Factor Best Dressed List -- 2019

January 2020

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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 ideally 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. 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 2019
- Promising Best Dressed charts for 2020

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 2019 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.

Specific commentary on 2019
In past years, I've had no difficulty identifying 15 to 20 Best Dressed List finalists in the futures and forex markets. Not in 2019! This past year was a challenging period in traditional commodity and forex markets – a period marked by choppiness and a lack of follow-through.

The U.S. equity market was replete with fabulous chart patterns this past year. However, I am primarily a futures and forex trader, so the listing of equities herein is mostly limited to those stocks in which I traded in 2019.

Best Dressed List - 2019
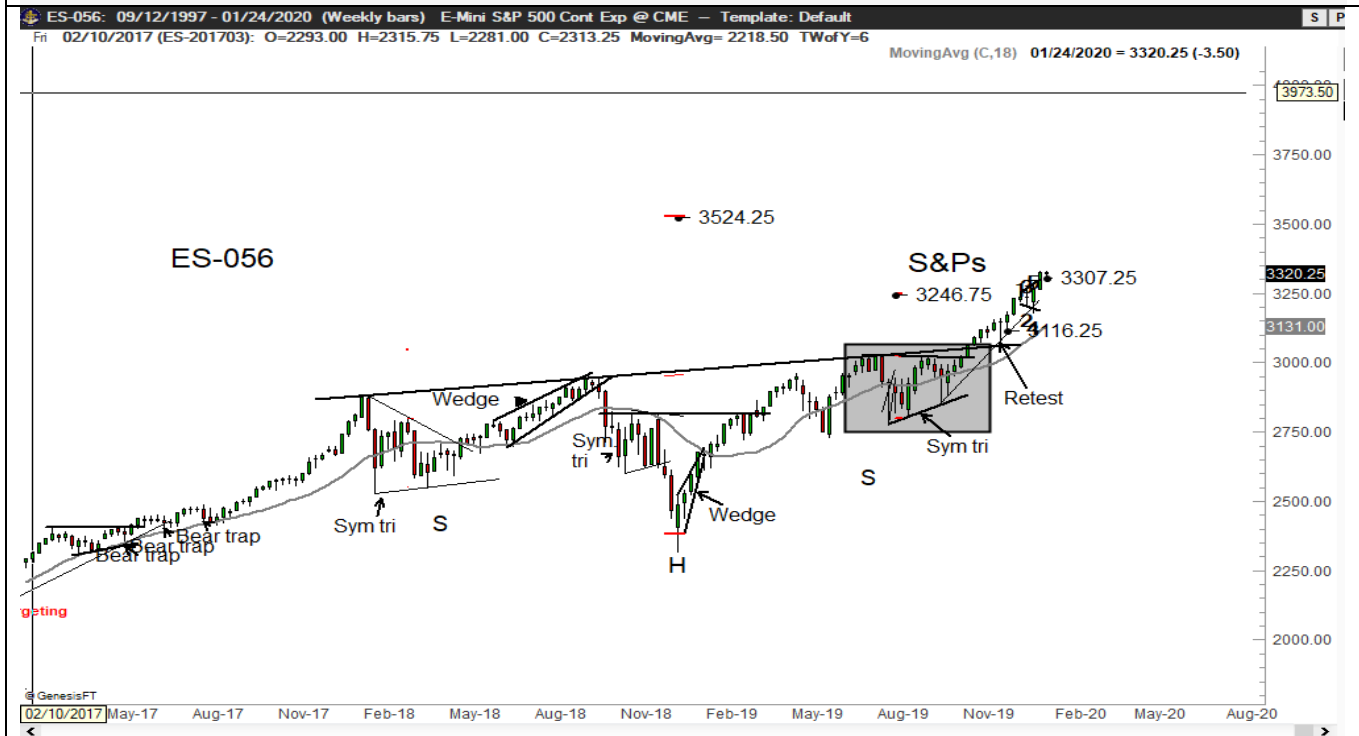
Market	Pattern(s)	Date completed	Target(s)
S&P futures	15-wk ascending tri 21-mo cont. H&S	Oct 28 at 3037 Oct 28 at 3037 (secondary completion	3238 met on Dec 26 3578 target yet unmet

The ascending triangle was actually the right shoulder of a much larger pattern – a 21-month continuation inverted H&S. Despite months of indecisiveness at the neckline of the H&S pattern, once the ascending triangle was completed the advance did not look back.

NZD/USD

0.6691

S

S

H

NZD-056

New Zealand Dollar 0.6798

0.6686

0.6452

S

S

H
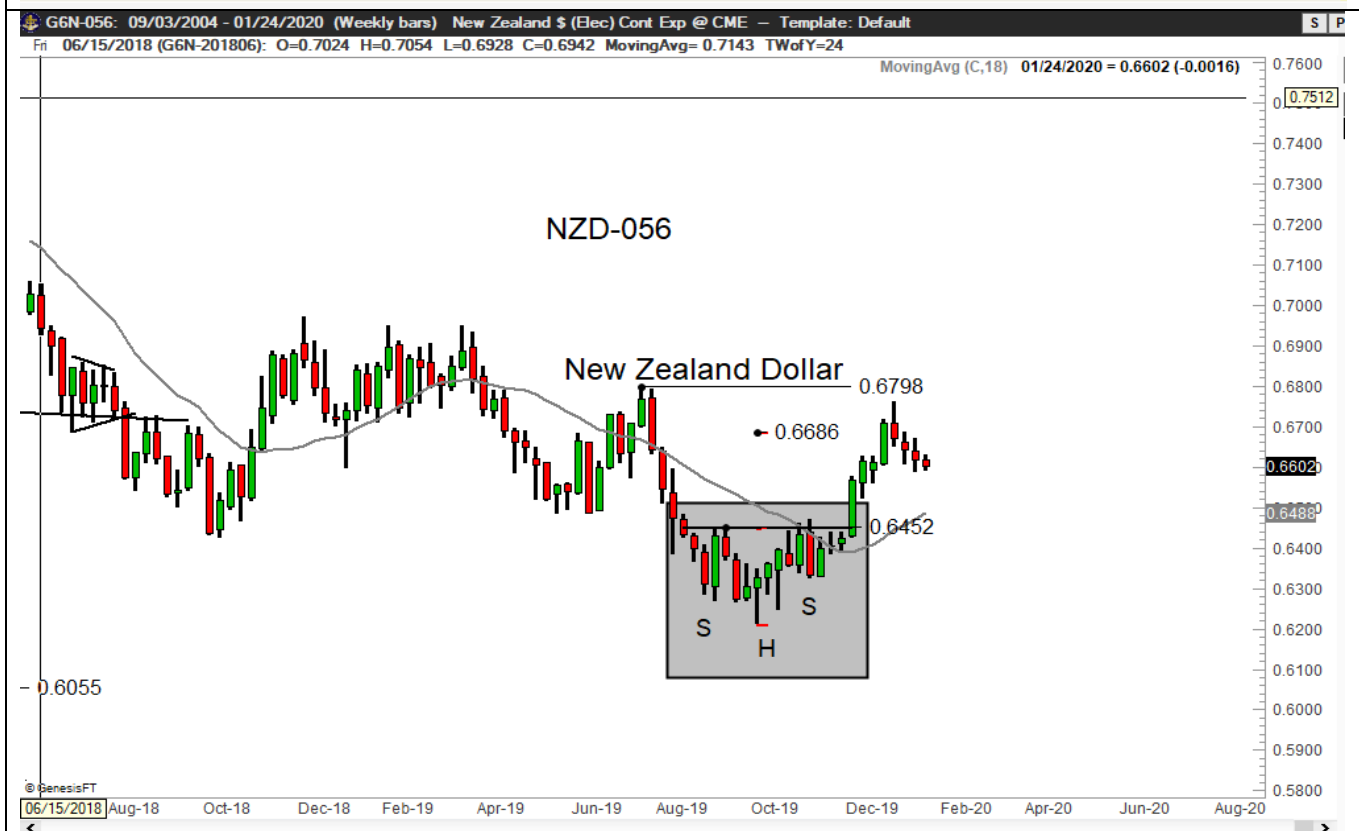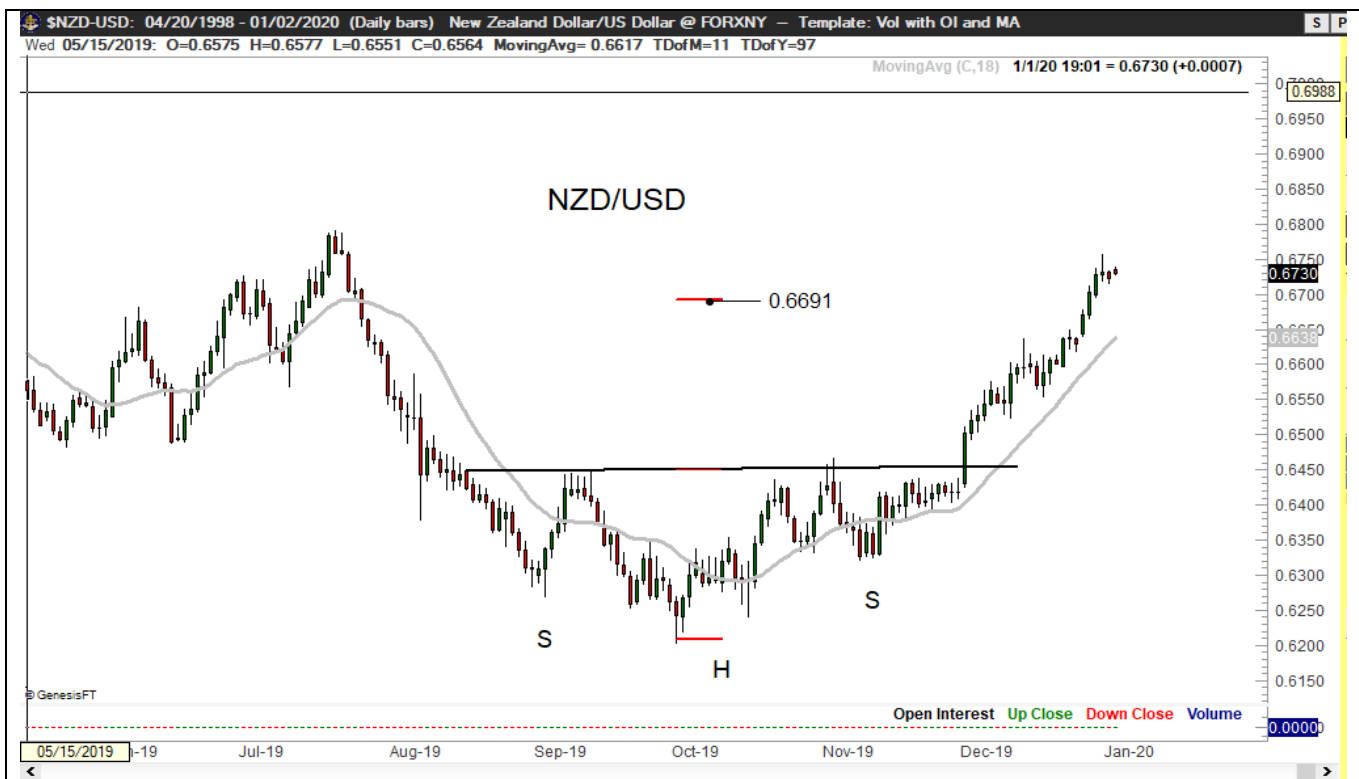
New Zealand Dollar	15-week inverted H&S	Dec 2 at .6503	.6691 met on Dec 27

Seldom are H&S reversal patterns better defined as this H&S bottom on the daily chart of the New Zealand Dollar.

MSFT: 03/13/1986 - 01/22/2020 (Daily bars) Microsoft Corporation @ NASDAQ — Template: ADX

Thu 03/21/2019: O=116.32 H=119.97 L=116.27 C=119.38 MovingAvg= 113.10 TDofM=15 TDofY=55

MovingAvg (C,18) 1/22/20 12:37 = 166.08 (-0.42)

ADX (14,T)

Up Close Down Close Volume

Avg True Range (30)

MSFT: 03/14/1986 - 01/24/2020 (Weekly bars) Microsoft Corporation @ NASDAQ — Template: Default

Fri 06/15/2018: O=99.42 H=100.07 L=98.14 C=98.20 MovingAvg= 93.05 TWofY=24

MovingAvg (C,18) 01/24/2020 = 166.50 (-0.60)

Market	Pattern(s)	Date completed	Target(s)
Microsoft	13-wk ascending triangle	Oct 28 at 144.19	153.14 met on Dec 12 165.02 met in Jan 2020

Well-defined continuation rectangles and right-angled triangles bound within a 10% price range most typically reach a target equal to twice the width of the continuation pattern itself.

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$BTC-USD@GDAX: 08/30/2011 - 01/02/2020 (Daily bars) BitCoin/US Dollar @ GDAX — Template: Vol with OI and MA
Wed 10/10/2018: O=6589.48 H=6591.32 L=6445.48 C=6524.56 MovingAvg= 6565.61 TDofM=10 TDofY=283

$BTC-UST@BINA: 08/18/2017 - 01/24/2020 (Weekly bars) Bitcoin/US $ Tether @ BINA — Template: Default
Fri 06/29/2018: O=6045.00 H=6350.00 L=5750.00 C=6197.92 MovingAvg= 8004.58 TWofY=26
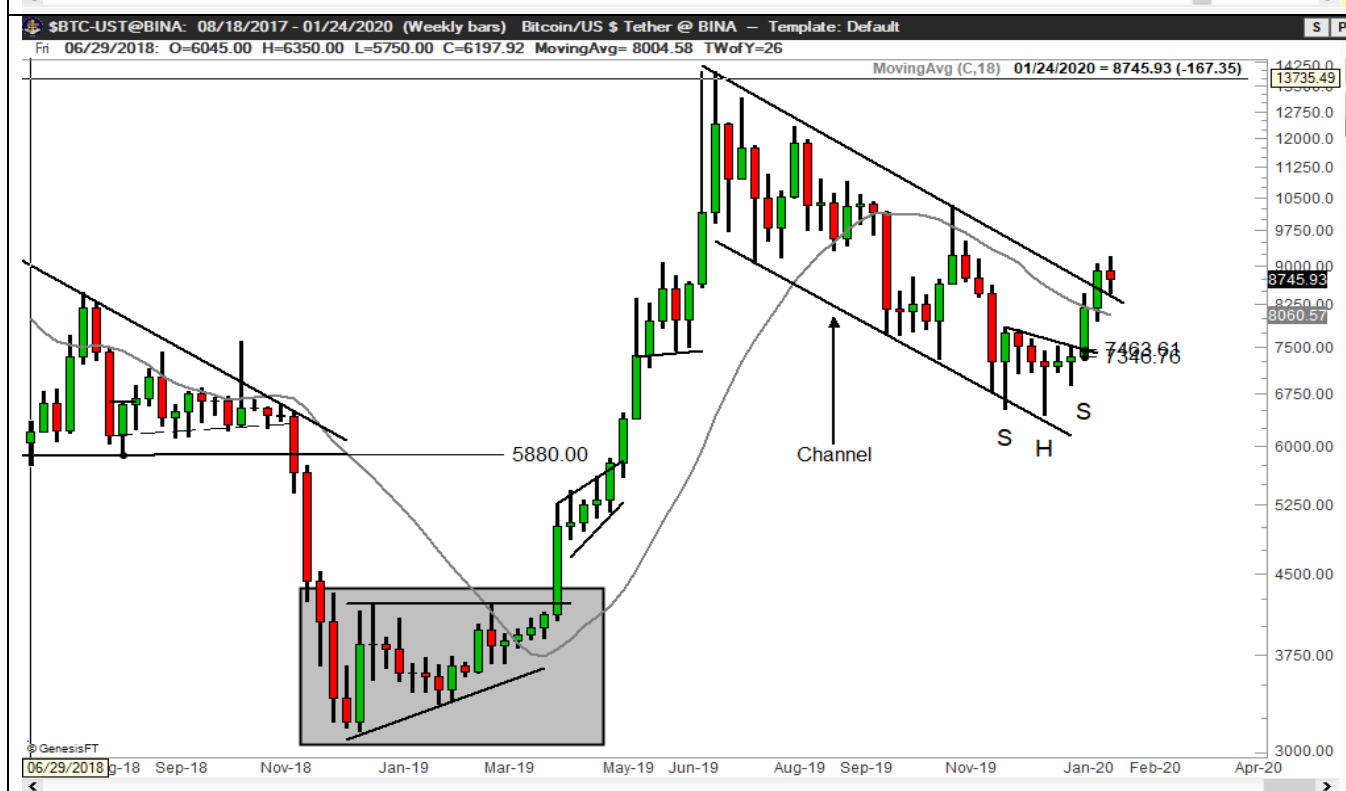
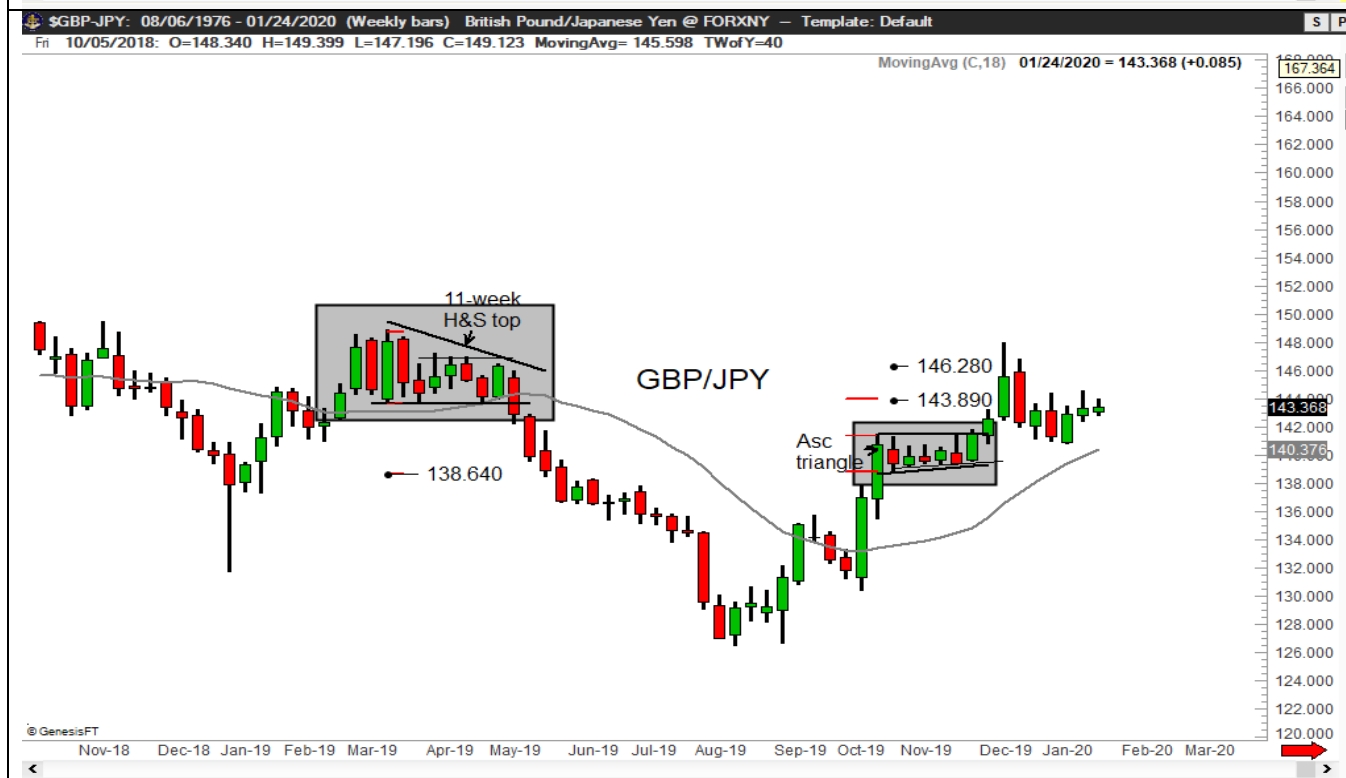| Market	Pattern(s)	Date completed	Target(s)
BTC	15-wk ascending triangle 5-wk cont. flag	Apr 2 at 4302 May 9 at 6153	5615 met on Apr 23 7980 met on May 13

As noteworthy as the clearly defined ascending triangle is the left/wall/right wall structure of the bottom whereby the decline into the Dec 2018 low and up from the base consisted of very wide-bodied bars. Often "walled" bottoms exceed the measured targets by a multiple of 2X or 3X. Given this tendency, the advance on May 9 was very easily identified as a "half-mast" flag.

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US 2-Yr Bond

US 2-Yr Bond
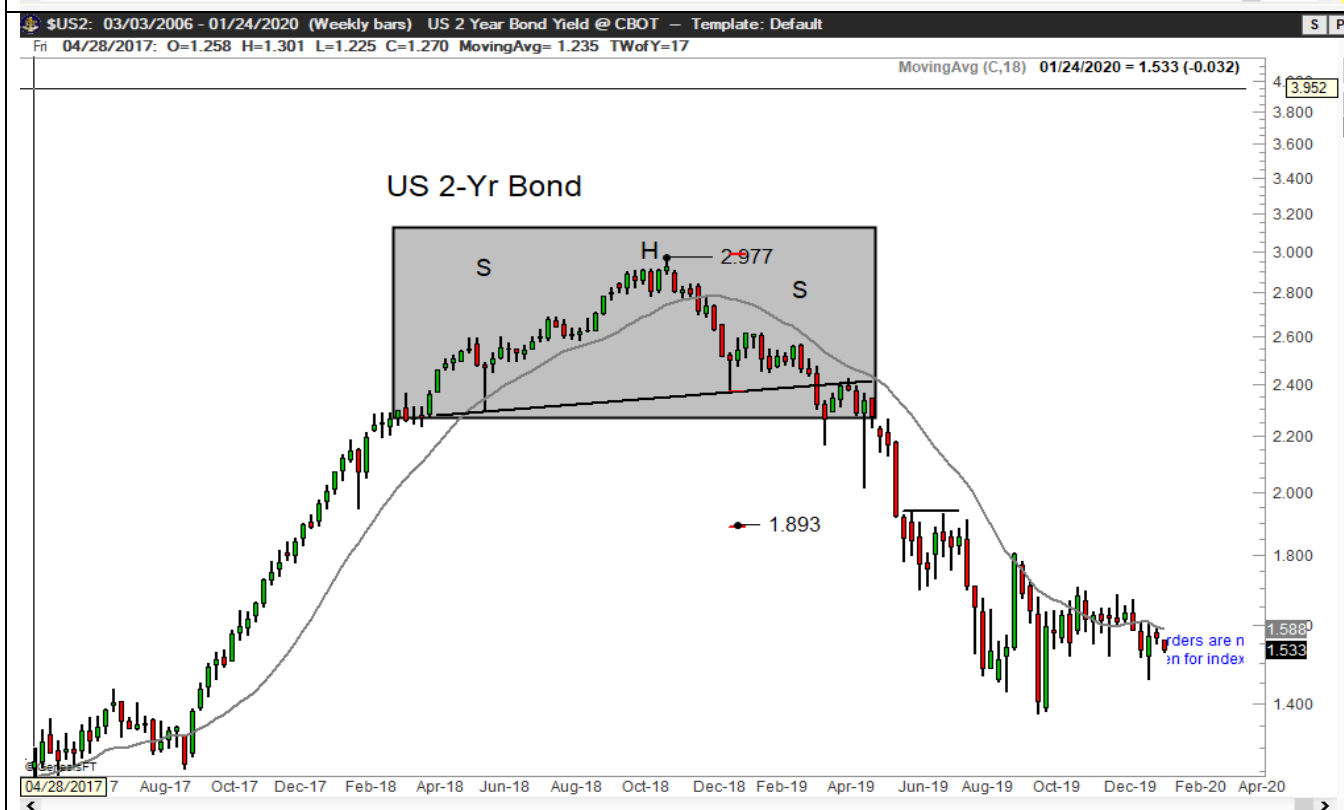
Market	Pattern(s)	Date completed	Target(s)
2-Yr T-Bond (cash)	11-mo H&S top (yield)	Mar 22 at 2.319%	1.893% met on Jun 3

Following the completion of the H&S top in Mar, a rally in mid-Apr retested the neckline before turning back down. Cash treasuries most often create cleaner charts than do their futures market counterparts.

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MSCI World Index (futures)

Top chart (Daily bars): MWO-056: 04/22/2015 - 01/22/2020 (Daily bars) MSCI World Cont Exp @ EUR — Template: ADX   [S] [P]

Fri 03/22/2019 (MWO-201906): O=6181 H=6181 L=6062 C=6062 MovingAvg=6043 TDofM=16 TDofY=58

MovingAvg (C,18) 1/22/20 11:59 = 7091 (+16)   7103

6911

ADX (14,T)   34.17   0

Up Close   Down Close   Volume   3037

Avg True Range (30)   48.40

Bottom chart (Weekly bars): MWO-056: 04/24/2015 - 01/24/2020 (Weekly bars) MSCI World Cont Exp @ EUR — Template: Default   [S] [P]

Fri 10/13/2017 (MWO-201712): O=5677 H=5724 L=5673 C=5719 MovingAvg=5503 TWofY=41

MovingAvg (C,18) 01/24/2020 = 7075 (-30)   8057

6911   7075   6713

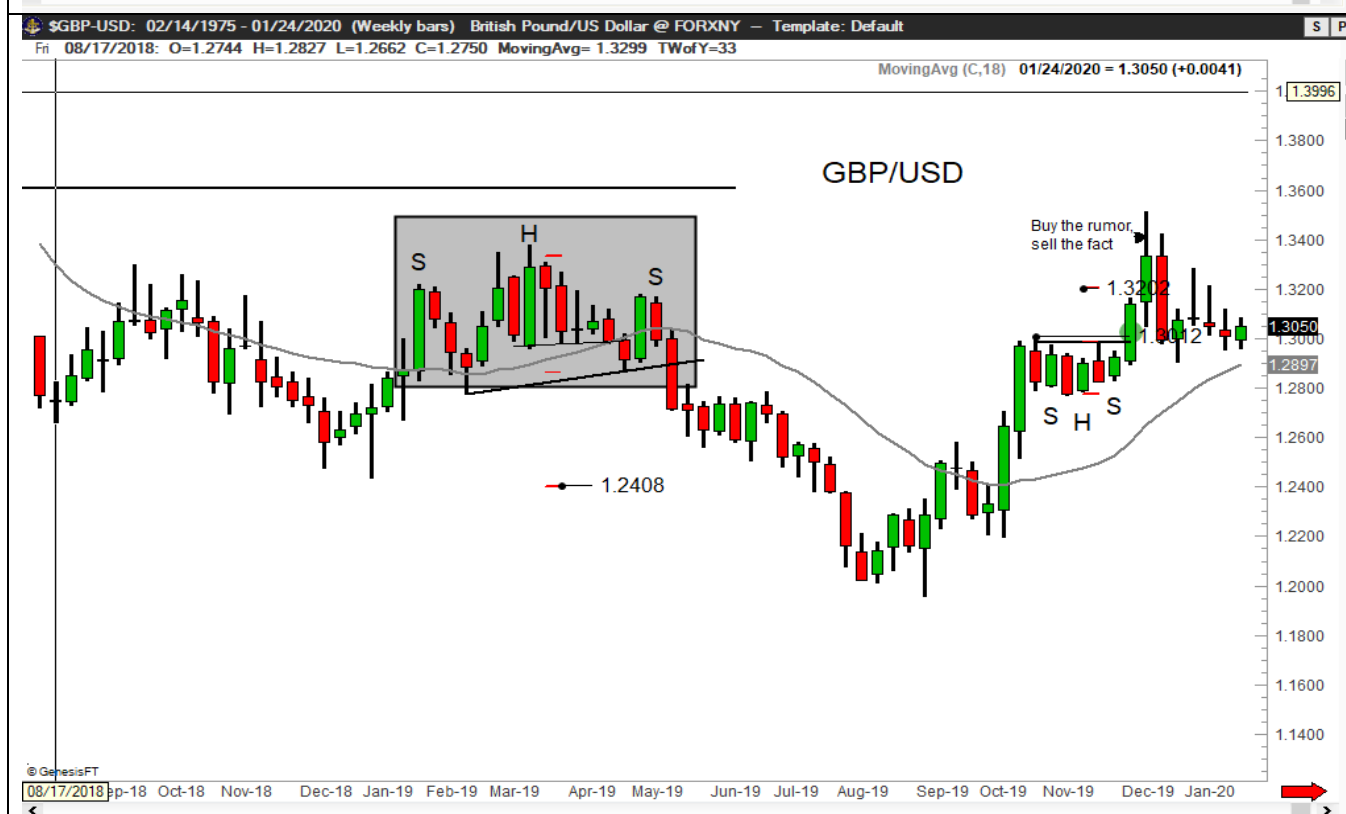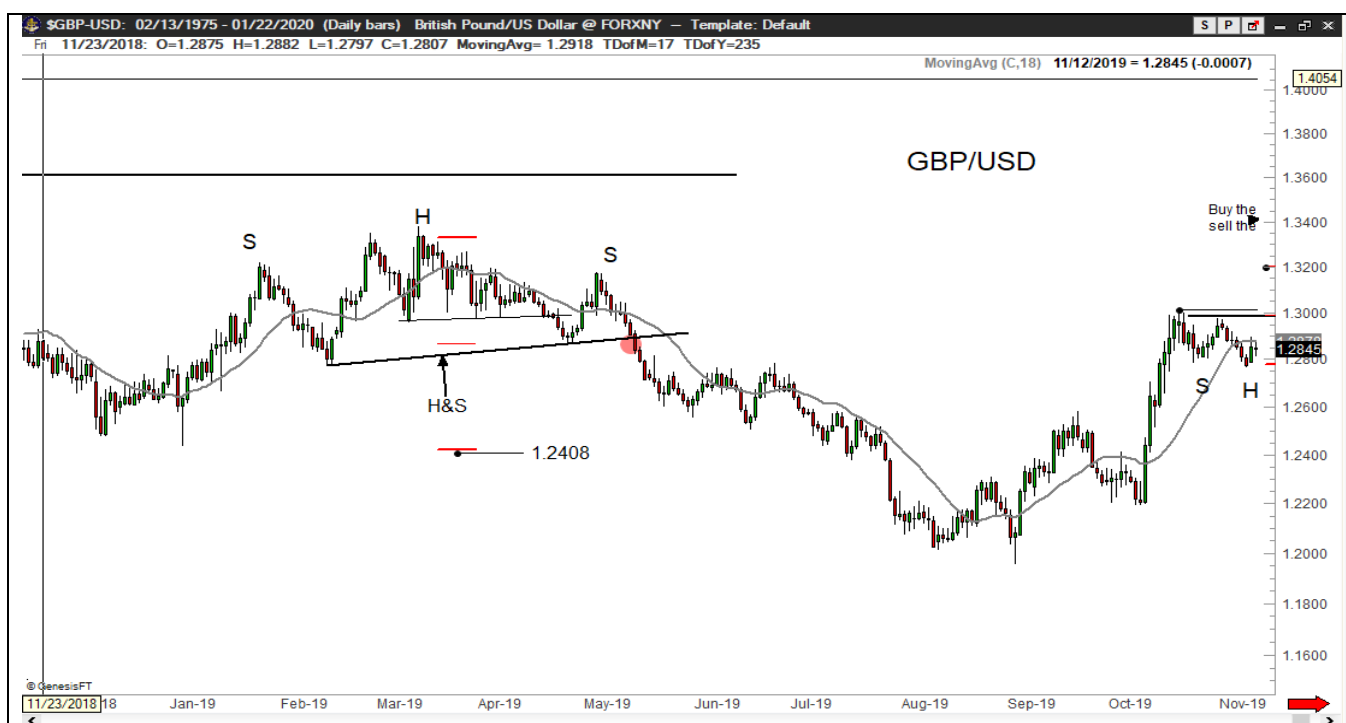| Market	Pattern(s)	Date completed	Target(s)
MSCI World Index futures	15-wk ascending triangle	Oct 25 at 6511	6911 met on Dec 23
The advance on Oct 25 punched through the upper boundary of an ascending triangle.			

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$GBP-JPY: 08/04/1976 - 01/22/2020 (Daily bars) British Pound/Japanese Yen @ FORXNY — Template: ADX

Fri 12/14/2018: O=143.840 H=143.890 L=142.383 C=142.640 MovingAvg= 144.076 TDofM=10 TDofY=250

MovingAvg (C,18) 1/22/20 13:05 = 144.303 (+0.935)

11-week
H&S top

GBP/JPY

• 146.280

• 143.890

Asc triangle

138.640

© GenesisFT

ADX (14,T)

Up Close Down Close Volume

Avg True Range (30)

$GBP-JPY: 08/06/1976 - 01/24/2020 (Weekly bars) British Pound/Japanese Yen @ FORXNY — Template: Default

Fri 10/05/2018: O=148.340 H=149.399 L=147.196 C=149.123 MovingAvg= 145.598 TWofY=40

MovingAvg (C,18) 01/24/2020 = 143.368 (+0.085)

11-week
H&S top

GBP/JPY

• 146.280

• 143.890

Asc triangle

138.640

© GenesisFT

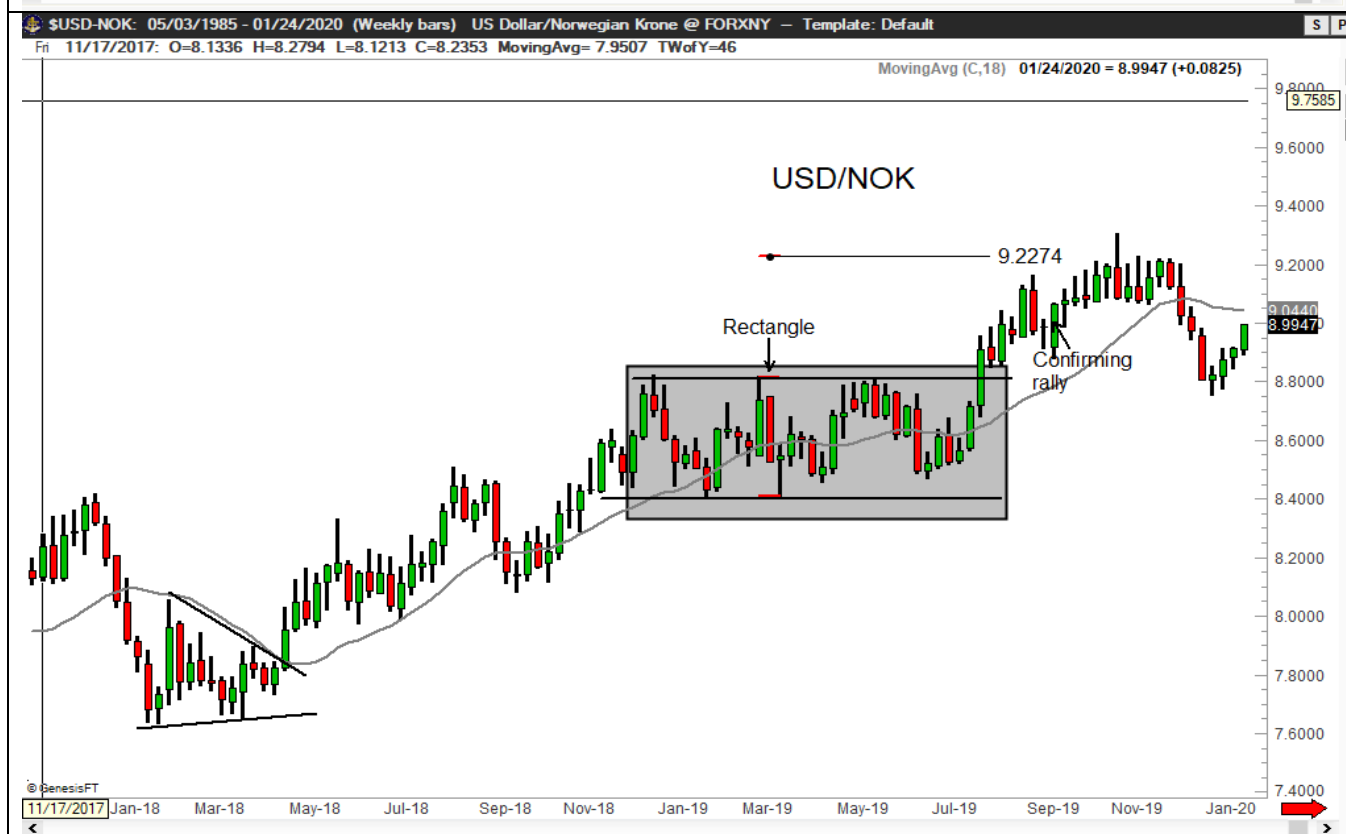| Market	Pattern(s)	Date completed	Target(s)
GBP/JPY	11-wk H&S top 8-wk ascending triangle	May 28 at 143.18 Dec 4 at 142.09	138.64 met on May 23 146.28 met on Dec 12

Two well-defined patterns formed during 2019 in this forex pair.
The decline in May completed a well-defined H&S top. Note that the right shoulder took the form of a rectangle.
The ascending triangle completed on Dec 4 met the definition of a narrowly defined pattern that travels twice the implied measurement. The target of this pattern was met the day after the Brexit vote.

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GBP/USD

Market	Pattern(s)	Date completed	Target(s)
GBP/USD	4-mo H&S top	May 15 at 1.2841	1.2408 on Jul 16

The completion of a complex H&S top in May was never put into danger, although the decline to the 1.2408 target was choppy.

Tactical discussion: Note that the head of the H&S top was a separate H&S pattern. This would have led to a short sale on Apr 23 that would have quickly failed. Often a false signal is followed up by a larger signal.

USD/NOK

9.2274

Rectangle

Confirming rally

USD/NOK

9.2274

Rectangle

Confirming rally

Market	Pattern(s)	Date completed	Target(s)
USD/NOK	7-mo rectangle	Jul 31 at 8.8549	9.2274 met on Oct 29

The wide-bodied bar (WBB) advance in Jul decisively completed a large rectangle. The sizable correction in early Sep placed the target into doubt. However, the secondary WBB rally on Sep 20 put the advance to the target back on track.

Market	Pattern(s)	Date completed	Target(s)
AAPL	9-week running wedge	Oct 11 at 235.50	259.11 met on Nov 7
Apple doubled in price during 2019. Part of the advance took the form of a wedge. Rising wedges typically result in price declines. However, a small portion of rising wedges turn into running wedges.			

Market	Pattern(s)	Date completed	Target(s)
Silver	12-mo. Double bottom	Jul 18 at 1638	1818 met on Aug 28

Double bottoms (and tops) are among the most misdiagnosed of all chart patterns. A true double bottom should have lows at least two months apart and a height equal to at least 20% of the price.

Market	Pattern(s)	Date completed	Target(s)
DIA	16-wk ascending triangle	Nov 4 at 273.93	288.20 met on Jan 2

The ascending triangle served as the right shoulder of a massive continuation H&S pattern. The target of the ascending triangle has been met. A further target of 314.79 remains unmet.

Market	Pattern(s)	Date completed	Target(s)
Corn (Mar 2020)	9-wk H&S top	Jul 31 at 420-1/2	384-1/4 met on Aug 14

The preferred form of H&S top is with a relatively flat neckline and equally balanced shoulders (in duration and height). Actually, a more powerful H&S top – although the variety is very difficult to trade -- has a down-slanted neckline, such as was formed in Mar 2020 Corn futures.

ZB-056: 09/21/1977 - 01/22/2020 (Daily bars)   T-Bonds 30Yr CBT Elec Cont Exp @ CBOT — Template: Default

Thu 03/21/2019 (ZB-201906): O=147^01 H=147^15 L=146^28 C=147^01 MovingAvg= 146^05 TDofM=15 TDofY=57

MovingAvg (C,18) 11/14/2019 = 158^18 (+0^30)

ZB-056

Multi-contact trendline

161^02

158^18

ZB-056: 09/23/1977 - 01/24/2020 (Weekly bars)   T-Bonds 30Yr CBT Elec Cont Exp @ CBOT — Template: Default

Fri 05/04/2018 (ZB-201806): O=143^05 H=144^08 L=142^22 C=143^16 MovingAvg= 145^24 TWofY=18

MovingAvg (C,18) 01/24/2020 = 158^17 (+1^01)

ZB-056

Multi-contact trendline

161^02

158^25

158^17

Market	Pattern(s)	Date completed	Target(s)
T-Bond futures	9-wk continuation diamond	Jul 31 at 155^22	161^02 on Aug 5
Diamonds are rare – in nature and on charts. The continuation diamond completed in late Jul was a classic.			

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Best Dressed List candidates for 2020

Mexican Peso Symmetrical triangle	
London Sugar This market has already qualified for the 2020 BDL.	
10-Yr T-Notes Possible H&S top or H&S failure.	

Barrick Gold
Continuation rounding pattern.

Gold
The massive H&S bottom completed in Jun 2019 has unmet targets at 1671 and 1920.

AMZN
A potentially powerful Cup and Handle pattern is forming.

Silver A possible double bottom is forming on the monthly chart.	

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.

<u>Wrapping it Up – the Tale of the Two Piles</u>

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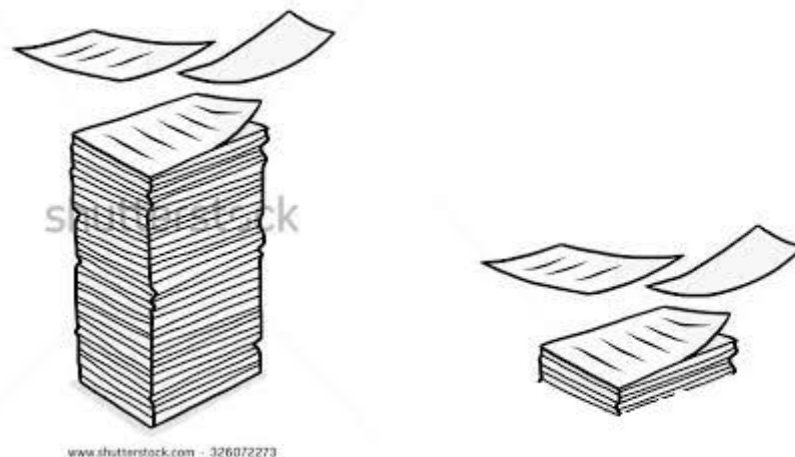
I know what my total profitability has been as a trader – as a U.S. taxpayer I can calculate this amount quite accurately. Next, assume that I remove the pieces of paper one at a time from the top until the total of the removed pieces equals my net career trading profitability. I will only need to remove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

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.

plb
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