THE FACTOR REPORT

Factor 2023 Best Dressed List

January 2024

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 2023 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.

<u>Specific comments on 2023</u>

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.

<u>A word on the methodology of this report</u>

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.

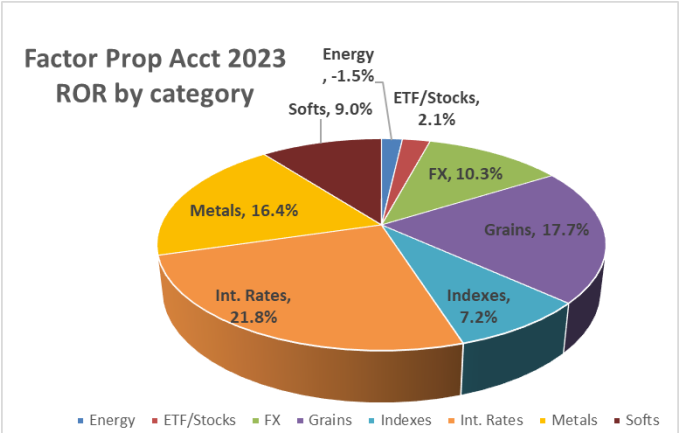
The Pareto Principle (PP) stipulates that 80% of intended consequences are produced by 20% of events. Translated to market speculation, this implies that 20% of trading events (plus/minus 10% IMO) will produce 80% of profits (plus/minus 10%).

The history of Factor's prop account completely validates Pareto. In fact, during the 10 years we have been producing the Factor Service (2014-2023) 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 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 2023 were interest rate markets (22% of net profits) and grains (18% of net profits) with crypto markets landing in the third spot.

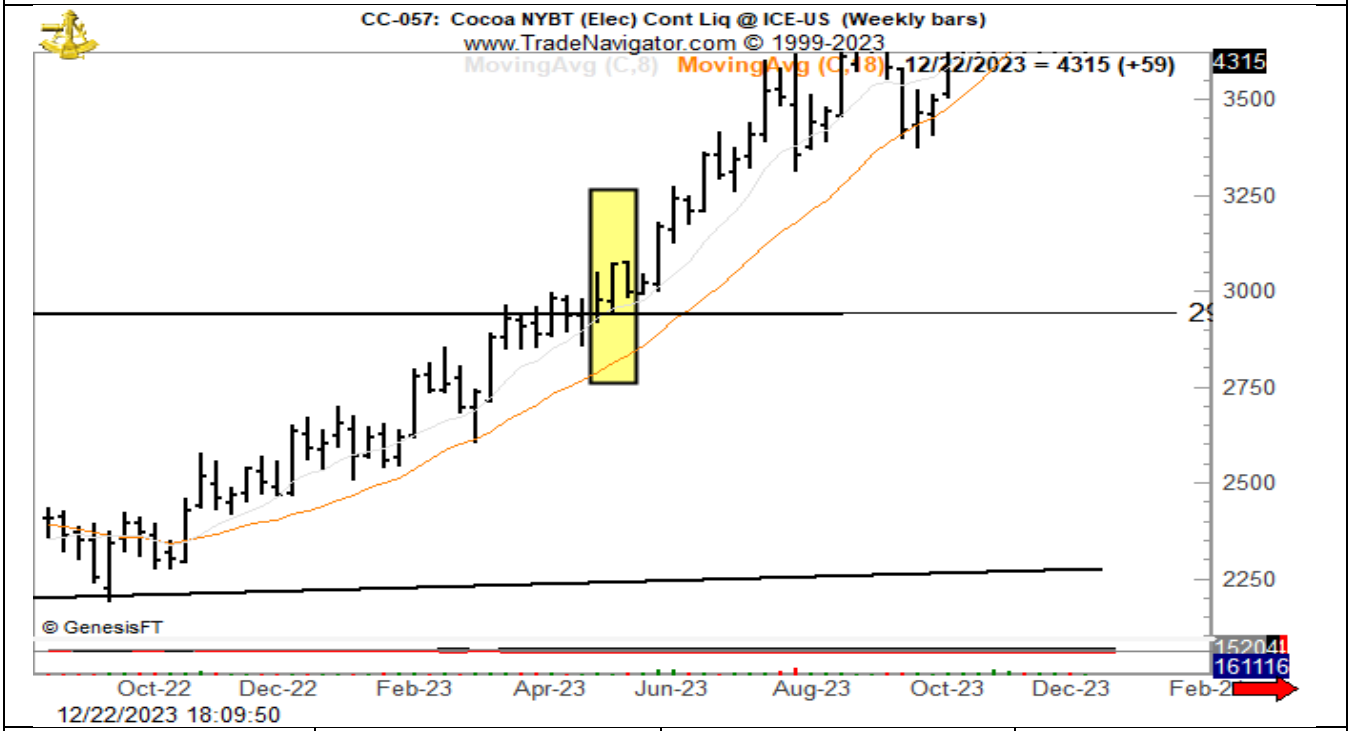
2023 Best Dressed List

Market	Pattern (s)	Date completed	Target(s)
AAPL	15-wk wedge	Nov 16 at 179.00	197.20 met on Dec 13
The breakout was clean. The pattern was decisive.			

Market	Pattern (s)	Date completed	Target(s)
Bitcoin Cash	12-mo inverted H&S	Jun 23 at 158.50	273.93 met on Jun 30

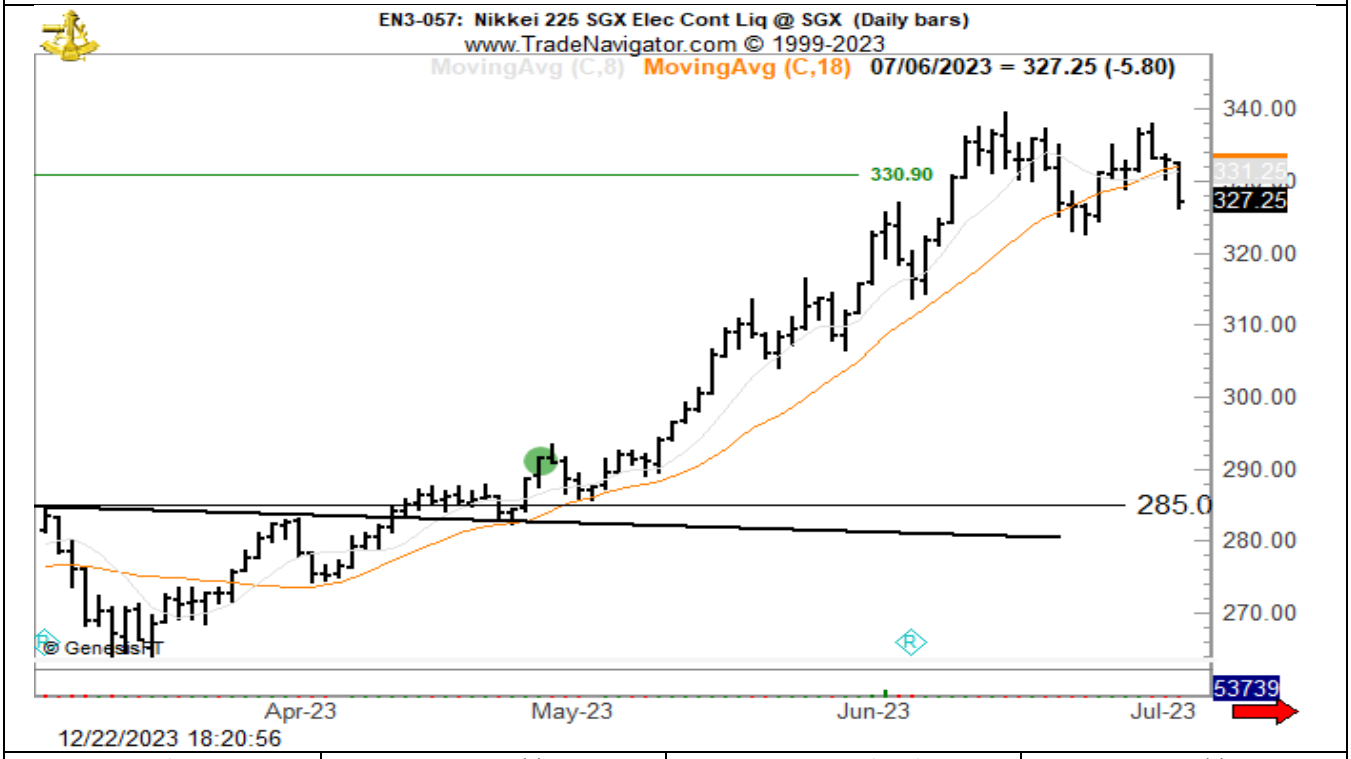
Market	Pattern (s)	Date completed	Target(s)
AVGO	4-1/2 mo Cup and Handle	May 23 at 673.54	875.34 met on Jun 23
	5+ mo rectangle	Dec 6 at 944.30 (secondary)	1048.66 met on Dec 12
AVGO provided two members of the 2023 BDL. The 4-1/2 mo C&H breakout was decisive with immediate follow through. The advance in early Nov completed a clearly defined rectangle, but following an initial thrust the market experienced a hard retest, bottoming on Dec 6. A secondary breakout had closing price recompletion on Dec 6, then forcefully rallied well past the target.			
Obviously, the best trade would have been to catch the bottom of the right shoulder in early Jun, but when markets breakout powerfully it pays to enter even after a large blast-off rally. The right shoulder low was cleared on Jun 23.			

Market	Pattern (s)	Date completed	Target(s)
Bitcoin	9-mo inverted H&S bottom	Mar 14 at 26,322	41,461 met on Dec 4
	7-mo rectangle	Oct 23 at 32,942	40,360 met on Dec 4
There is a tendency for H&S patterns to have symmetry in terms of the duration and height of the left and right shoulders. But not always. In the case of Bitcoin the right shoulder was extremely abbreviated. This fact did not minimize the implications of the H&S bottom. However, the target of the H&S was not met until Dec.			



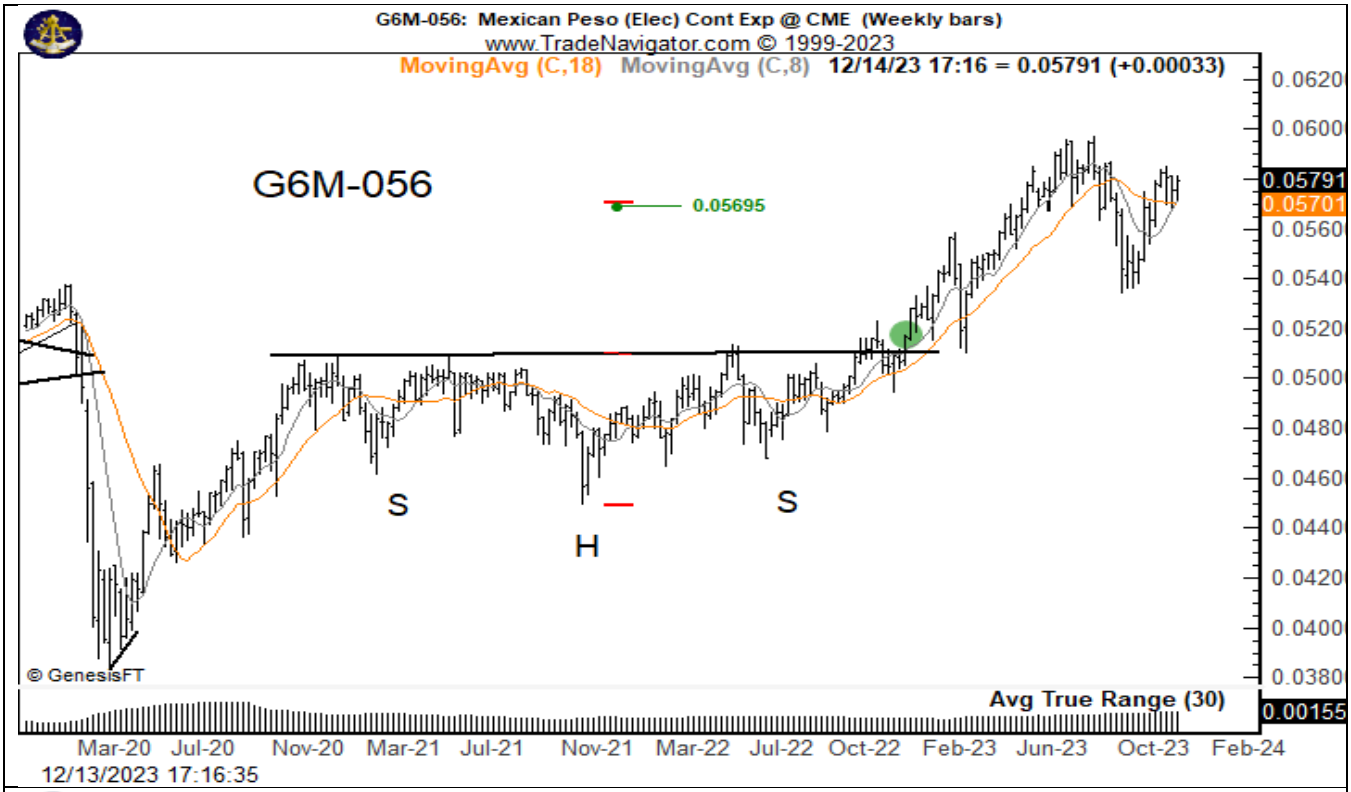
Market	Pattern (s)	Date completed	Target(s)
NY Cocoa futures 055	Multi-year ascending triangle	May 19 at 3071	3851 met on Oct 27

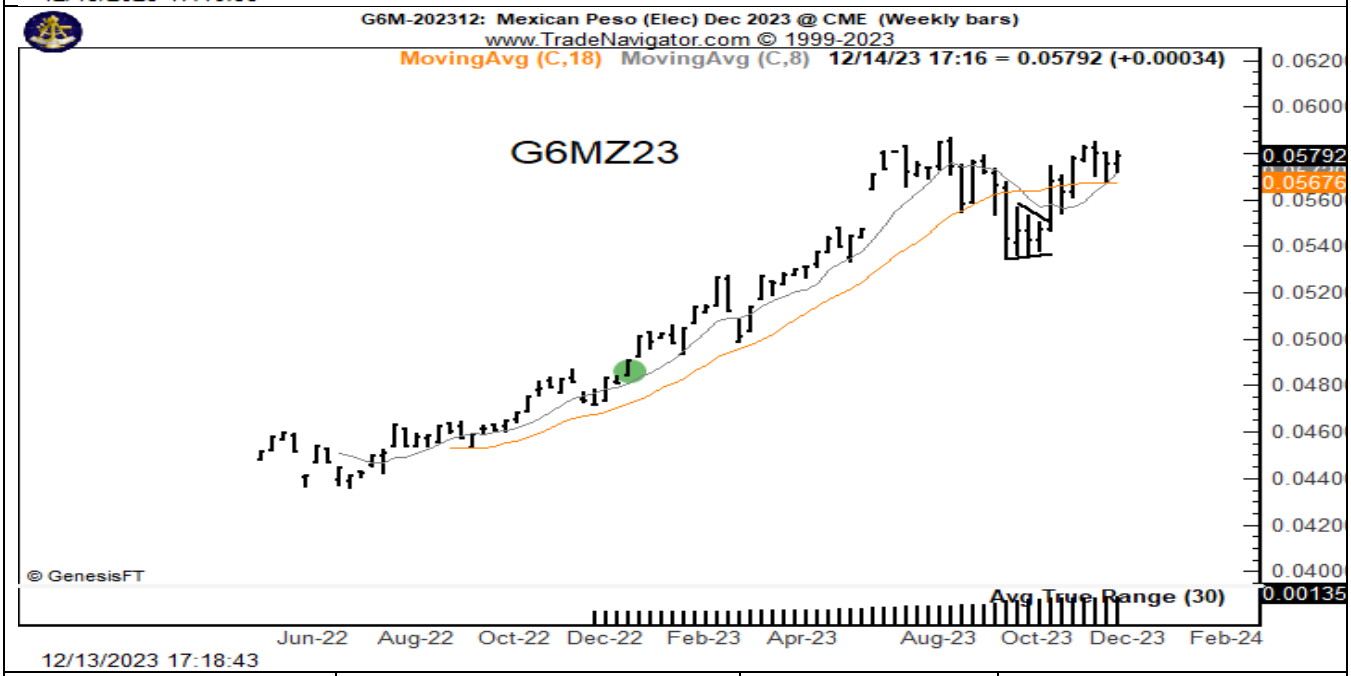
Trading massive multi-year patterns is a challenging endeavor because a trader must first await a clear weekly price breakout. For me, such a confirming breakout occurs only when a full weekly bar clears the pattern boundary, as shown in the yellow box on the bottom chart. Often such breakouts are confirmed by shorter-term patterns on daily charts.



Market	Pattern (s)	Date completed	Target(s)
Nikkei Dow futures 057 (SGX)	19-mo symmetrical triangle	May 1 at 289.60	330.90 met on Jun 14

The Nov 24, 2023 high was the key level to confirm the completion of this triangle. As a diagonal pattern, the breakout is not determined by the boundary, but by an intermediate high within the pattern. The daily chart finally cleared this level on May 1. A guideline I use in my trading is to pay attention to the 8-day and 18-day moving averages. In the case of the Nikkei breakout these MAs provided confirmation through hesitation in the first week or so after the breakout.

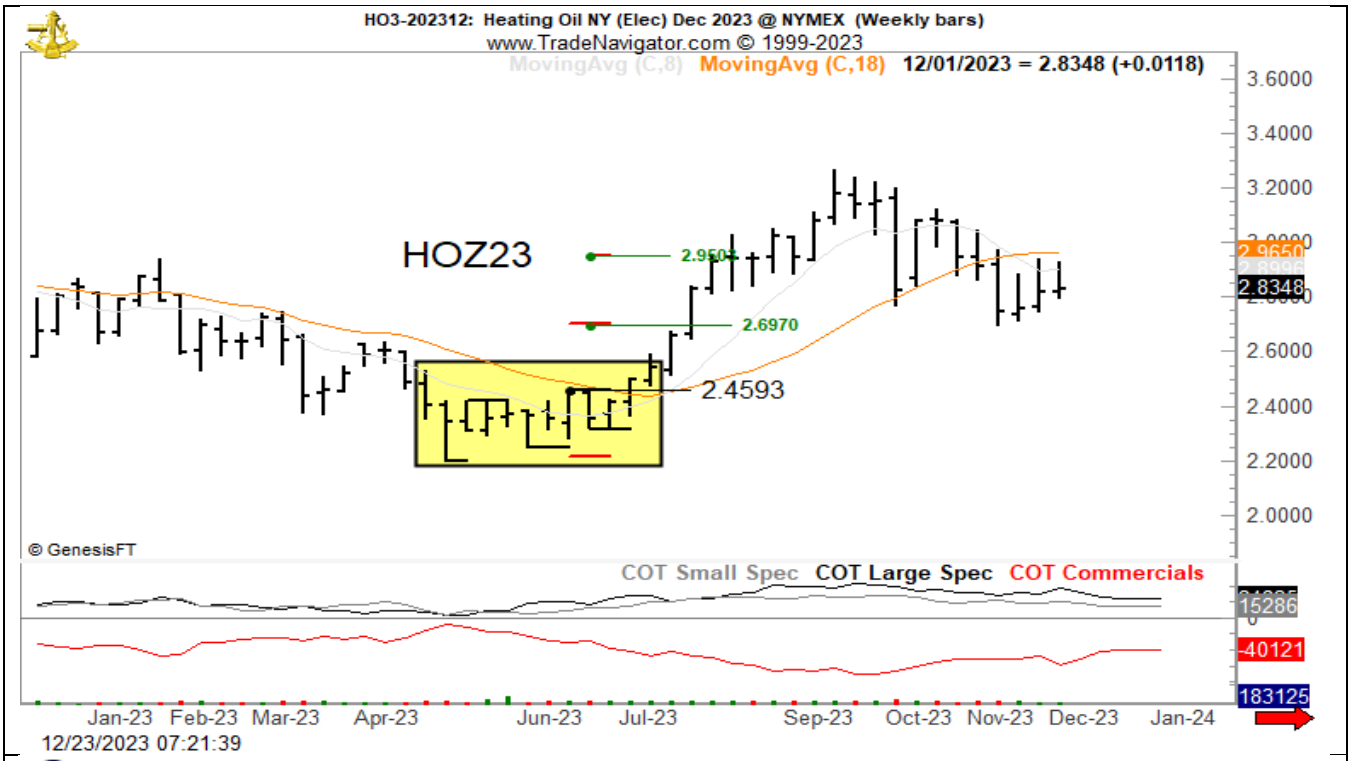


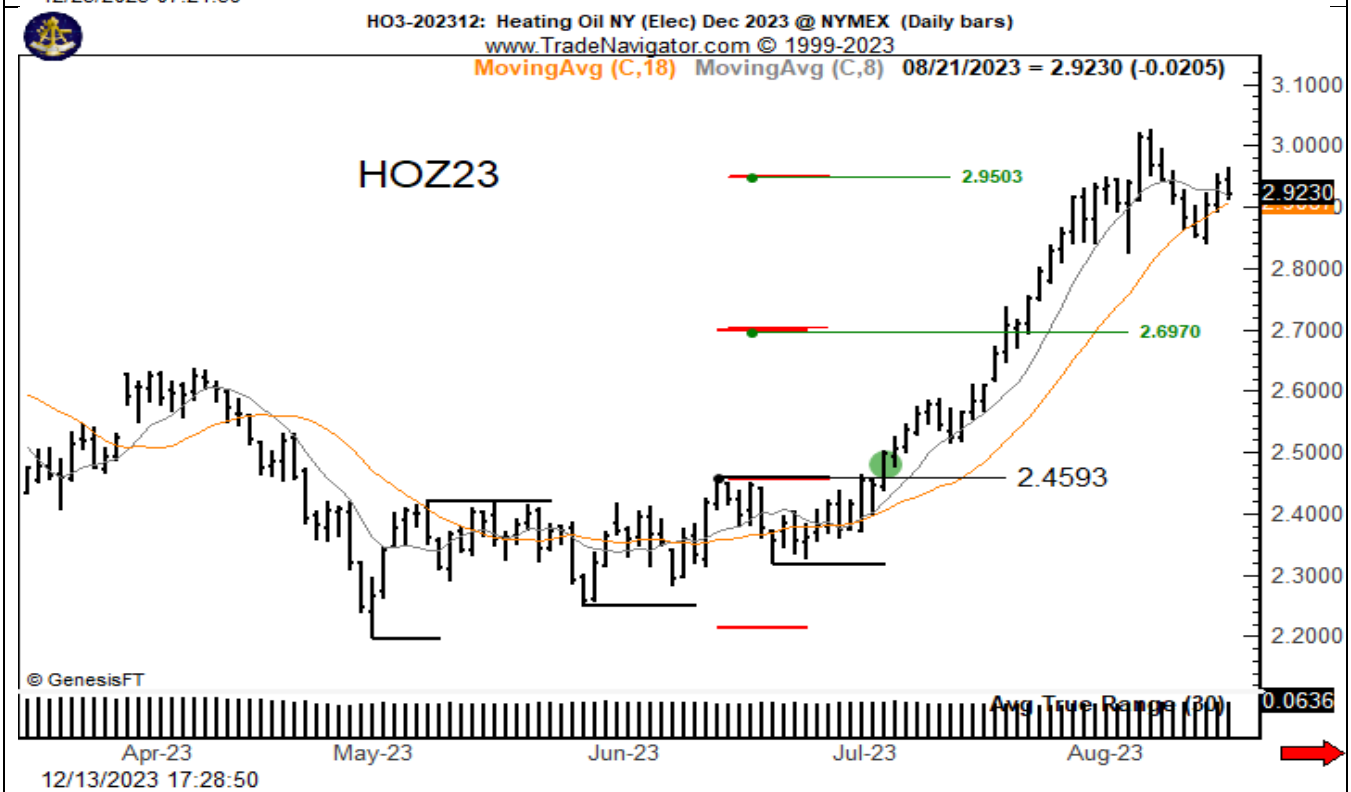


Market	Pattern (s)	Date completed	Target(s)
Mexican Peso futures 056	25-mo continuation inv. H&S	w/o Jan 6 at 5170	5695 met w/o May 19

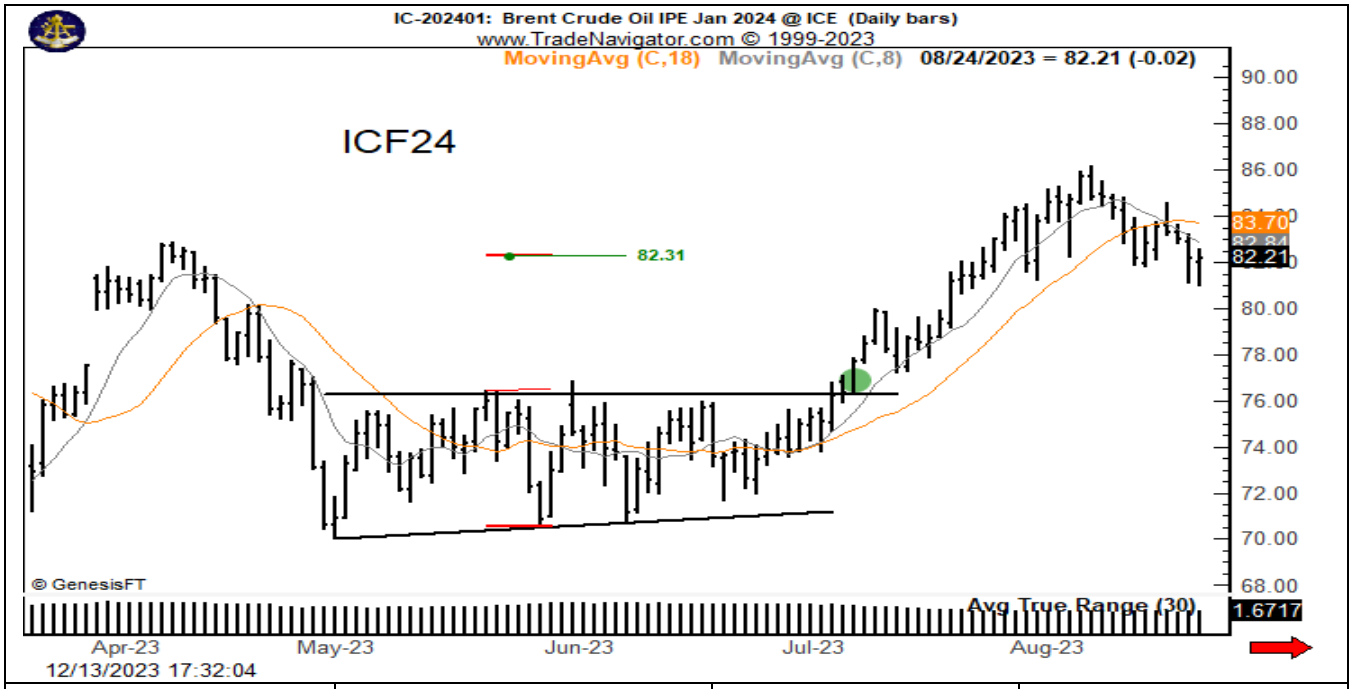
It is near impossible to fine-tune the entry of a massive weekly chart pattern with a daily chart. Weekly bars are the most appropriate way to ascertain pattern completion. The first attempt at completion of this inverted continuation H&S was in Nov 2022. This attempt was premature. Finally, the completion occurred in the week of Jan 6. Note that the corresponding daily chart displayed a new high within a sustained advance.

Note: Many chartists (particularly Elliott Wave practitioners) deny the validity of continuation inverted H&S patterns. However, Schabacker, Edwards and Magee (the fathers of classical charting principles) acknowledged the existence of the pattern.

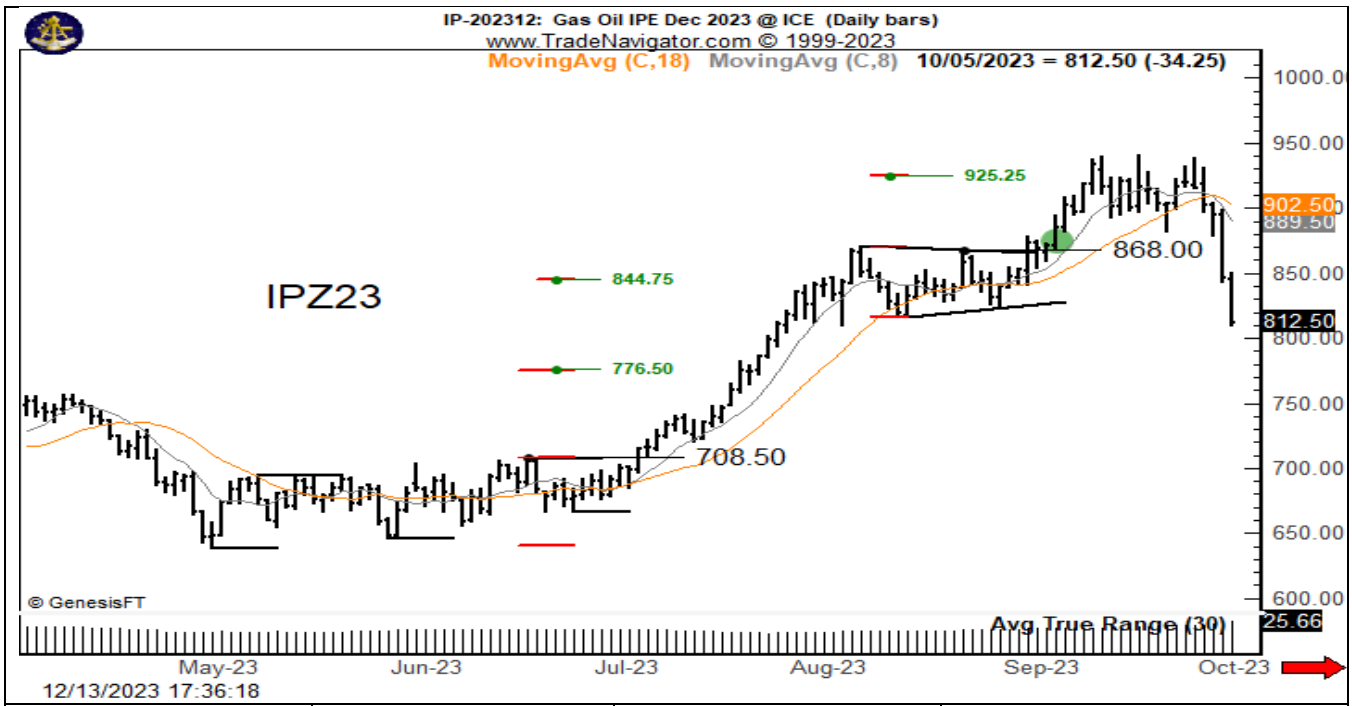




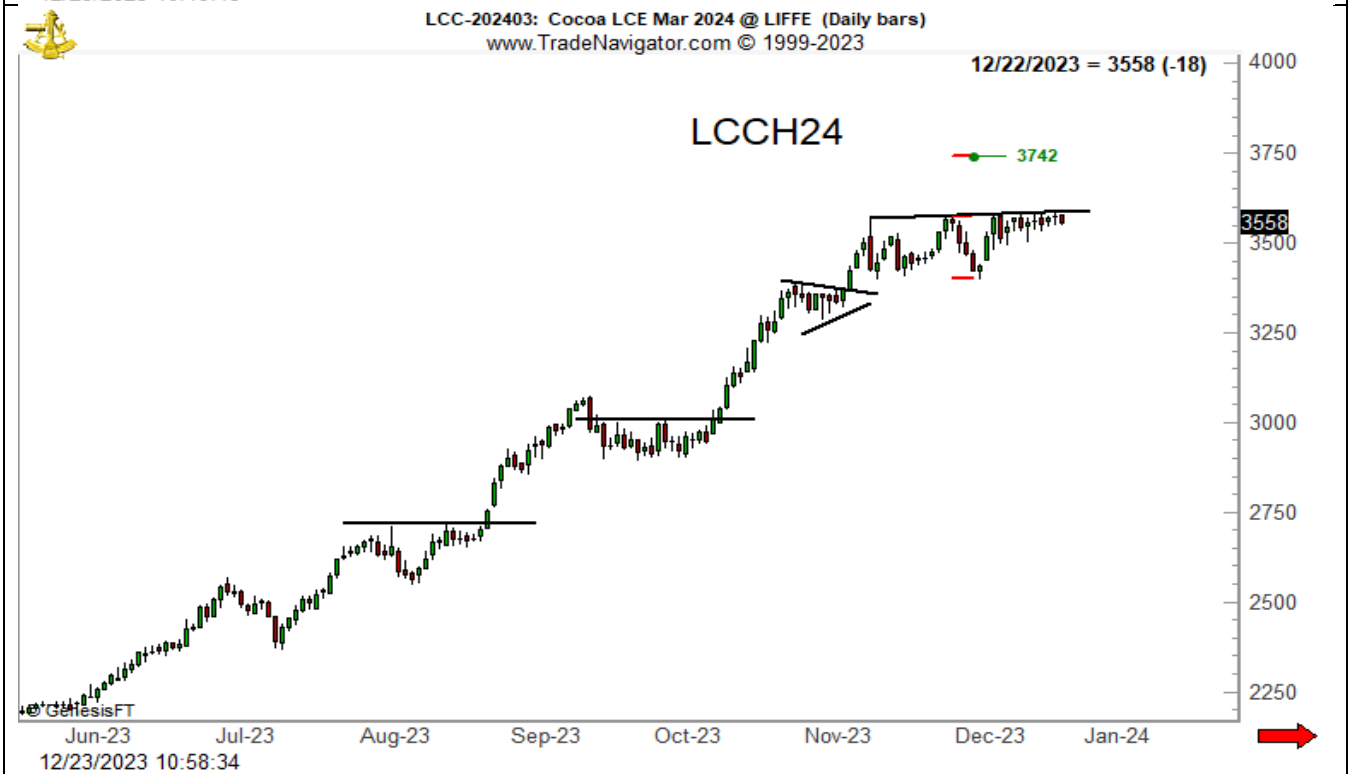
Market	Pattern (s)	Date completed	Target(s)
Heating Oil Dec 2023 futures	12-wk Horn or Sloping bottom	Jul 7 at 2.4753	2.6970 met on Jul 24 2.9503 (2X) met on Aug 9
Congestion patterns that are contained in a range less than 15% of the value of the underlying asset often produce trends equal to twice the height of the congestion zone. Thus, this horn or sloping bottom produced two target that were met with a strong sustained trend.			



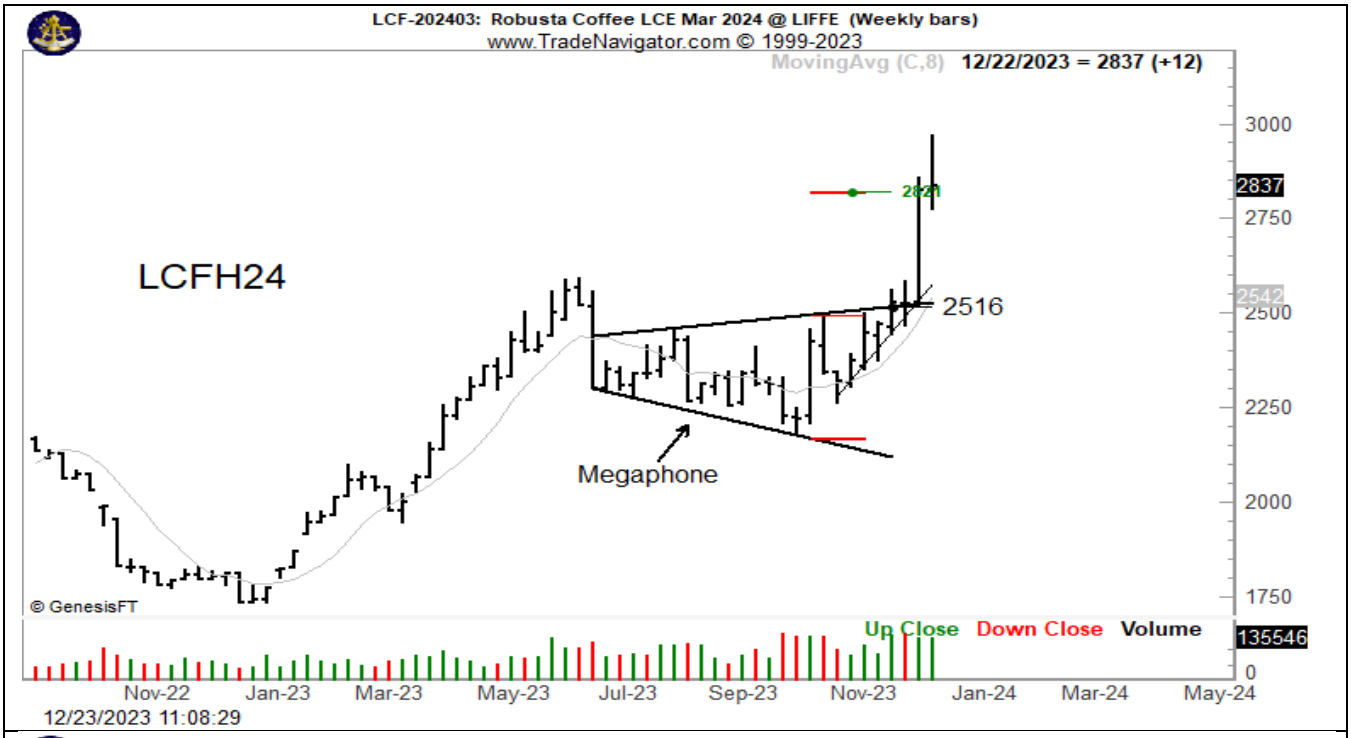
Market	Pattern (s)	Date completed	Target(s)
Brent Crude Jan 2024 futures	12-wk ascending triangle	Jul 7 at 77.19	82.31 met on Jul 27

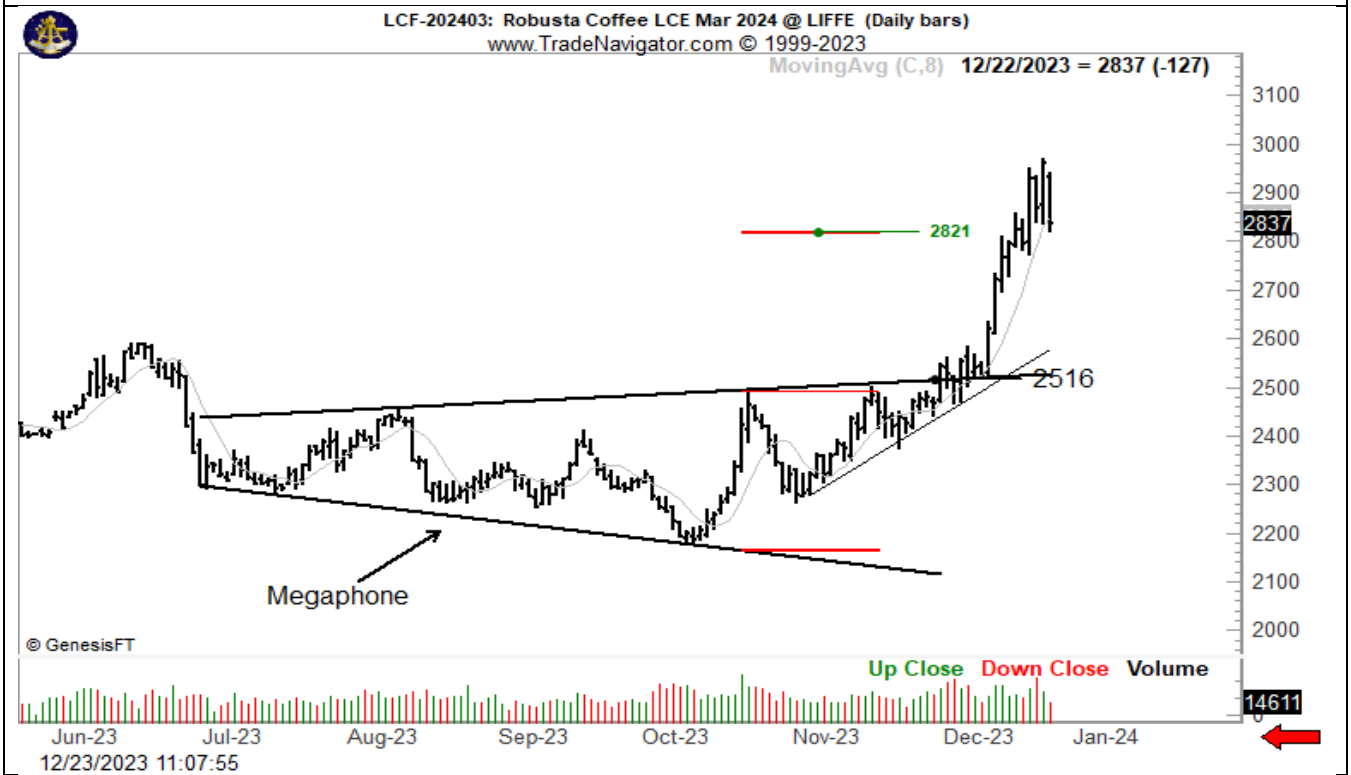


Market	Pattern (s)	Date completed	Target(s)
IPE Gas Oil Dec 2023 futures	11-wk horn bottom	Jul 7 at 714.5	776.50 met on Jul 24 and 844.75 (2x target) met on Aug 8
This 11-week horn or sloping bottom displays the beauty of a breakaway that works right away and never looks back.			



Market	Pattern (s)	Date completed	Target(s)
London Cocoa futures 055	Multi-year rectangle	W/O Jun 15 at 2601	3685 all but met
The daily chart of London Cocoa displays the numerous small flags and pennants that occur within the context of a massive move indicated by the long-term charts. It appears as if another pennant will lead to the eventual target.			

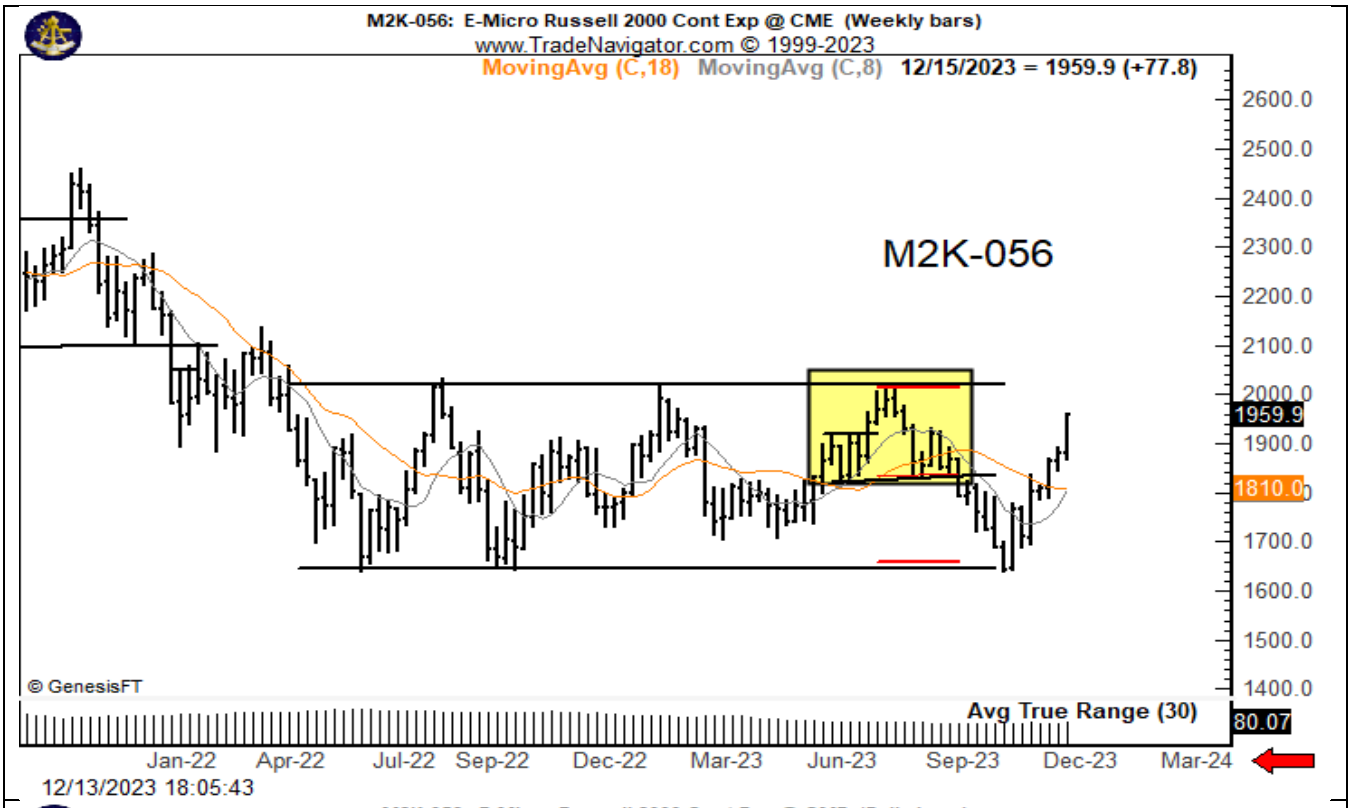


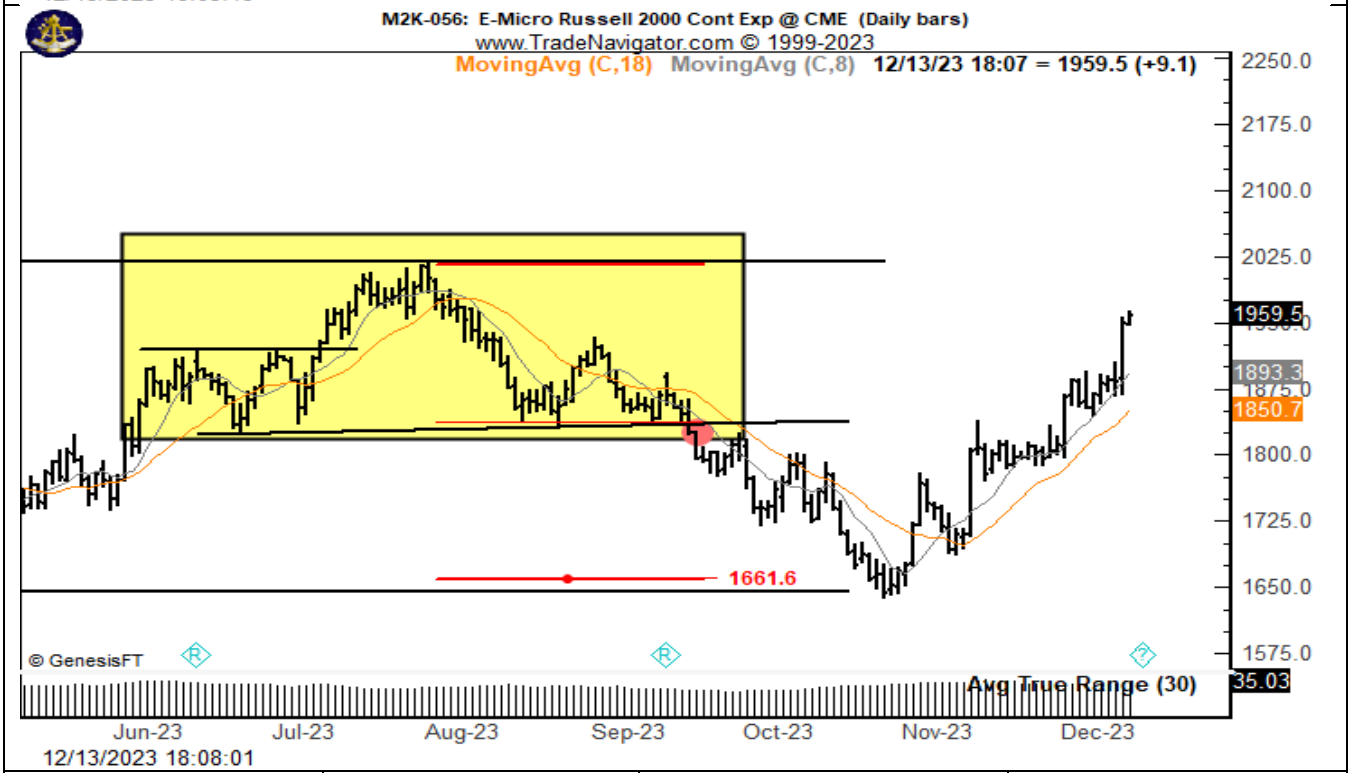


Market	Pattern (s)	Date completed	Target(s)
London Mar 2024 Robusta Coffee	5-mo megaphone	Nov 30 at 2541	2821 met on Dec 15
When breakouts on daily charts do not immediately trend it is often good to monitor the 8 DMA to remain committed to a trade. In this case the market did not make a clear breakaway but nevertheless remained above the 8 DMA on a closing price basis.			

Market	Pattern (s)	Date completed	Target(s)
London Sugar futures 057	9+ mo rectangle	Mar 22 at 597.8	658.2 met on Apr 5
London Sugar futures Mar 2024	7-mo rising wedge	Dec 1 at 697.2	606.3 met w/o Dec 22
The initial breakout of the 9+ month rectangle paused for almost two weeks. The hesitation was resolved by the Mar 22 advance. The breakout of the rising wedge in Dec was conclusive and swift.			

Market	Pattern (s)	Date completed	Target(s)
Orange Juice futures 057	Multi-year rectangle	W/O Feb 3 at 229.50	361.70 met on w/o Sep 29
This past year has been the year for massive moves in the Softs launched from multi-year congestion patterns (see London Cocoa).			

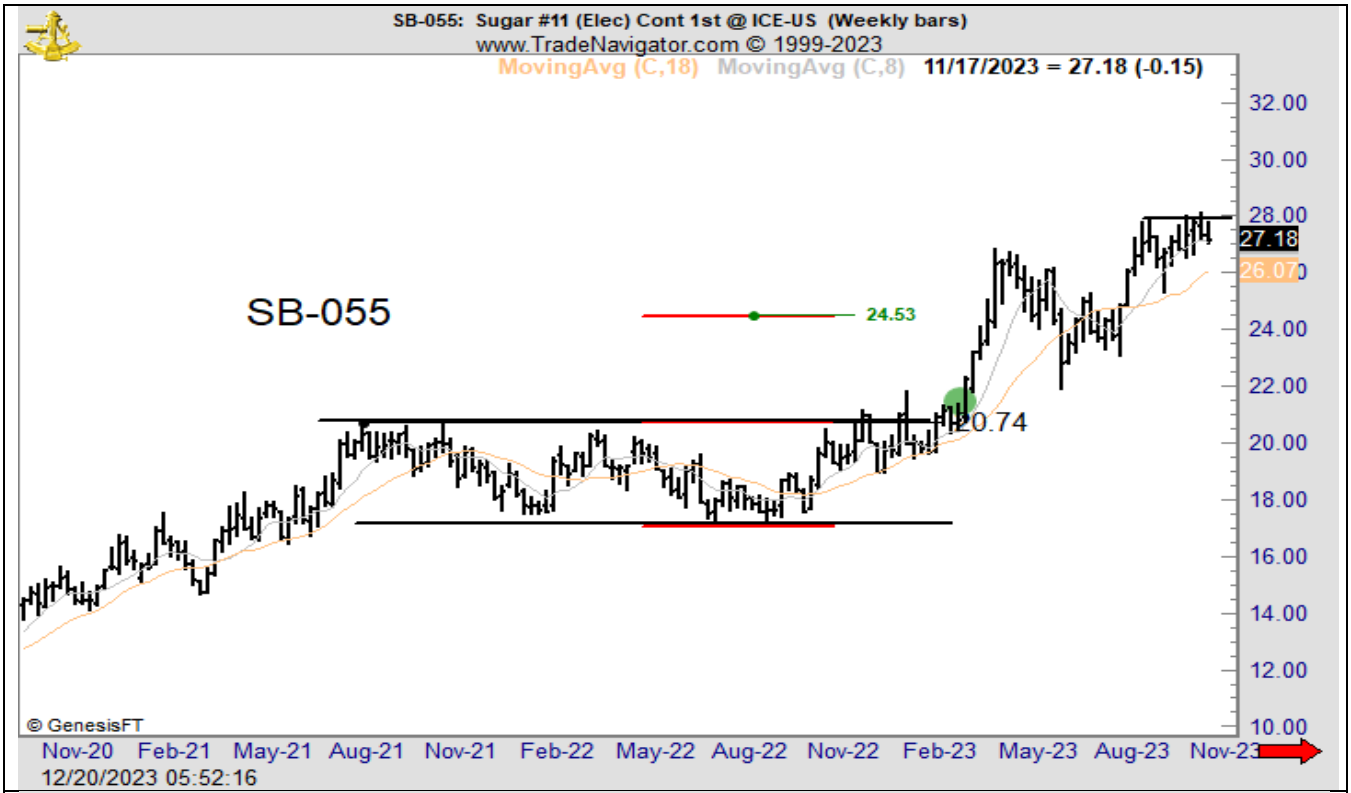


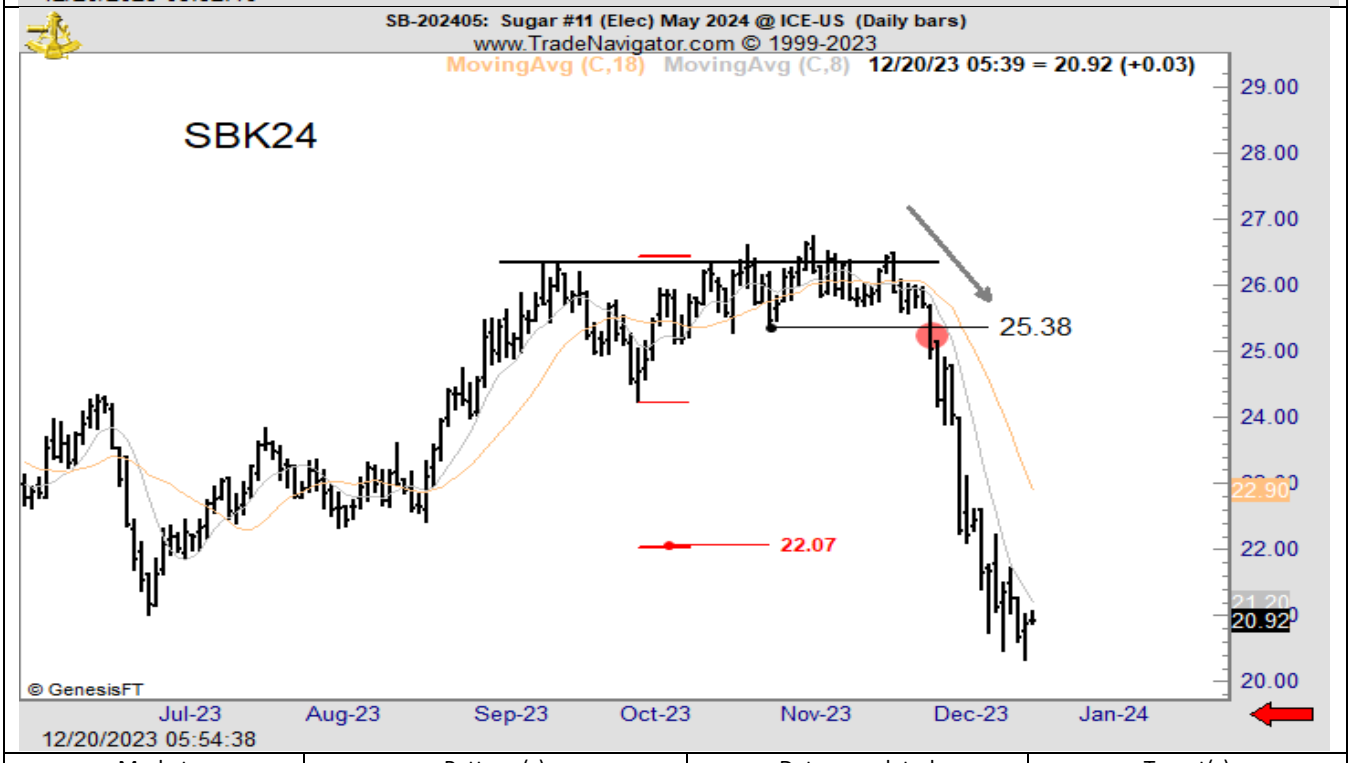


Market	Pattern (s)	Date completed	Target(s)
Russell 2000 futures 056	16-wk H&S (yellow box)	Sep 20 at 1816.5	1661.6 met on Oct 25
Within the context of an 18-month rectangle the market traced out a 16-wk H&S top. The target was a test of the lower boundary of the larger rectangle.			

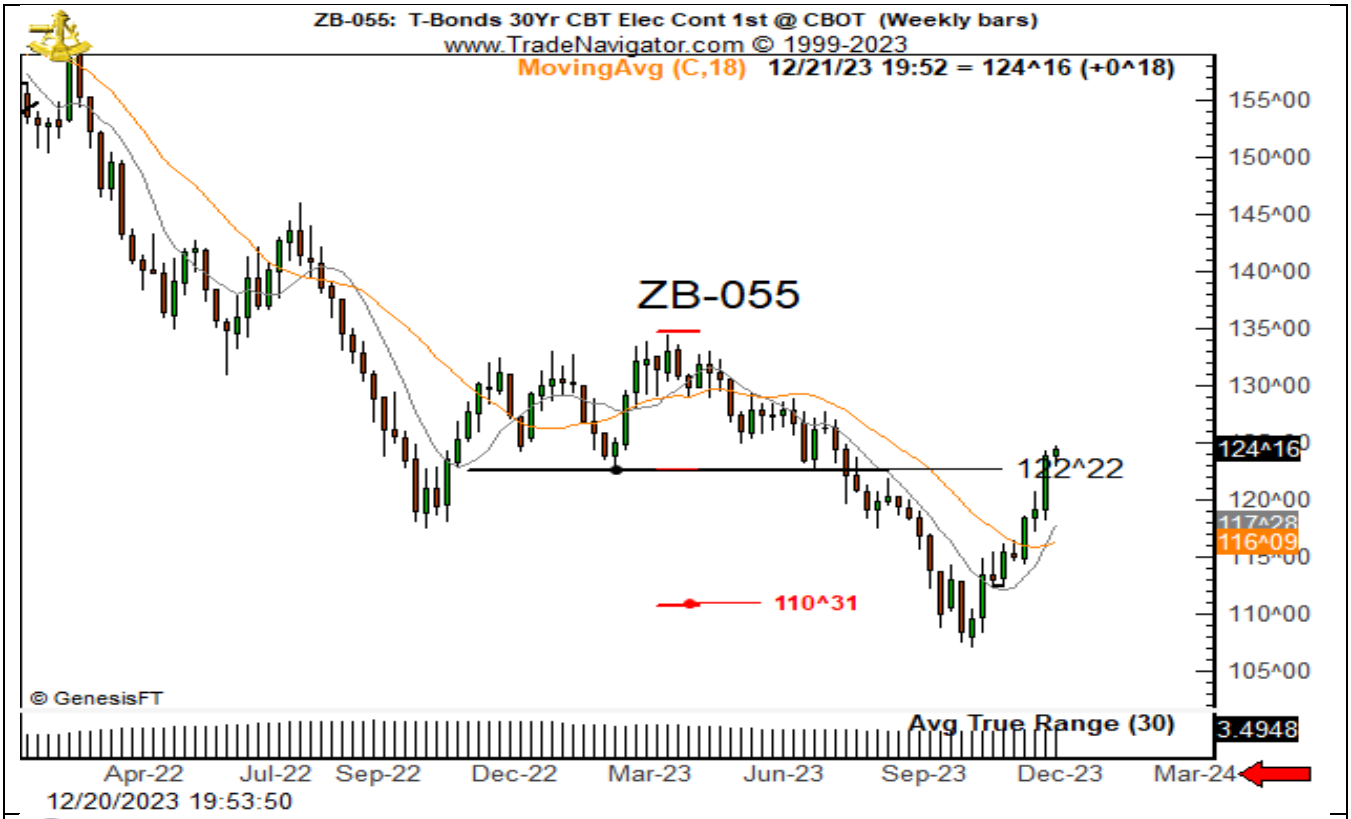
Market	Pattern (s)	Date completed	Target(s)
NASDAQ futures 056	9+ mo inverted H&S	W/O Mar 24 at 12923	15349 met w/o Jun 30
Note the double nature of the head in this pattern. Following the initial breakout the market drifted sideways for six weeks			

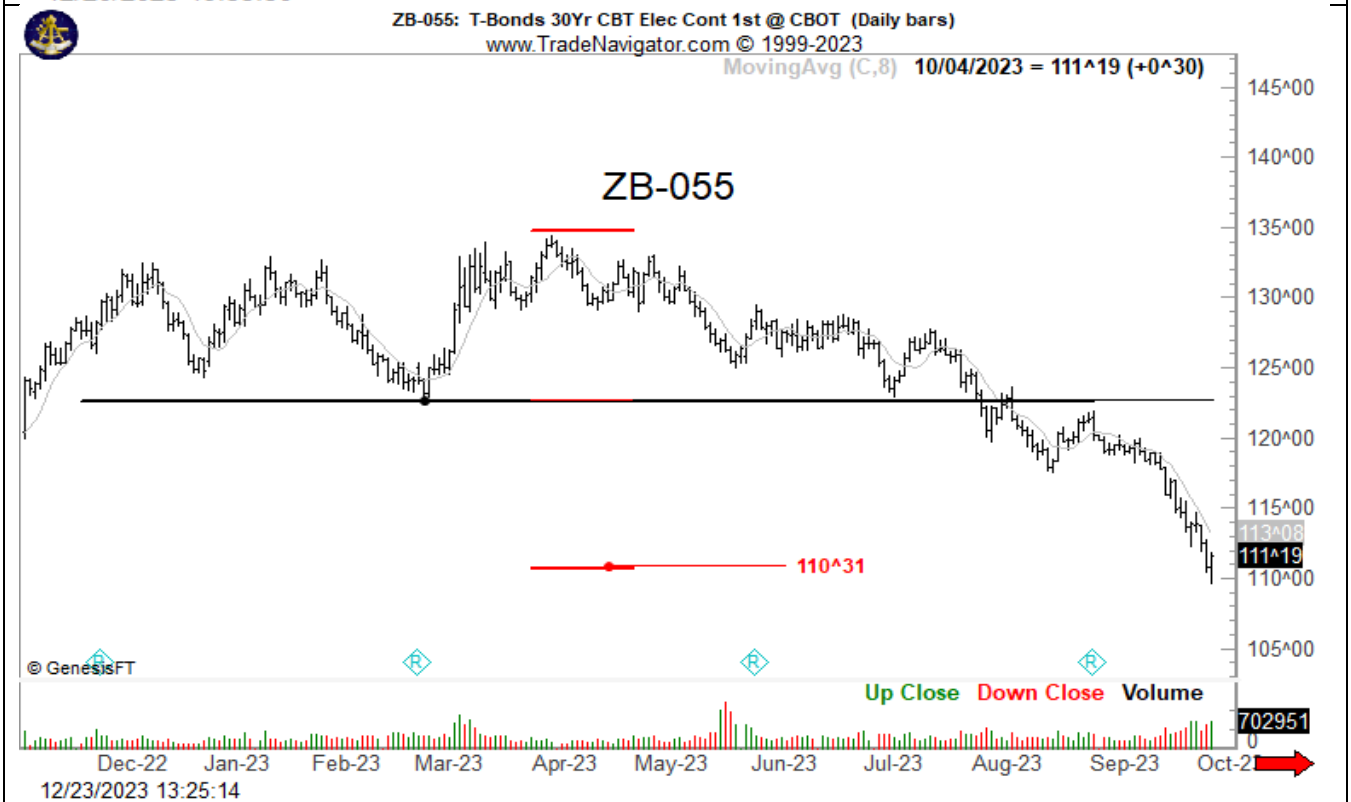
Market	Pattern (s)	Date completed	Target(s)
Nikkei Dow futures 056	19-mo symmetrical triangle	W/O Apr 28 at 2889	3298 met w/o Jun 16



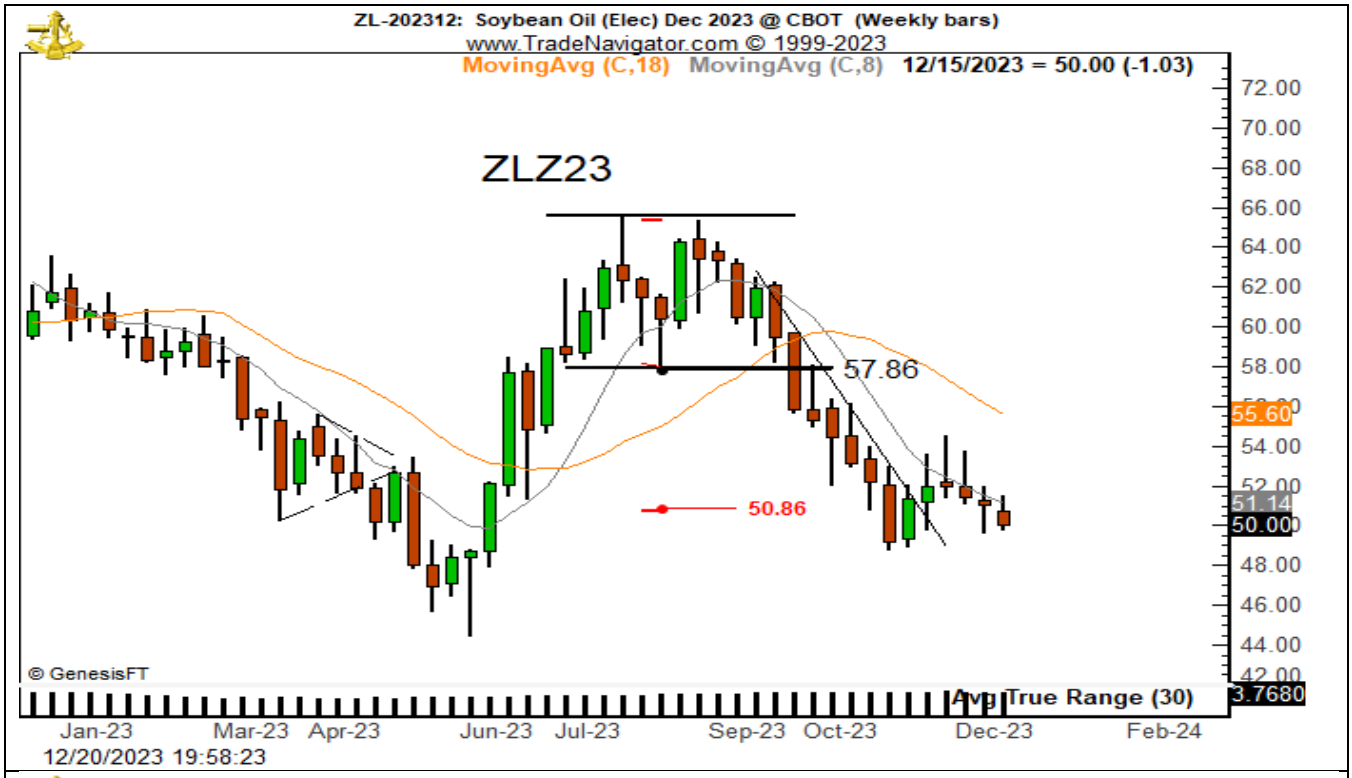


Market	Pattern (s)	Date completed	Target(s)
NY Sugar futures 055	18-mo rectangle	W/O Mar 31 at 21.57	24.53 met w/o Apr 21
SBK24	10-wk rolling/double top	Nov 13 at 25.05	22.07 met on Dec 11



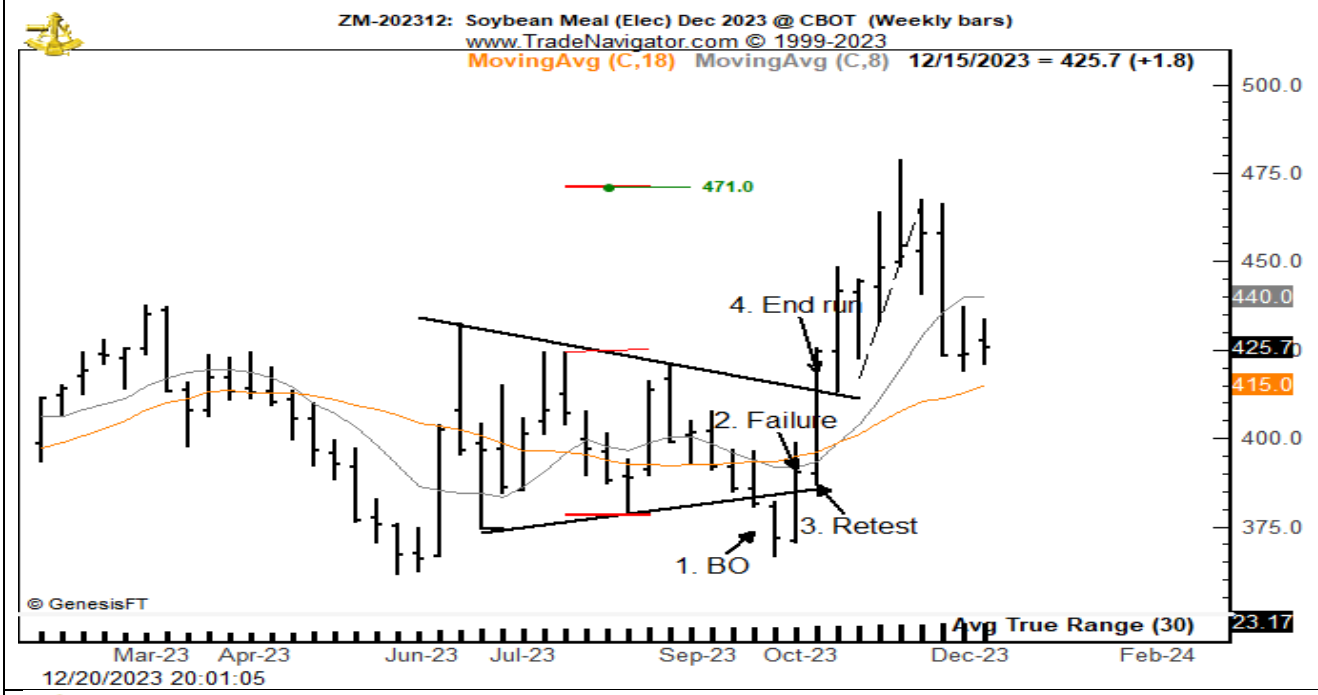


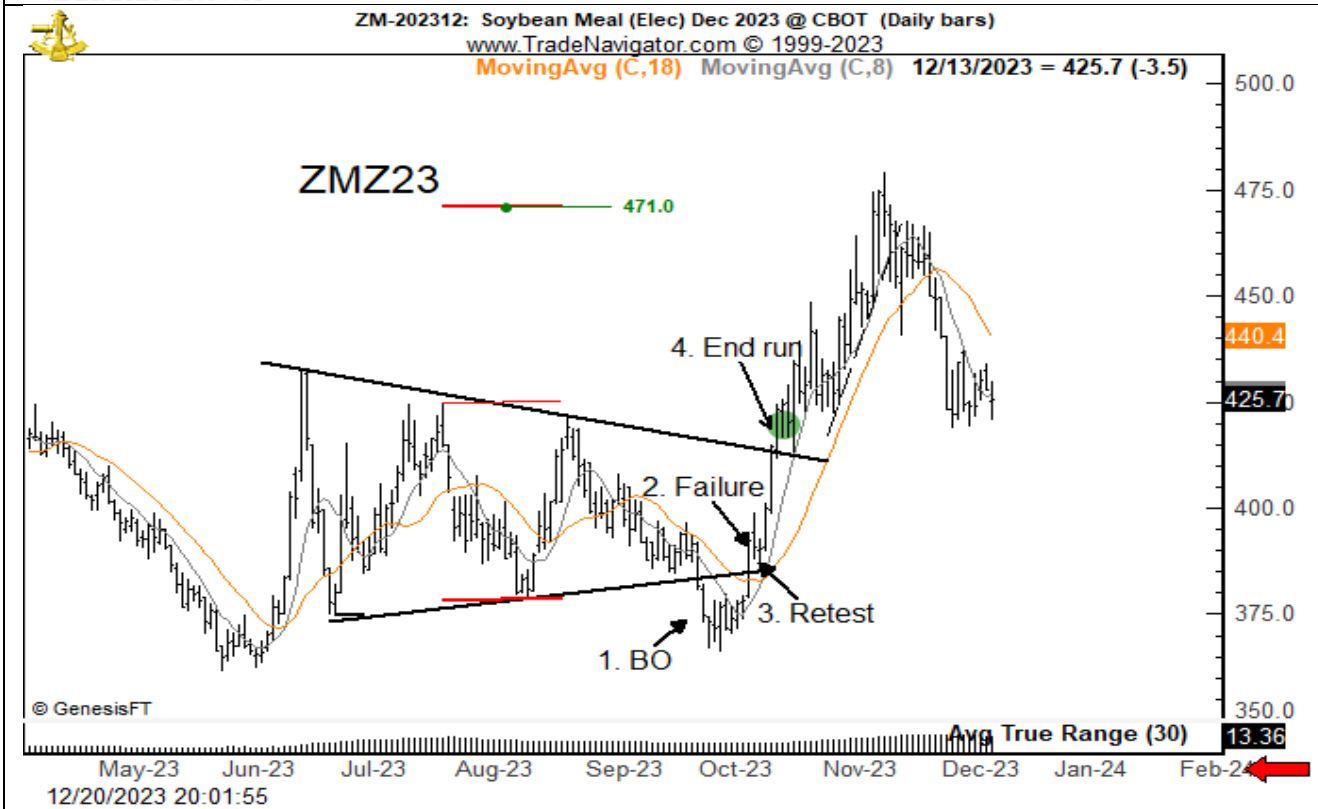
Market	Pattern (s)	Date completed	Target(s)
T-Bond futures 055	10-wk continuation M/rolling top	W/O Aug 11 at 120^29	110^31 met w/o Oct 6



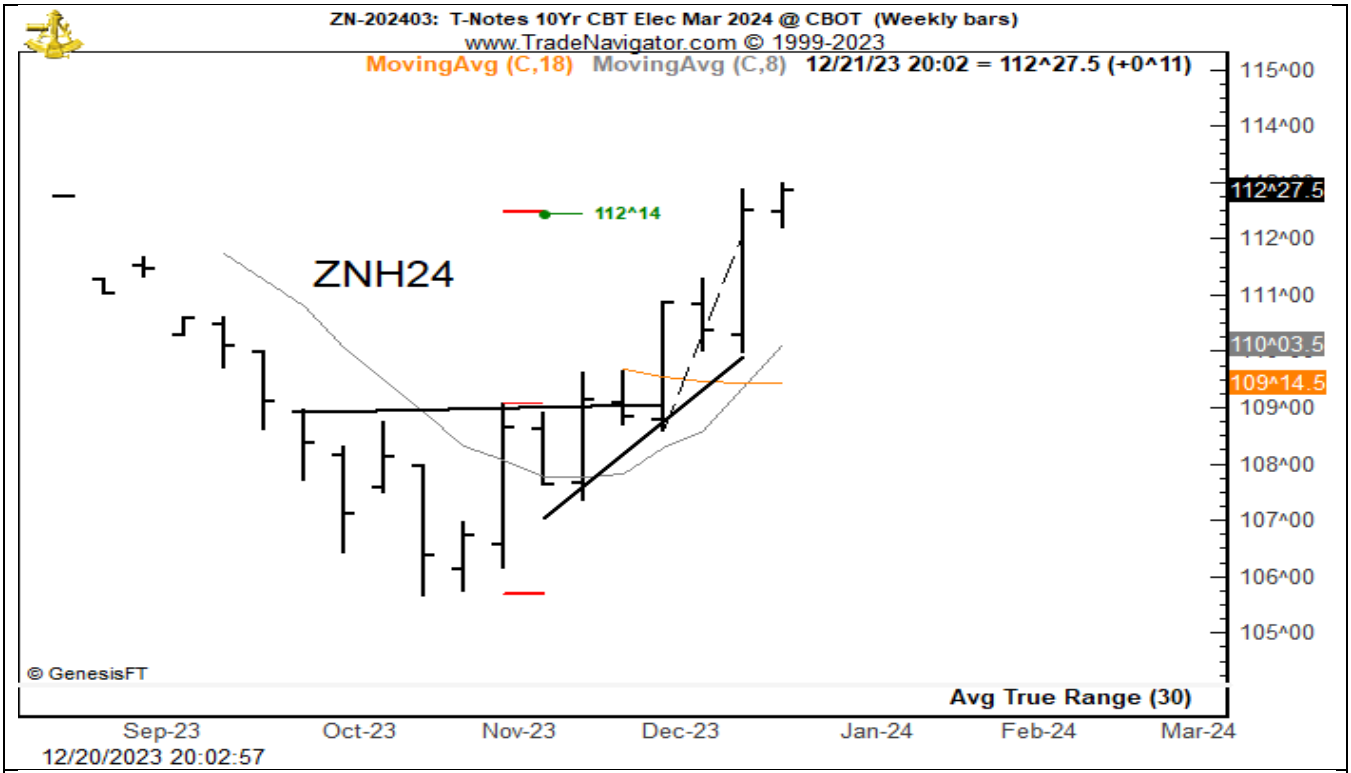
Market	Pattern (s)	Date completed	Target(s)
Soybean Oil Dec 2023 futures	14-wk double top	Sep 26 at 56.97	50.86 met Oct 24

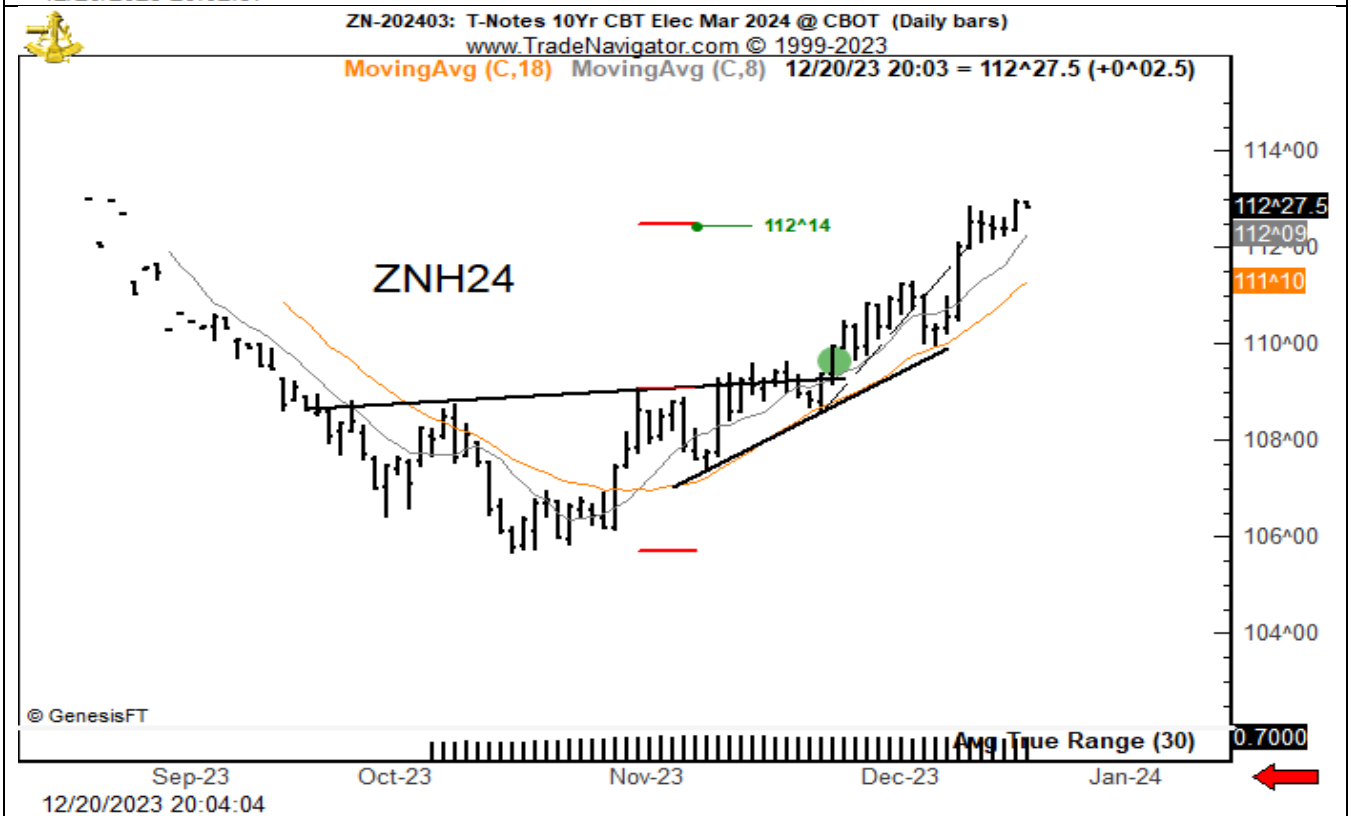
ff





Market	Pattern (s)	Date completed	Target(s)
Soy Meal futures Dec 2023	4-mo end-around sym triangle	Oct 12 failure signal at 392.3 noted #2 Oct 19 at 423.3 noted #4	471.0 met Nov 13
This is a classic symmetrical “end-around” pattern. Pattern failures often reveal the truth of a market more so than does the completion of a pattern. This was the case with Meal.			



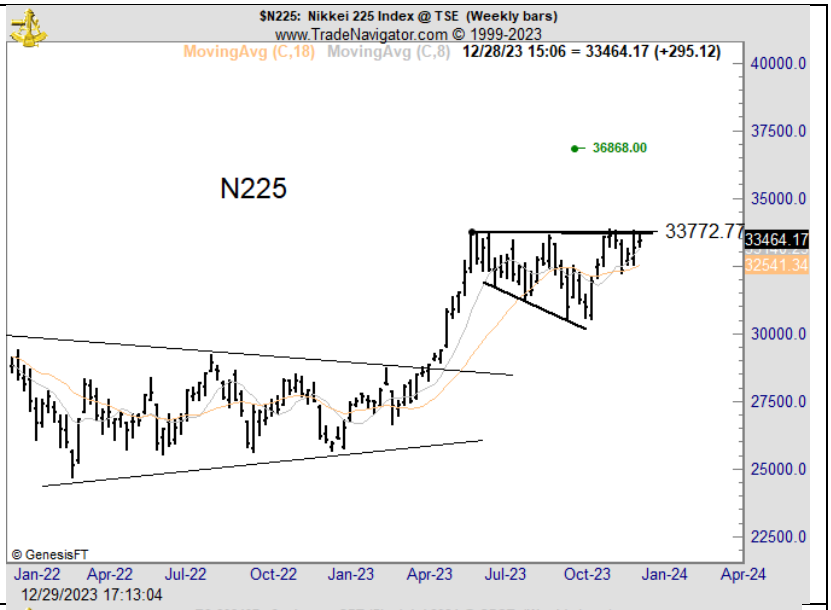
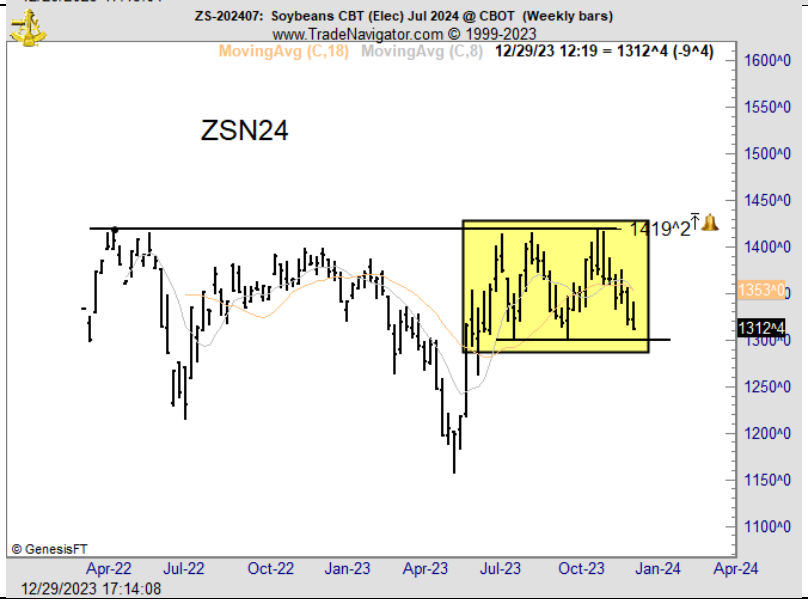


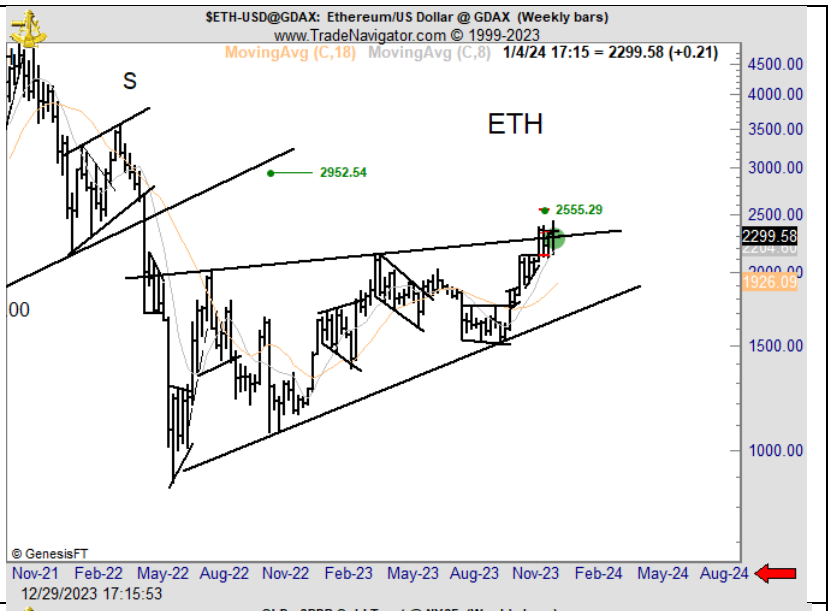
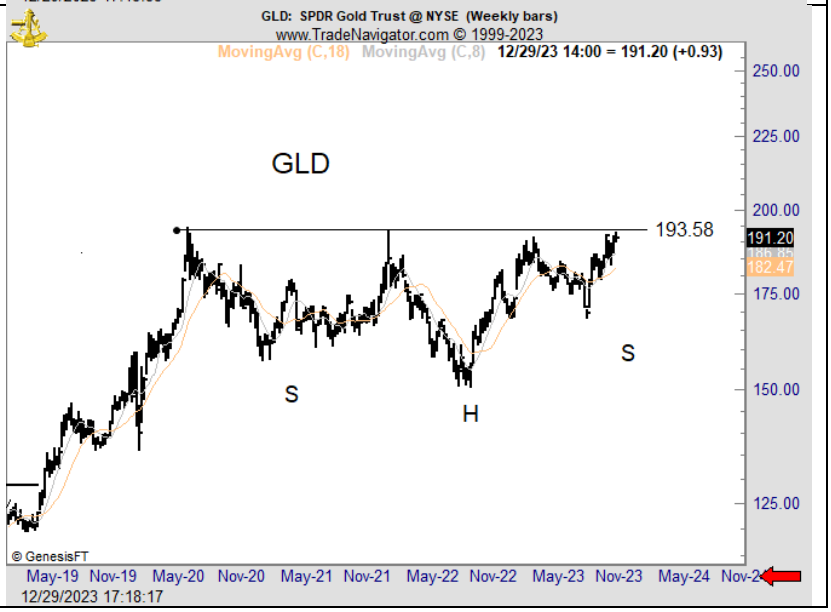
Market	Pattern (s)	Date completed	Target(s)
10-Yr T Note Mar '24 futures	10-wk inverted H&S	Nov 28 at 109^23	112^14 met on Dec 14
The upward slanting neckline was leaked through for several days before a conclusive breakout occurred on Nov 28.			

Market	Pattern (s)	Date completed	Target(s)
Solana spot	11-mo ascending triangle	Oct 23 at 31.91	86.48 met on Dec 21 (log target)
As a rule I use log scale charts to determine price targets in crypto markets. In all other markets I use linear charts for target determination.			

Looking forward

Some charts that suggest BDL trends in the period ahead include:

Nikkei Dow	
Jul Soybeans	

ETH	
GLD	

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.

https://www.peterlbrandt.com/blog/

Twitter: @PeterLBrandt