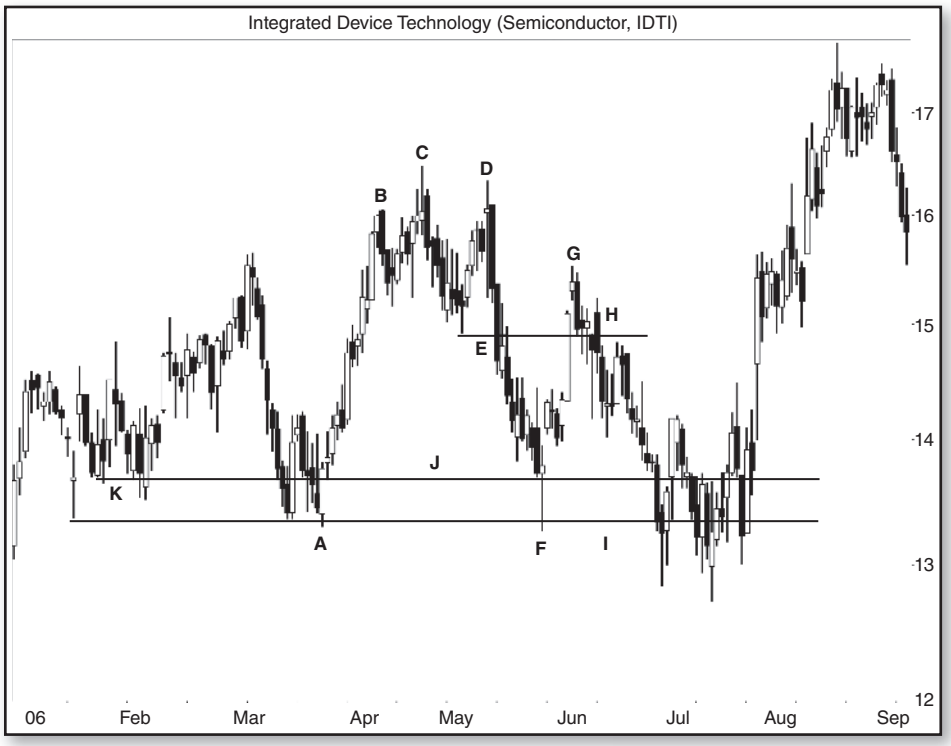


FIGURE 1.17 Short after a pullback completes.

Before placing the short, measure the distance from the entry and exit points to determine whether the stock is worth the risk of a trade. The risk would be a close above the top of the big M. That is the location where a stop order should be (or a close location of your choice). As price drops, trail the stop lower.

What about the target? Since line I is also drawn at the launch price, I would place my cover order above this (many times the stock will stop dropping just above the launch price, hence the desire to exit above line I in this case).

I drew line J where I would cover the short. The line begins at the bottom of congestion area K and extends to the right.

In this example, the stock dropped through line J, reached line I, and kept going down for a time in July before making a sustained rise.

Closing Position

The view from the top of a big M provides an exciting glimpse of the price landscape. By using the launch price as a target, you can determine how far the stock will decline and be correct 60% of the time (see Figure 1.1).

By using the information in this chapter, you can further refine the price movement to include pullbacks and busted patterns. You will know not to worry when a handle appears on the left side of a big M.

After finding the trend start and comparing your situation to Figure 1.9, you can gauge how well your big M will perform after the breakout. That information could save you money, allowing you to sell now instead of suffering through the decline, or it could give you the confidence to hold on and weather the brief downturn.

Setup Synopsis

The charts in **Figure 1.18** may help you identify the various types of trading setups. See the associated figure for an explanation.

"Occurs" in the figure means how often I found the configuration in the stocks I looked at. If two configurations apply to your situation, then the one with a more frequent occurrence (a higher percentage) is the one you should choose to follow.

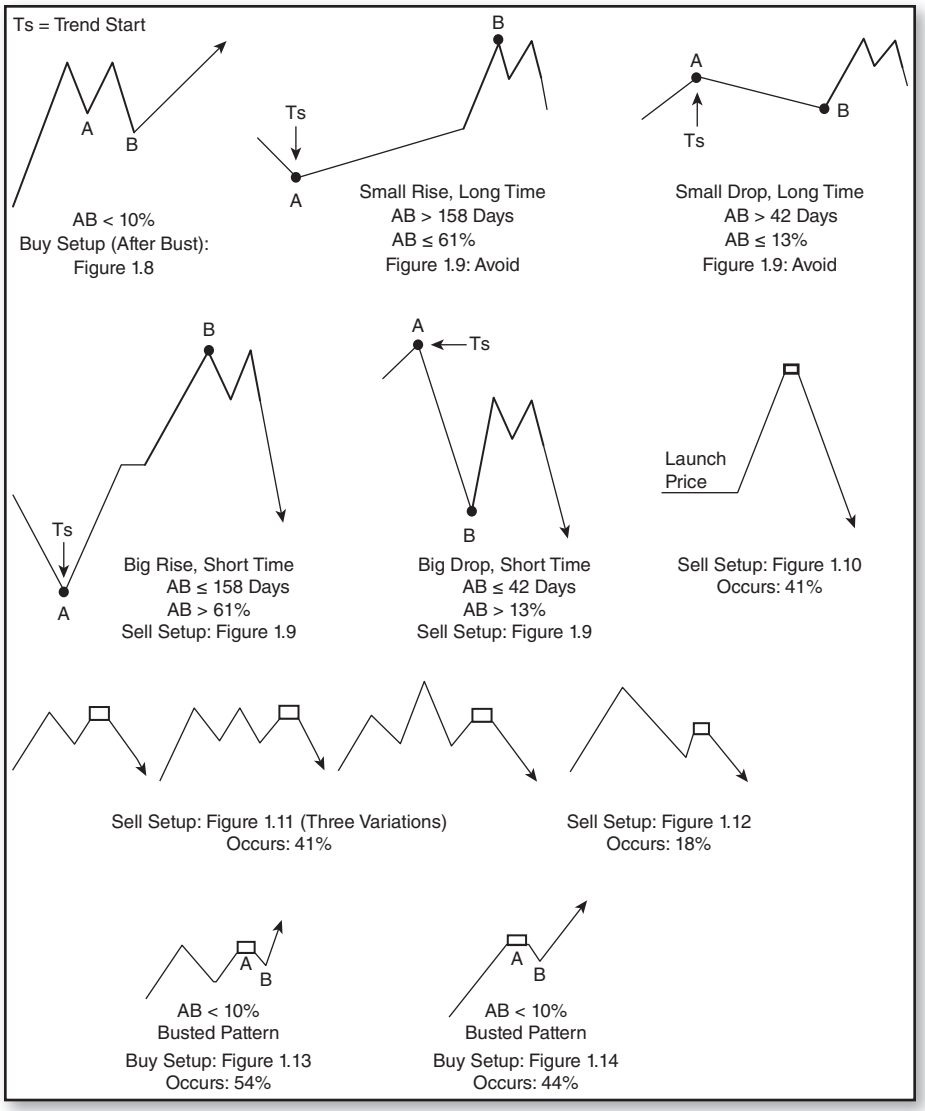


FIGURE 1.18 This figure is a collection of ideal trading setups and configurations.