



Best Dressed List -- 2014

Preview

Each year at about this time we publish the “Best Dressed List,” showcasing the outstanding examples of classical charting principles from the just-completed year.

The Best Dressed List (BDL) illustrates the types of trading situations Factor LLC seeks in its proprietary account. These types of trading situations are the main focus of Factor LLC’s trading.

To qualify for the Best Dressed List, a market must meet the following criteria:

1. A clearly defined (no doubt about it) classical chart pattern at least 12 weeks in duration on the daily and weekly charts in a tradable market.
2. A decisive breakout with little or no pattern retesting. Secondary breakouts are considered when an initial earlier breakout failed.
3. A sustained trend to the implied target.

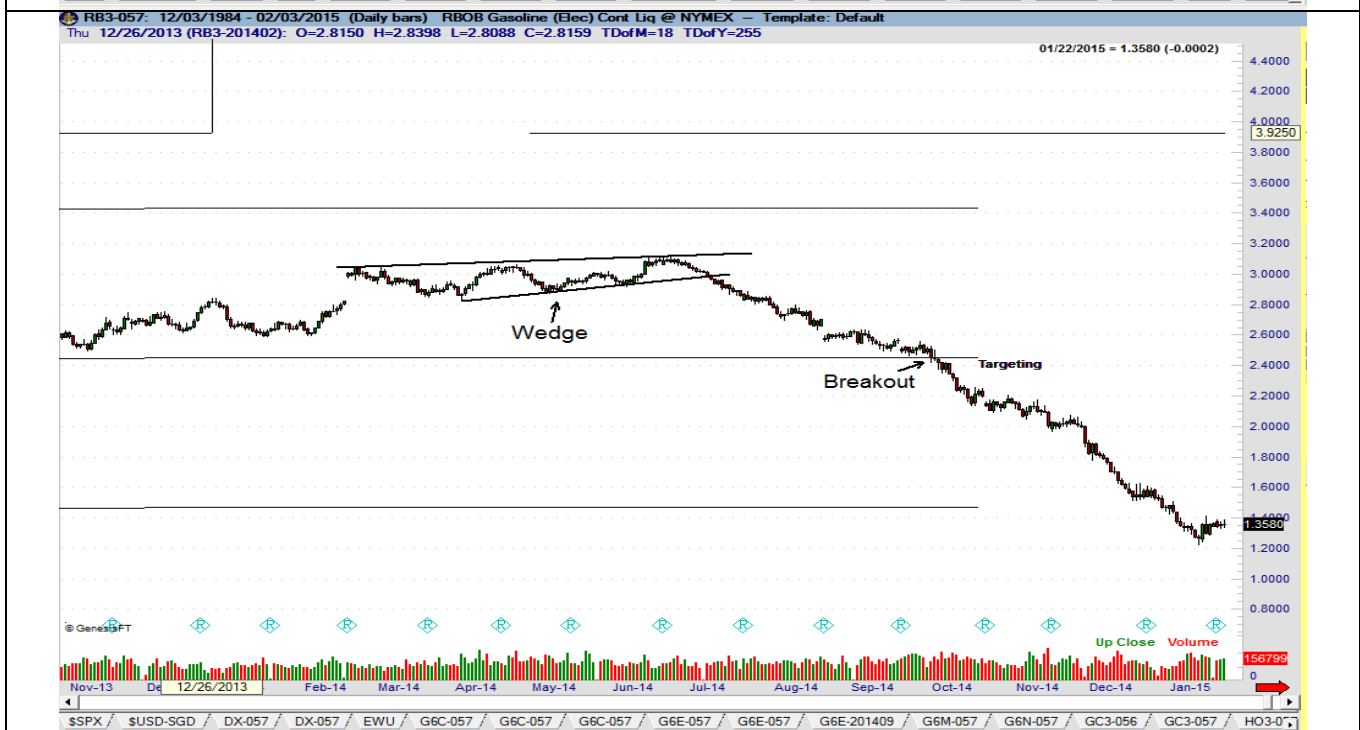
Whether or not Factor LLC successfully captured the implications of pattern is not a criteria for inclusion (at least not consciously). The list is broken down into two sections:

- Best Dressed List 2014
- Promising Best Dressed Charts for 2015

This year’s BDL presents a challenge in that stock trading was a bigger share of Factor’s total trading in 2014 than ever before. Yet, while nearly all the major futures markets are considered for the BDL, there is no way I can survey the charts of the thousands of publically traded stocks. I am sure there were hundreds of fabulous stock chart patterns I knew nothing about. So, the main focus of the BDL-2014 remains the futures markets, but I am including a few of the stocks in which I did some trading.

You may be a chartist and completely disagree with my selection. I am perfectly ok if this is the case. No two chartists agree, just as no two Elliott Wave counters or macro economists will agree on things. This disagreement is what makes a market. So, I admit that my selection of the best technical chart developments in 2014 are biased toward my way of looking at charts.

Best Dressed List



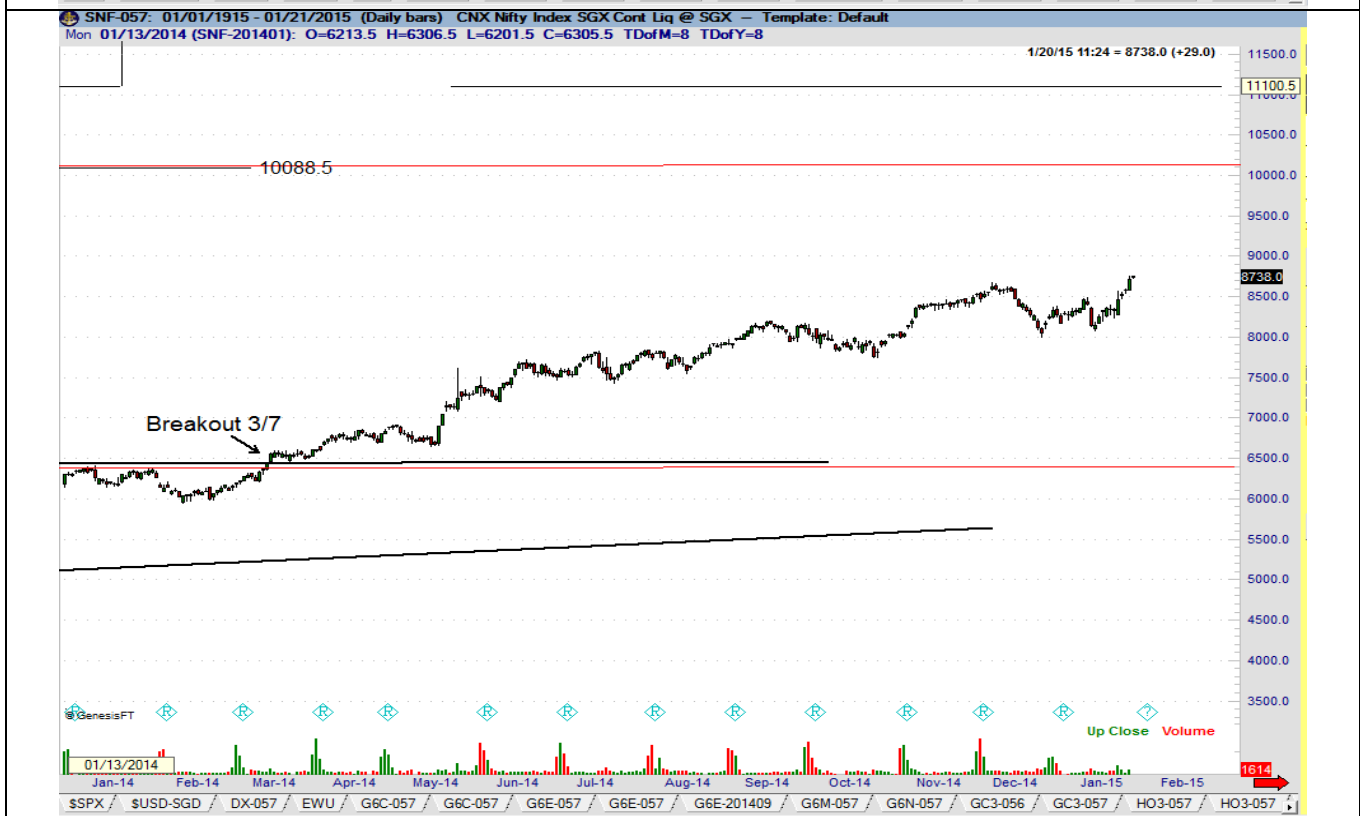
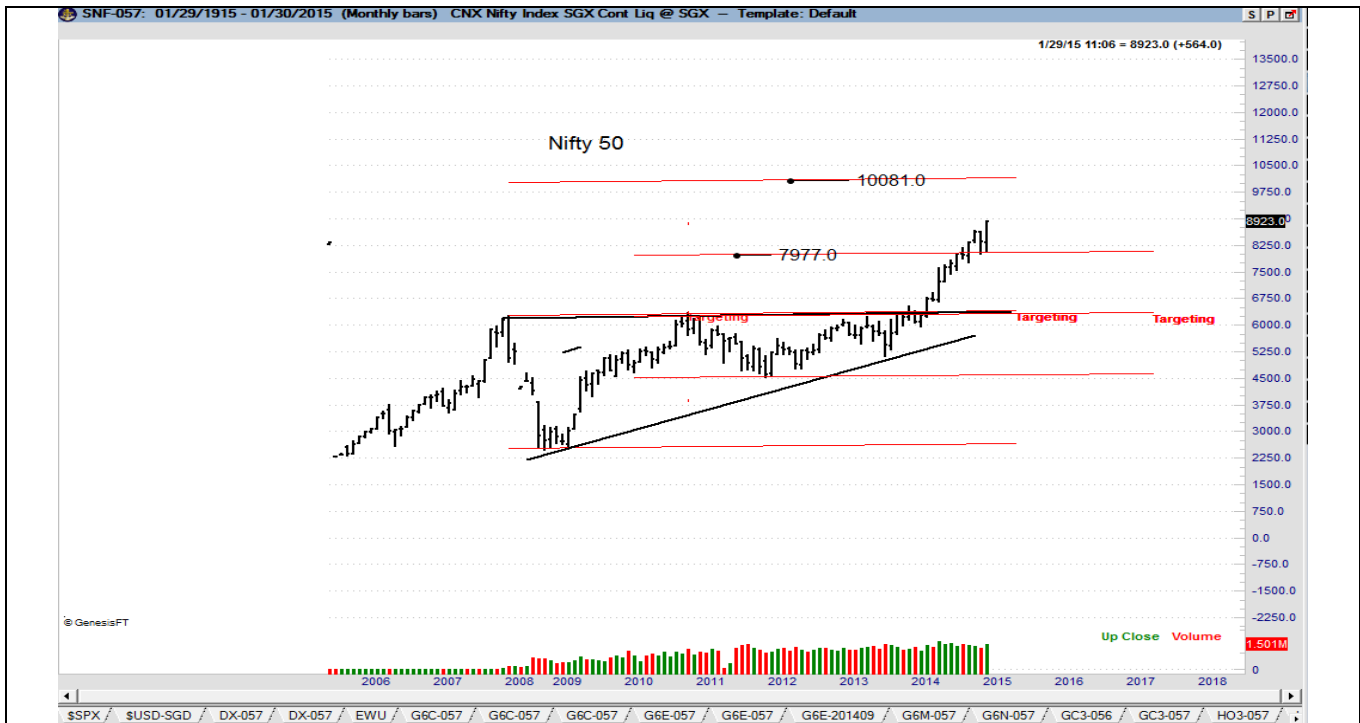
Market	Pattern(s)	Date completed	Target(s)
RB Gas	3-1/2 yr. rectangle	10/2 at 2.4210	1.4666 met on 12/29

By far and away RB Gas is my pick for the most outstanding example of classical charting in 2014. The completion of a 5-month rising wedge on the daily graph was the start of the collapse in RB Gas prices. The subsequent completion of the 3-1/2 year rectangle on the weekly graph provided a target of 1.4666.



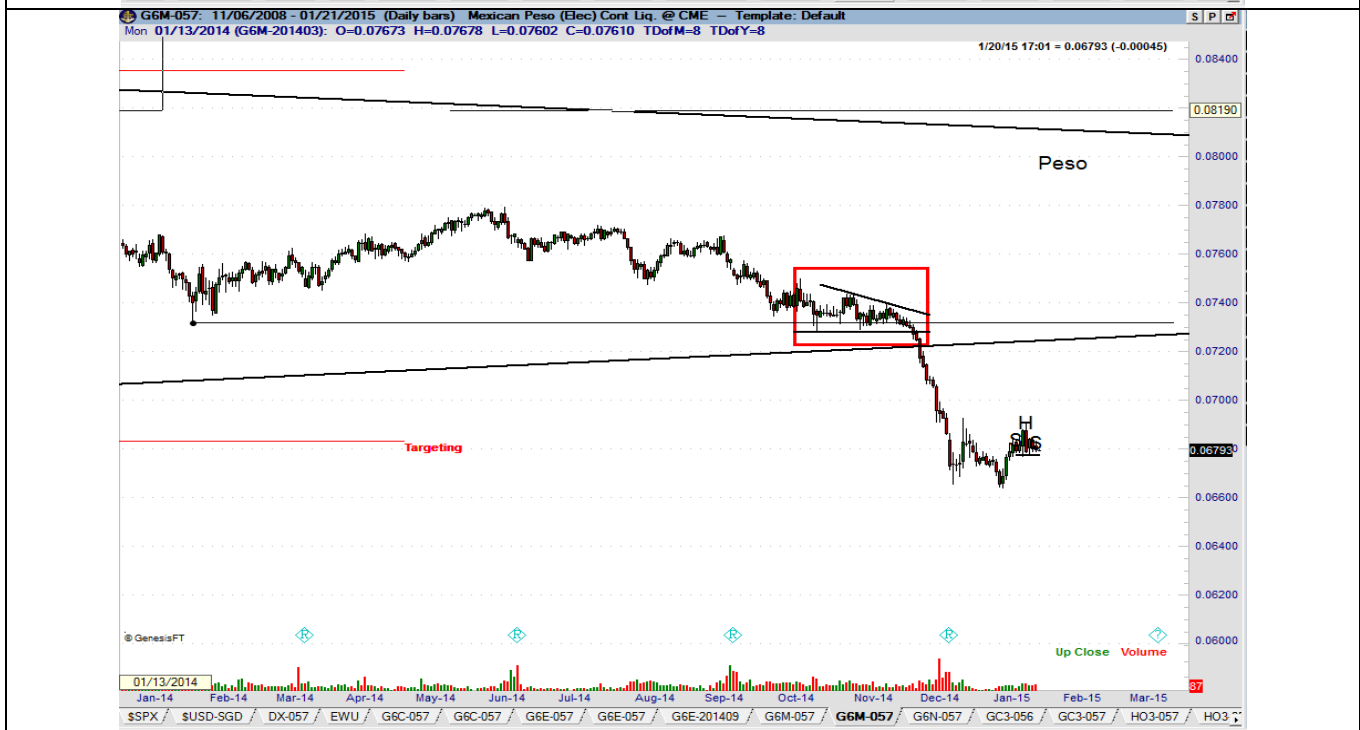
Market	Pattern(s)	Date completed	Target(s)
Heating Oil	3-1/2 yr. H&S failure	9/18 at 2.7130	1.8902 met on 12/19

Heating Oil is my choice for the second best example of classical charting for 2014. The collapse of energy prices the last half of 2014 was well advertised by the Heating Oil chart. The penetration of the right shoulder low on the weekly chart was the start of the collapse in Heating Oil.



Market	Pattern(s)	Date completed	Target(s)
SGX Nifty 50	6-yr. ascending triangle	3/7 at 6555	7977 met on 8/25 10080 remains

The initial target has been reached. The Nifty 50 is a leading candidate for inclusion again in 2015 based on the longer-term target.



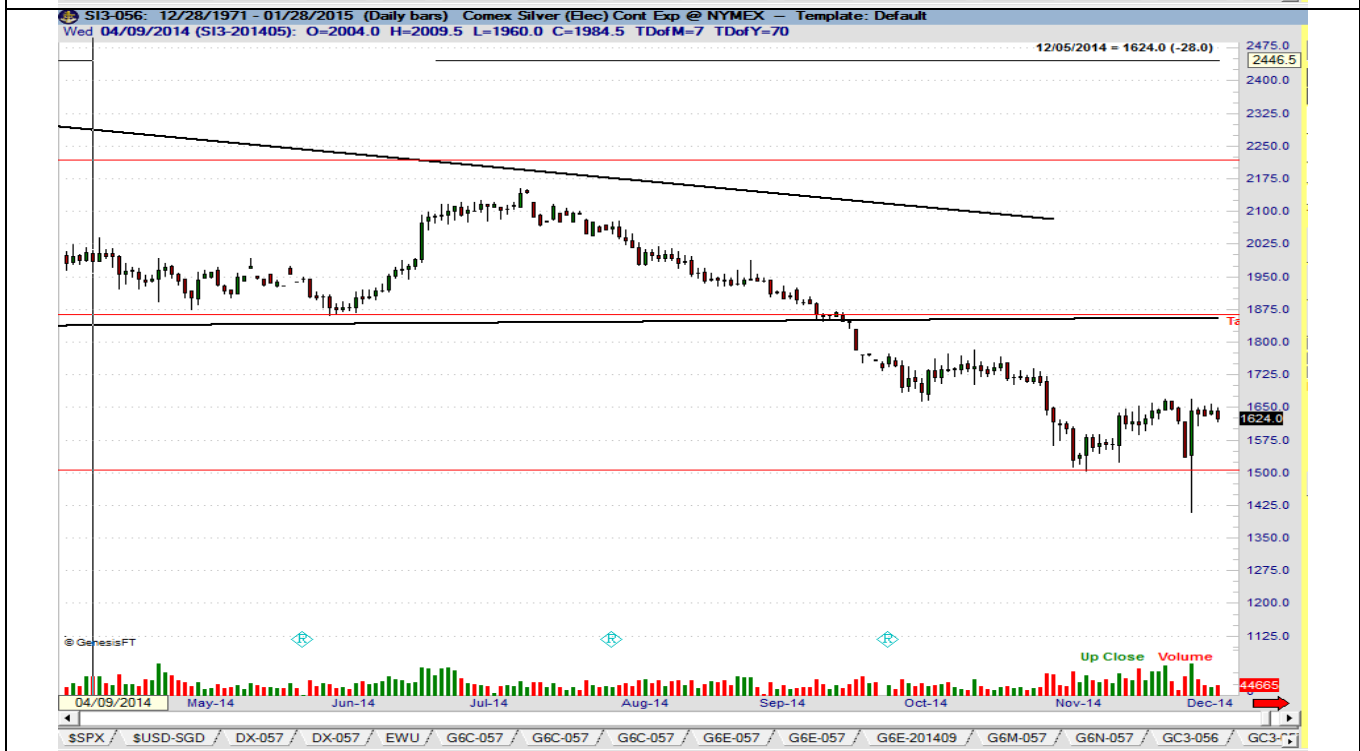
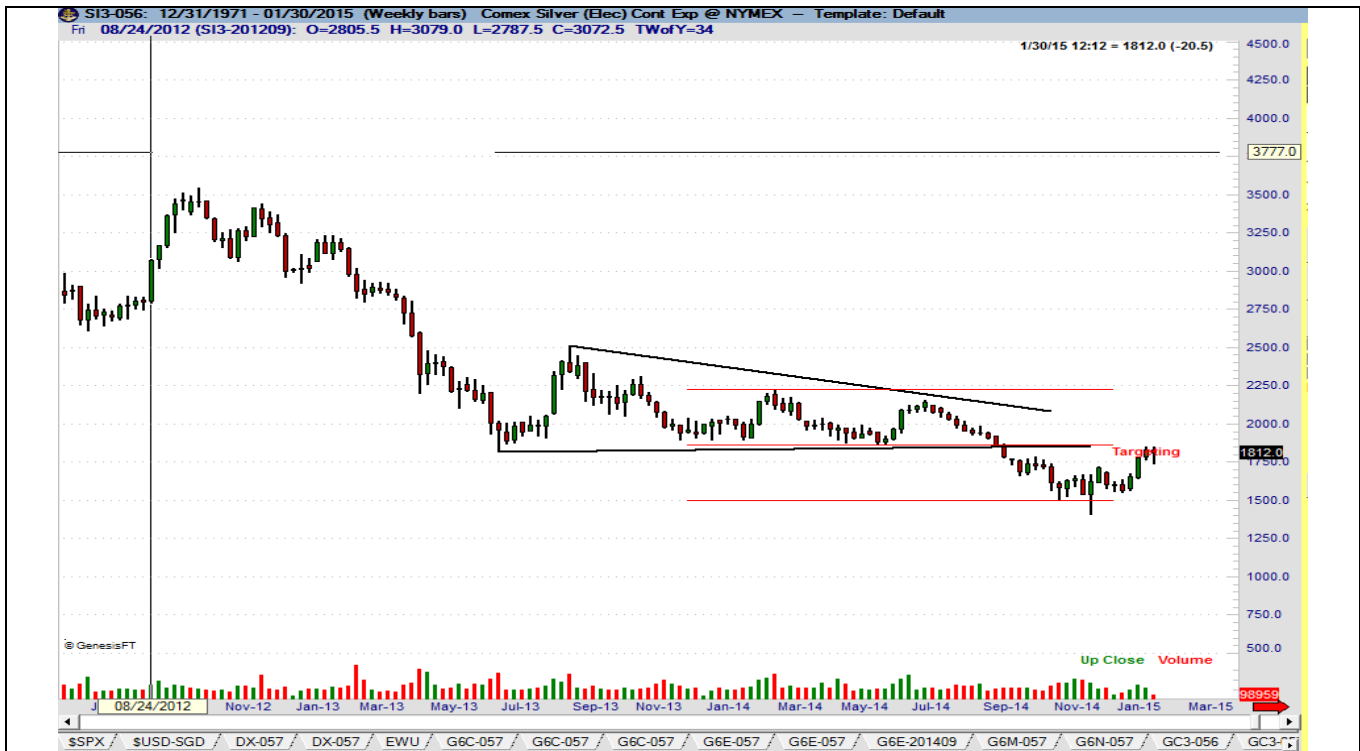
Market	Pattern(s)	Date completed	Target(s)
Mexican Peso	5+ yr. symmetrical tri 6-week desc. triangle	11/28 at .07175 11/26 at .07273	.05350 remains .07008 met on 12/5

The Peso is yet another market in the running again for 2015. The completion of the 5+ yr. symmetrical triangle met the initial target. A much more distant target of .05350 remains.



Market	Pattern(s)	Date completed	Target(s)
LME 3-mo Nickel	9-month rectangle 4-month sym. triangle	3/4 at 15125 9/15 at 18099	19270 met on 5/8 15225 met on 10/20

The LME Nickel market actually posted two BDL patterns in 2014, a 9-month rectangle and a 4-month triangle. Both patterns were textbook examples of classical charting principles.



Market	Pattern(s)	Date completed	Target(s)
Silver	15-month descending triangle	9/19 at 1779	15.33 met on 11/5

The final drive down in the bear market in Silver was launched from a large descending triangle on the weekly graph. It always gets my attention when substantial patterns are completed by a Wide Bodied Bar on a Friday. I consider WBBs as important and the most important price of the week is the Friday close. It MUST be noted that the current rally in Silver is simply retesting the underbelly of the triangle – and that one more lower target exists under \$13. Not all targets are met.



Market	Pattern(s)	Date completed	Target(s)
Live Hogs	19-wk sym triangle	12/5 at 8545	7105 met on 1/22/15

The decline on Dec 8 completed a well-defined triangle top. Note the small 2-week flag that formed about half way into the move. Patterns like this can be used by aggressive traders to pyramid a position. I completely missed this one.



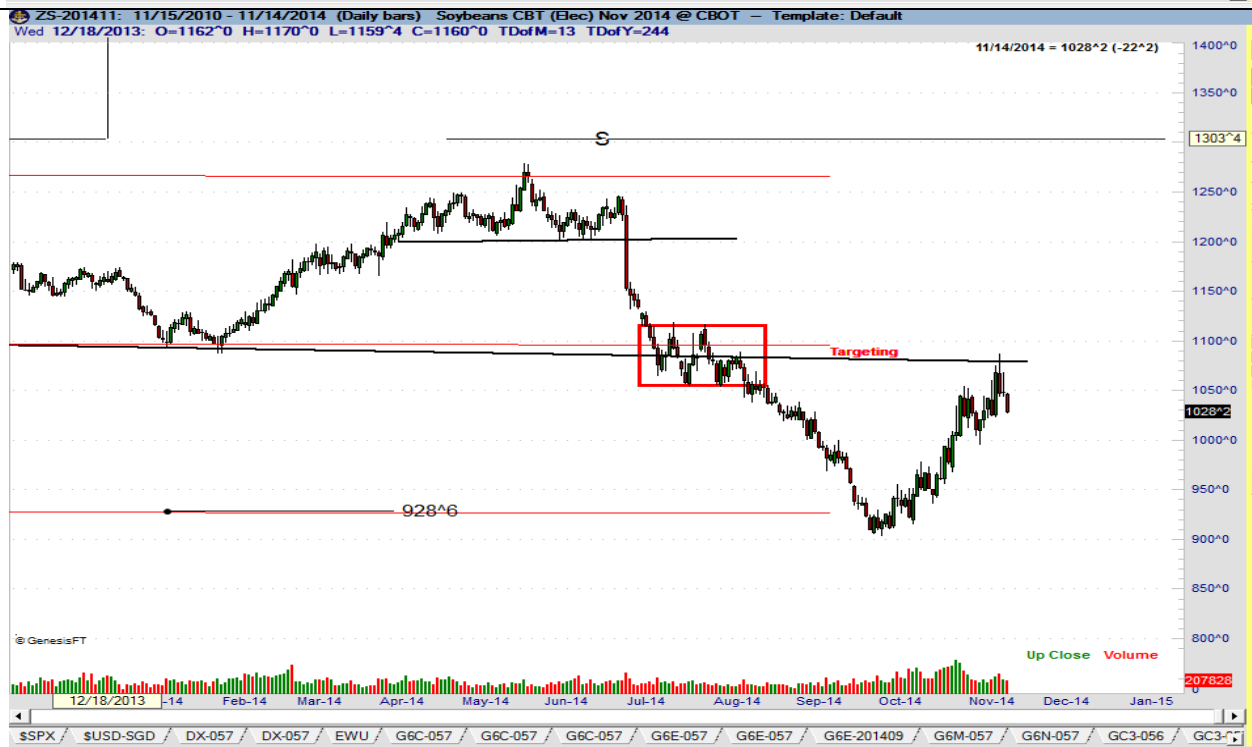
Market	Pattern(s)	Date completed	Target(s)
GBP/CAD	3-1/2 yr asc triangle	9/18/13 at 1.6501	1.7896 on 1/9/14

The Factor prop account captured this trade in fair size. The ascending triangle bottom was extremely well defined. Note that trading this cross with a simple moving average would have captured a larger move, not generating a sell signal until April. In large moves launched by a weekly chart, the use of a simple moving average is an excellent way to avoid being whipsawed.



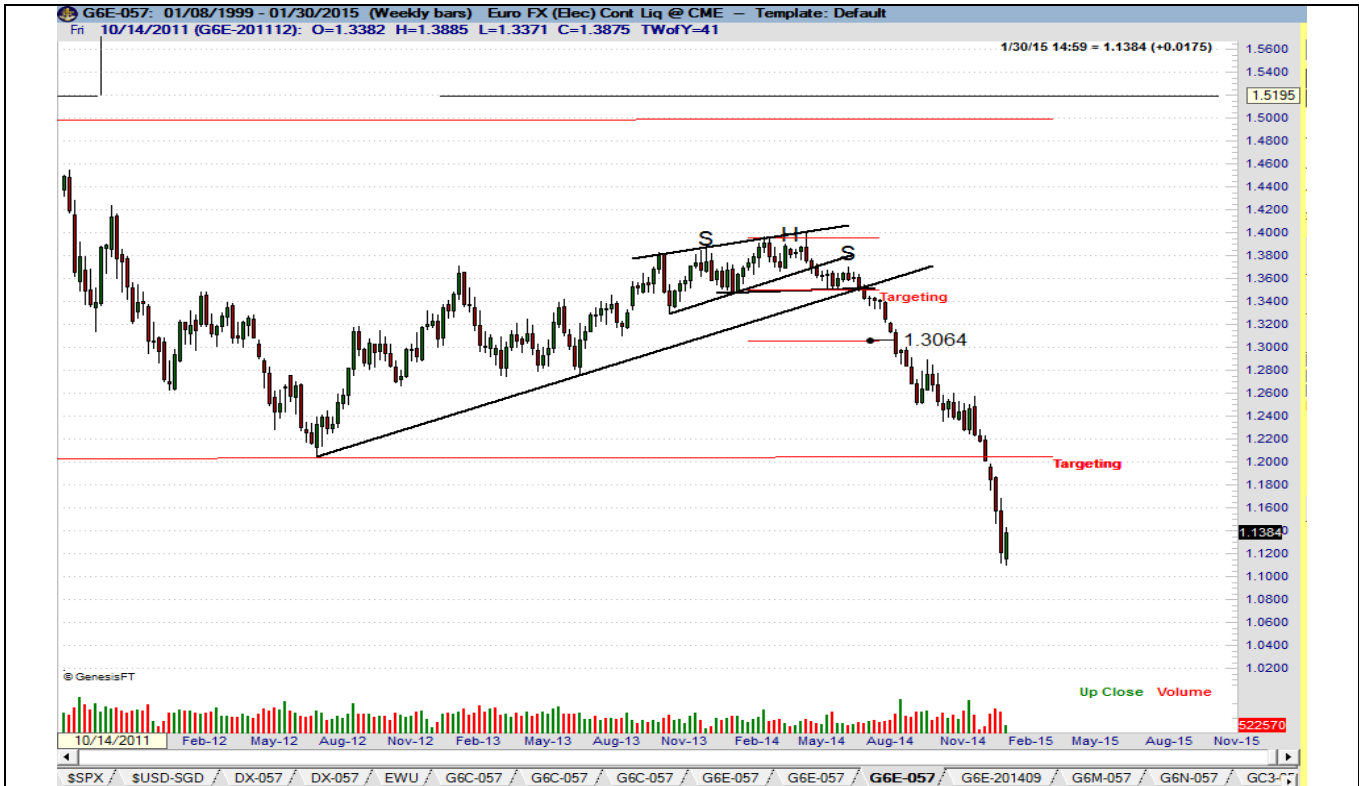
Market	Pattern(s)	Date completed	Target(s)
USD/JPY	8-mo rectangle	9/2 at 105.09	111.85 met on 10/31

Following the move launched by a 6-month symmetrical triangle in Nov 2013, the market formed an 8-month rectangle. My favorite chart pattern, the H&S included, is an extended rectangle with prices inside a band no broader than 8% to 10% of the price of the underlying. This is true for futures and stocks. Such patterns produce moves that dependably are three times that indicated by the width of the rectangle.



Market	Pattern(s)	Date completed	Target(s)
Nov Soybeans	3-1/2 H&S top	7/11 at 1075	928 met on 9/25

This pattern is an exception to the condition of the BDL that a breakout be clean and without challenge. The weekly chart of Nov Beans completed a life-of-contract H&S top in Jul. Note that the right shoulder was itself a beautifully formed H&S top – completed by a WBB after the release of USDA report. The Jul breakout was quite a challenge, but finally on Aug 12 prices reached escape velocity. The initial target was reached in Sep. A much larger target continues to exist, and Beans will likely again be on the 2015 BDL.



Market	Pattern(s)	Date completed	Target(s)
EuroFX	8-mo H&S top	7/22 at 1.3466	1.2944 met on 9/4

The decline in Jul completed a H&S top that begin the current collapse of the EuroFX. The target was met within 7 weeks. Note the 7-mo wedge and 2-year trendline violation that came into play as the head was completed. The EuroFX is likely to be on the 2015 BDL as well based on the completion of a multi-year triangle.



Market	Pattern(s)	Date completed	Target(s)
Canadian Dollar	40 mo "M" top 4-mo H&S retest	Jan 2014 9/22 at 9037	9037 9037 met on 1/21/15

The C\$ was one of my most profitable markets in 2014. A massive "M" top was completed in Jan 2014 with the initial target met quickly. The 4-month rally to retest the top was quick tricky. The retest completed a 4-month H&S top. The target of the "M" top has been met.

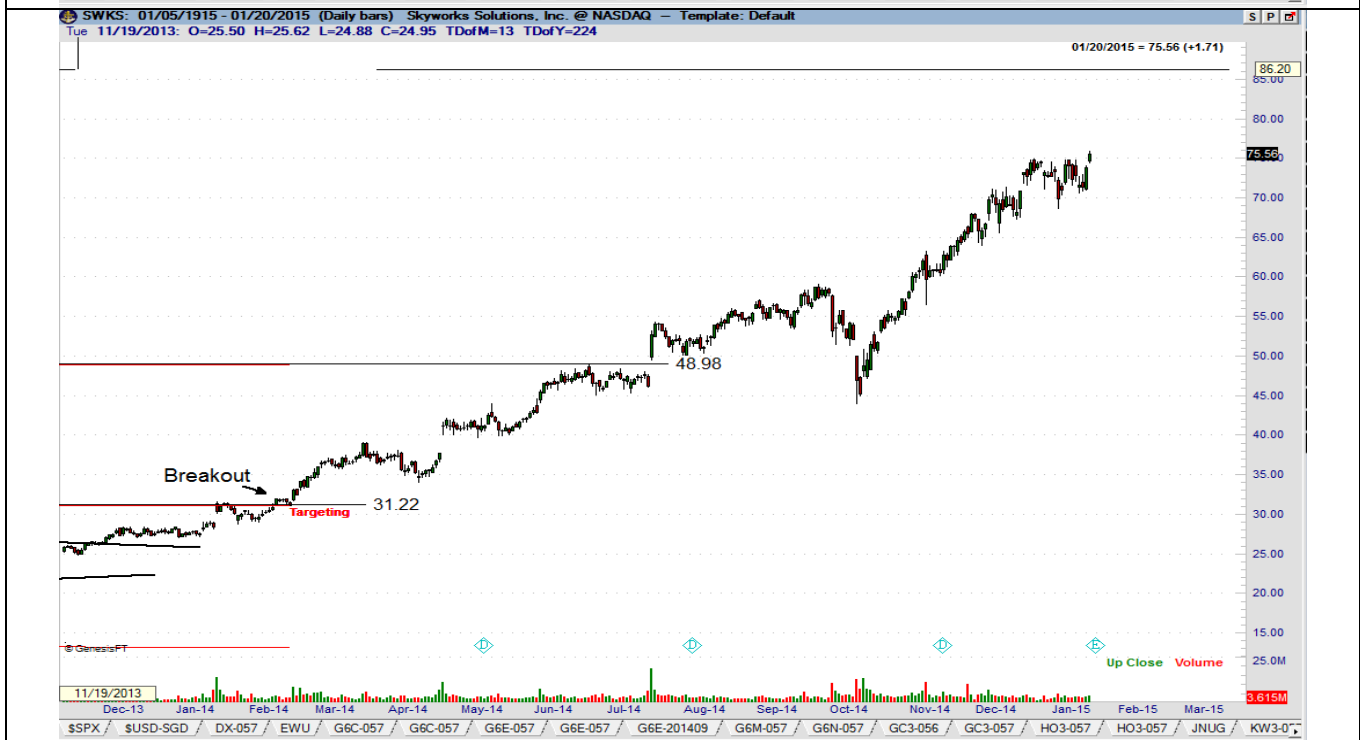
Best Dressed List -- A few stocks I traded in 2014



Market	Pattern(s)	Date completed	Target(s)
VDSI	5-1/2 year double bottom	9/2 at 15.27	24.23 met on 10/28



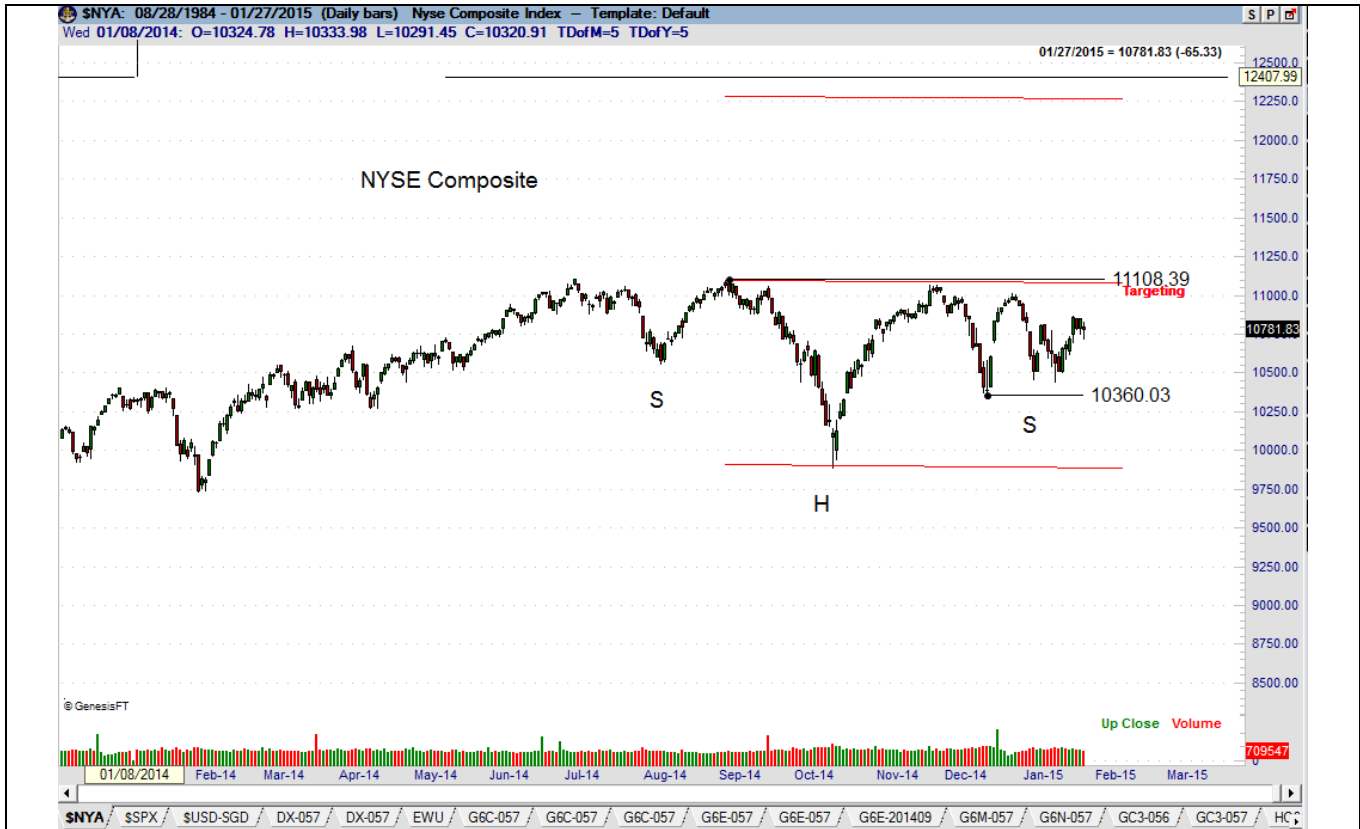
Market	Pattern(s)	Date completed	Target(s)
WHR	10-month asc triangle	10/23 at 157.03	187.74 met on 12/3



Market	Pattern(s)	Date completed	Target(s)
SKWS	34-mo. sym. triangle	2/12 at 31.85	49.82 met on 7/18

Best Dressed List candidates for 2015

A question I ask myself when analyzing charts for a possible trade is this – Does the chart and market in question have the potential to become a member of the Best Dressed List. A number of patterns currently under construction are possible candidates for the 2015 list.

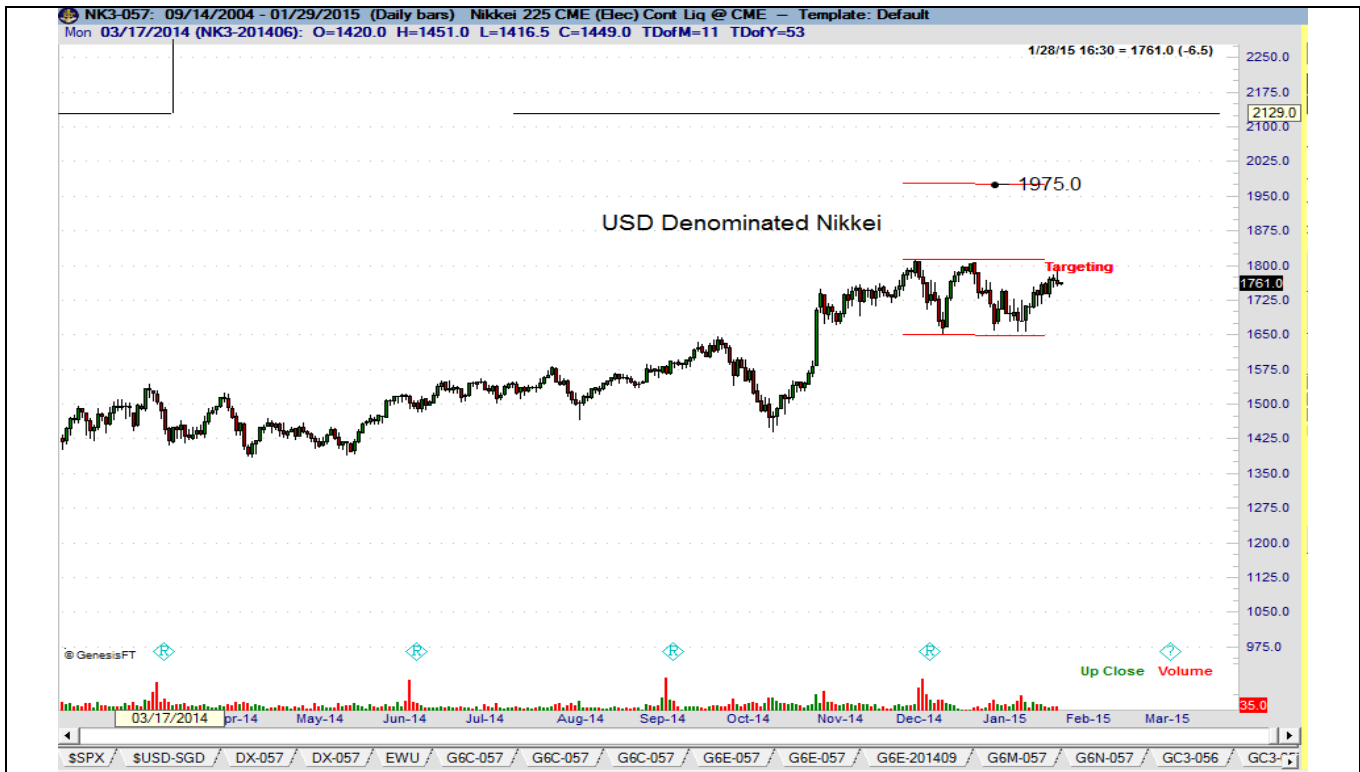


Market	Pattern(s)	Date completed	Target(s)
NYSE Composite	7-mo. H&S or H&S failure		

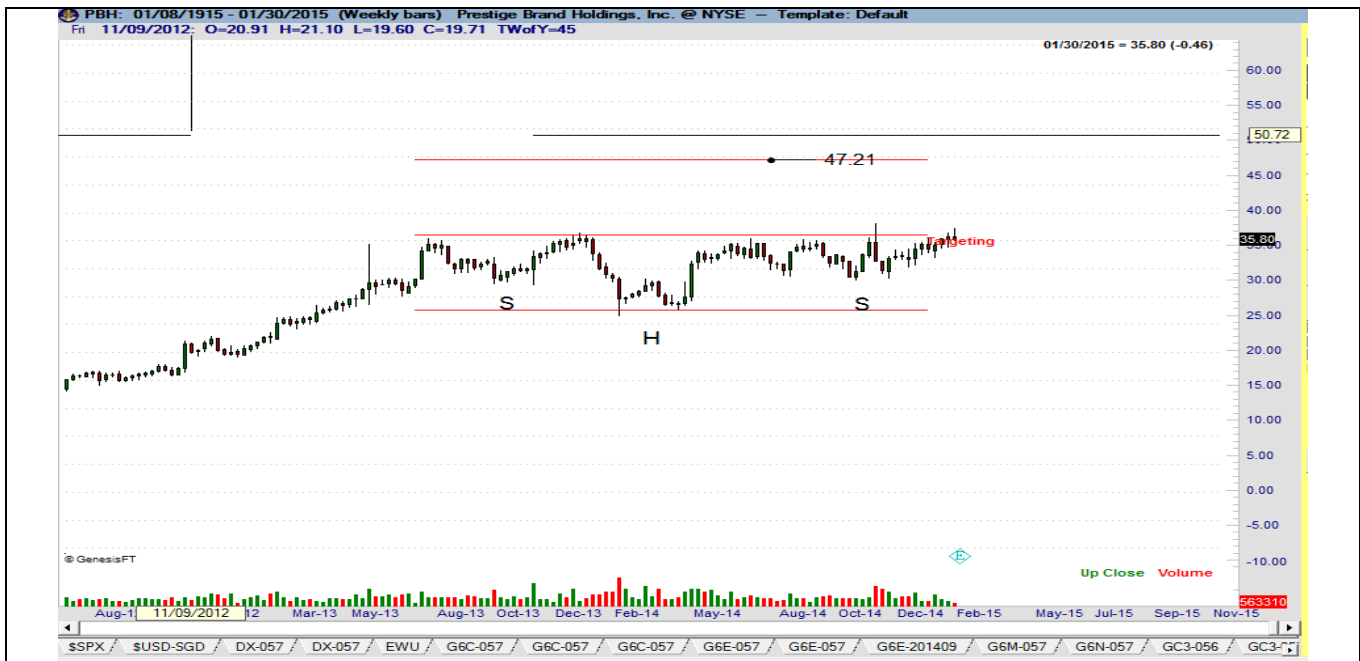
I personally believe that the key to the next intermediate-term direction of the U.S. stock market (i.e., that is a 10% move for me) will be determined by the outcome of this chart. It could go either way.



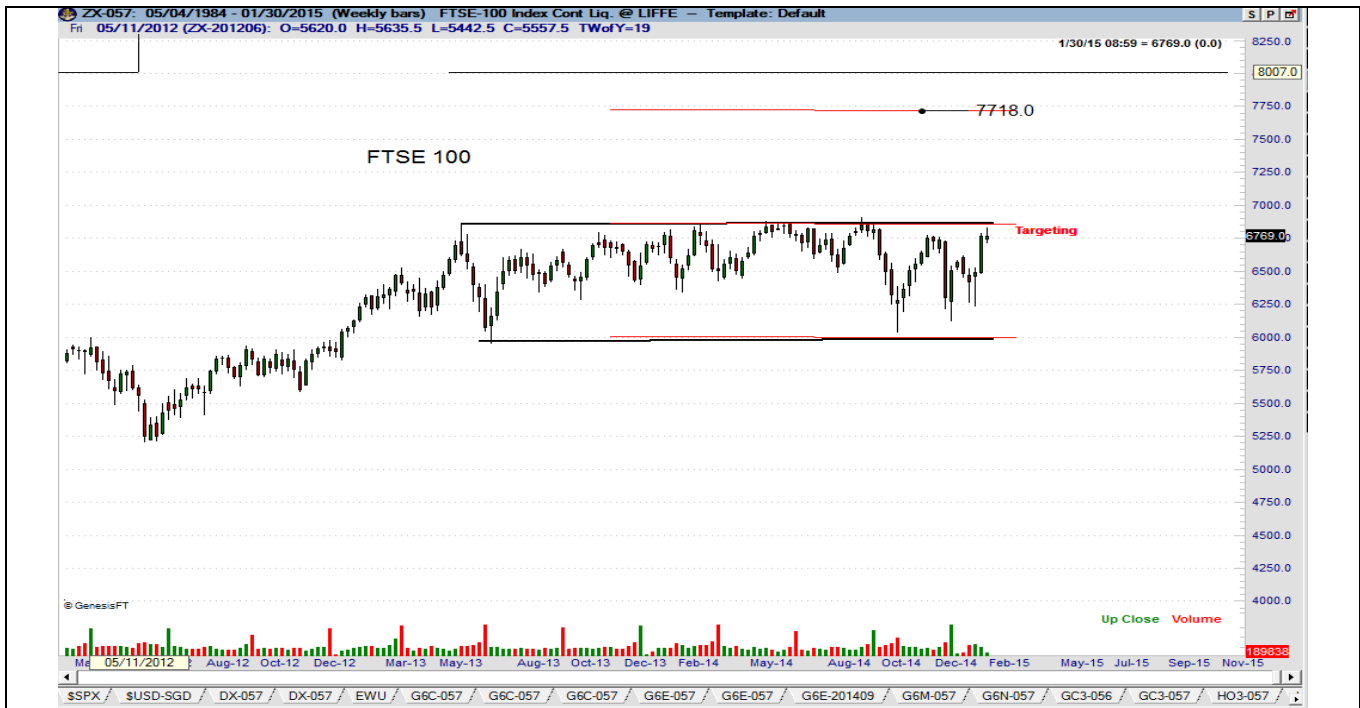
Market	Pattern(s)	Date completed	Target(s)
Platinum	14-mo H&S bottom		
Platinum is forming a possible H&S bottom.			



Market	Pattern(s)	Date completed	Target(s)
USD denominated Nikkei	Rectangle		



Market	Pattern(s)	Date completed	Target(s)
PBH - stock	Possible continuation H&S		



Market	Pattern(s)	Date completed	Target(s)
FTSE 100	Possible rectangle		



Market	Pattern(s)	Date completed	Target(s)
U.S. Dollar Index	Completed sym tri		

This bottom has an unmet target above 104.



Market	Pattern(s)	Date completed	Target(s)
USD/SGD			
A member of the 2014 BDL, USD/SGD has substantially further to go in 2015			



Market	Pattern(s)	Date completed	Target(s)
Taiwan Index (SGX)	7-mo continuation H&S	1/23/15	382

Review

So, what is the point of the annual Best Dressed List? It depends! If you casually view charts in your trading, then this document will be an interesting read, but not much more. And that is ok. Similarly, if you are a swing or scalp trader this document will have only passing interest.

But, if you rely primarily on classical charting principles and if your goal is to catch the really big and significant chart patterns, this document can become a point of reference.

A study of the Best Dressed List trading situations is a reminder that the most profitable major patterns have several things in common.

- There is no hurry to get aboard early. It is best to wait until the real move begins (although mature patterns often give an advance warning). An urge to preposition can often lead to a compulsion to preposition and this can end in getting chopped up and missing the real move when it comes. Are you familiar with this vicious cycle?
- Breakouts from genuine patterns are typically decisive. While a process of retesting can occur, a well-timed entry is seldom put into a serious loss.
- Even though a market can be oversold or overbought at the point of breakout, there is actually very little risk at entering at the breakout if the pattern is destined to work
- The moves to the targets can be most often sudden and quick. Patterns that take months to develop can deliver their profits in a matter of days
- As a general rule it is my habit to exit at the target and then avoid any temptation to reenter the same market any time soon. A simple moving average can be used to stay with a larger trend.

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