THE FACTOR REPORT

Factor 2022 Best Dressed List

January 2023

Each year at about this time, I publish the "Factor Best Dressed List," showcasing 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 a primary focus of Factor LLC's trading.

Charting is a very subjective craft. Different chartists often disagree completely on 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 sweet spot signal 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 have met 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 the breakout entry trade into serious harm. Secondary breakouts are considered when the original 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 criterion for inclusion (at least not consciously). However, the list is probably biased toward the patterns traded by Factor LLC.

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. I acknowledge that creating this list is made easier by the benefit of hindsight.

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 2022 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 comments on 2022

This past year was an example of two different realities. Jan – mid-Aug was a fabulous period for classical chart swing trading. Particularly the grain and Treasury markets experienced wonderful trends displaying well defined chart patterns. In fact, before I fully retire from trading, I am not likely to see another massive trend such as we experienced in global interest rates in the past 12 to 18 months. Mid-Aug through Nov was hell for me as a trader, a period of extensive chart morphing whereby patterns were sloppy and false breakouts were the rule.

A word on the methodology of this report

Factor LLC is a futures market prop trading firm. The pricing structure of futures contracts is rather complicated, compared to equities. In fact, a given futures market has multiple prices and charts at any given time, including:

- Continuation charts that roll from the contract of one expiring deliver month to the next
    - 055 charts – roll at the first notice day of an expiring contract month
    - 056 charts – roll at the last trading day of an expiring contract month
    - 057 charts – rolls to cover the near contract with the largest volume

    - Gann charts – charts the same contract month (e.g., the Dec contract) over multiple years
- The charts of individual contract months extending into the future. In the case of some markets (interest rates, grains, softs) the chart of a nearby contract month might vary substantially from the chart of a deferred month.

For this report, a market qualified for the BDL if any of its charts (continuation or individual contract months) met the three-point criteria on the previous page. In fact, it is common in most good trends that harmony exists among the various charts of the same market, although such was not a disqualifying event for inclusion.

A word on 19th Century economist, philosopher and scientist Vilfredo Pareto

It is great when the "hypothetical" and the "actual" are in harmony. Too often a concept sounds wonderful in theory, but just never plays itself out. My experience is that the Pareto Principles holds true in theory and in practice – and applies to trading operations (profitable or not) and all endeavors in life. In fact, it is difficult to find circumstances in daily life that do not comply with the Pareto Principle.

The Pareto Principle (PP) stipulates that 80% of intended consequences are produced by 20% of events. Translated to market speculation, this implies that 20% of trading events (plus/minus 10% IMO) will produce 80% of profits (plus/minus 10%).

The history of Factor's prop account completely validates Pareto. In fact, during the nine years we have been producing the Factor Service (2014-2022) 15% of trading events have produced 79% of net profits. Other professional traders have universally confirmed that their trading is also subject to Pareto.

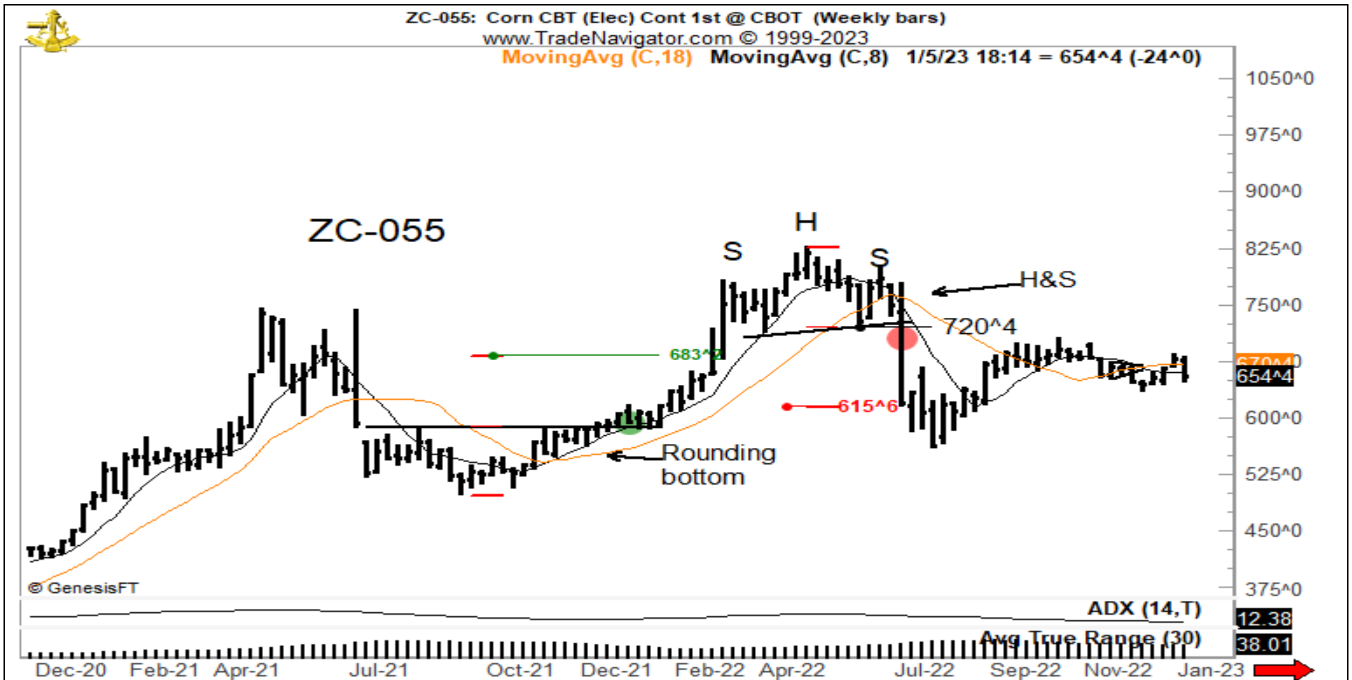
This means that all traders MUST give tremendous unyielding attention to the PP and its implications on their trading operations. Why? It's quite simple. To be consistently net profitable a trader needs to assure that the 80% of trading events do not overwhelm the Pareto trades – and thus, Pareto is all about limiting the negative offsetting effect of the 80% of trades.

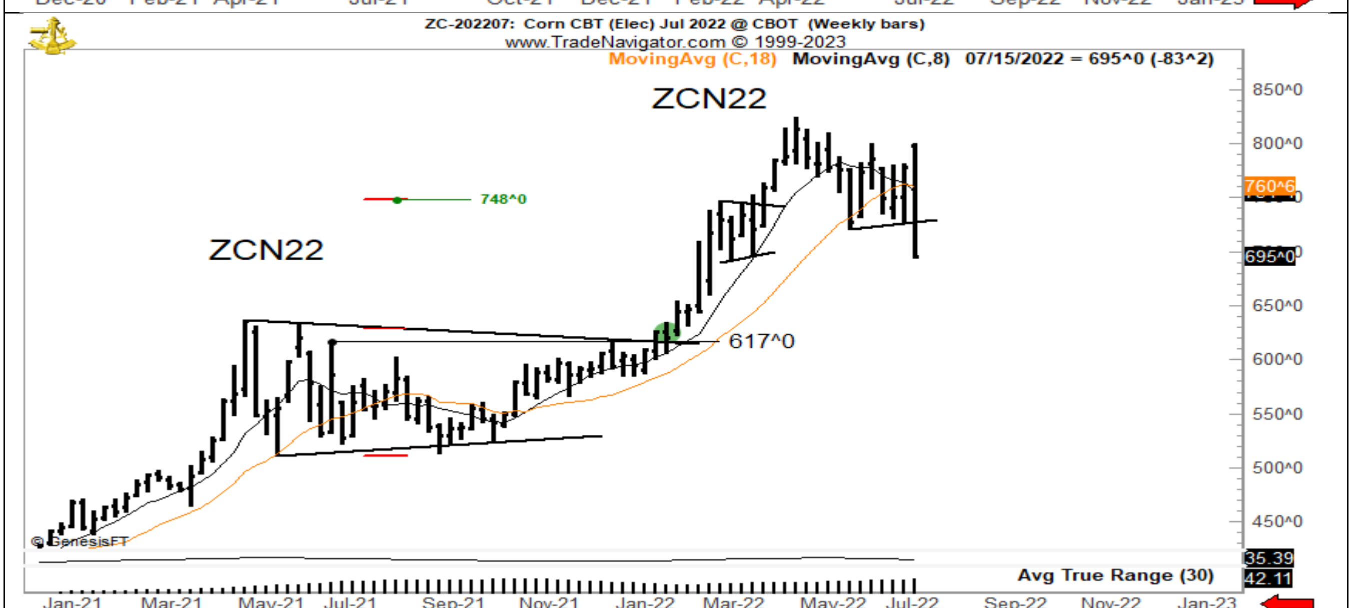
In the experience of my trading, Pareto trades act differently than non-Pareto trades in some VERY important and practical ways. It is common for Pareto trades to work immediately and trend to their implied targets with a minimum of hesitation.

I recommend you pay attention to the market situations represented in this Best Dressed List. Note that the markets featured broke out decisively and seldom placed trades entered at the precise breakout into much doubt. In those cases when the initial breakout faltered or failed, a secondary breakout worked decisively.

Full disclosure: My most profitable trades in 2022 were currency markets (30% of net profits) and grains (32% of net profits) with Treasury markets landing in the third spot.

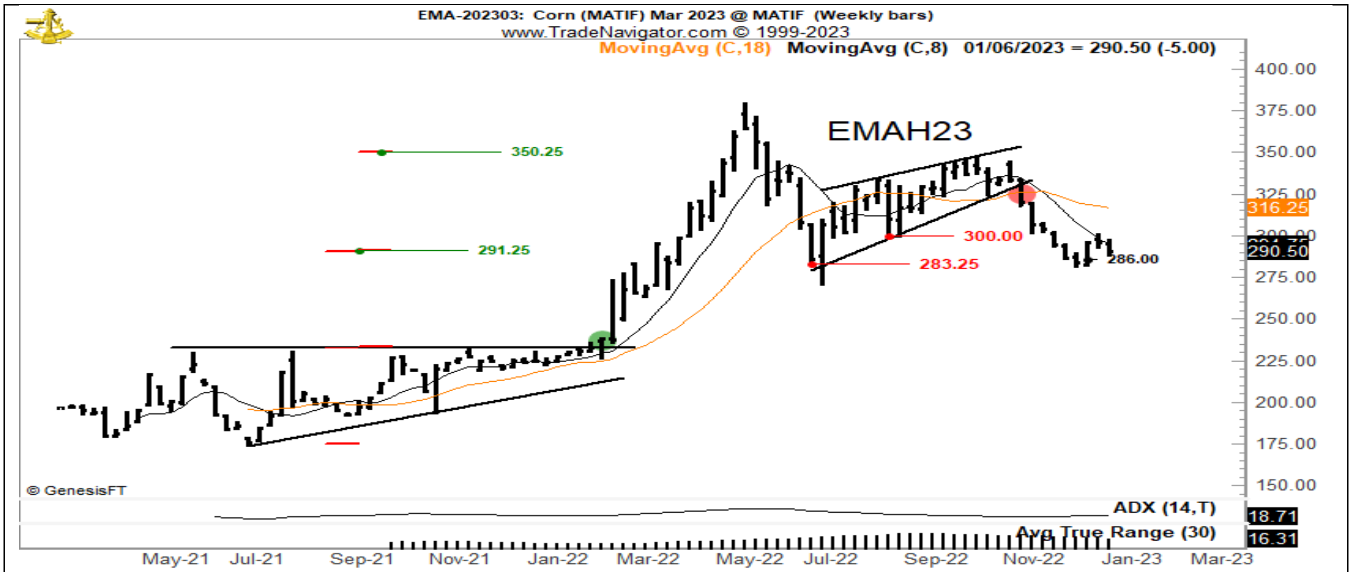
2022 Best Dressed List





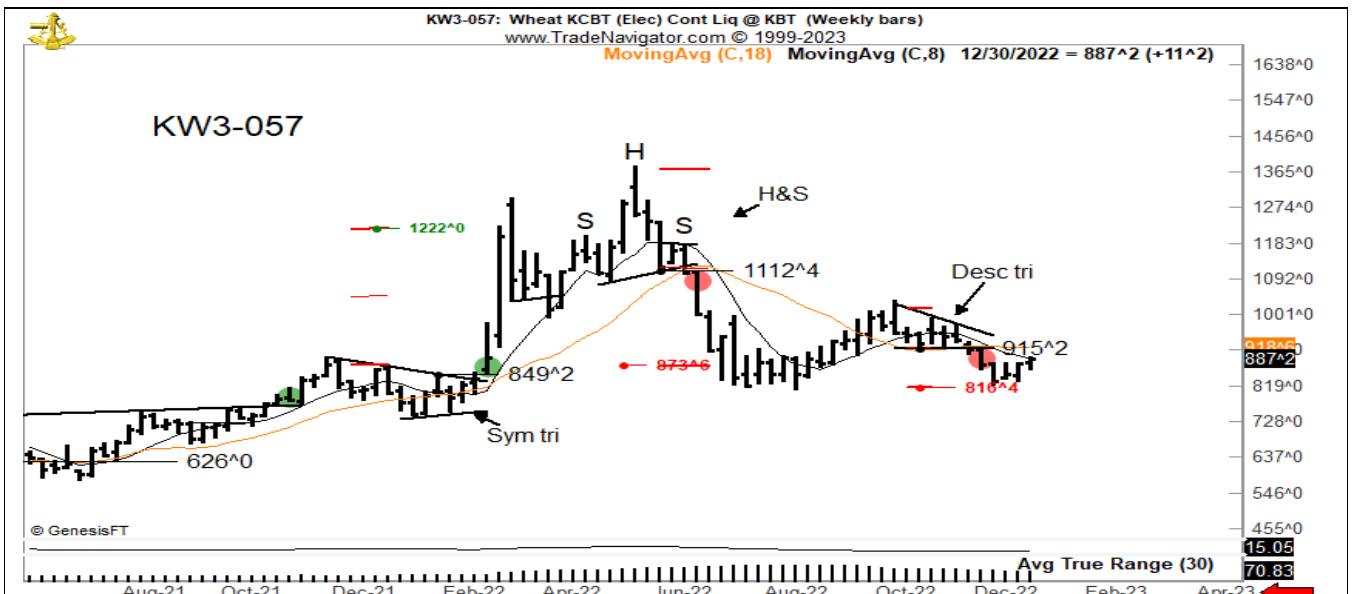
Market	Pattern (s)	Date completed	Target(s)
Corn futures	Weekly: 5+ month rounding bottom on cont. chart	Dec 22, 2021, reconfirmed Jan 4 at 5.90	6.83 met on Feb 23
	Weekly: 18-week H&S top cont. chart	W/O Jul 1	See note below
	Daily: ZCN22; sym tri	Feb 7 at 6.34	7.48 met on Mar 31

The bull market that began in early 2021, then stalled for 8 months, continued in early 2022. The weekly and daily charts were in harmony for the Jan – Mar thrust, but the H&S top on the weekly continuation chart did NOT translate into similar price behavior on the individual contract months because of the steep discounts following the expiration of the Jul 2022 contract.



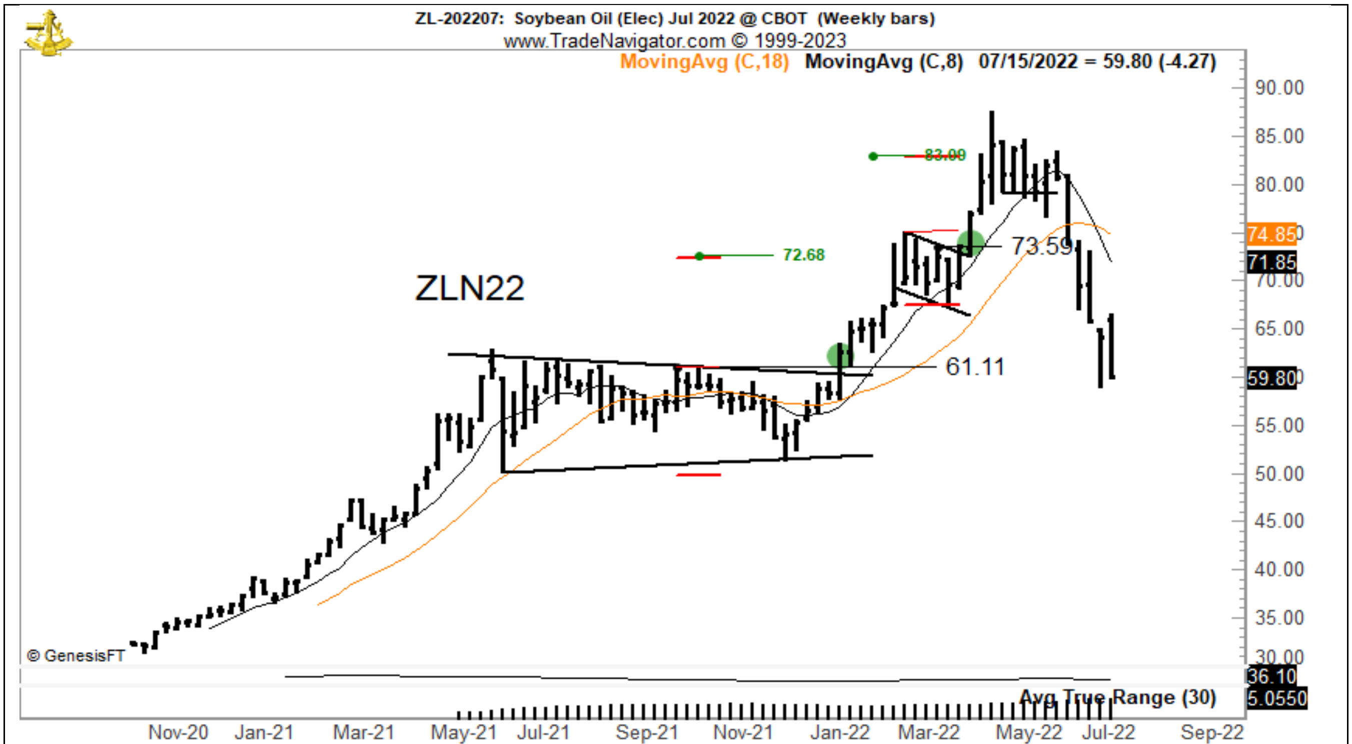
Market	Pattern (s)	Date completed	Target(s)
Matif Corn	8-mo ascending tri	Feb 18 at 238.25	1X met at 291.25 on Mar 24 2X met at 350.25 on May 12
		Nov 8 at 327	283.25 met on Dec 15

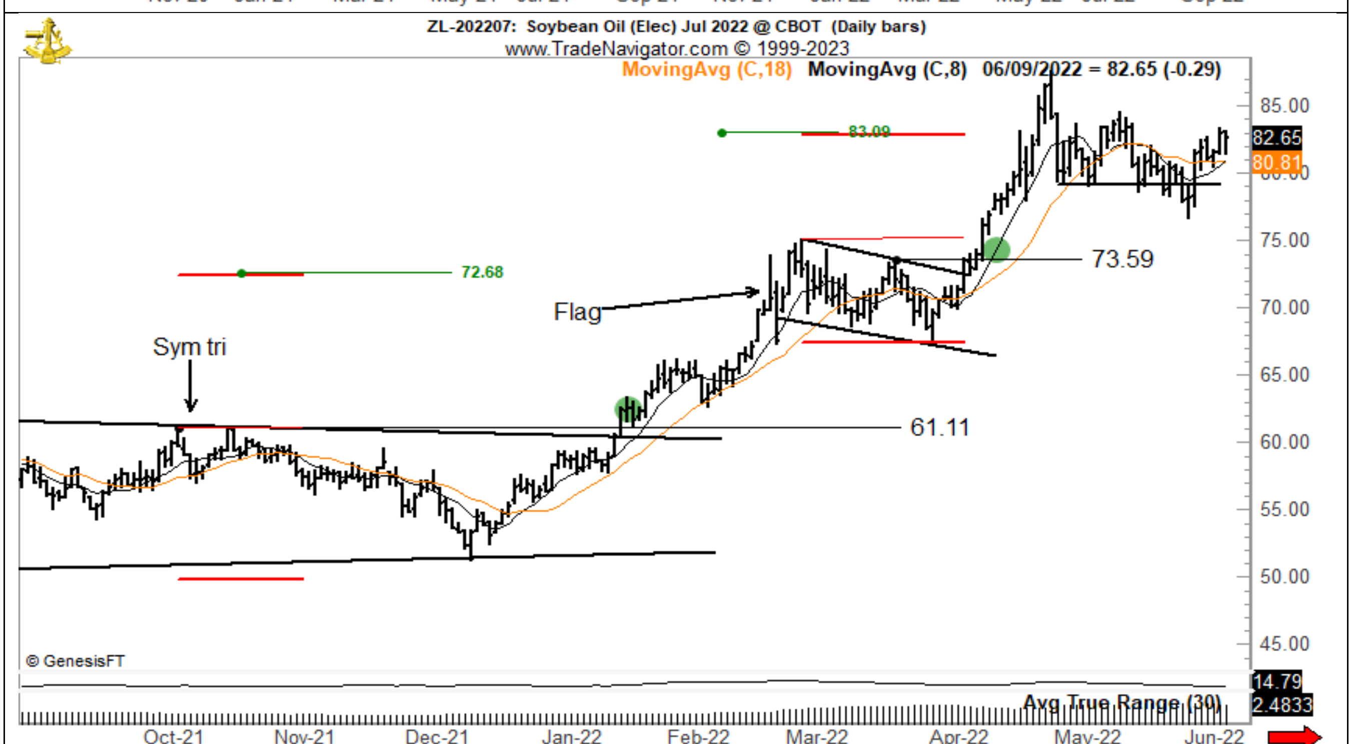
While the European grain markets lack the liquidity of the CBOT grains, markets in Europe (including Wheat, Corn and Rapeseed) typically experience more orderly trends. Note that the target of the rising wedge was based on the low of bar within the wedge, not the extended bar below the lower boundary of the wedge.



Market	Pattern (s)	Date completed	Target(s)
KC Wheat	13-week sym tri following strong trend	Feb 22 at 8.61	2X met at 12.22 on Mar 4
	9-week H&S top	Jun 17 at 11.04	8.73 met on Jul 5
	8-week desc triangle	Nov 28 at 8.95	8.16 just missed

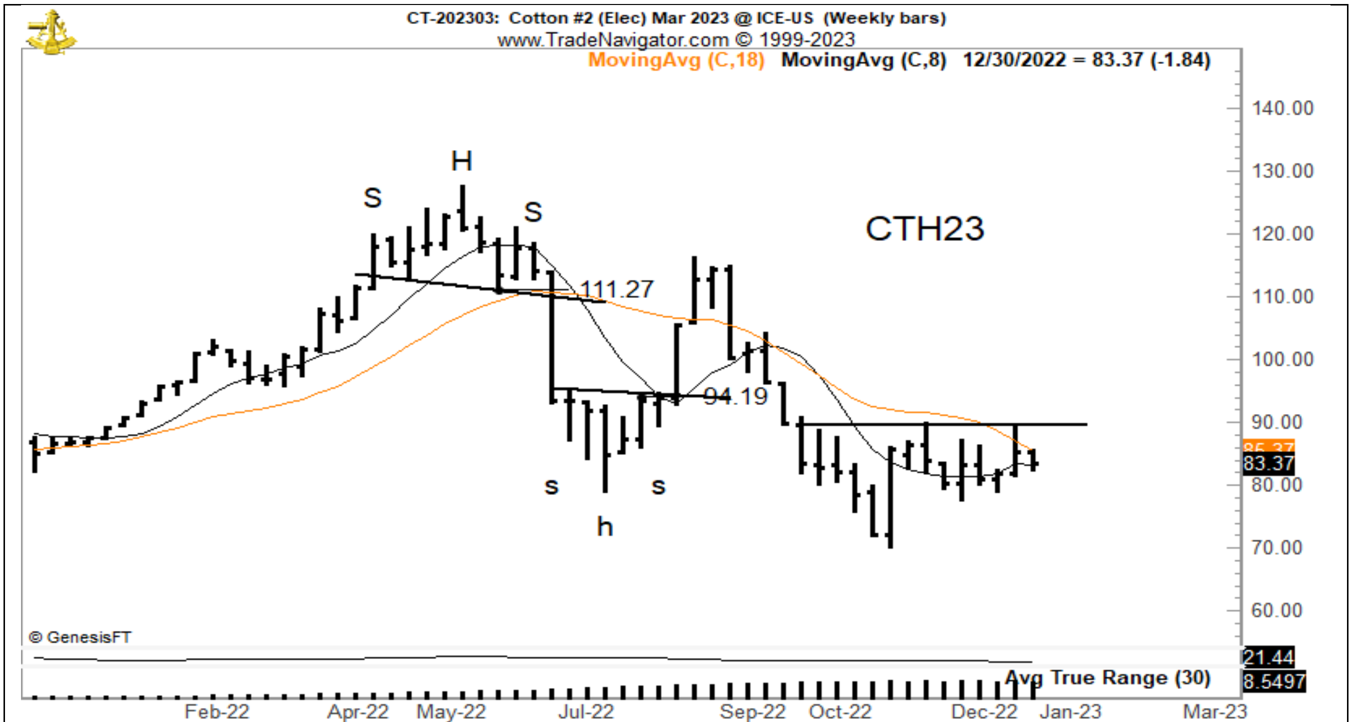
Like Chicago Wheat, the Ukraine war launched a vertical advance in KC Wheat. I find KC Wheat preferable to Chicago Wheat at a trading vehicle because KC Wheat has larger commercial participation. A recognizable H&S top developed in KC Wheat.





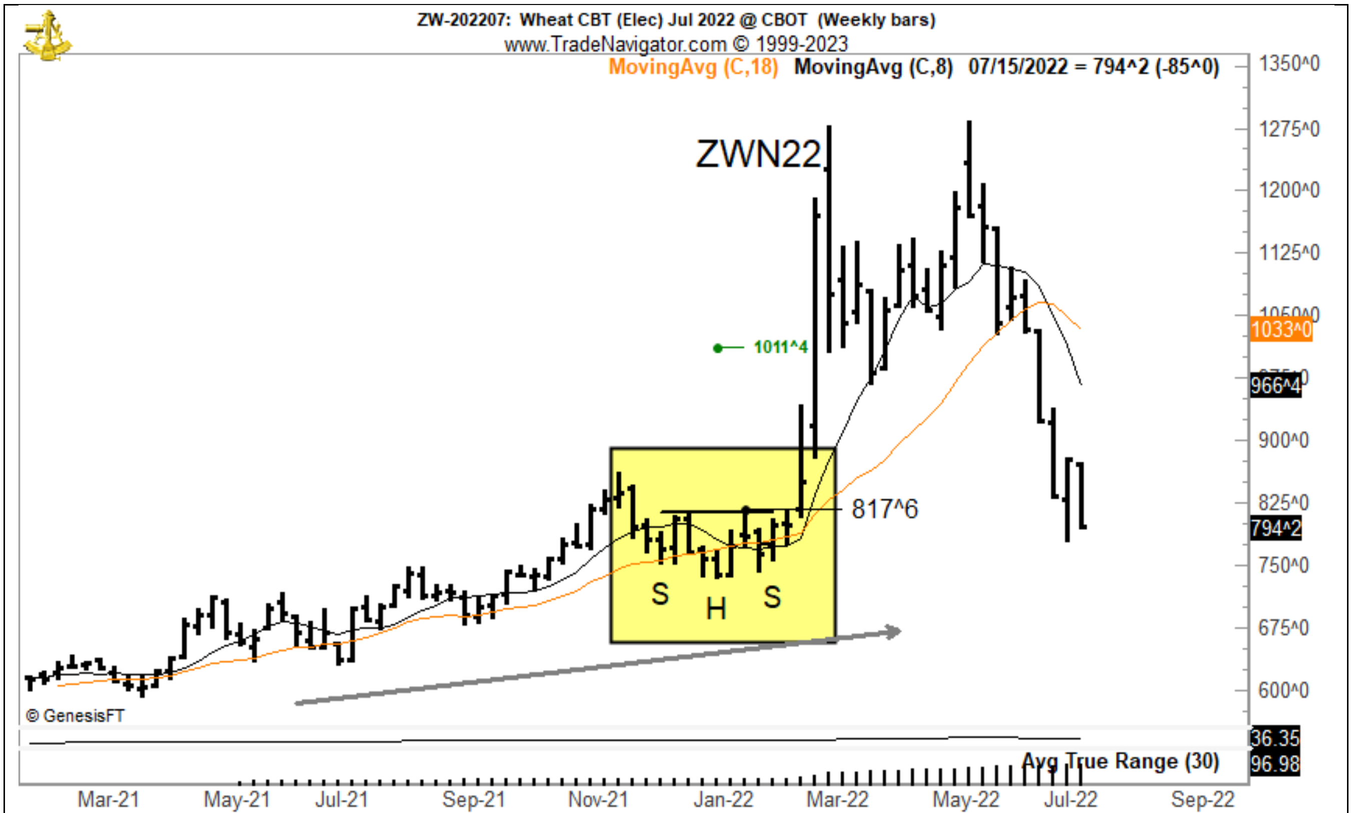
Market	Pattern (s)	Date completed	Target(s)
Jul 2023 Bean Oil	7-mo symmetrical triangle	Jan 20 at 62.43	72.68 met on Feb 24
	7-wk flag	Apr 12 at 74.01	83.09 met on Apr 22

The explosive early 2021 bull trend in Soybean Oil led to an extensive symmetrical triangle congestion. The advance in 2022 occurred in two stages, the first launched by the symmetrical triangle and the second launched by a continuation flag.



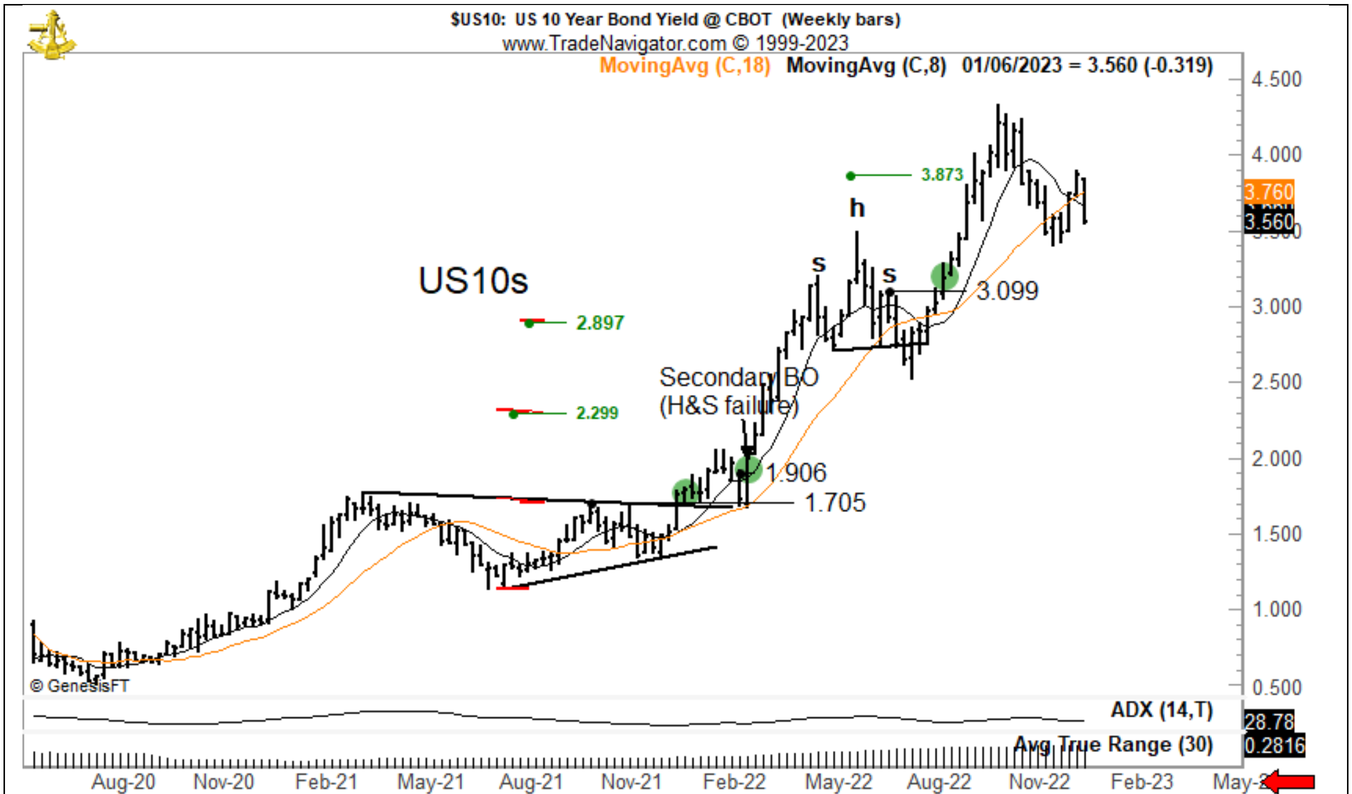
Market	Pattern (s)	Date completed	Target(s)
Mar 2023 Cotton	10-wk H&S top	Jun 21 at 109.67	95.19 met on Jun 24
	8-wk H&S bottom	Aug 9 at 95.78	109.30 met on Aug 15

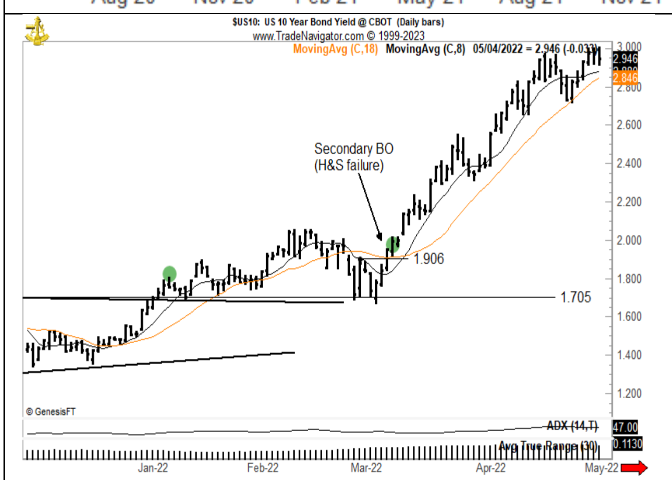
I seldom trade Cotton. It usually provides a bounty of false breakouts. But, when Cotton charts well, it really charts well. Cotton was a fabulous market for me in 2022, catching both the H&S top and the H&S bottom.

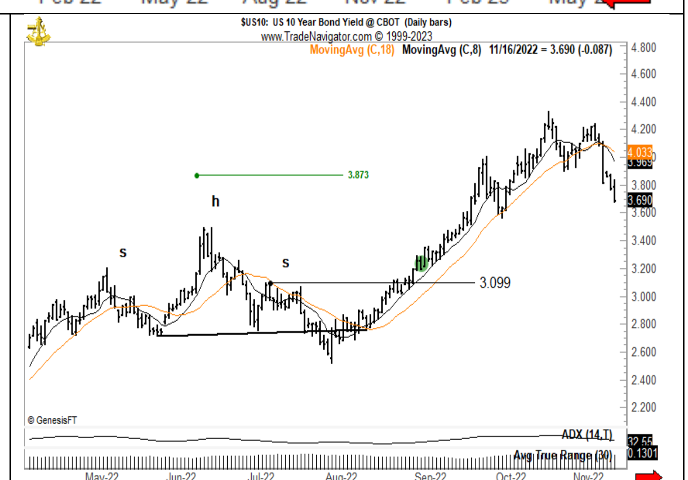


Market	Pattern (s)	Date completed	Target(s)
Jul 2022 Chicago Wheat	12-week inverted H&S	Feb 22 at 8.28	2X met at 10.11 on

Throughout 2021 Wheat advanced in a stair-step manner, which is hell for swing traders by the way. Then an inverted H&S pattern exploded when Russia invaded Ukraine. The advance introduced many newbie traders to maximum daily trading limits.

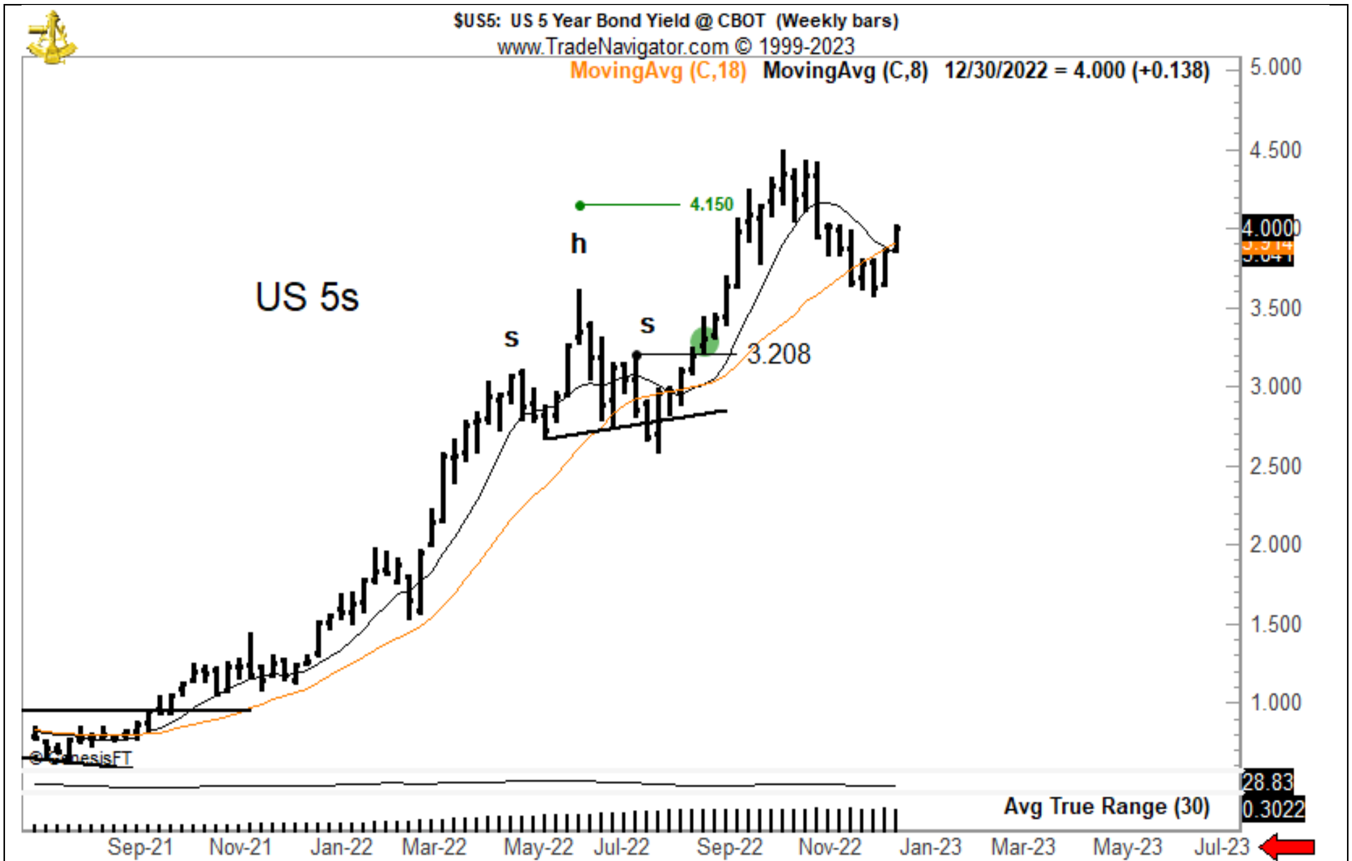


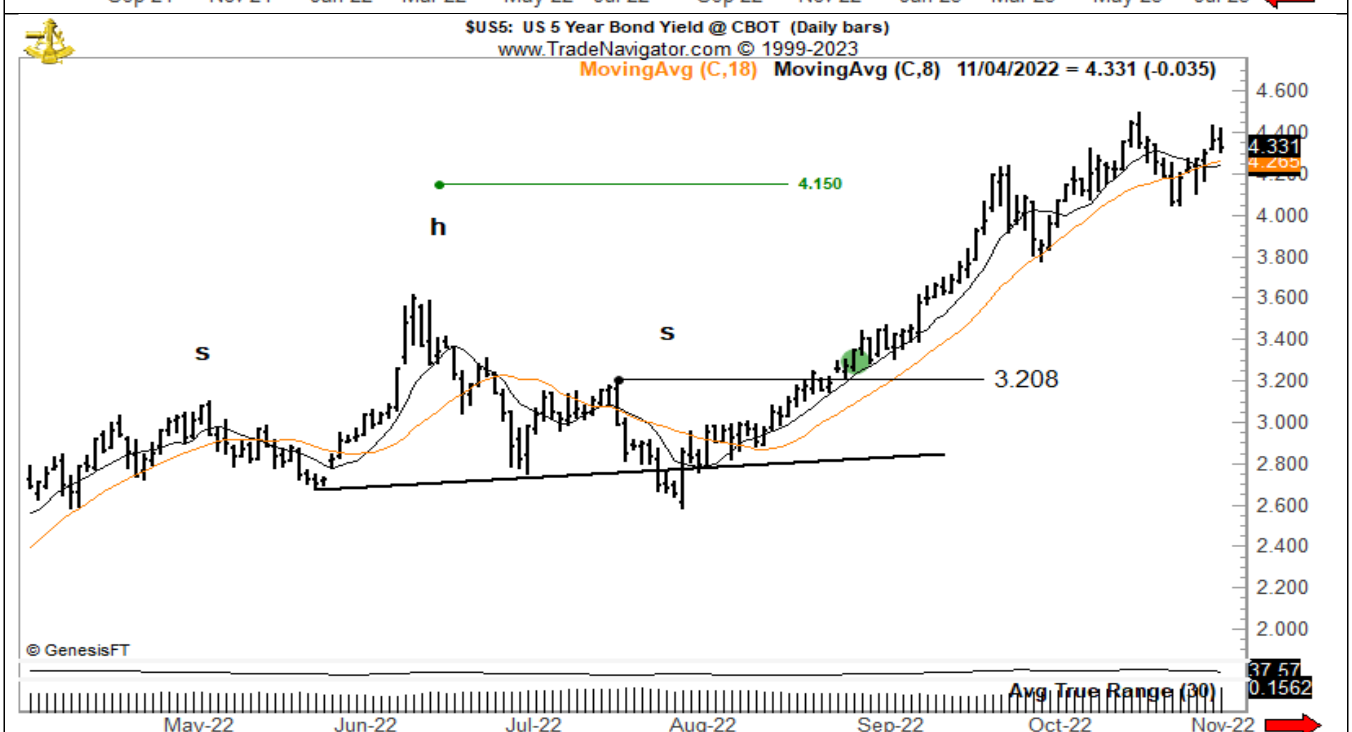




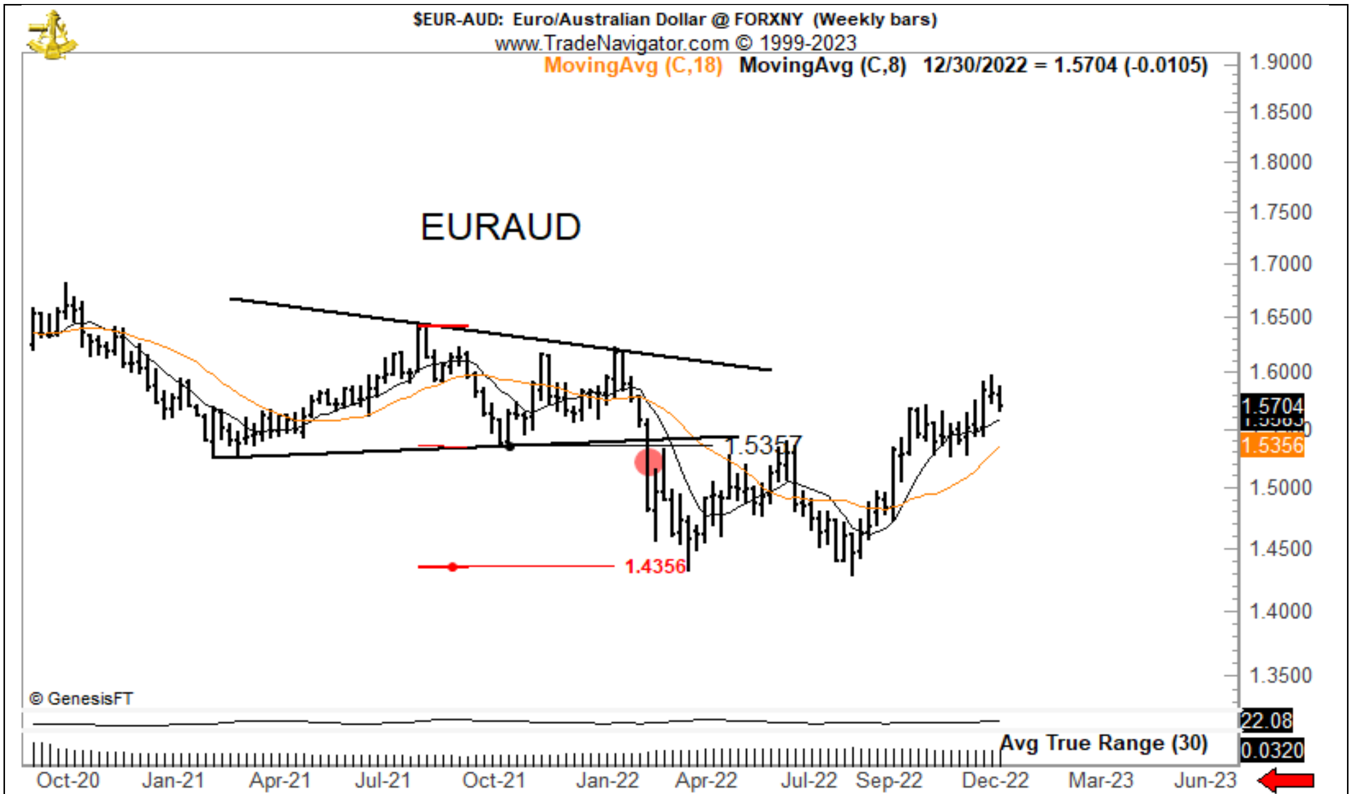
Market	Pattern (s)	Date completed	Target(s)
U.S. 10-Yr Note spot yield	9-month sym tri	Jan 7, then reconfirmed on Mar 9 at 1.945	2.299 met on Mar 21 with 2X of 2.897 met on Apr 19
	3+ month H&S top failure	Aug 31 at 3.198	3.873 met on Sep 26

Government debt markets were the charting all-stars of 2022. Shown here is the spot 10-Yr yield chart. Often the spot price of markets provide the clearest indication of trend and timing. The charts of futures contracts can be more erratic than the spot charts, but it pays dividends to remain focused on the spot market when trading futures. The initial BO in Jan faltered, yet the retesting process was completed on Mar 9 when a H&S top failure was completed. A second and more significant H&S top failure was completed in Sep.



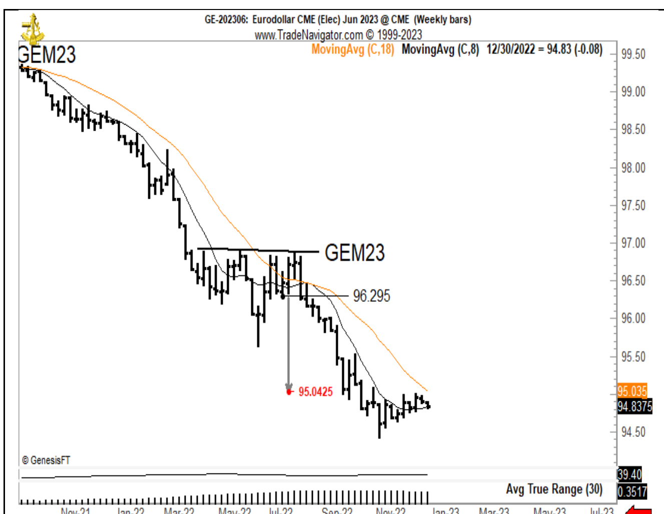


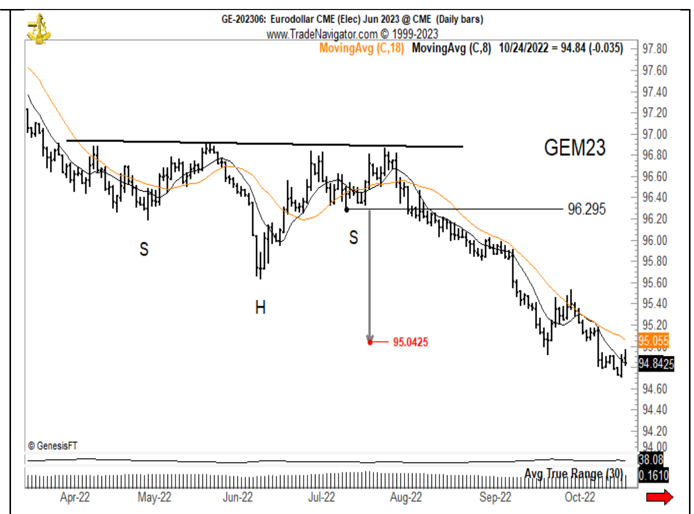
Market	Pattern (s)	Date completed	Target(s)
U.S. 5-Yr Bond yield spot	4+ month H&S top failure	Aug 31 at 8.33	4.15 met on Sep 26
A nearly identical H&S failure in the 10-Yr Note occurred on the 5-Yr T chart.			



Market	Pattern (s)	Date completed	Target(s)
EUR/AUD	13-month symmetrical triangle	Mar 1 at 1.5347	1.4356 on Apr 5

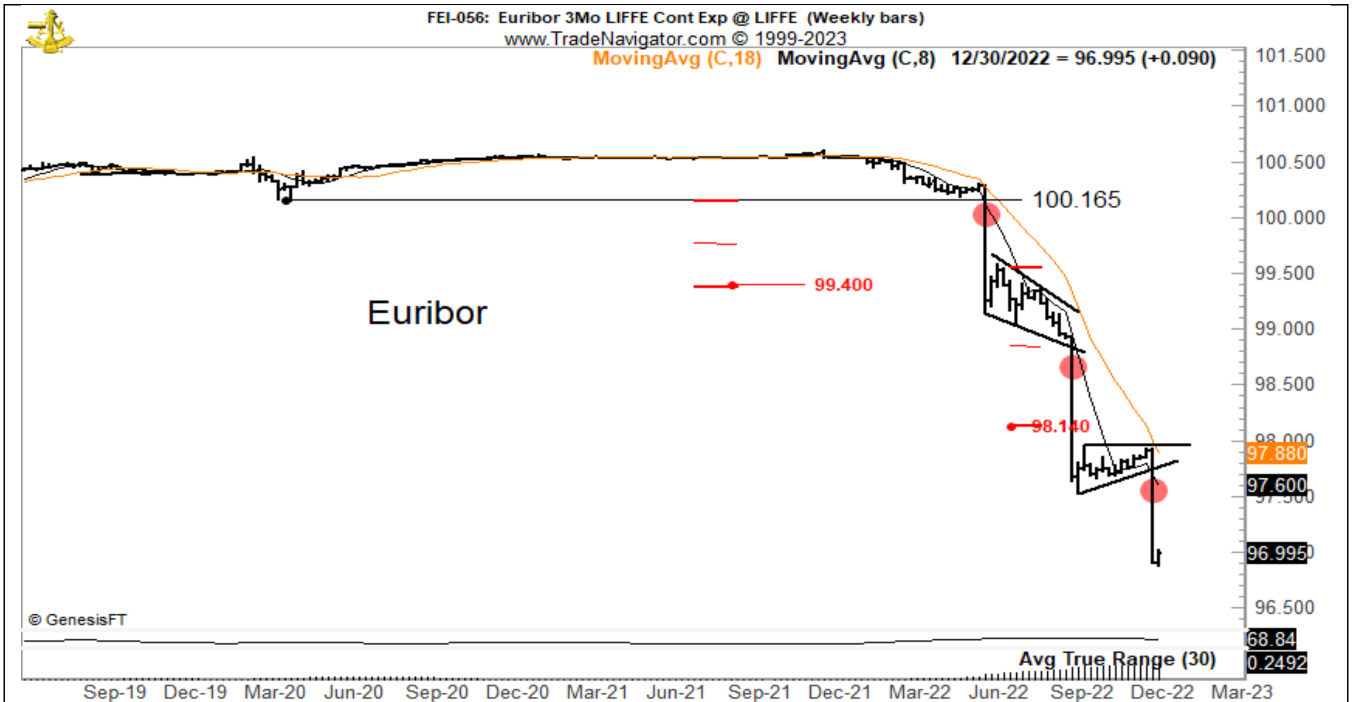
There are times when the target of a completed pattern becomes at or near the absolute bottom/top of a trend. This was the case with EUR/AUD and demonstrates why it is always my preference to take at least partial profits at a target.

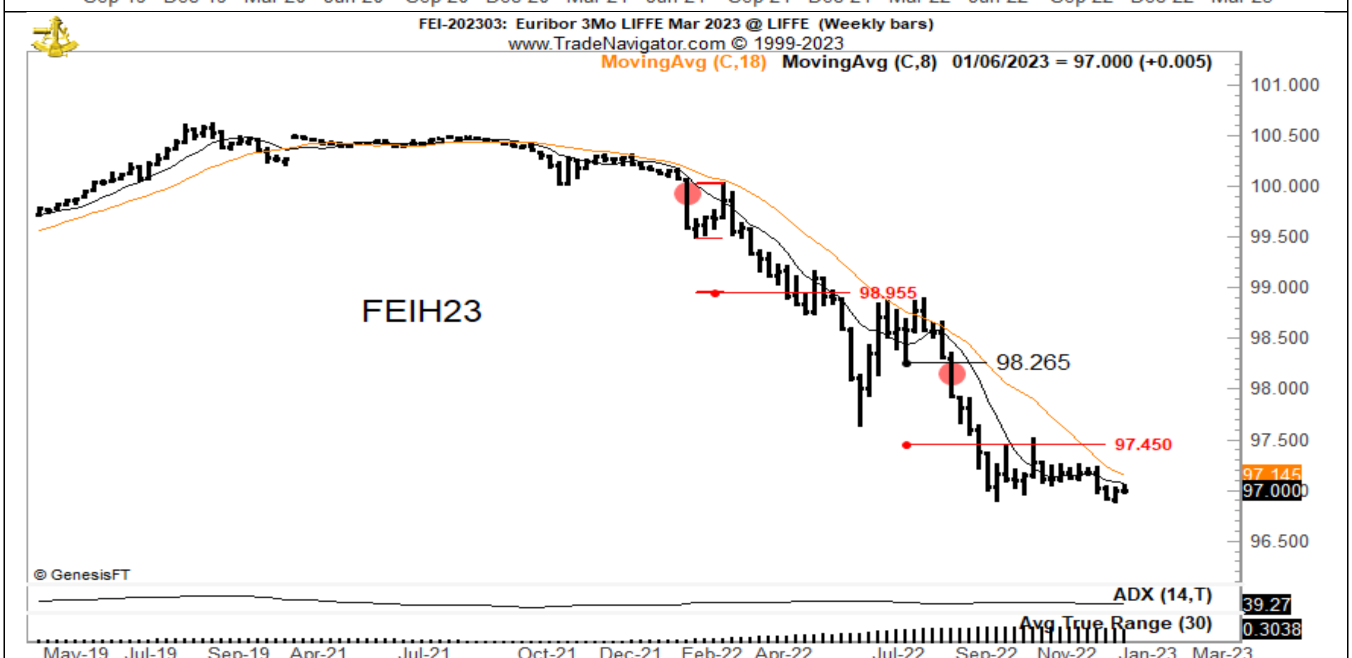




Market	Pattern (s)	Date completed	Target(s)
Jun 2023 Eurodollars	20-wk H&S failure	Aug 12 at 96.17	95.04 met on Sep 23

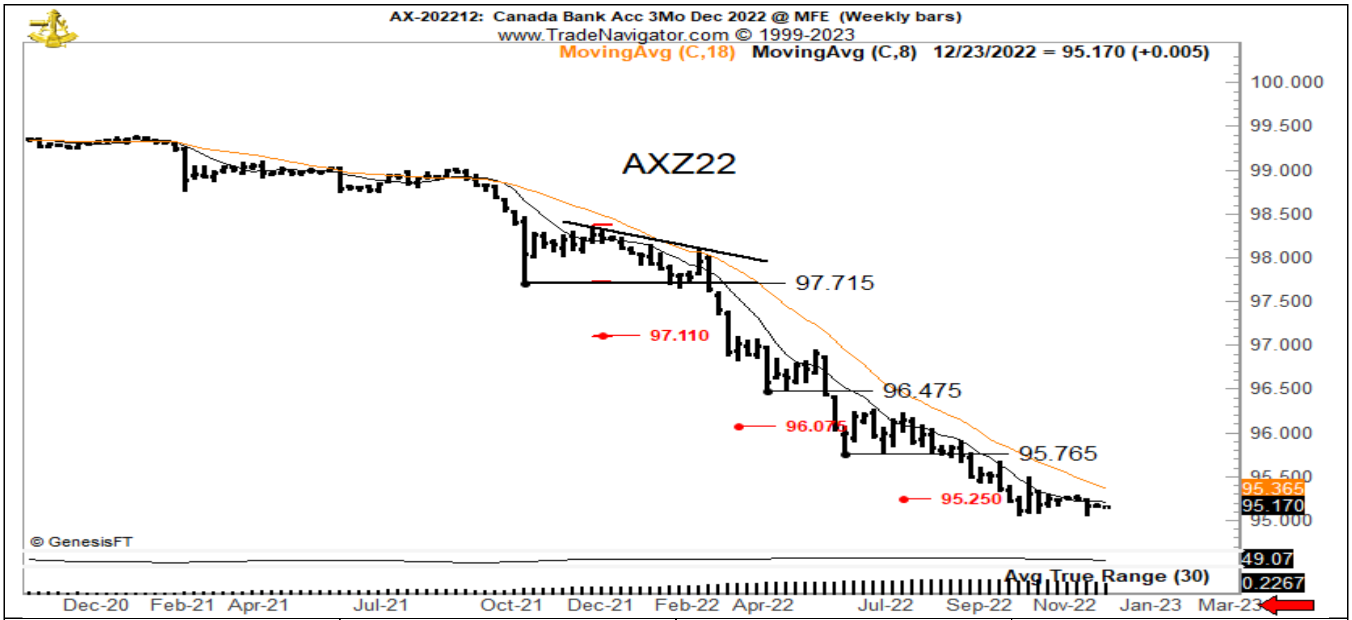
I consider the H&S failure to be a legitimate singular pattern. Other traders on social media have contested this pattern. Yet, Schabacker (1932) and Edwards and Magee (1948) acknowledged the chart construction and that's good enough for me. For targeting in this case, I project the height of the H&S downward from the right shoulder low.





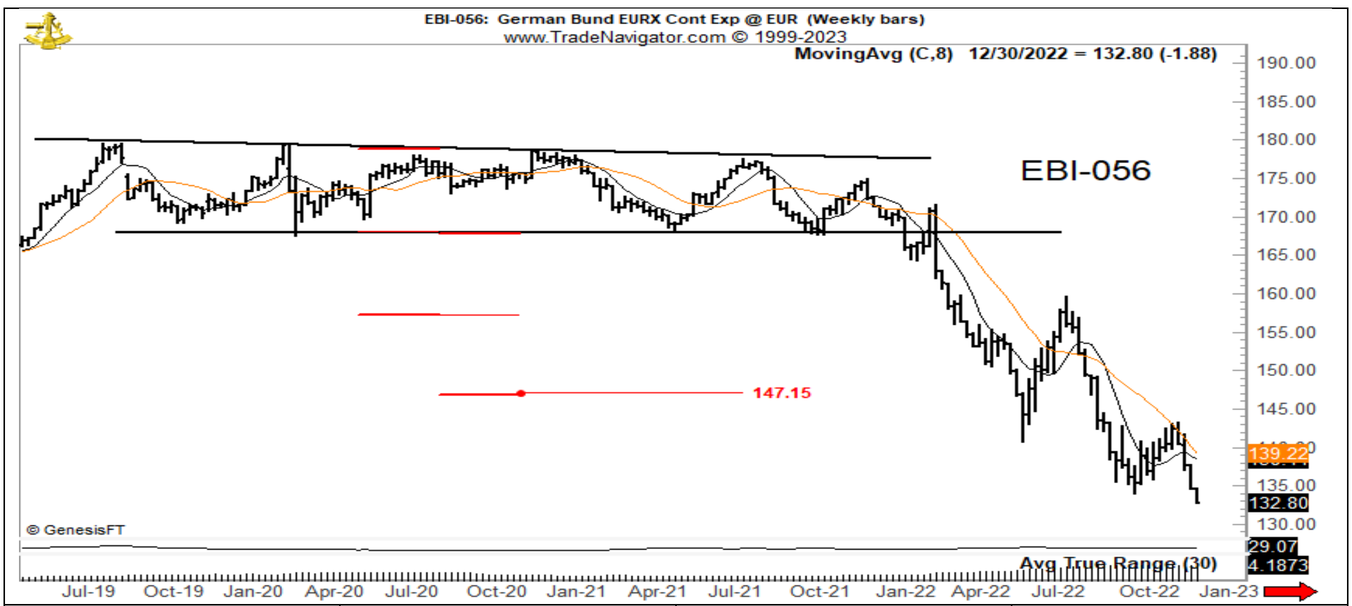
Market	Pattern (s)	Date completed	Target(s)
Euribor (Mar 2023 contract)	>26 mo rounding top	Jan 31 at 99.99	2x at 98.95 met on Apr 22
	10-wk double top	Aug 22 at 98.20	97.45 met on Sep 14

Like other global interest rate markets (especially the German Bund), the ECB Euribor declined substantially with several very tradeable continuation patterns during the cascade. The contrast of the continuation chart to the chart of the Mar contract displays how the two chart types can unfold differently, yet in a common trend.



Market	Pattern (s)	Date completed	Target(s)
Canadian Bank Acceptances	20-week descending triangle	Mar 31 at 97.64	97.11 met on Mar 24
	6-week flag	Jun 3 at 96.43	96.07 met on Ju 10
	13-week desc tri	Sep 8 at 97.70	95.25 met on Oct 14

Remember that the price of government debt is inversely correlated with yield. This chart shows the price-to-par of the Canadian 3-mo Acceptances (Canadian equivalent to U.S. T-Bills) whereby 100 = 0% yield, 99 = 1% yield, 98 = 2% yield and so on. This chart shows that the decline in price was a series of recognizable chart patterns.



Market	Pattern (s)	Date completed	Target(s)
German Bund	19-month desc triangle	Feb 3 at 164.07 (Mar contract)	Stopped out
		Mar 9 – secondary BO at 163.66 (Mar contract)	2X target 147.15 met on Jun 9

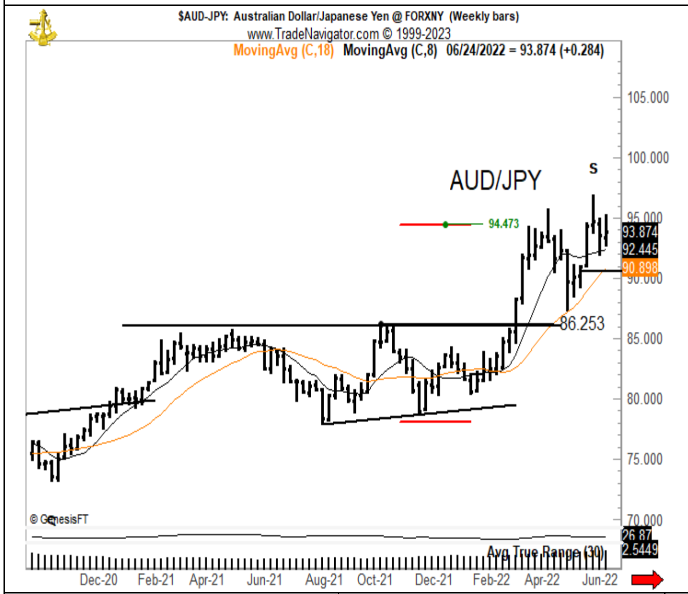
Interest rates across the globe increased in 2022 – meaning that the value of interest-bearing assets declined. In Germany, the Bund broke down from of a massive descending triangle. I play trades with tight stops – and in the Bund stops on the initial breakout were hit. But in such grand patterns as this a trader must be willing to remain vigilant for second chances.

Market	Pattern (s)	Date completed	Target(s)
USD/CNH continuation chart	H&S bottom	Apr 19 at 6.4344	6.6423 met on Apr 28
	Asc triangle	Aug 15 at 6.8124	7.1467 met on Sep 23

There are a couple of worthy notes to point out on these charts. The common wisdom is false that both shoulders of a H&S pattern must be of approximately equal height and duration. The shoulders of a H&S pattern can take different shapes. The H&S bottom had a very belabored left shoulder relative to the brief right shoulder. It was still a legitimate H&S pattern. The second point is that narrow patterns (less than 10% of the underlying value of the asset) tend to reach a 2X target, which are shown on many charts in this paper.

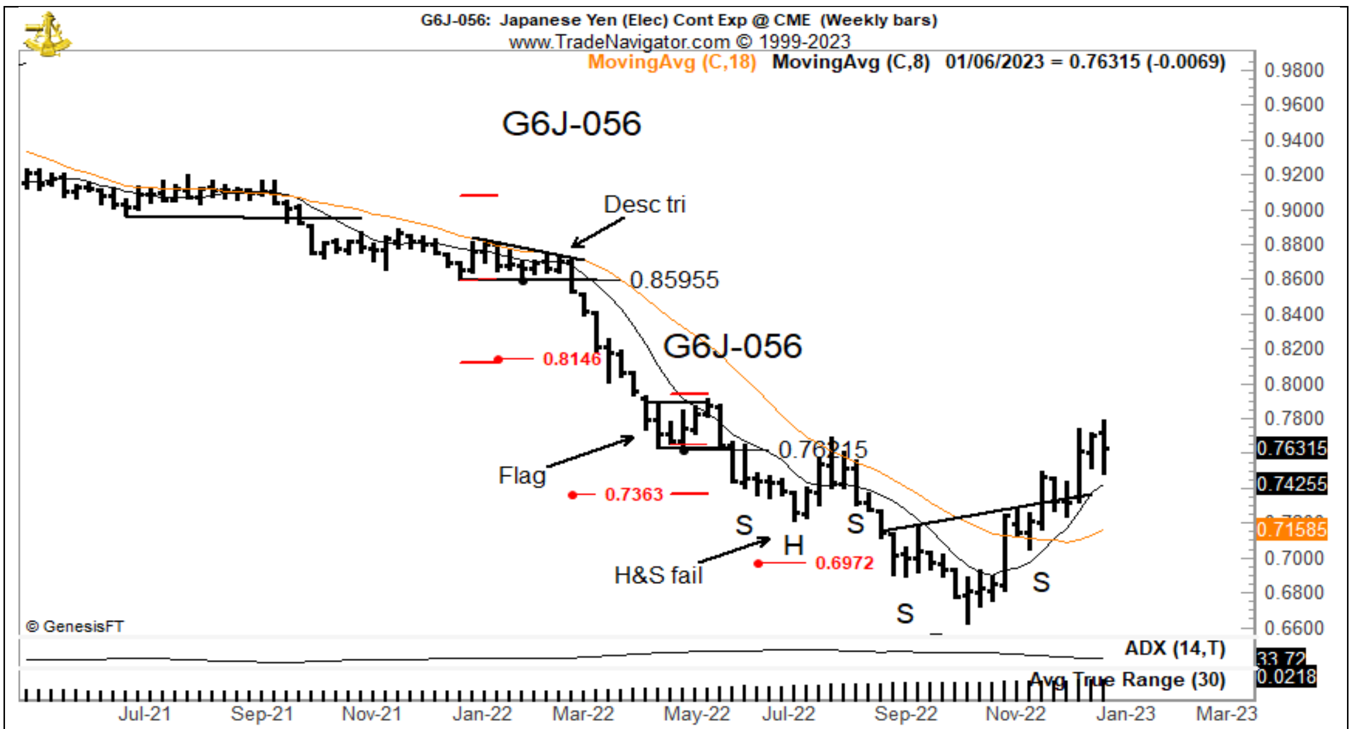
Market	Pattern (s)	Date completed	Target(s)
U.S. Dollar Index	8-mo parabolic advance	Oct 26	N.A.
	3-mo horn or slopping top	Nov 10 at 108.69	104.15 met on Dec 2

The violation of a parabolic advance typically retraces 80% of the distance covered during the advance. Yet, the violation itself is not a dependable trade entry because serious corrections can occur after the violation. This is exactly what happened in the U.S. Dollar when the violation of the parabola rallied all the way to the underside of the curve. The subsequent completion of the horn or slopping top (three highs and two lows) was the trigger for a measured risk trade.



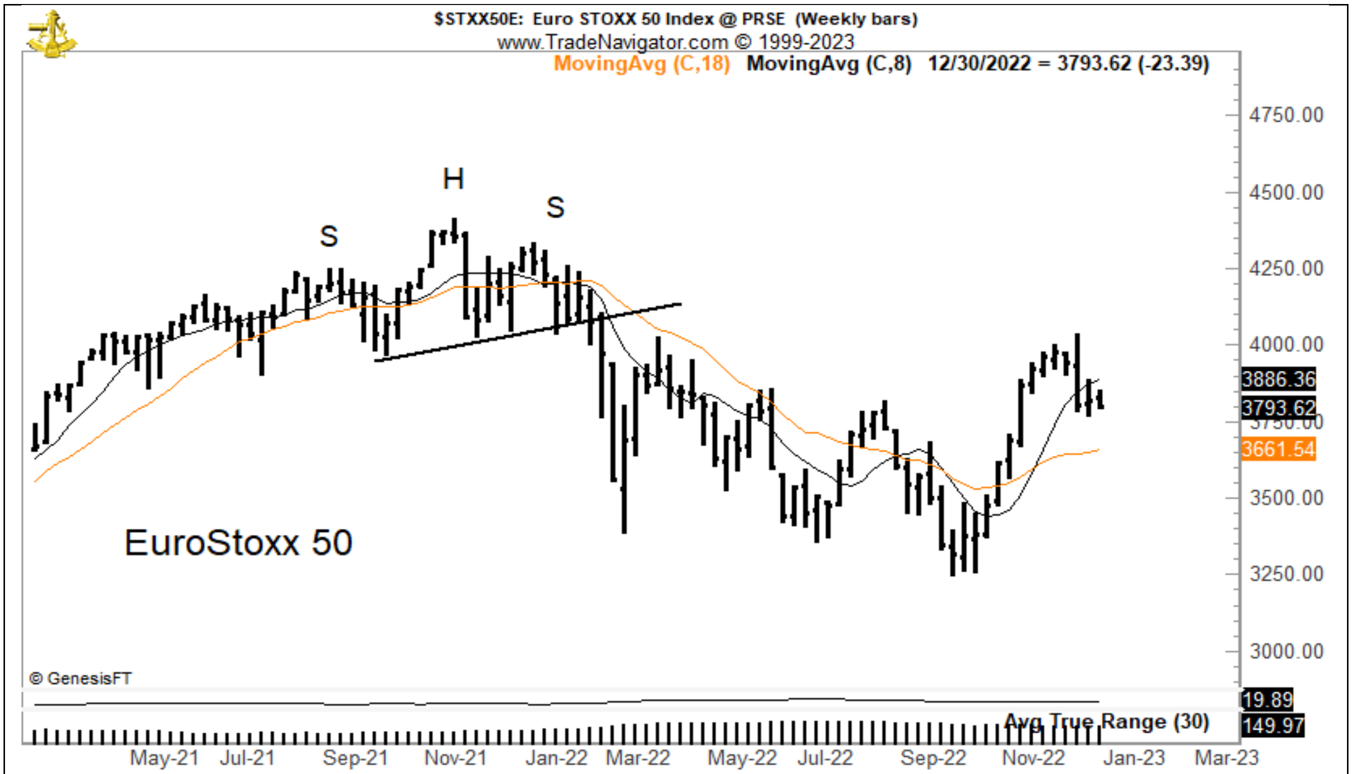
Market	Pattern (s)	Date completed	Target(s)
AUD/JPY	13-month asc triangle	Mar 17 at 87.30	94.47 met on Apr 22

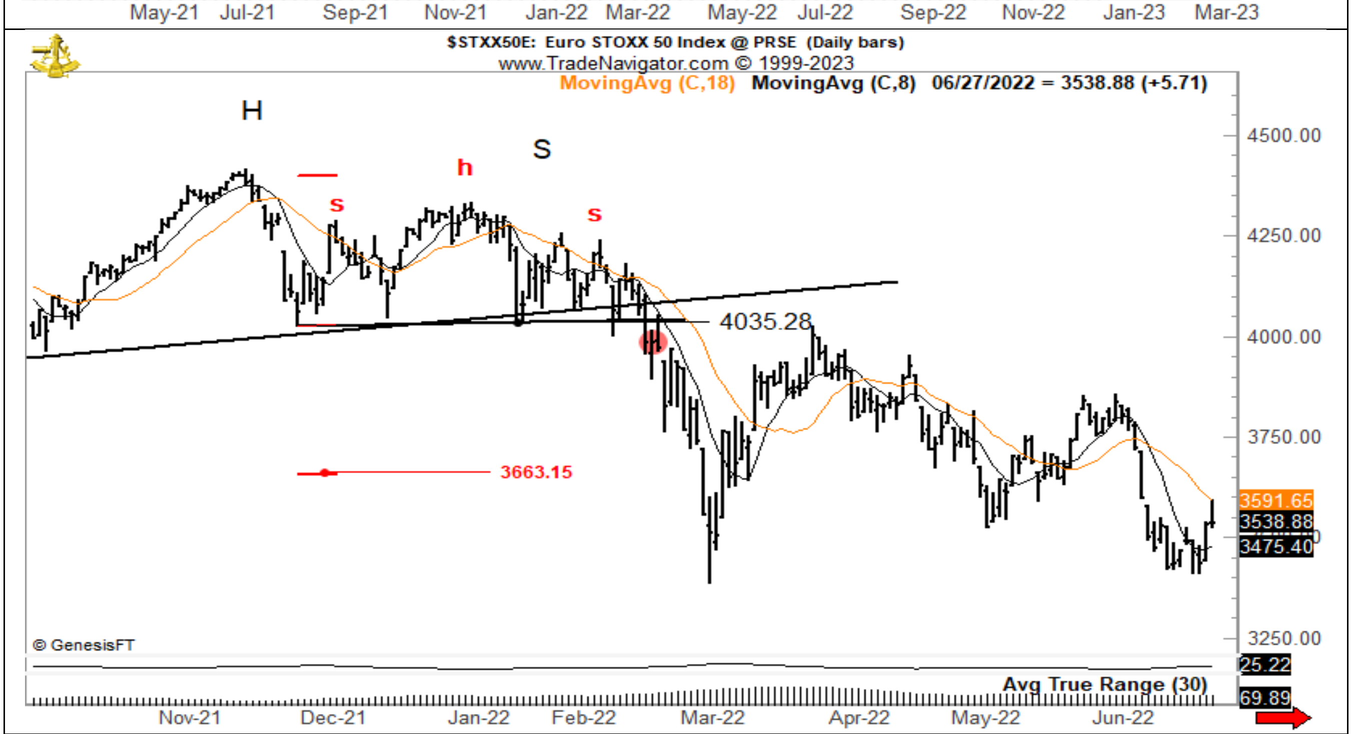
As a rule, I prefer patterns less than 26 weeks in duration. “Long and lazy” patterns, such as that in this FX pair, often present more frustration than they are worth. This ascending triangle is an exception.



Market	Pattern (s)	Date completed	Target(s)
Japanese Yen	10-wk desc triangle	Mar 11 at .7560	.8146 met on Mar 28
	7-wk flag	Jun 6 at .7582	.7363 met on Jun 21
	9-wk H&S failure	Aug 18 at .7373	.6972 met on Sep 7

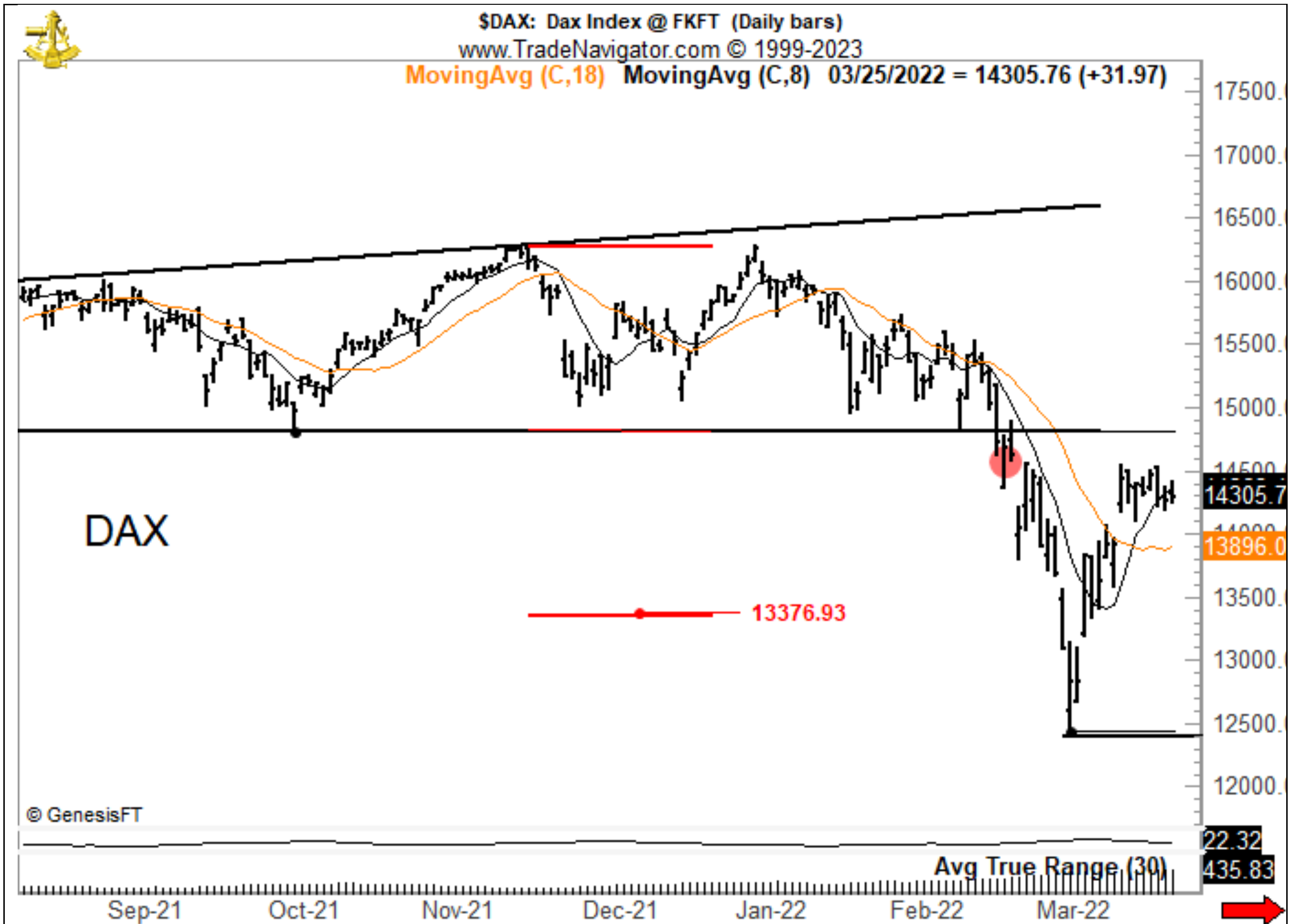
Short Japanese Yen was a big score in 2022 for the traditional trend following CTAs. Like the interest rate markets, the trend in the Yen consisted of continuation patterns that quickly met their targets.



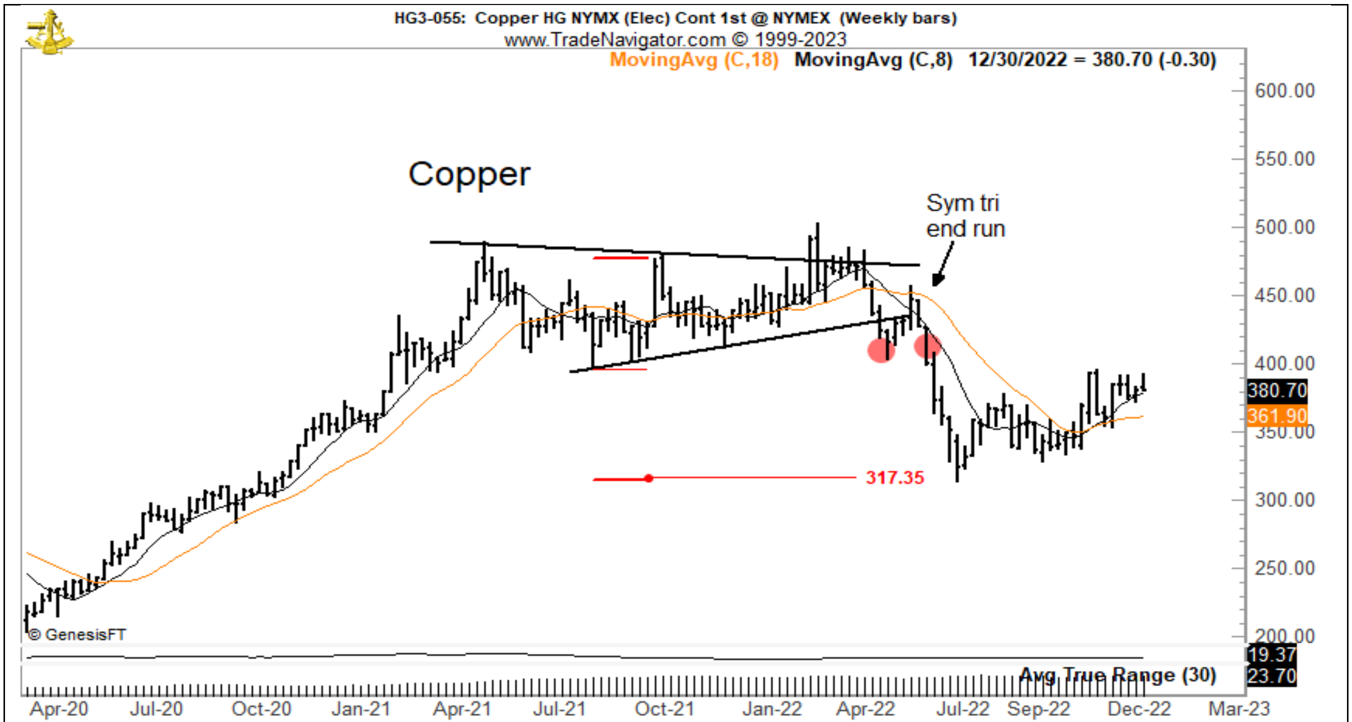


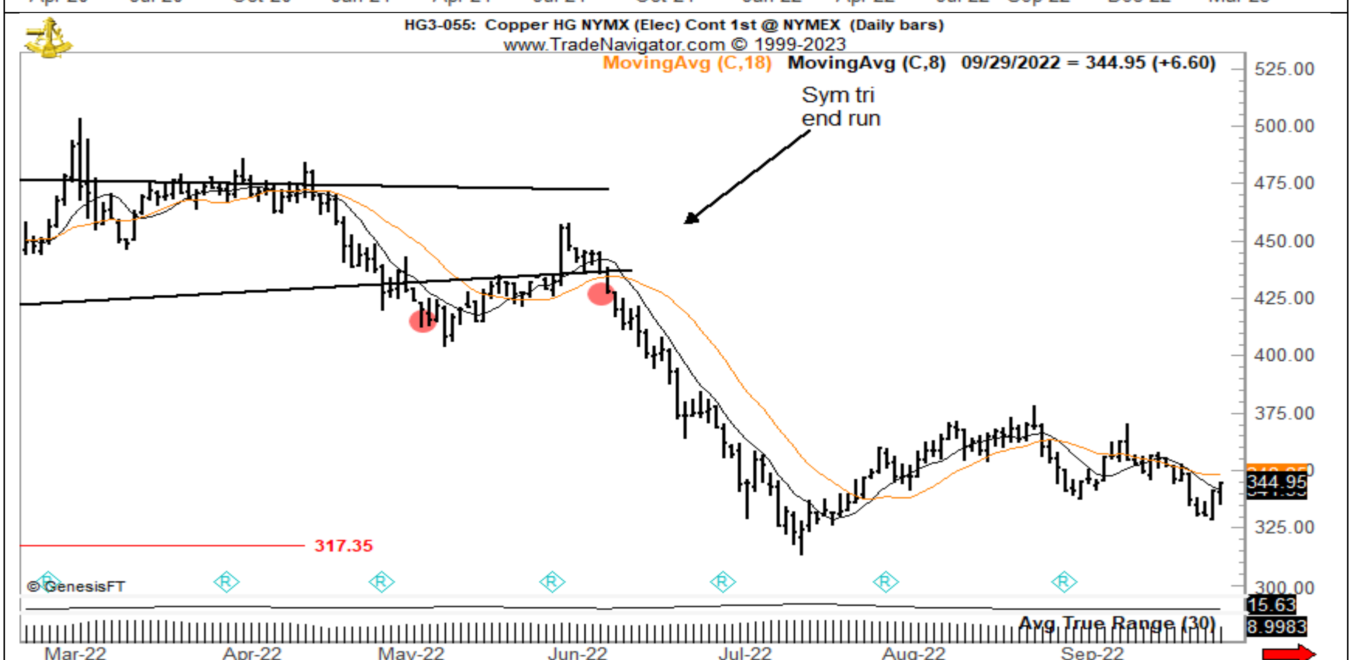
Market	Pattern (s)	Date completed	Target(s)
EuroStoxx 50	9-month complex H&S	Feb 21 at 3957	3606 met on Mar 4

Some H&S patterns are concise and clean. Others are complex and may present multiple heads and shoulders, such as the H&S top in EuroStoxx. Look closely and you will see two left shoulders and two heads with a right shoulder that was an independent H&S top pattern. Patterns such as this can cause much frustration for traders who want to gain an early entry into a trade. But when this pattern finally broke out the decline was steep and quick.



Market	Pattern (s)	Date completed	Target(s)
German DAX Index spot	11-month right-angled broadening triangle (RABT)	Feb 21 at 14,731	13,376 met on Mar 4
No comment needed			

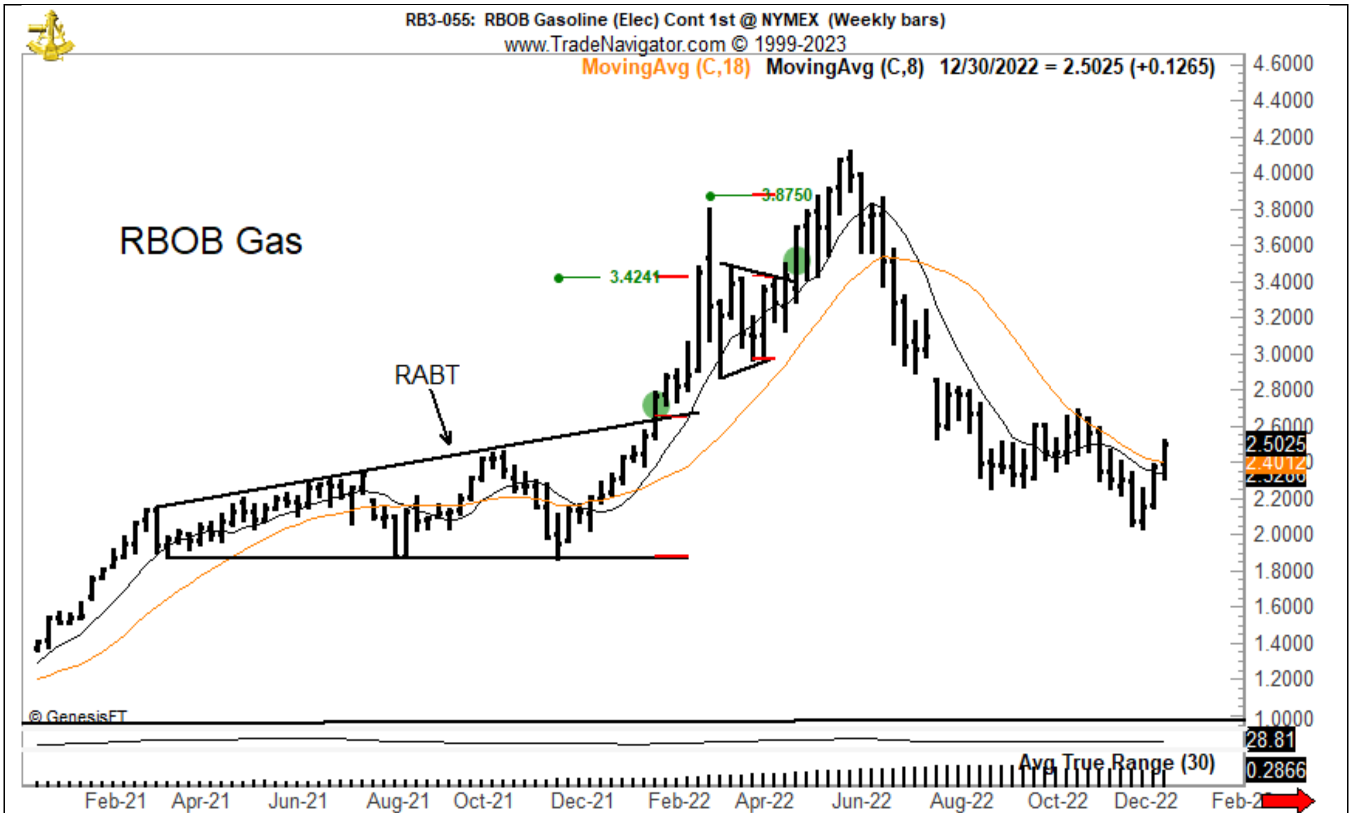




Market	Pattern (s)	Date completed	Target(s)
Copper	12-mo sym triangle end-around	May 9 at 414	Failed
	End-around recompletion	Jun 6 at 427.85	317.35 met on Jul 14

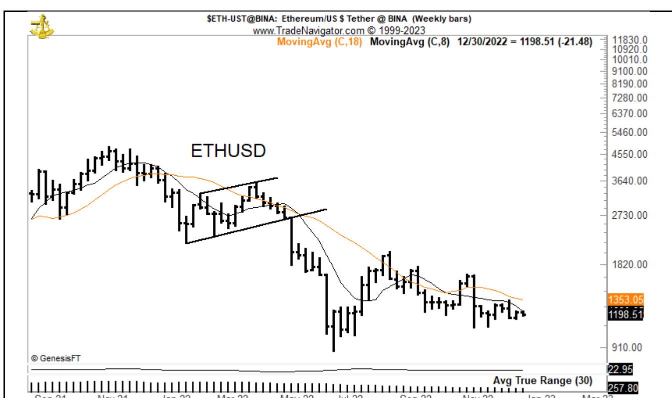
This massive symmetrical triangle is great example of two chart developments:

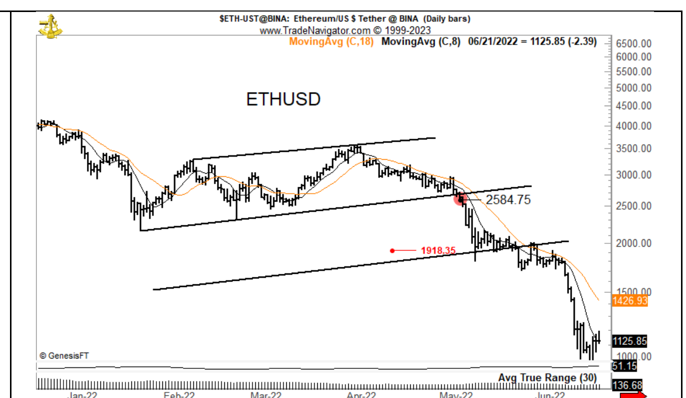
1. The symmetrical end-around (or end run) whereby the initial breakout in one direction fails, followed by the true move in the opposite direction
2. A dynamic breakout failure (first downside completion) that is relaunched by a subsequent bar closing below the boundary



Market	Pattern (s)	Date completed	Target(s)
RBOB Gas	11-month RABT	Feb 1 at 2.676	3.424 met on Mar 3
	8-week cont. sym tri	Secondary completion May 3 at 3.451	3.875 met on May 27

Right-angled broadening patterns most often breakout through the horizontal boundary, but breakouts through the slanted boundary do occur, as was the case with RB Gas.





Market	Pattern (s)	Date completed	Target(s)
Ethereum	Weekly and daily charts: 15-week channel	May 7 at 2615	1918 on May 12

ETH formed a channel pattern like BTC. The proper way to determine the initial target of a completed channel is to draw a line parallel to the lower boundary at a distance equal to the width of the channel.

Market	Pattern (s)	Date completed	Target(s)
Bitcoin	16-week channel	May 5 & 6 at 35,500	17,460 met on Nov 8
	16-month double top	Jun 22 at 27,310	Target of 14,000 remains unmet (for now)

While I generally do not put substantial trust in channels, in the case of BTC the trend was strongly down with the possibility of a double top. The double top was subsequently confirmed on Jun 22 after the market stalled at the area of the mid-point low (Jun 2021) for several weeks. Even if the double target is not met, yet the breakout on Jun 22 was never put in jeopardy.

Post notes

1. Targets should be considered as a rough estimate. I eyeball ballpark targets in my trading rather than calculating them mathematically.
2. The targets of the breakouts, or pattern completions, noted herein were most calculated using the average 30-day ATR. I vary the percentage of the ATR based on the length and clarity of a pattern. For example, I use 25% of the ATR for a well-defined pattern 8-weeks without problematic spindles. For patterns 6-months in duration I used 100% of the ATR.
3. Importantly, readers should note that the textbook patterns herein launched moves quickly that sustained their trends and often very quickly met their targets. There is a debate among traders whether protective stops should be wide or tight. I side with tight stops. If a trend does not get going quickly, I have no patience with a trade. This is a personal preference – I can intellectually take the other side of this argument.

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