



## Factor Update, May 1, 2016

Administrative note: This Update is being released early on Friday, April 29 (U.S. time). The analysis herein is subject to change based on subsequent price action on Friday. This is an abbreviated Update due to an extended international travel schedule. The Updates will remain abbreviated through the end of May. I will be releasing mid-week Factor Alerts depending upon trading opportunities.

### Market Review

Candidate Factor Moves are currently ongoing in:

- Platinum
- Nifty 50 (SGX)
- British Pounds
- Medtronics (MDT)
- Crude Oil
- Silver
- SCJ (proxy for Japan Mothers Index)

A candidate Factor Move was terminated in AVGO. Candidate Factor Moves are developing in Cosmo, U.S. Dollar Index, USD/SEK and AUD/NZD.

This issue of the Factor also comments on Soybean Meal, USD/JPY, Gold, Heating Oil, and stock market indexes (Nasdaq, Osaka Nikkei).

### The focus of my attention

This issue of the Factor Update may contain charts for some markets that are of “charting interest” only and not subject to “trading pursuit.” A trader can have all the opinions he or she wants – but what matters are the orders that are entered. A trader has NO control over the outcome of a trade. A trader’s only control is over the processes of analysis and the subsequent entry of orders. A trader is nothing more than a glorified order enterer. As I end this week on Friday I remain focused on more markets than are typical in my trading operations. Markets in which I am holding or considering orders include:

#### Existing positions

- Medtronics – protective stop and targets
- Silver – protective stops and target
- Soybean Meal – protective stop and target
- Nifty 50 – protective stops
- Platinum – protective stop
- SCJ – protective stop and target
- GBP – protective stops and targets
- Heating Oil – protective stop and target

#### New positions

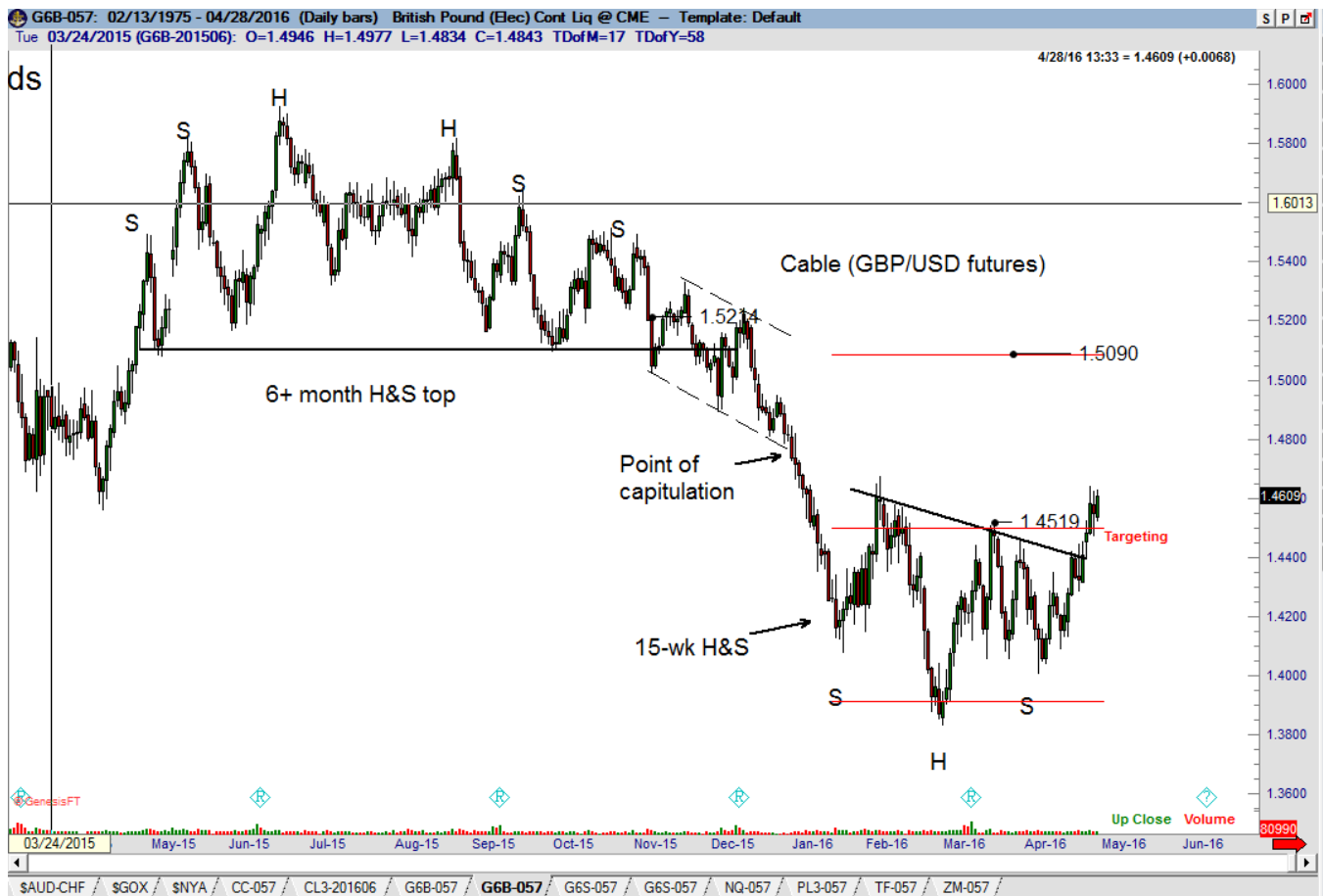
- AUD/NZD – Price alerts US Dollar Index – Price alerts
- USD/SEK – Price alerts
- COPN.S – Entry order with protective stop

Note: I am not comfortable holding positions during extended travel. Thus, I will be taking profits or using jammed trailing protective stops on most existing positions.

## Candidate Factor Moves in Progress

### British Pounds (spot) – daily futures chart

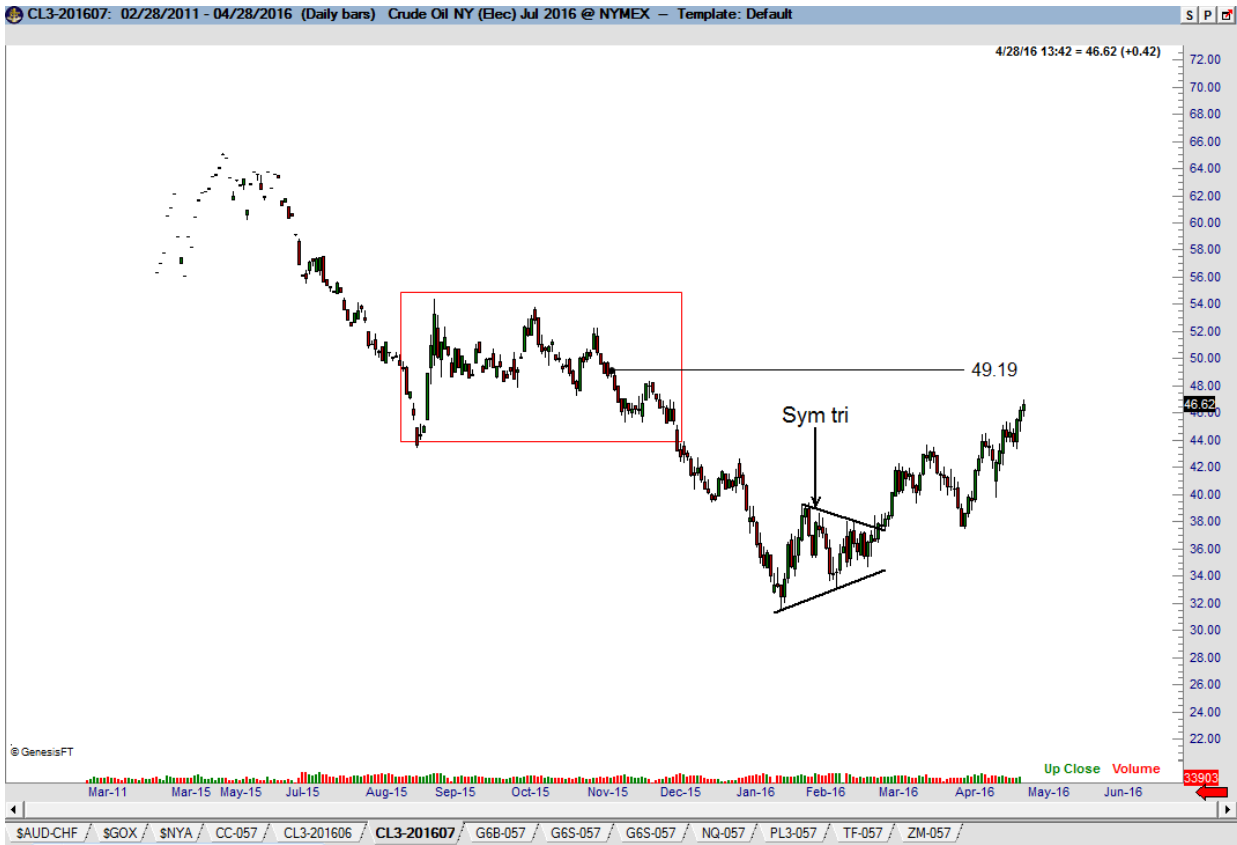
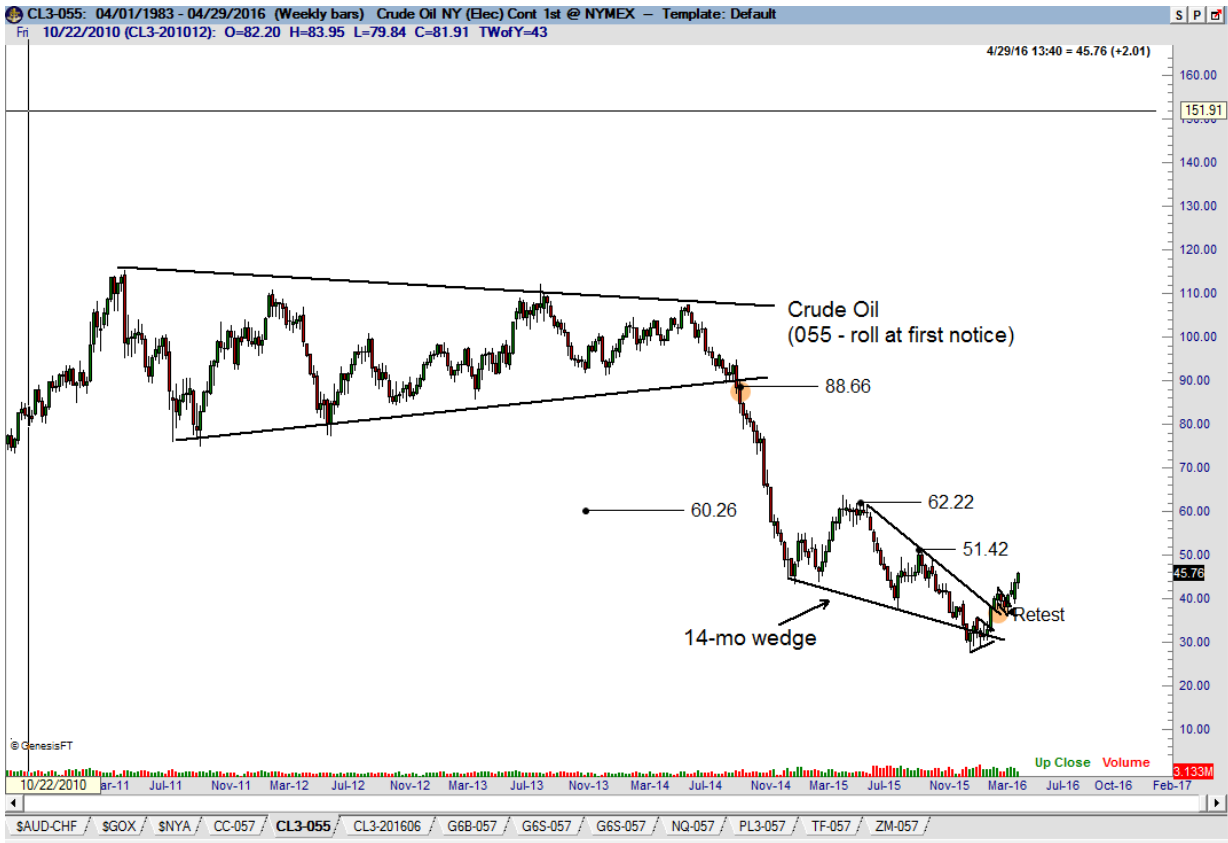
The advance on Apr 25 completed a 15-week H&S bottom in the Cable with an eventual profit target of 1.5088. I must point out that H&S bottoms with down-slanted necklines are not as powerful as H&S bottoms with horizontal or up-slanted necklines. Nevertheless, Factor established a two layer position in spot GBP/USD.



### Crude Oil (weekly and daily charts)

The dominant chart construction continues to be the completed 14-month falling wedge. The target in Crude Oil is 51.42 with an outside possibility of 62.22, although I would not hold my breath for this level. The daily chart (July) has met the target of the symmetrical triangle bottom – the mid-point of the Aug-Dec congestion zone around 49 is a likely area of resistance. Factor went flat this past week in anticipation of my travel schedule ahead. I prefer to have long leverage in Heating Oil given that the HO chart has better definition.

See weekly and daily charts, next page.



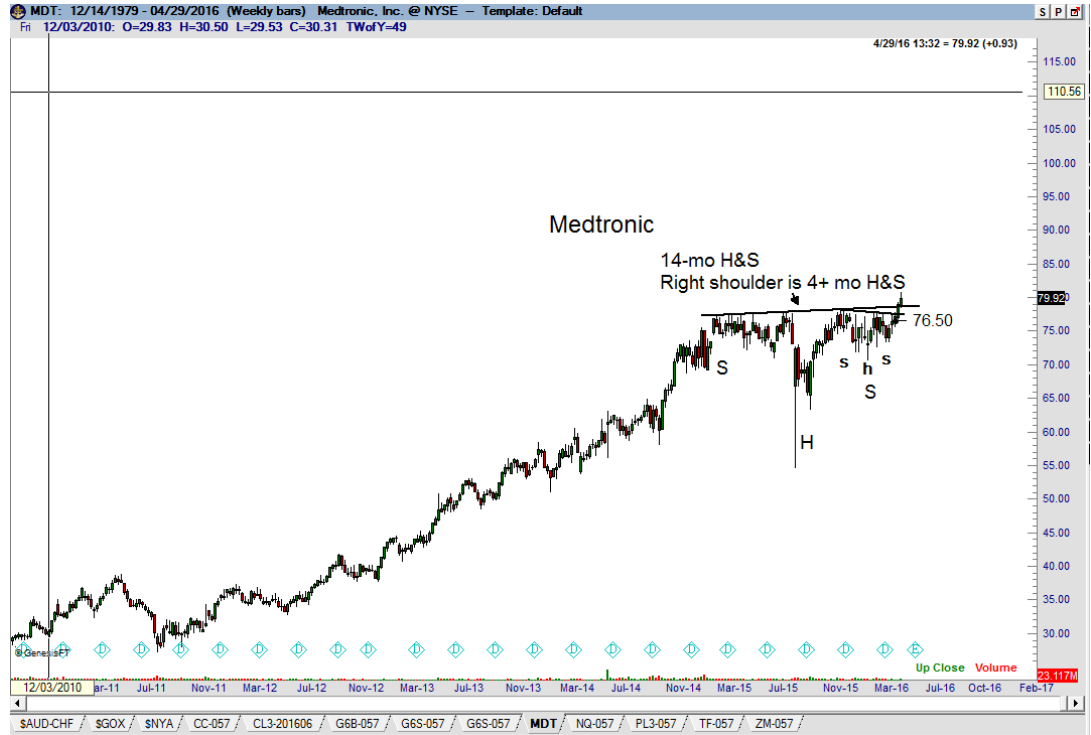
India SGX Nifty 50 (weekly and daily charts)

Nothing new on the Nifty. The dominant chart construction continues to be the massive ascending triangle on the monthly graph. The daily chart has penetrated a down channel – this is a diagonal pattern, therefore not a strong signal. I have advanced stops on my position. I would remain constructive on India even if I am stopped out, but I see no reason to carry a losing trade when the signal was not based on a horizontal configuration.



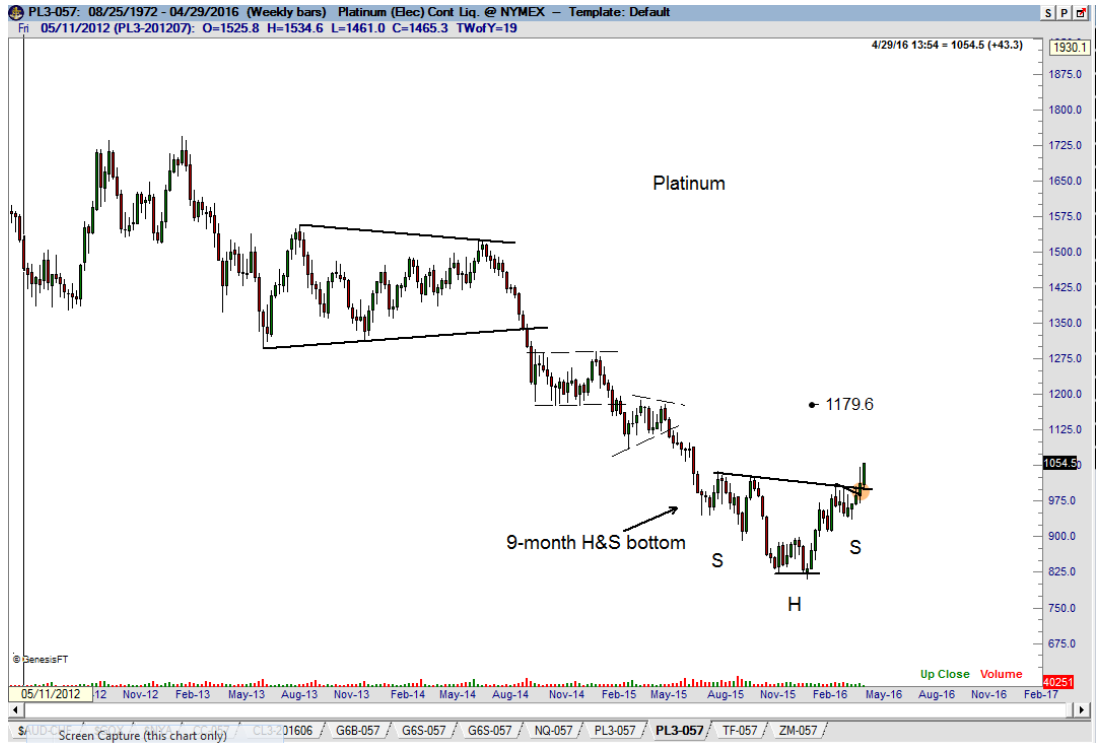
**Medtronics (MDT) – weekly and daily charts**

The dominant chart construction in MDT is the completed 14-month continuation H&S pattern on the weekly graph. Note that the right shoulder is an independent H&S. Factor is long MDT with stops just below 76.50, risking 70 basis points on the trade.



Platinum (weekly and daily charts)

The dominant chart construction in Platinum is the completed 9-month H&S bottom on the weekly and daily graphs with an implied profit target of 1179. Note the near perfect Apr 25 retest of the neckline on the daily chart. The strength on Apr 28 goes a long way to confirm the H&S bottom interpretation.



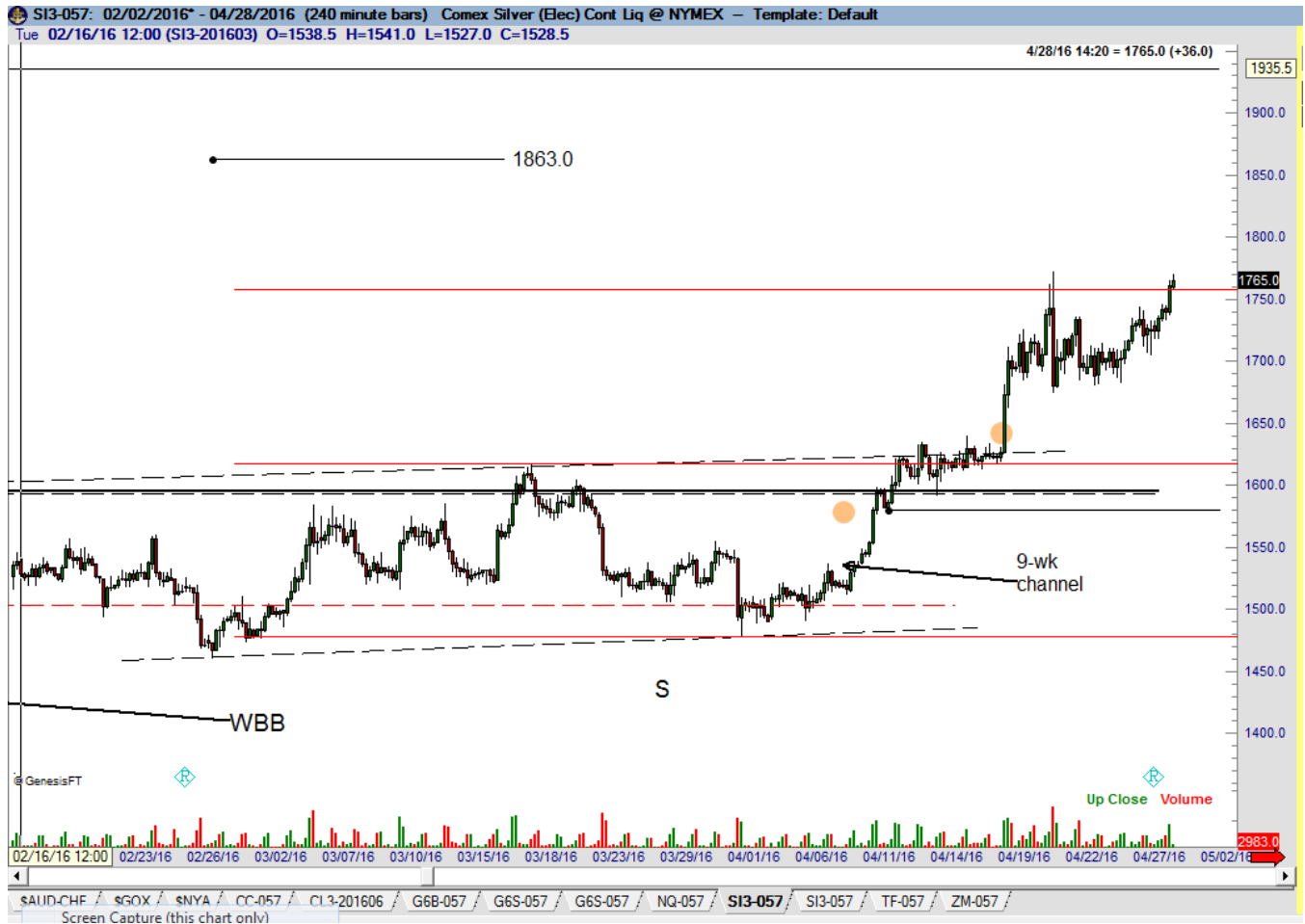
SCJ - iShares MSCI Japan Small Cap Index (various charts)

The Japan Mothers Index has experienced a significant breakout of a 3-year symmetrical triangle on the long-term graphs. This is a powerful buy signal – unfortunately there is not a Mothers futures contract at the present time. I purchased SCJ as a proxy – and this trade has performed negatively due to currency disruption. I am almost certain I will be stopped out of this stock.



Silver (weekly and daily graphs)

The dominant chart construction is the completed 16-month wedge on the weekly graph. Note on the daily graph the completed 8-month H&S bottom wherein the right shoulder was a 9-week channel. Factor is long two layers in Silver futures. The target of the 9-week channel has been met so I am jamming and trailing the stop on half of my position. The target of the H&S bottom is 18.63.





## Other Markets

### AUD/NZD (weekly closing price chart)

This forex cross continues to form a massive H&S bottom pattern, best shown on a weekly closing price graph. A decisive close (preferably on a Friday) above 1.1400 is required to complete this pattern.



### Cosmo (COPN.S) – weekly and daily charts

COPN continues to coil up within a 23-month symmetrical triangle. A decisive close above CHF170 is required to complete this pattern and establish a target near CHF225. I will hedge my CHF currency risk if I purchase this stock. Note that the period since Sep has formed a H&S bottom on the daily graph.

See weekly and daily charts, next page.



### Heating Oil (daily chart)

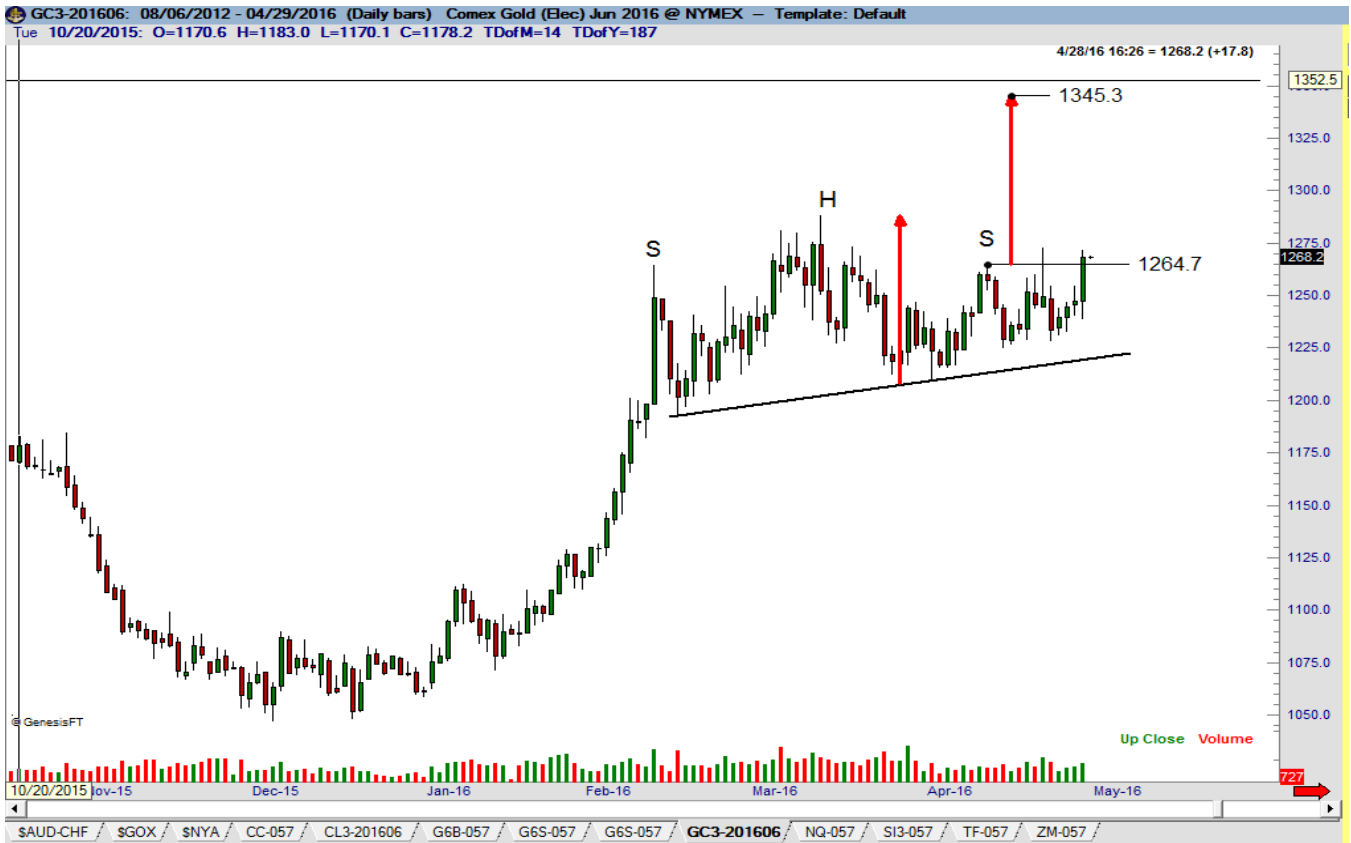
Last week's Update referred to a swing trade opportunity in the Heating Oil, citing the completed continuation H&S pattern. I entered the week with an order to buy the July contract at 1.3041. The low on Monday was 1.3098. I ended up buying the confirming strength on Tuesday, paying up for the position. I dislike chasing markets, but felt the odds were with me in this trade. With travel beginning on Monday, I will jam my stop on a trailing basis until taken out of the position.



### Gold daily chart

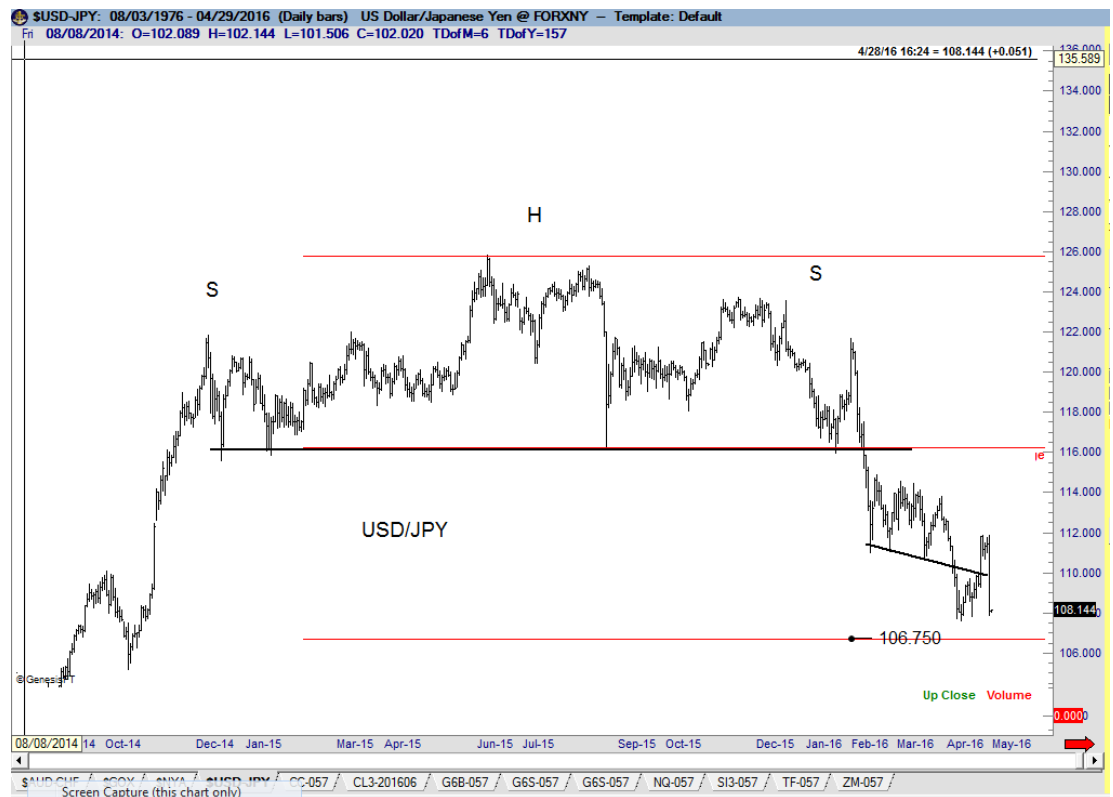
Did the close on Thursday above 1265 complete an 11-week H&S failure on the daily chart? Probably! I prefer always to be long the strongest member of a correlated group of markets when long, and short the weakest member when short. I am long Platinum and Silver, so I will take a pass on Gold. My combined risk in Platinum and Silver is only 140 basis points, so I do have some additional leverage to take on – I generally attempt to limit the risk on the composite of highly correlated markets to 200 basis points (2% of trading capital). The target of 1345 in Gold is calculated by taking the height of the H&S and projecting this amount upwards from the top of the right shoulder high (see red arrows). This is the standard measuring practice for H&S failure patterns.

See daily chart, next page.



Japanese Yen spot (weekly and daily charts)

USD/JPY turned down sharply today, challenging the low for the entire decline. The H&S target of 106.75 is within striking distance. I was stopped out of this trade last week – and the trade is now over for me. I have no desire to trade the Yen.



## Soybean Meal (daily chart)

I am interpreting the price action of Wednesday and Thursday to represent the completion of a bullish half-mast flag. Time will tell if this interpretation is correct, or if additional morphing will be required to form a larger congestion zone. I do believe the bottom is in place in Soybeans and Soybean Meal, and Soybean Meal appears to be the leader in the complex. The half-mast target would be around 375, but I am using 357.7 as the profit goal. I am jamming stops on a trailing basis on this trade, unwilling to lose more than 50 BPs.



### Trading commentary

Next Monday I hop aboard a Lufthansa 747 for a trip across "The Pond" and three-and-a-half weeks of extended travel. I am presently in more positions than I typically hold. As a general rule, my approach to holding positions during travel is to jam and trail stops. What does this mean? Quite simply, using a long position as an example, I advance stops to just below the previous day's low price. In other words, a lower-low daily price will bump be out of a trade. I use a modification of this rule when the previous day was an inside day of its previous day.

This strategy is aimed at achieving further gains on existing positions without giving much back if my positions hesitate. There are a couple of current positions for which I am giving additional wiggle room – Platinum, 50% of Silver, Medtronic and 50% of British Pounds.

USD/SEK (weekly and intraday charts)

The USD/SEK must hold at current levels for the rectangle interpretation on the weekly graph to remain a consideration. The small intraday H&S bottom I referred to in recent Updates is now out of play. A decisive close below 8.000 would actually be quite negative to USD/SEK. If I was not traveling I would be interested in shorting the cross, but I do not want to enter any new positions at this time.



U.S. Dollar Index (monthly and daily charts)

See USD/SEK. The DX is also severely challenging the lower boundary of its extensive rectangle, and, as in the case of USD/SEK, the intraday H&S bottom has been negated. I continue to hold a long-term bullish bias on the U.S. Dollar, but in the end, price is king. The market has little interest in my opinion.



Global stock markets (Nasdaq, Nikkei Dow)

There is no chance for the U.S. stock index markets to generate a buy signal for me anytime soon, so I remain alert for a possible sell signal. I continue to hold the opinion that the Nasdaq has formed a broadening top pattern – even though the rally from the Feb 12 low has corrected 81% of the Dec 4 to Feb 12 decline. As a general rule, the corrective rally back into a broadening top should not cover more than 65% of the preceding decline. Nevertheless, the decline on Thursday appears to be a downturn in the intermediate trend. My bias would be to sell a rally, but I will pass given my upcoming schedule.



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I purchased a position in the Nikkei Dow (Osaka) on Apr 21 – based largely on the merit of the upside breakout in the Japan Mothers Index. I was stopped out of the trade at 16800 on Thursday's decline for a loss of 45 BPs.



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