



# Factor Best Dressed List -- 2018

01 January 2019

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## **Preview**

Each year at about this time I publish the “Factor 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 swing trading situations Factor LLC seeks in its proprietary account. These types of trading situations are the main focus of Factor LLC’s trading.

Charting is a very subjective craft. Different chartists often disagree completely in the analysis of the same chart construction. What might be a bullishly biased chart to me could be just the opposite for another chartist. Importantly, each chartist needs to know his or her own signaling sweet spot and trading time frame.

The annual Best Dressed List features those patterns that landed right in the middle of my sweet spot. 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, preferably at least 10 to 12 weeks in duration, on the daily and weekly charts in a tradable market; or, a series of flags/pennants that occur in a strong trend launched by a larger recognizable pattern.
2. A decisive breakout that does not put a reasonable breakout entry into serious harm. Secondary breakouts are considered when an initial earlier breakout failed.
3. An intermediate trend to the implied target, typically representing a price move of at least 10% to 20% of the underlying value. I look for patterns that typically reach their targets in a matter of days or weeks (sometimes months).

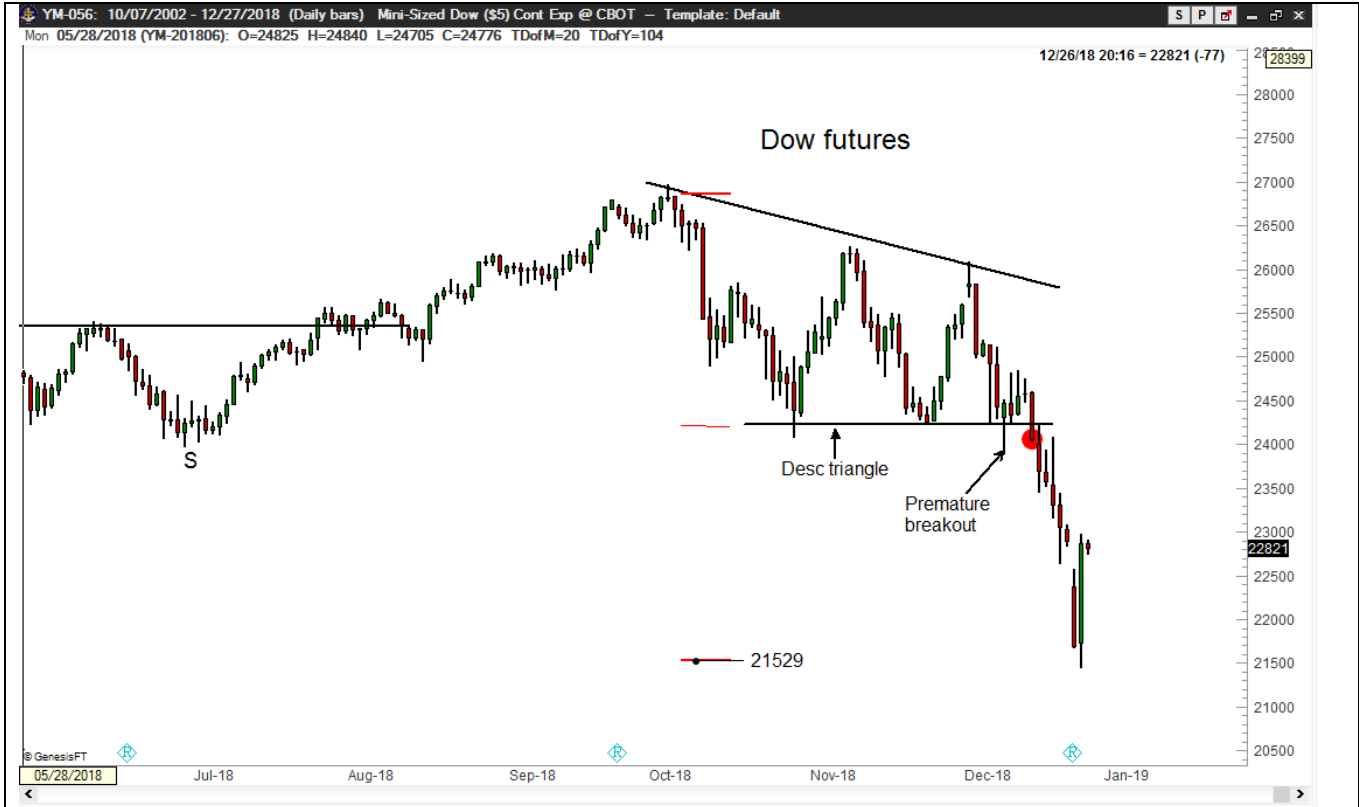
Whether or not Factor LLC successfully captured the implications of a pattern is not a criteria for inclusion (at least not consciously). In reality, the list is probably biased toward the patterns traded by Factor LLC. The list is broken down into two sections:

- Best Dressed List 2018
- Promising Best Dressed charts for 2019

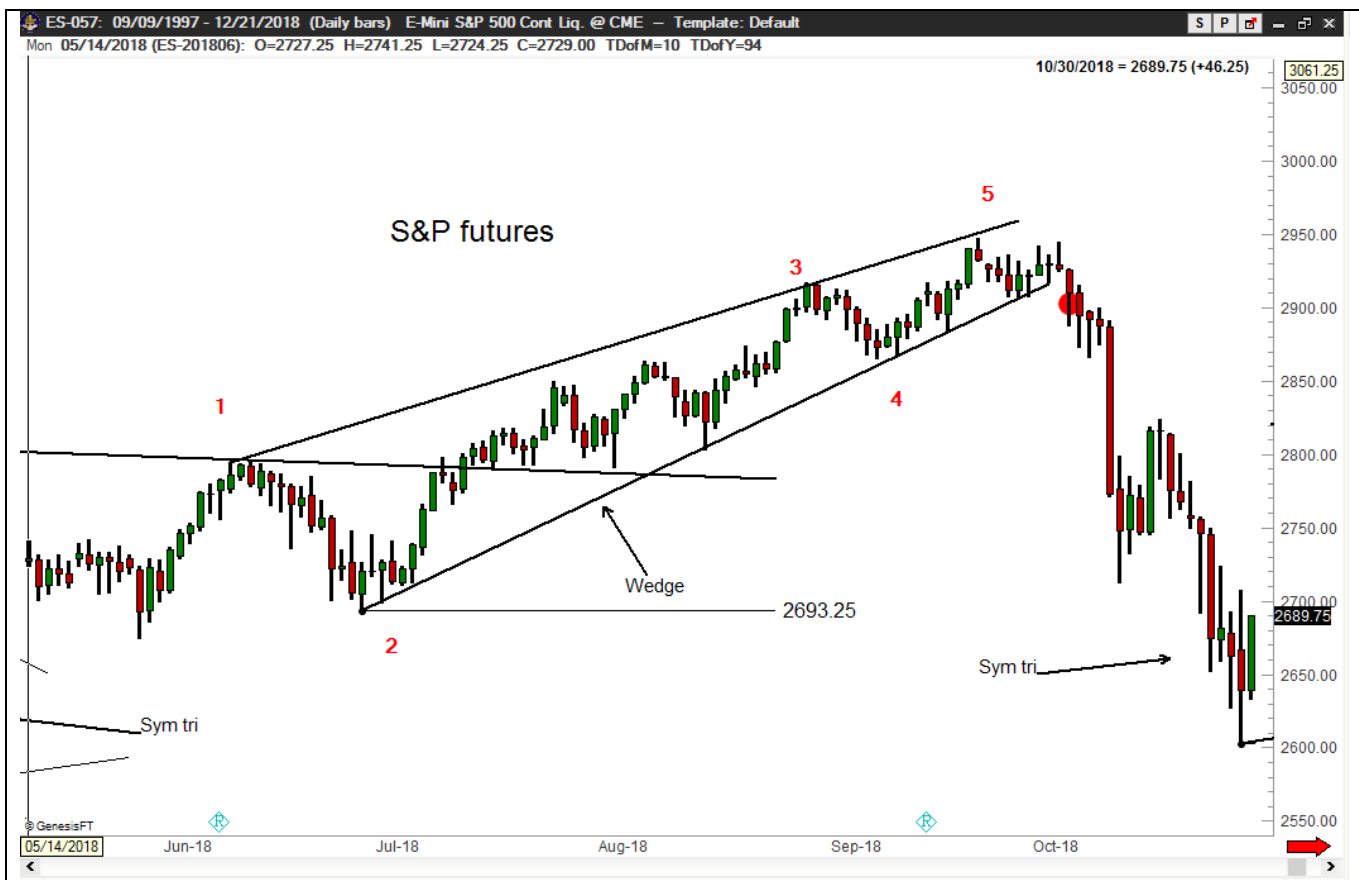
Constructing the BDL is different every year. There are years when I have had difficulty coming up with ten or so examples. Other years are replete with quality chart set-ups.

You may be a chartist who completely disagrees 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 agree on things. This disagreement is what makes a market. So, I admit that my selection of the best technical chart developments in 2018 are biased toward my way of looking at charts and style and time frame of trading – which could best be defined as intermediate or swing trading. If I was a day trader or trader who holds positions for many, many months my list would no doubt be very different.

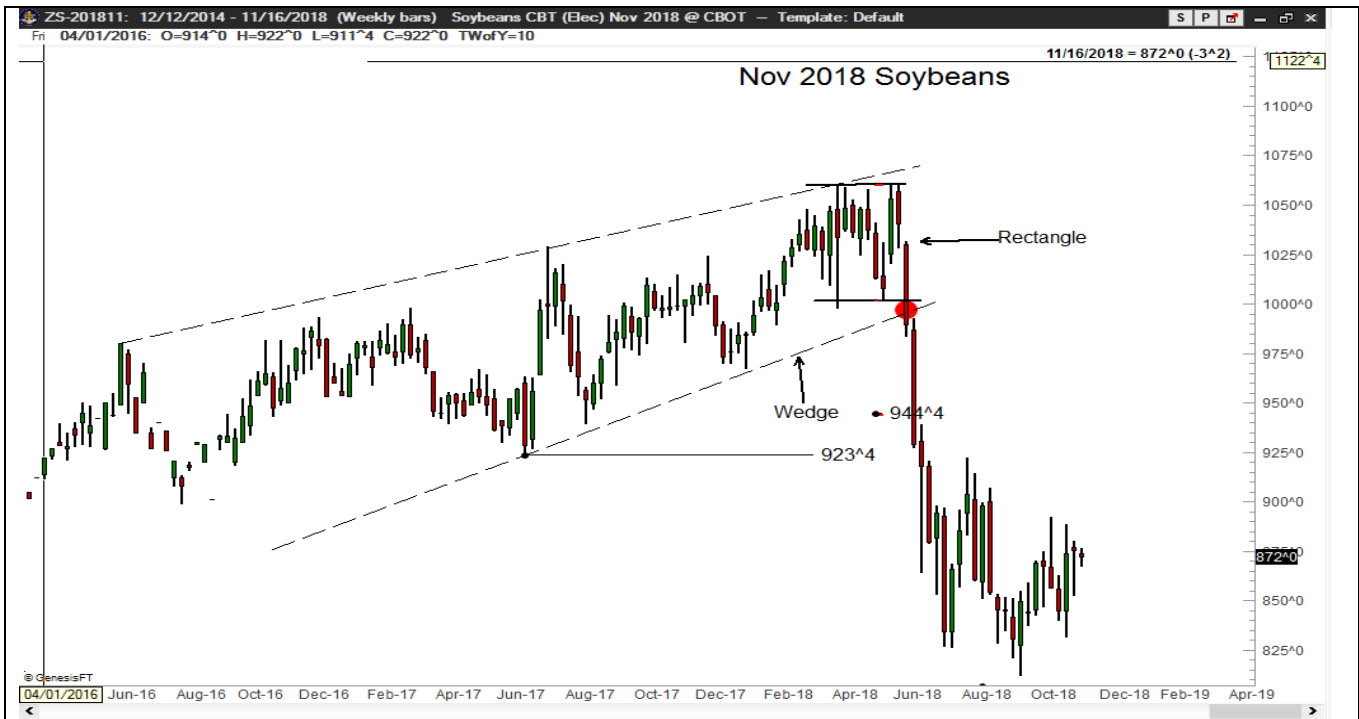
**Best Dressed List - 2018**



Market	Pattern(s)	Date completed	Target(s)
DJIA futures	11-wk desc tri	Dec 14 at 24063	21529 met on Dec 26
The premature breakout on Dec 10 was followed four days later by a genuine breakout of a descending triangle.			



S&P 500	4-month rising wedge	Oct 4 at 2910	2693 met on Oct 23
<p>Under classical charting principles a rising wedge must begin with a high point and contain five contact points within the wedge to be valid. The target of a rising wedge is the low point of the wedge, in this case marked by the red #2.</p>			



Market	Pattern(s)	Date completed	Target(s)
Soybeans (Nov 2018)	24-mo rising wedge 4-month rectangle	Jun 8 at 9.89 Jun 7 at 9.94	9.23 met on Jun 18 9.44 met on Jun 15

The Nov 2018 contract developed a massive 2-year rising wedge. This wedge was completed by the launch of a 4-month rectangle. The targets were quickly met. It is not uncommon for a multi-month or even multi-year pattern to reach its target in weeks or even days.



Market	Pattern(s)	Date completed	Target(s)
BTC (CME futures)	9-mo descending triangle	Nov 11 at 5730	3050 remains unmet
	5-mo descending triangle	Nov 11 at 5730	4120 met on Nov 20
	3-mo symmetrical triangle	Nov 11 at 5945	4955 met on Nov 19

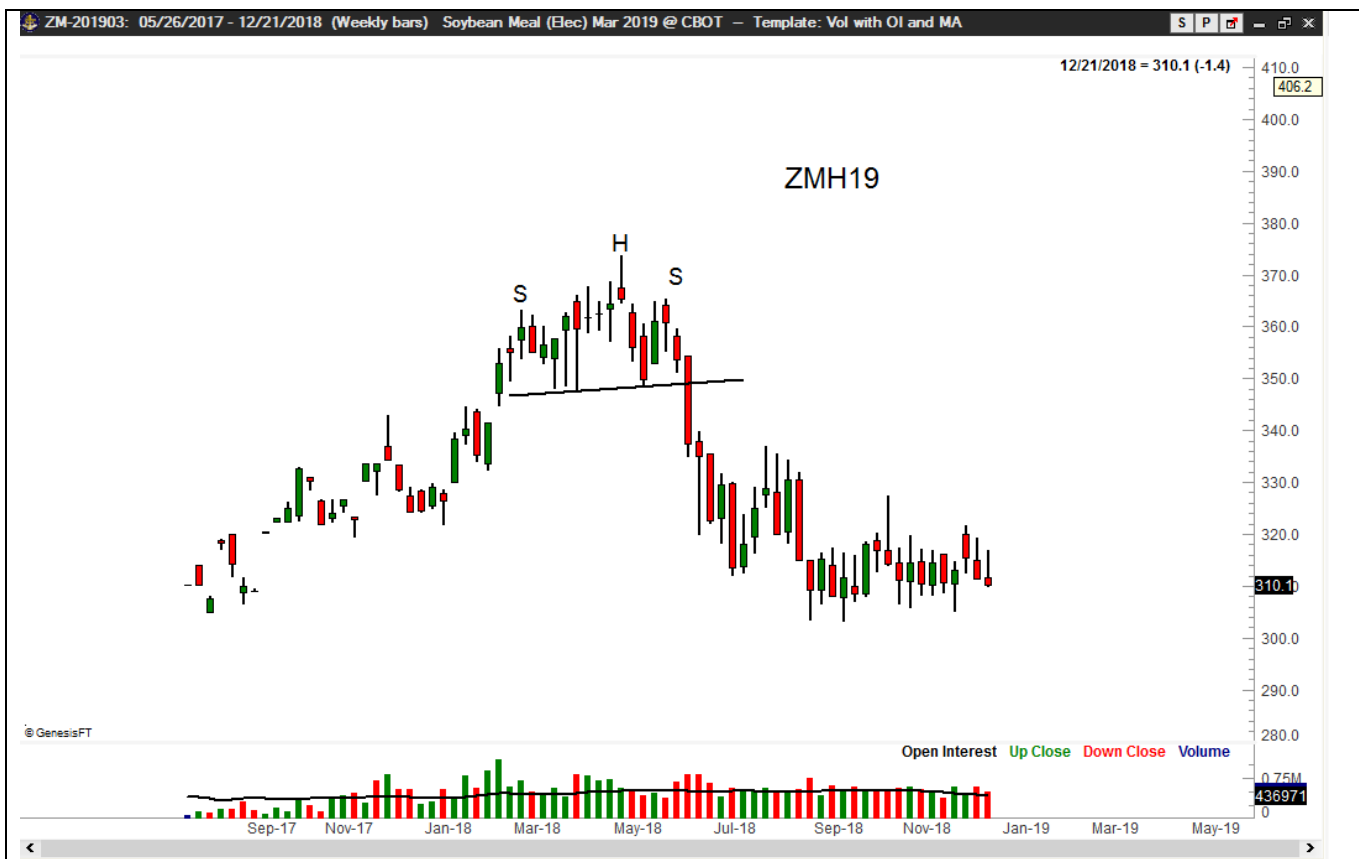
The chart pattern of the year belongs to Bitcoin. The decline on Nov 11 completed a 9-month descending triangle. Note how this pattern was launched by a 3-month symmetrical triangle. Often larger chart configurations are launched from smaller patterns that appear in the last stages of the larger pattern. Factor only trades BTC short with CME futures. The initial targets of 4955 and 4120 (futures) was met quickly. A further target of 3050 remains unmet, although for all practical purposes this chart has completed its mission.



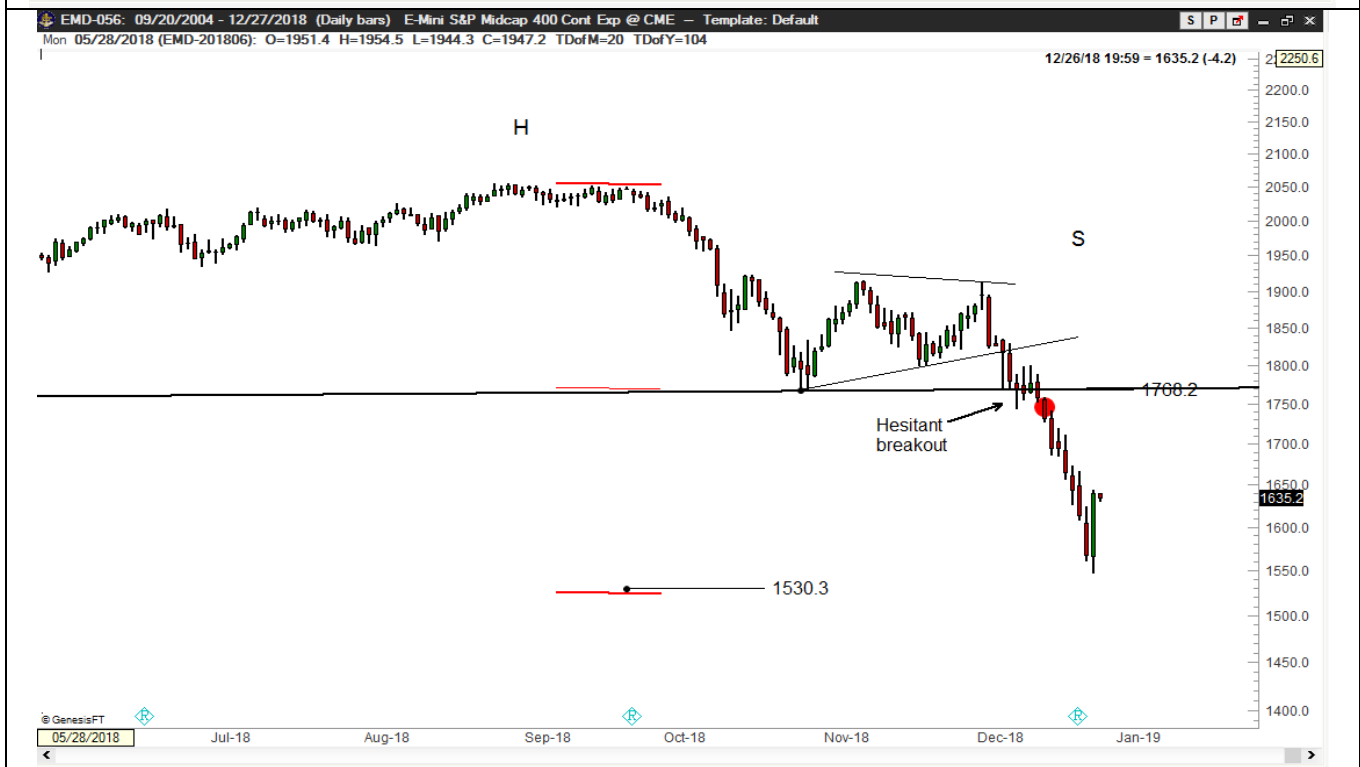
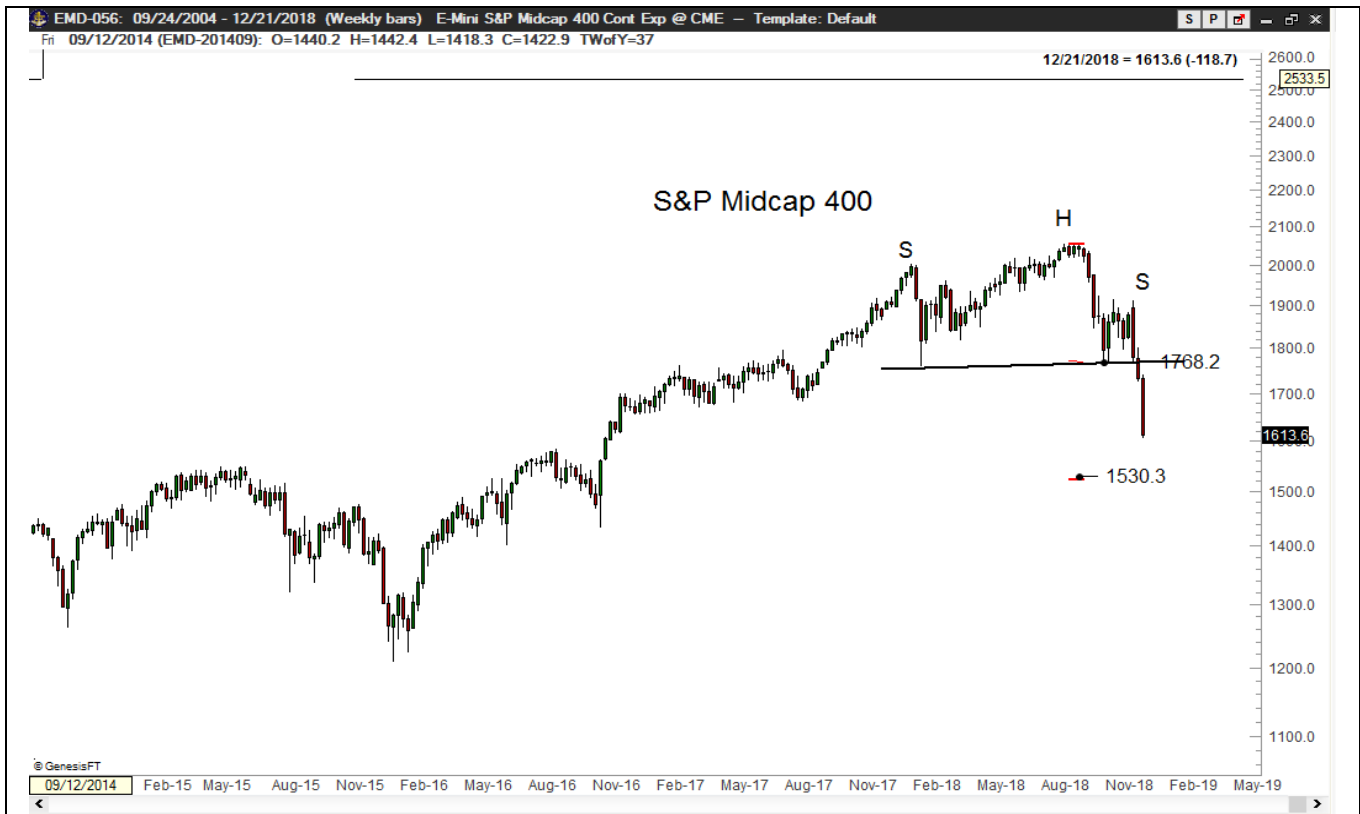
Market	Pattern(s)	Date completed	Target(s)
LiteCoin (LTC)	6-mo desc triangle	Jun 10 at 106.97	29.58 met on Nov 24
	4-mo desc triangle	Jun 10 at 106.97	48.40 met on Sep 12

While not a tradeable instrument for Factor (I only trade “zero-sum” futures markets), the beauty of the 2018 bear market in LTC deserves special recognition. The decline on Jun 10 completed a 4-month and 6-month descending triangle. Note the continuation patterns on the way to the 29.58 target – including a pennant, a bear channel and a continuation descending triangle.



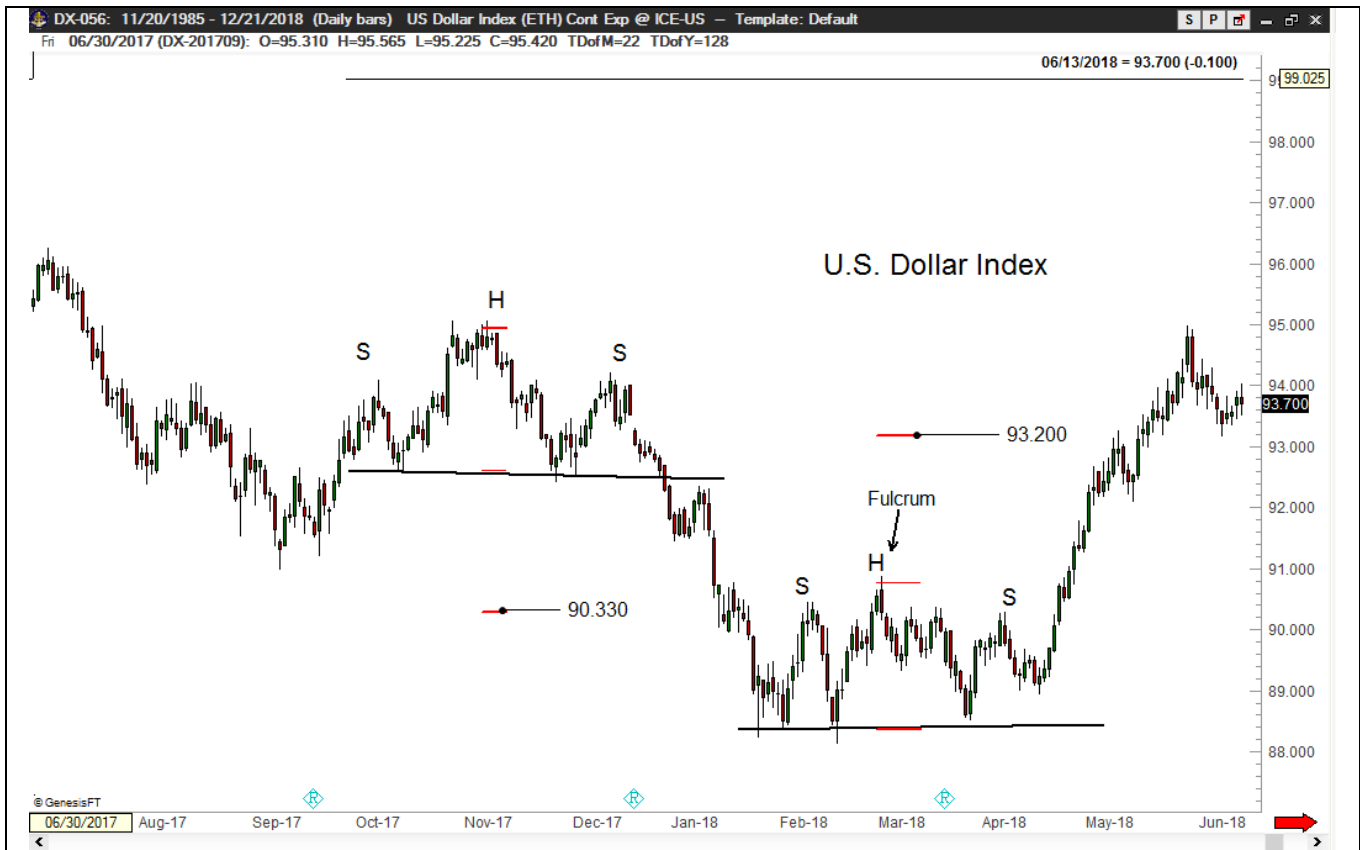


Market	Pattern(s)	Date completed	Target(s)
Soybean Meal (ZMH19)	17-wk H&S top	Jun 13 at 345.60	324.7 met on Jun 19
The decline in mid-June completed a 17-week H&S top in the Mar 2019 contract of Soybean Meal. The target was met six days later.			
Lesson: The inter-delivery nature of the futures market can create tactical problems – as well as tactical opportunities. The grain markets are an excellent example. Not only do the supply and demand fundamentals vary from crop year to crop year, but they can vary from delivery month to delivery month in the same crop year. The result is that the chart construction of the continuation graph can differ from the chart construction of individual contracts. The Mar 2019 contract of Meal displayed a well-defined H&S pattern, whereas the continuation chart and the chart of the Dec 2018 contract differed. This is why it is a good practice for futures traders to survey a variety of charts within the same market, looking for the cleanest chart construction.			

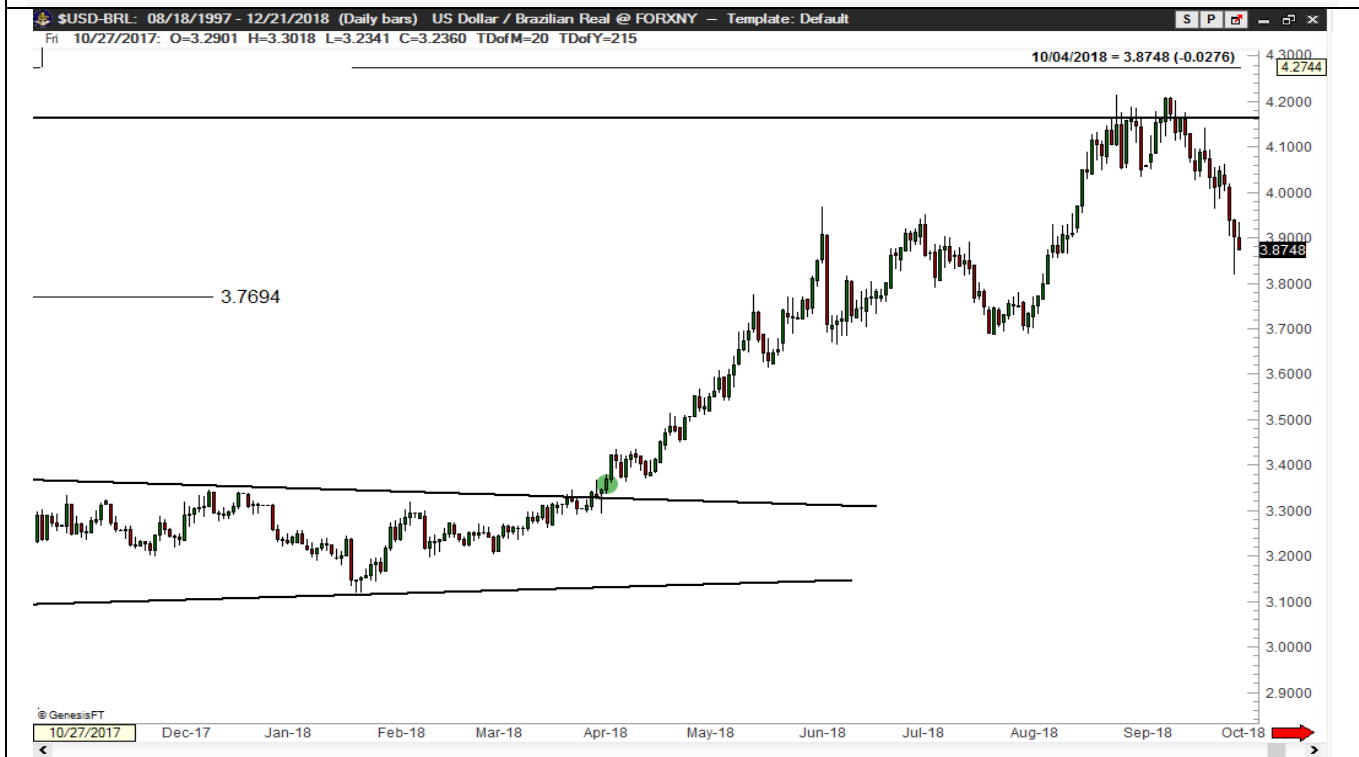


Market	Pattern(s)	Date completed	Target(s)
S&P Midcap 400	14-mo H&S top	Dec 13 at 1758	1530.2 remains unmet

There are cases when the breakout of a pattern is clean, powerful and immediate. There are other breakouts that are tricky because price may hesitate at an important chart boundary point. The breakout in the S&P 400 futures was hesitant at first, but the closes on Dec 13 and 14 left little doubt that the trend was strongly down.

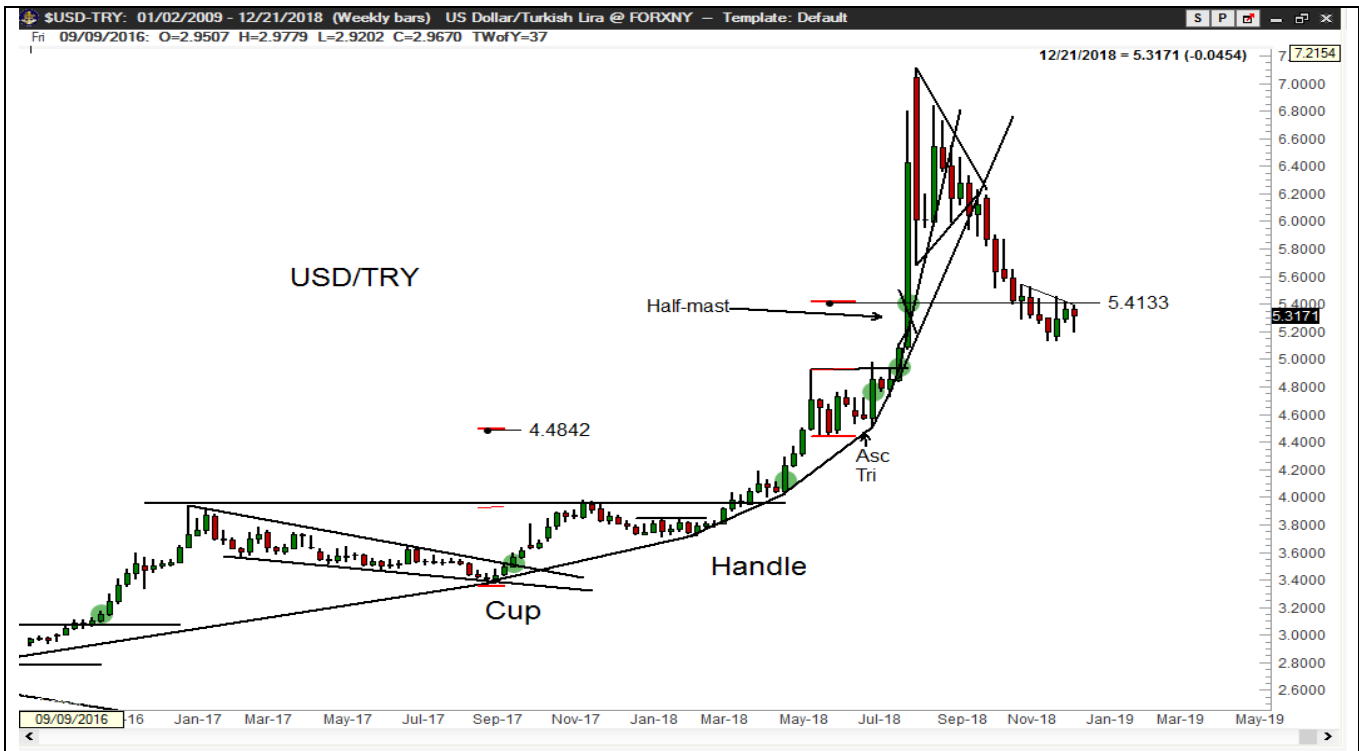


Market	Pattern(s)	Date completed	Target(s)
U.S. Dollar Index	14-week compound fulcrum	Dec 28 (2017) at 92.30 Apr 23 at 90.70	90.33 met on Jan 15 93.20 met on May 9
<p>Tight and well-defined H&amp;S patterns offered the best classical chart trading in 2018 – and also, in the case of the U.S. Dollar Index – a chance to point out a fulcrum pattern. A continuation H&amp;S was completed on Dec 28. The retest rally through the Jan 9 high never jeopardized a proper entry of the H&amp;S top. Another continuation H&amp;S pattern began forming in early Jan. A continuation H&amp;S pattern that thrust through the high of the right shoulder is called a fulcrum.</p> <p>Tactical discussion: I prefer tight and brief-duration patterns to “long and lazy” patterns. I have found the ideal pattern for swing trading is a 10- to 20-week configuration with a breakout through a horizontal boundary.</p>			



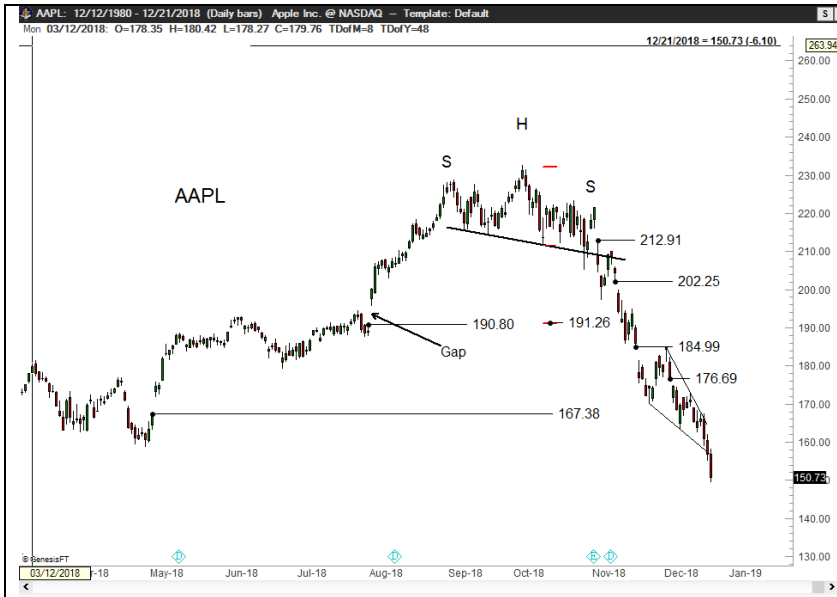
Market	Pattern(s)	Date completed	Target(s)
USD/BRL	16-mo sym. Triangle	Apr 6 at 3.3703	3.7694 met on May 18

Tactical challenge: I am willing to use intraday stop orders to enter a trade when the pattern breaks out through a horizontal boundary from a well-defined and tight pattern. I am willing to trade well-defined symmetrical triangles, but not with an intraday entry stop. I generally prefer to wait for a closing price confirmation of a long-duration symmetrical triangle. A closing price completion of the symmetrical triangle in USD/BRL did not occur until Apr 6. Often times I am forced to size-down a trade in a symmetrical triangle pattern because I cannot enter with precision.



Market	Pattern(s)	Date completed	Target(s)
USD/TRY	14- month Cup & Handle	Apr 5 at 4.0493	4.4842 met on May 15.
	11-week ascending triangle	Aug 1 at 4.992	5.4133 met on Aug 6

USD/TRY is my candidate for best example during 2018 of classical charting principles. The dominant pattern on the weekly UDS/TRY chart is a parabolic advance dating back to the 2010 low. The advance in early Apr completed a 14-month Cup & Handle pattern. Further along in the parabolic advance an 11-week ascending triangle was completed. The parabolic advance has now been violated.



**Peter Brandt**  
@PeterLBrandt

H&S target and Aug 1 unfilled gap quickly closing in \$AAPL May 2 unfilled gap at 167.38 would be next logical target

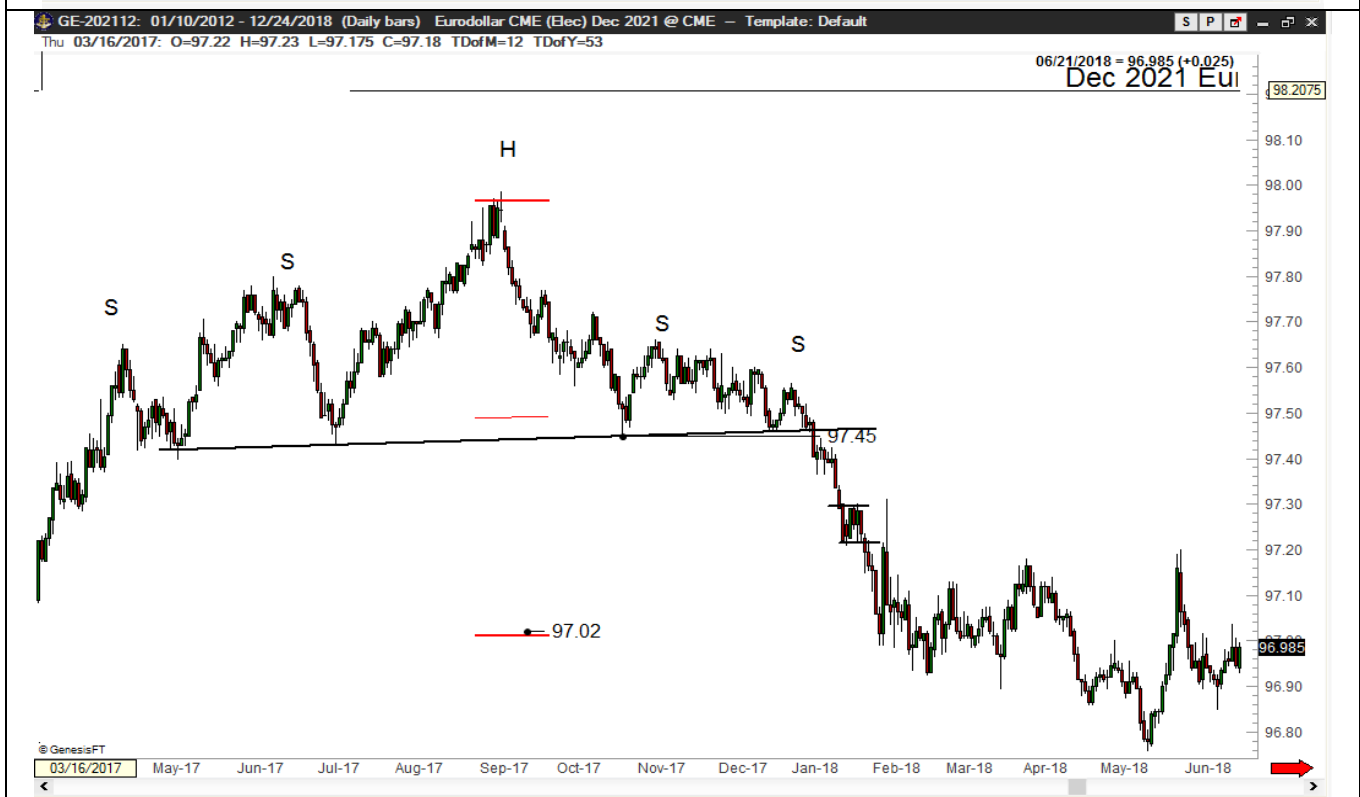
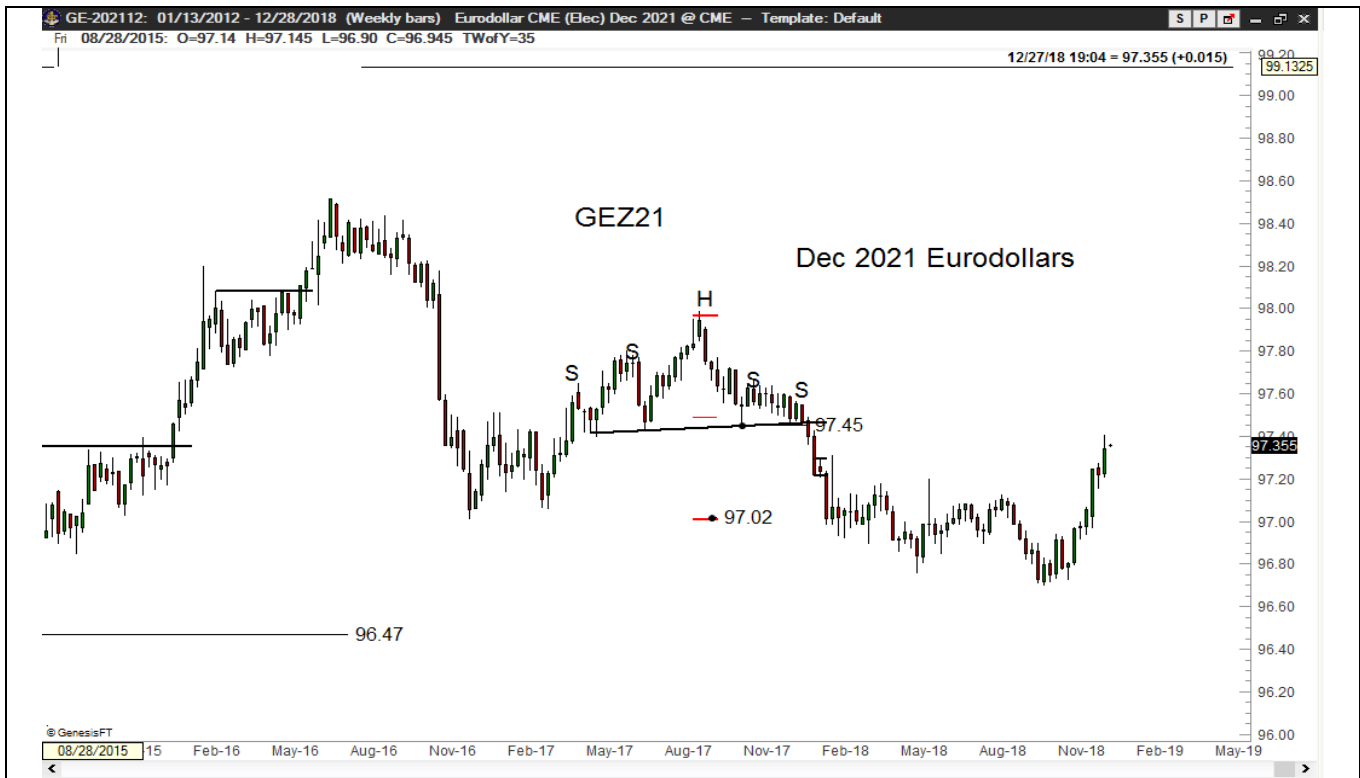


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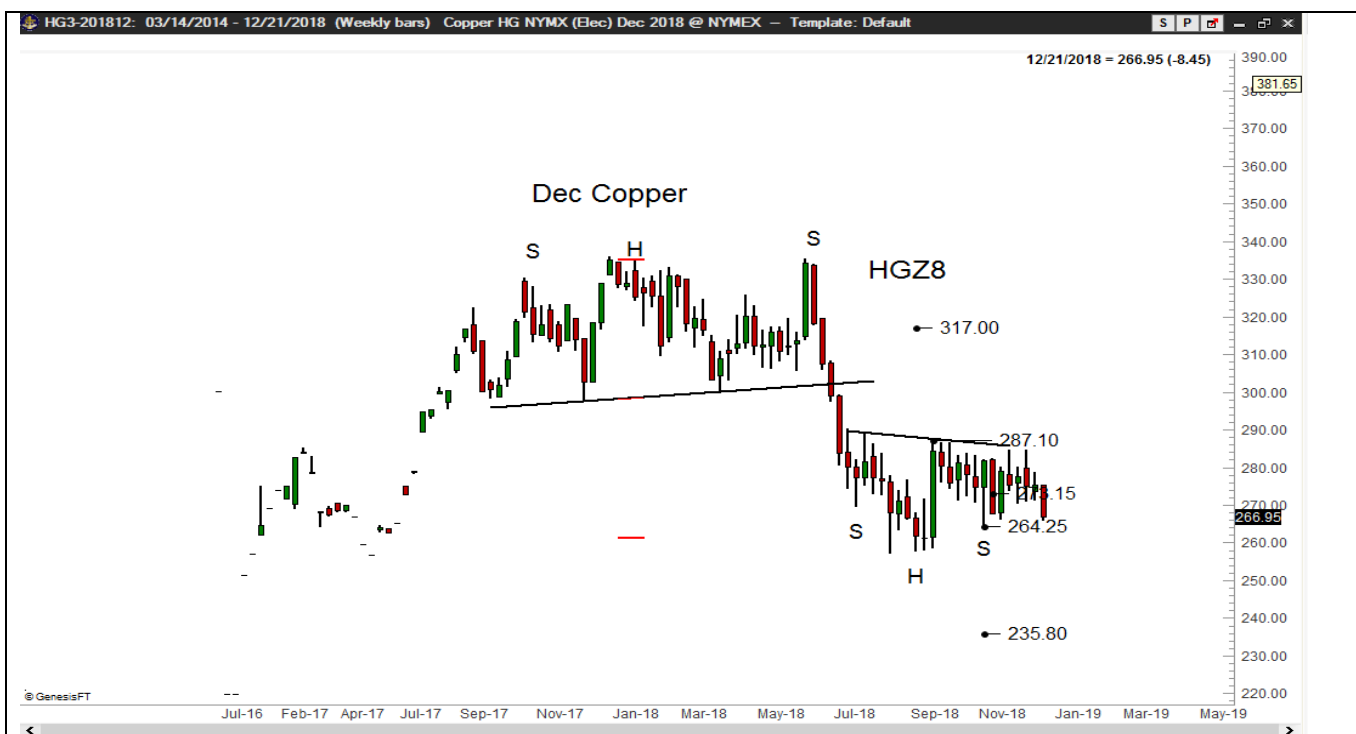
70 Retweets 305 Likes

Market	Pattern(s)	Date completed	Target(s)
Apple (AAPL)	9-wk H&S top	Nov 2 at 206.76	191.26 met on Nov 14 167.38 met on Dec 10

Breakouts are not always clean and brisk when dealing with orthodox highs and lows. In the case of AAPL an initial breakout on Oct 29 quickly snapped back into the H&S pattern. The close on Nov 2 was a secondary completion – and the high of Nov 2 was not violated. As a general rule downward slanting necklines on H&S tops and upward slanting necklines on H&S bottoms make for a more dynamic and reliable breakout. In the case of AAPL the target of 191.26 was quickly met. Yet, unfilled gaps at 190.80 and 167.38 were logical targets – as indicated by my Nov 12 Twitter message.



Market	Pattern(s)	Date completed	Target(s)
Eurodollars (Dec '21)	8+ month H&S top	Jan 9 at 97.42	97.02 met on Feb 2
The decline on Jan 9 completed a complex H&S top pattern – complex because of the multiple right and left shoulders.			

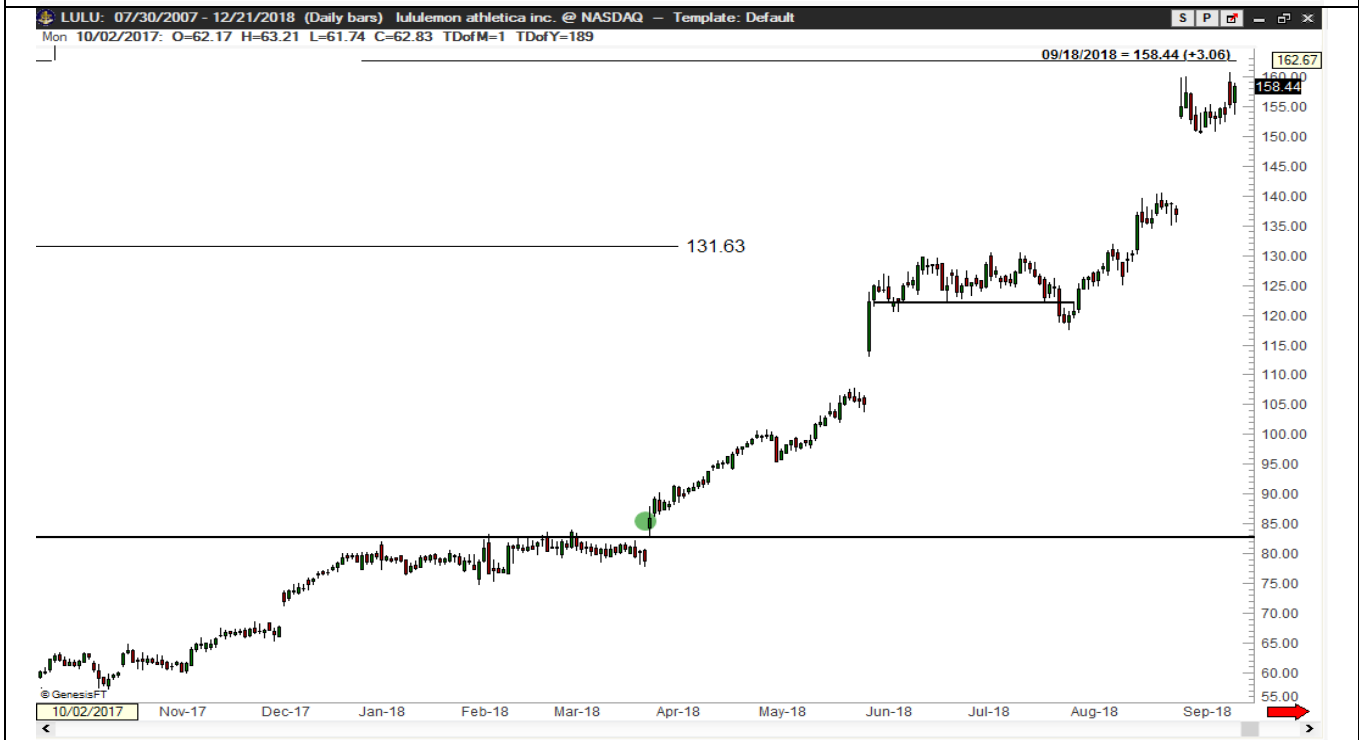


Market	Pattern(s)	Date completed	Target(s)
Copper	10-mo H&S top	Jun 28 at 2.9890	2.6150 met on Aug 15

Some more puritan chartist would not consider the top pattern in Copper to be a legitimate H&S top – I am not among this crowd. Just because the high of the right shoulder was at the same level as the high of the head did not disqualify this pattern for me. An alternative interpretation would be that Copper completed a “common turn.” The directional and targeting implications of the two pattern types are similar.

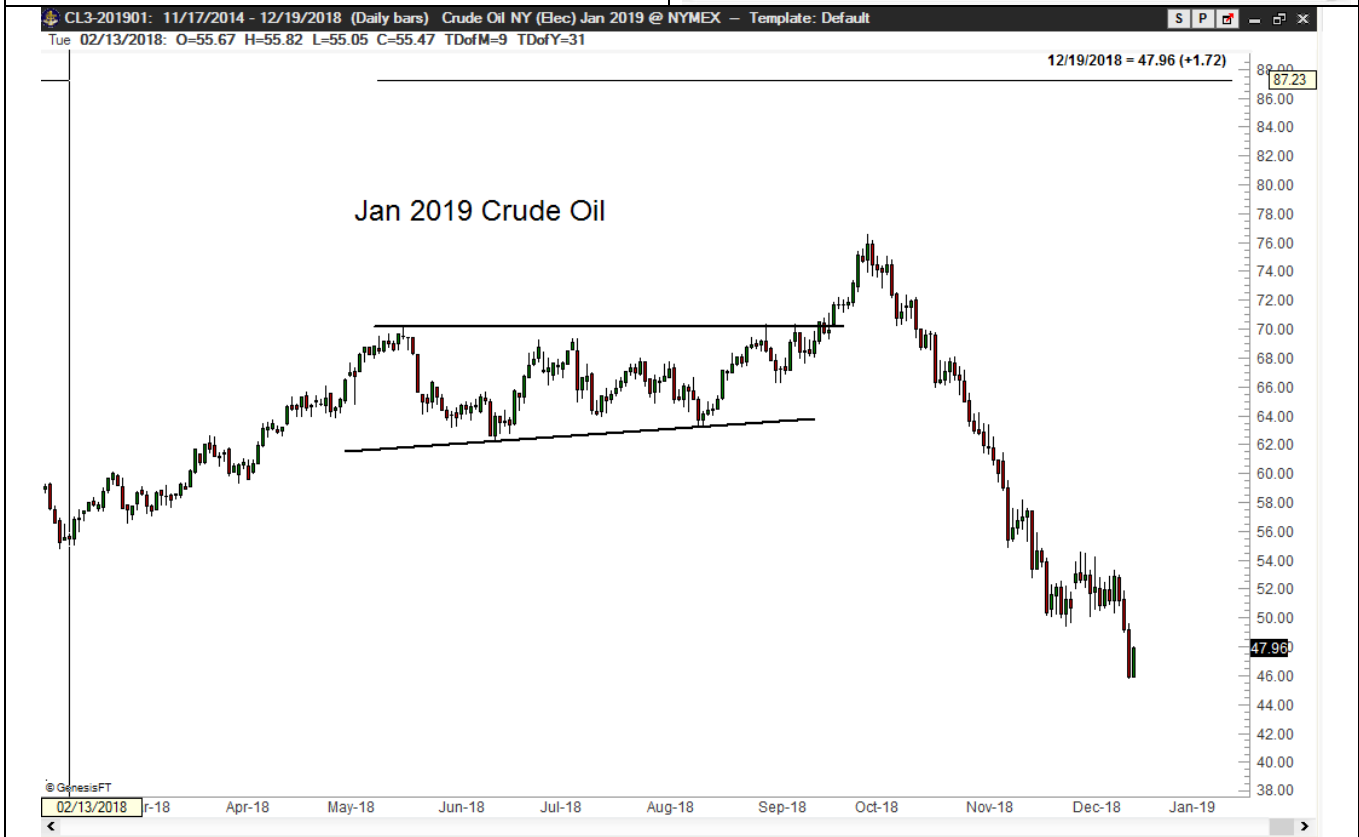
Tactical challenges: Copper was significantly over-sold when the H&S top was completed – in fact, had not experienced a meaningful rally for three weeks and cascaded through the neckline following a 3500 point decline. This type of breakout is extremely difficult emotionally to climb aboard. Yet, short sales established at the breakout were never put into danger. Any trader waiting for a meaningful retest never got one.





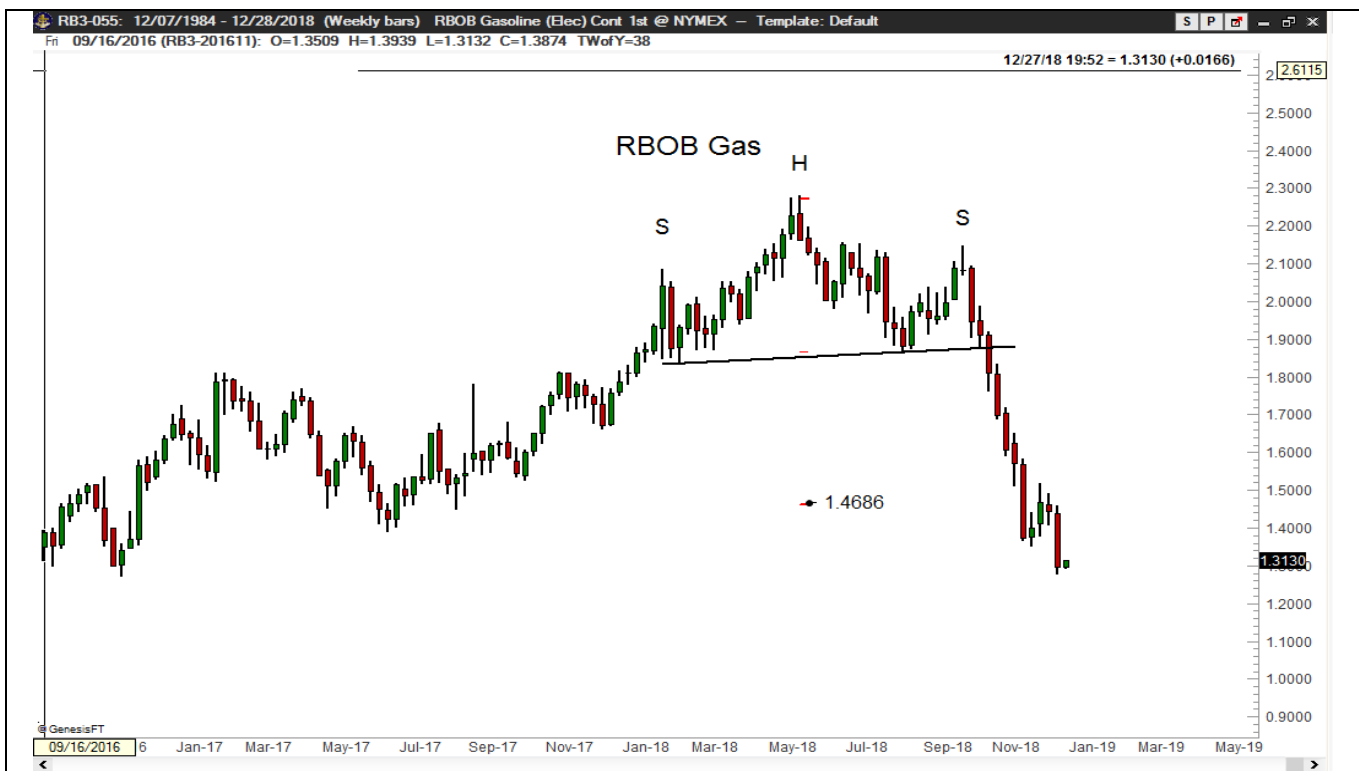
Market	Pattern(s)	Date completed	Target(s)
LULU	6-yr ascending triangle	Mar 28 at 85.96	131.63 met on Aug 13

The advance in Mar completed a multi-year ascending triangle on the long-term charts. Generally I am not a big fan of such extended chart patterns – the only exception is if the pattern breakouts take place through a horizontal boundary. Even though breakouts of such lengthy patterns are often tricky, the breakout of this multi-year pattern on Mar 28 never experienced a single challenging day. This characteristic is so often true of the really worthwhile classical chart breakouts.



Market	Pattern(s)	Date completed	Target(s)
Crude Oil	7-month right-angled Broadening pattern	Nov 2 at 62.97	50.87 met on Nov 23

A significant challenge for futures traders is the lack of harmony among various continuation charts and individual contract months. The weekly continuation chart of Crude Oil completed a relatively rare right-angled broadening triangle. RABT as a general rule breakout through the flat or horizontal boundary, but occasionally will thrust through the slanted boundary. The chart of the Jan 2019 contract was more difficult to read than the continuation graph. An upward breakout of a rectangle occurred prior to a brutal end-around.

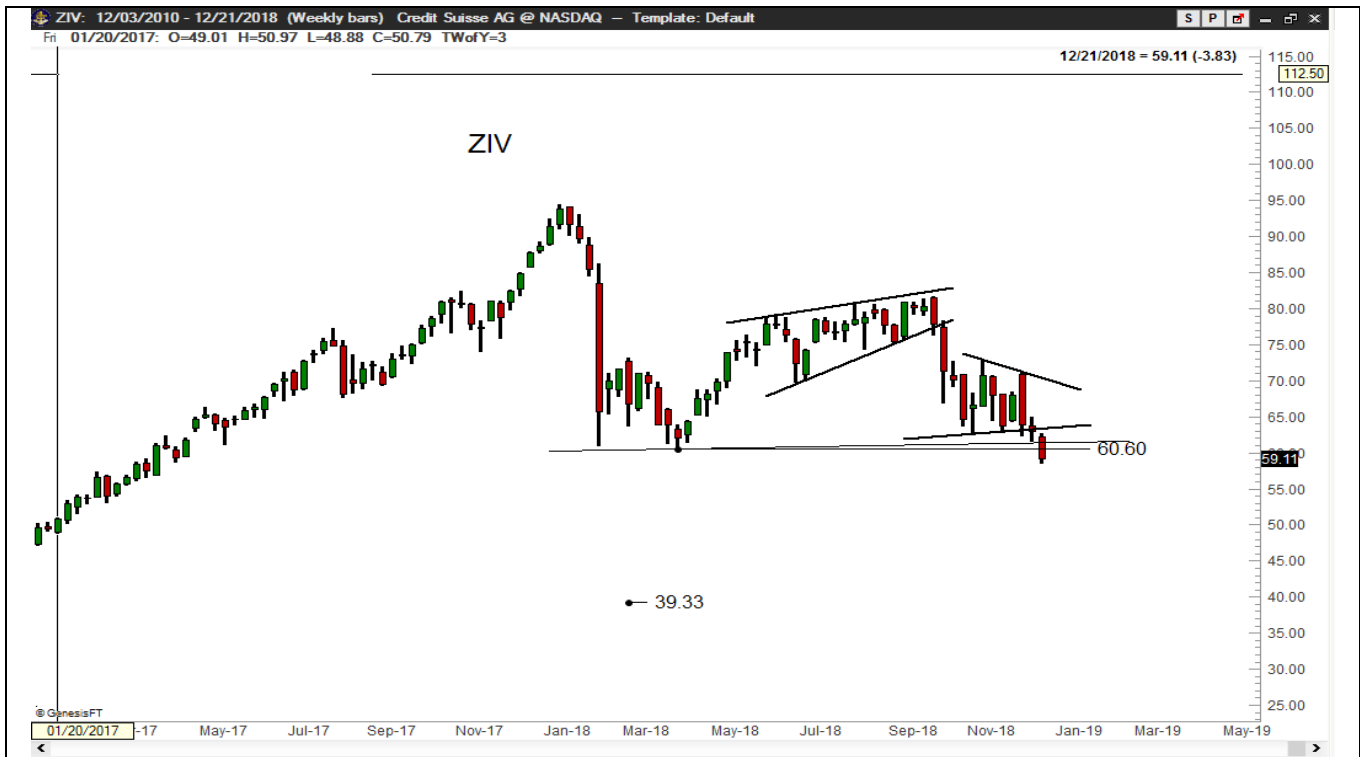


Market	Pattern(s)	Date completed	Target(s)
RBOB Gas	9-month H&S top	Oct 23 at 1.8289	1.4686 met on Nov 20

See comments on Crude Oil. The major top in RBOB Gas was registered a full 10 days prior to the completion of the top in Crude Oil. This market shares three characteristics with many of the other members of the 2018 Best Dressed List (and all previous Factor Best Dressed Lists).

1. The market was significantly sold at the point of the breakout
2. A position established at the breakout was not put into danger

Traders waiting for a hard retest of the top were left holding an empty bag.



Market	Pattern(s)	Date completed	Target(s)
ZIV	4-month rising wedge	Oct 10 at 74.46	60.62 met on Dec 18

The chart construction of this short-volatility ETF is a textbook example of the rising wedge pattern. The wedge is one of the most misdiagnosed and bastardized chart patterns on social media streams such as Twitter. In fact, true wedges are rather rare. The rising wedge most often is a corrective pattern following a straight-line decline. This rising wedge corrected of the price collapse of January/February. The rising wedge typically corrects the entire price advance of the wedge.

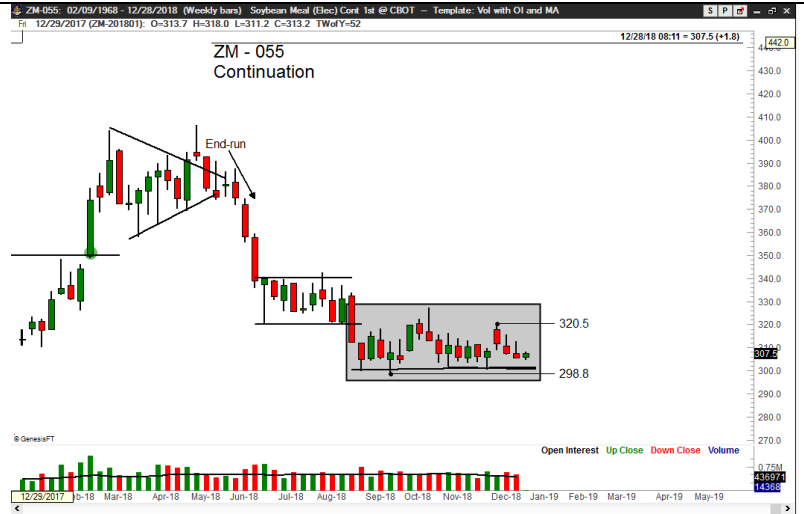
**Best Dressed List candidates for 2019**

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 already completed or under construction are possible candidates for the 2019 list.

<p><b>Mexican Peso</b> While not my favorite pattern for a number of reasons, the Peso has the tendency to form massive symmetrical triangles.</p>	
<p><b>GBPNOK</b> A massive ascending triangle is developing in this spot forex pair. While I hate to read too many fundamentals into a chart pattern, the success of this triangle will be tied to the resolve of Brexit.</p>	
<p><b>Corn</b> U.S. grain prices are at historically low levels. I fully expect a major bull trend in Corn within the next year or two. The Jul 2019 contract is forming a H&amp;S bottom.</p>	

### Soybean Meal

The four month consolidation in Meal could propel prices in either direction – to the upside as a fulcrum bottom or to the downside as a continuation H&S pattern.



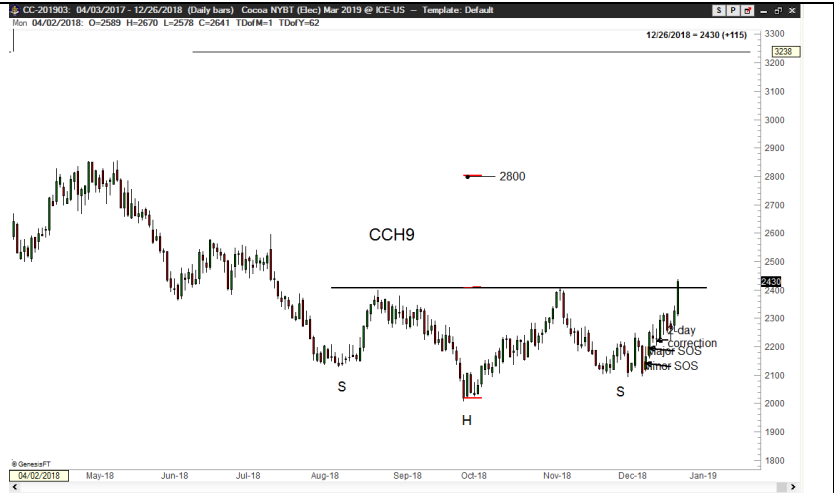
### Gold

The log-scale monthly Gold chart displays a possible H&S bottom pattern with the right shoulder as an ascending triangle (see inset). The sideways congestion in Gold is not in its sixth year.



### Mar 2019 Cocoa

The daily chart is forming a H&S bottom pattern.



### EuroSwiss rate futures

The long-term charts display a descending triangle dating back to the early 2015 high. This graph reflects Switzerland's negative interest rate.



### URA

The Uranium ETF is forming a 3-year compound fulcrum pattern. An advance above 16.03 would establish a target of 24.63.



## **Review**

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

But, if you rely primarily on classical charting principles and if your goal is to catch significant price swings, then this document can become a point of reference.

Bank tellers are first trained to recognize the features of real paper currency. Only by being intimately familiar with real currency bills do they then recognize counterfeit money. The Best Dressed List is intended to remind chartists (at least classically trained chartists) what the best swing-trade patterns look like.

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

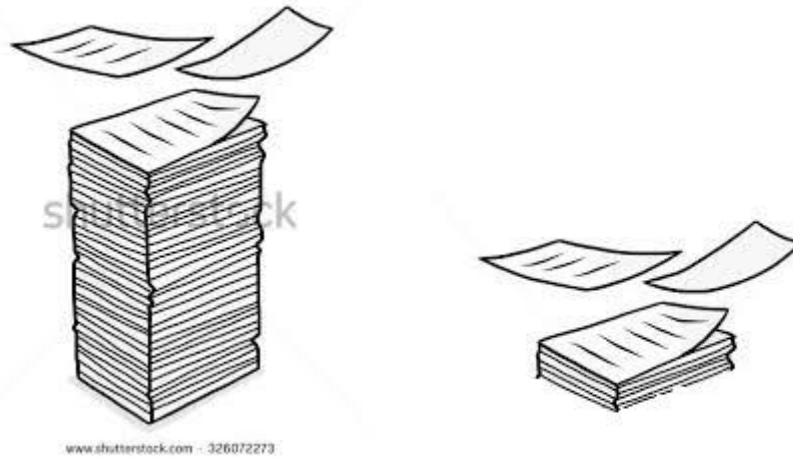
- There is no hurry to get aboard prior to the completion of a pattern. It is best to wait until the real move begins (although mature patterns can give an advance warning). An urge to preposition can often lead to a compulsion to preposition and this can result in getting chopped up and missing the 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
- Moves to a target can be 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.



## Wrapping it Up – the Tale of the Two Piles

Factor Members know that I am very impatient with trades that do not move immediately and decisively in my intended direction – and that I terminate trades that are not working within days. I define this as Active and Aggressive Trade Management Protocol AATMP. My decision to be aggressive in not allowing trades to dip into my pockets is not arbitrary – it is based on experience and hard data.

Assume for a moment that every trade I have ever made was reported on a single piece of paper. Next, assume that all of the trades are placed in a stack tiered with the largest profit on the top down to the largest loss on the bottom of the pile. Next, assume that the stack of paper representing my trading career dating back to 1981 is 5' tall.



I know what my total profitability has been as a trader – as a U.S. taxpayer I can calculate this amount quite accurately. Next, assume that I remove the pieces of paper one at a time from the top until the total of the removed pieces equals my net career trading profitability. I will only need to remove about 15% of the pile, or 9" from the 5' pile.

Importantly, the trades represented by the 9" of paper had a number of things in common.

- These trades became profitable almost immediately and never looked back. In fact, most of them never experienced a single end-of day loss. As a rule, these trades were never in doubt.
- These trades trended with very little hesitation and doubt to their price targets.

This is why I employ what I call Active and Aggressive Trade Management Protocols (AATMP).

## Tactical challenges of trading Best Dressed-type chart patterns

I am often asked a question that goes something like this:

*Would it be possible to exclusively dedicate an entire trading operation to Best Dressed-type trades?*

The answer is “yes.” In fact, it is the direction I am headed. My plan for 2020 and beyond is to transition my trading operations toward Best Dressed trades. Traders interested in trading these types of trades should be aware of certain inherent challenges.

- It is easy to identify post-facto those types of market situations. Sometimes these trading situations are only apparent in the rear-view mirror.
- Even in the best year a trader committed to the types of patterns shown herein will only catch 50% of the Best Dressed variety.
- For every trading situation that forms and successfully completes a Best Dressed List-type chart pattern and produces a move to the measured target another two or three strong candidates will result in pattern failure and/or morphology. Thus, an attempt to capture 10 major trades is likely to result in 30 or so attempts.
- A dedication to Best Dressed-type trades DEMANDS detachment from monitoring markets on a daily (and especially an intraday) basis. The focus must be on weekly charts, using daily charts to determine trigger points.
- Traders committed to weekly chart patterns must address some tactical issues:
  - How will pattern completion be determined?
  - Friday closing price completion or daily closing price completion?
  - How should trades be sized, realizing that trades must be given more room initially?
  - How should initial risk points be determined – LDR, LWR, other?
  - How should protective stops be moved – MA cross-over, to breakeven OCO target, \$ trailing, 3WTSR, other?

I have my only thinking on the questions/issues above, but each trader must determine his/her own trading approach.

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## THE FOUR KEY PILLARS OF FACTOR

The Factor Service provides weekly Updates and periodic special Alerts focused on futures and Forex markets. The specific markets covered by the Factor Service depend upon the markets Peter Brandt is trading or considering to trade in his own proprietary account. Peter is, first and foremost, a market speculator, as he has been forty-four years. In a very real sense, the Factor Service is a real time diary of the speculative endeavors undertaken by Factor LLC for its house account.

The Factor Service is founded on four major pillars or themes:

- **Classical charting principles** – Peter is widely considered to be one of the foremost authorities on applying classical charting practices to futures and forex market trading. Peter has proven classical charting to be an outstanding method to identify trades with an asymmetrical reward to risk profile.
- **Active and aggressive risk management** – Factor considers risk and trade management to be a far more vital contributor to outstanding performance than is trade selection. What a trader does with a trade is more important than what trades are selected. Risk management begins with capital preservation. Factor advocates a wide range of strategies and practices to cut losses short and allow profits to grow.
- **Trading as a business – “The process of Trading”** – Too many investors and traders approach market speculation without the rigorous discipline needed to grow a business. Many traders tend to be haphazard and random in their speculative operations. Factor advocates for the organized and routine repetition of best practices. Reduced to its minimum function, trading is a matter of entering orders. A trader is a glorified order enterer. The management of order flow brings together all pertinent components of market speculation – trade selection, timing, leverage and sizing and risk and trade management.
- **The human aspects of market speculation** – The biggest enemy of any professional trader is self. Successful market speculation is an upstream swim against human nature. Overcoming the emotional pulls of fear, greed and false hope requires constant vigilance and self-awareness. A theme of the Factor Service is the need for all traders to recognize themselves as a detriment to their own success.

These four themes are interwoven into the process by which Peter analyzes trades and executes his trading endeavors.

Peter recommends that Factor members NOT trade any of the themes he trades for at least one year, instead just following his comments on risk management and the human factor. Peter thinks that members should consider Factor membership as just one more trade -- that most members have easily lost the cost of a one-year membership on many trades. Then, at the end of one year a member should make one of three determinations:

1. No longer be a member.
2. Continue to be a member and learn from Peter's commentary on what 40+ years has taught him.
3. Continue to be a member and apply one's own trading methodology to trading ideas Peter presents.

Peter NEVER recommends that a member simply follow Peter's trades without applying their own methods and techniques. Peter soundly believes that trading tactics MUST be developed independently by each trader.