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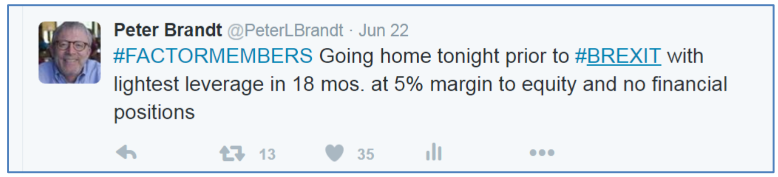
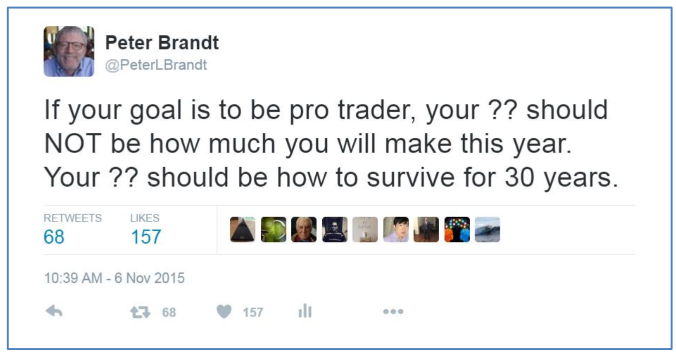
Factor Update, June 26, 2016

Trading commentary

Late Thursday evening and early Friday morning I spoke by phone to many of the old-timers (some with near 50-year trading careers) in whom I have the highest level of respect. There was a universal consensus – we have never witnessed markets like those experienced over such a brief period of time. Even though I had almost no exposure, I stayed up into the late hours on Thursday evening watching in awe a broad level of volatility exceeding anything I can remember. There was, no doubt, some serious blood-letting. In the weeks ahead we will read and hear about some horror stories. More than one trading firm will announce bankruptcy. We will not hear about the hundreds of individual speculators whose accounts were destroyed.


Peter Brandt @PeterLBrandt · Jun 22
#FACTORMEMBERS Going home tonight prior to #BREXIT with lightest leverage in 18 mos. at 5% margin to equity and no financial positions
13 35

I want to begin this week's Factor Update by revisiting some of the themes I emphasize over and over and over again. Often times I feel that my harping on issues of risk management does not fully register with Factor members – especially newer traders who have not developed an adequate respect for market volatility.


Peter Brandt
@PeterLBrandt
If your goal is to be pro trader, your ?? should NOT be how much you will make this year. Your ?? should be how to survive for 30 years.
RETWEETS 68 LIKES 157
10:39 AM - 6 Nov 2015
68 157

As a general rule I pay little attention to news events and the release of government reports. My view of Brexit was quite the opposite. I had no desire to carry any positions in the financial markets into Brexit with the hunch that things could get wild. I could not have imagined exactly how wild things would get. In recent Factor communications I expressed the view that holding a trade into Brexit was gambling, not calculated speculation.

Several Factor members have asked me to clarify the difference between gambling and calculated market speculation. Hopefully you all now know the difference. In case the difference still evades you, try this on for size.

- In calculated market speculation, a trader has some certainty that risk can be predetermined and contained.
- In gambling, a trader has no ability to predetermine and contain risk.


Peter Brandt
@PeterLBrandt
Risk and trade management are far more vital contributors to outstanding performance than is trade selection. #RiskManagement #Trading
RETWEETS 19 LIKES 54
8:39 AM - 27 May 2016
19 54

Allow me to review a few important principles.

- Money management is job #1 for a trader
- Keeping your pile of chips intact is the only thing that really matters at the end of the day
- If you think you know what a given market is going to do, you are only fooling yourself
- Trading a market with expanded volatility but reduced liquidity is a demonstration of arrogant insanity
- Being flat is a position
- An obsession to always be in the market will lead to disaster – it is only a question of when
- Being short volatility (short gamma) is akin to picking up pennies in front of a steam roller
- Of what value is market analysis and trade selection once a trader has lost his or her trading capital

The volatile outcome of Brexit should remain burned into all traders' memory as a reminder of how much damage can be done very quickly. Having an excellent way to analyze markets … refining trade identification techniques … using leading edge trading technology … etc., etc., etc. … none of these things hold a candle to capital preservation in terms of importance. In the final analysis, the only thing that matters is surviving to trade another day.

Market Review

Candidate Factor Moves are currently ongoing in:

- Nifty 50 (SGX)
- Medtronic (MDT)
- Silver
- Dow futures

Candidate Factor Moves are developing in Cotton and AUD/NZD. This issue of the Factor also comments on U.S. Dollar Index, EUR/USD futures, Natural Gas, T-Bonds, Gold, British Pound, Soybean Meal, Coffee, Baytex Energy (BTE) and global stock index markets.

Note: I presently have a very timid attitude toward trading. Current markets are characterized by:

- High volatility/low liquidity
- Huge spindles on candlestick charts
- False breakouts galore
- Lack of well-defined classical chart configurations

In the past these conditions have not produced for me favorable trading performance on a forward rolling three-month basis. This is the type of trading environment in which I have been badly burned in the past by being careless. In more recent years I have gone weeks and months making few or no trades based on my perception of unfavorable charting markets. As recently as Dec 2014 I did not make a trade for a five-week period. I need to be vigilant to only take set-ups that meet certain criteria.

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 order 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. Markets in which I am holding or considering orders include:

Existing positions

- Medtronics – protective stop and target
- Natural Gas – protective stops and target
- BTE – protective stop and target
- Silver – protective stop and target
- DJIA futures – protective stop
- U.S. Dollar Index – protective stop

New positions

- AUD/NZD – entry order with protective stop

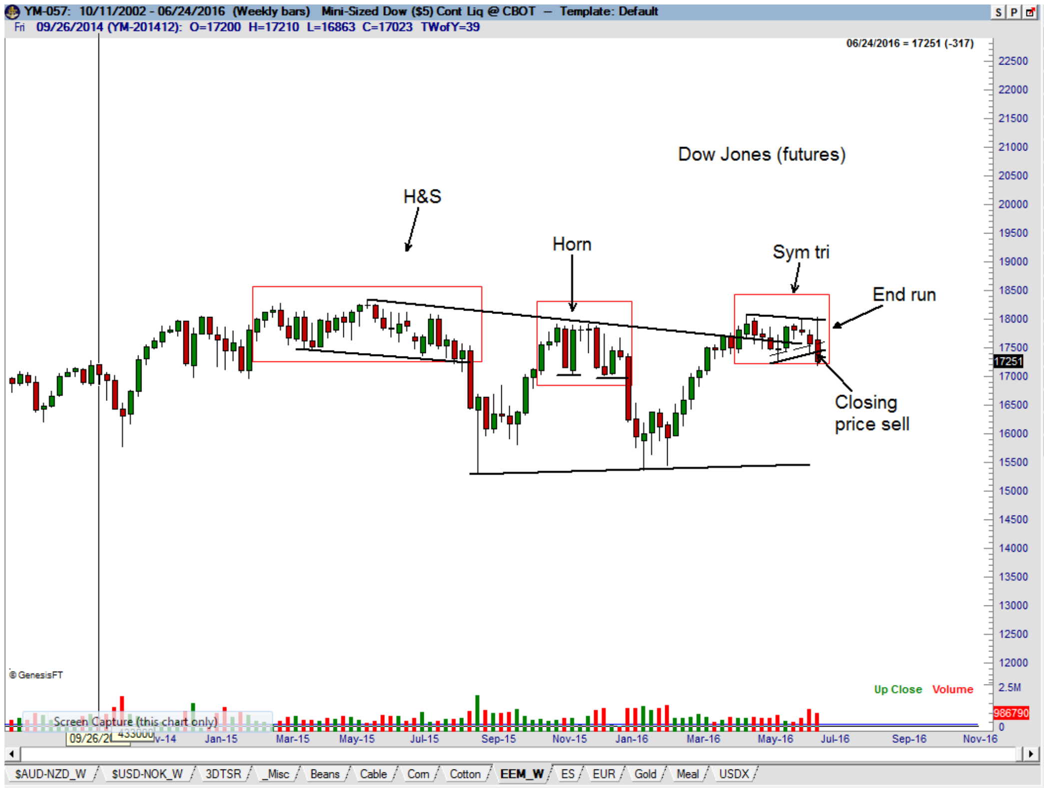
The Factor Tracking Account is currently leveraged at 1.2 to 1. The margin-to-equity use for futures and forex positions is 7.2%.

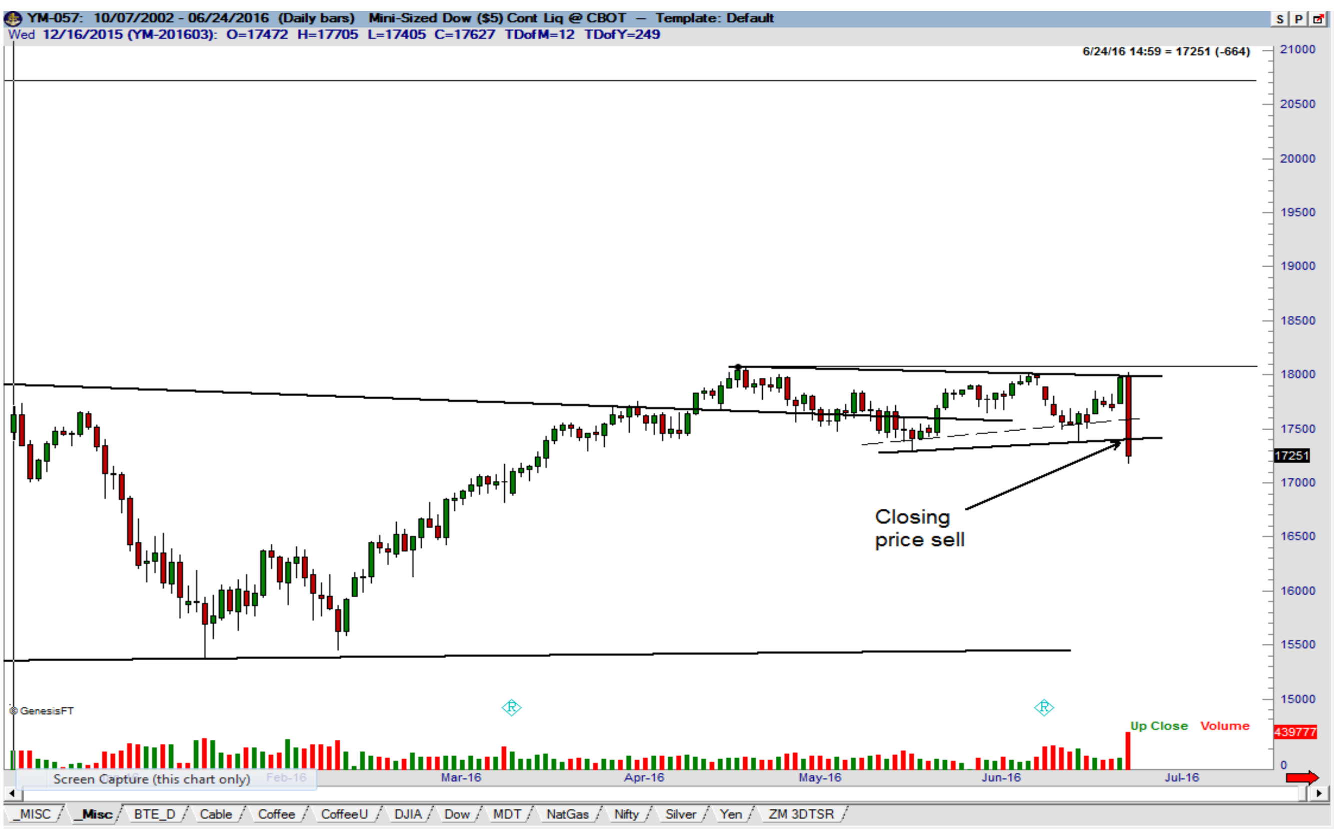
Candidate Factor Moves in Progress

Dow Jones futures (weekly and daily charts)

Caveat: The U.S. stock market indexes remain in an extremely prolonged trading range. Attempting to identify shorter-term patterns within much longer-term congestion zones is tricky business at best. Trading ranges have a way of continued morphing.

A couple of technical developments in the DJIA are worthy of note. First, since May 2015 the market has been attempting to complete a 12-month continuation symmetrical triangle. The initial advancing thrust in mid Apr failed, as did the strong thrust at the end of May. The downturn on Jun 24 violated the May 19 low, thus completing an end-run of the weekly chart triangle. Second, the decline on May 24 completed a 9-week symmetrical triangle top pattern on the daily chart. This smaller pattern is more readily identifiable on a closing price graph. A logical downside target would be the early 2016 lows under 16000. It must also be noted that Friday's decline was on extremely high volume (440,000 contracts). Volume spikes are typically "starting" volume or "exhaustion" volume. Similar volume in recent periods has been “exhaustion” or “blow-off” volume. Examples include Aug 24, 2015, Dec 16, 2014 and Oct 15, 2014. It remains to be seen if Friday’s volume spike was starting or blow-off volume. This symmetrical triangle top is the third recognizable classical topping pattern in the Dow in the past 18 months. A H&S top was completed in Aug 2015 – and quickly met its target. A horn or sloping top was completed in early Jan 2016 – and quickly met its target. In other words, there have only been three quality chart pattern sell signals in the Dow during the past 18 months – and Friday’s decline is one of the three. Factor is short.

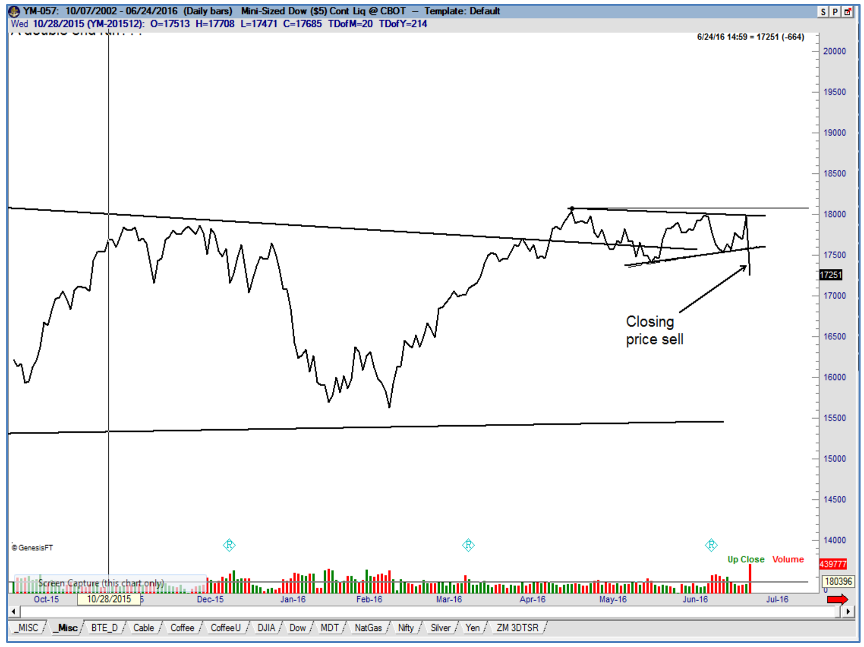




See Dow close-only graph, next page

Event or news-driven breakouts

Friday's breakout in the Dow was connected with the Brexit vote. I must caution all readers that I am incredibly leery of news or event-driven breakouts. The reason is that news- or event-connected price moves create instant conventional wisdom. Over the years I have found it is better to "fade" than to "follow" conventional wisdom. In fact, I am generally put off by all financial news – this is why I so abhor CNBC and Bloomberg (but RealVisionTV is the real deal). I far prefer breakouts that have traders scratching their heads saying … "What was that all about." Even better is a major breakout that contrary to well-developed conventional wisdom.

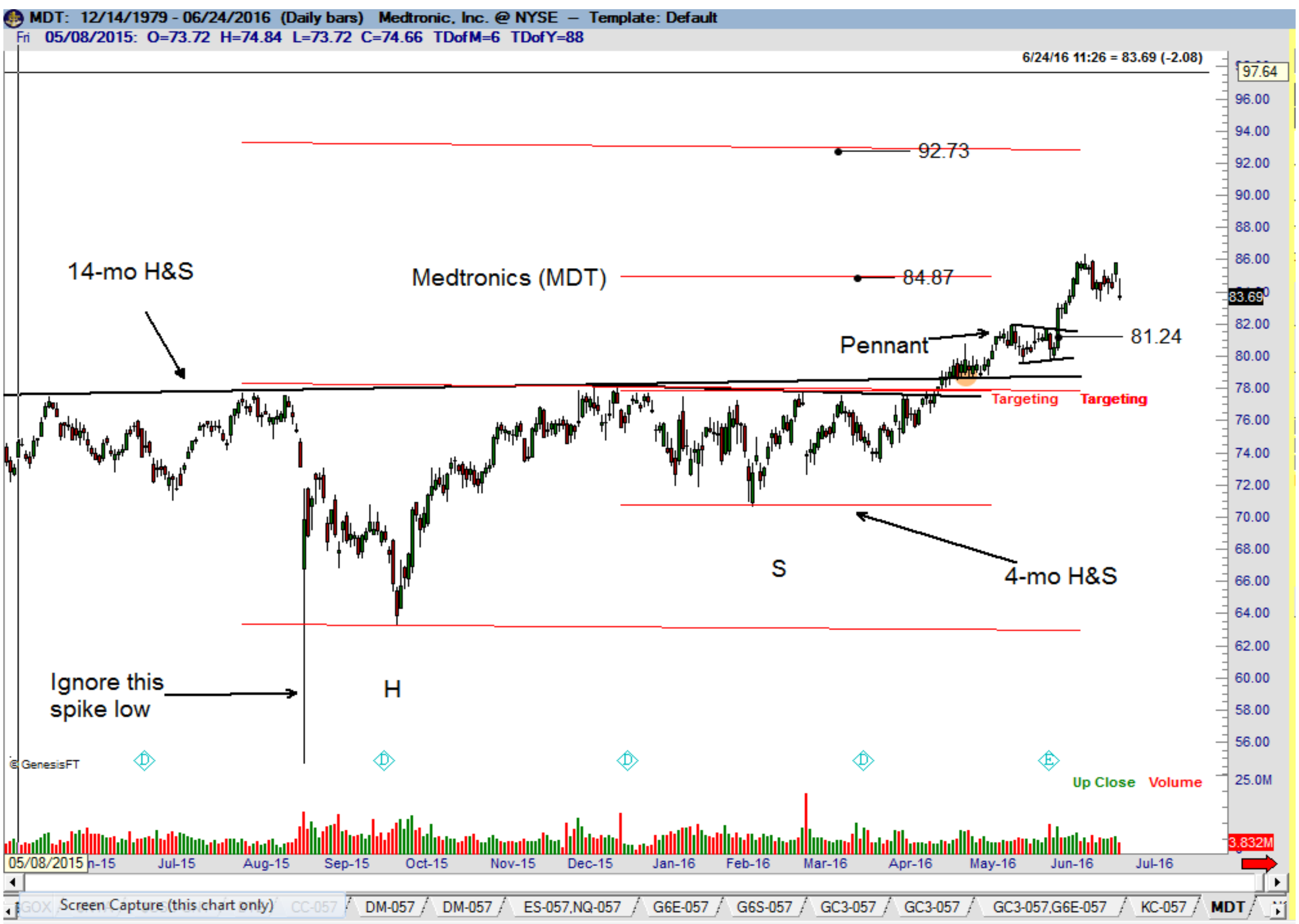


India SGX Nifty 50 (daily chart)

The dominant chart construction in this stock index remains the 6+ year ascending triangle on the monthly graph (not shown) and the 12-month channel completed on the daily graph on Apr 13 (launched by a 4-week pennant). The targets in the Nifty are 9,144 (the high of the channel) and 10,248 (monthly graph objective). I was stopped out of my position at two levels – under the June 23 and June 14 lows. I am a sold-out bull. At this point I have no idea how (or even if) I will be able re-enter. This market is an example of how risk management takes precedent over market analysis in my way of trading. This practice can protect me against significant adverse price movement, but also can bump me out of a position prematurely. Trading requires many balancing acts – optimization is an impossible goal. Over time I have sought improvement in trading tactics – perfection is not attainable. I think I folded my hand too early in this market – but my trading rules are my trading rules.

Medtronic (MDT) – weekly and daily charts

The dominant chart construction remains the completed 14-month continuation H&S pattern on the weekly graph with a target of 92.73. Half of the position was covered at the target of 84.87. Factor remains long MDT. The daily graph could be developing a small pennant or flag as long as 82.50 holds.



Silver (daily graph)

The dominant chart pattern remains the 8-month H&S bottom on the weekly and daily graphs completed on Apr 12, with an upside target of 18.63. Friday's high reached exceeded the 70% mark to the profit target – thus, the 3DTSR is in effect. Factor remains long, having taken profits during the advance prior to Friday. I was somewhat disappointed that Friday's close did not exceed the close of Apr 29. Even though 18.63 is my target, I must emphasize that Silver is in a dominant bull trend and much higher prices are likely. Gold has now taken the leadership position in precious metals.

Other Markets

AUD/NZD (weekly and daily graphs)

This forex pair is about the only non-USD pair I am inclined to trade. I have commented since Nov 2015 that this pair was forming a possible H&S bottom pattern on the weekly graph. The rally to the neckline in Mar 2016 failed, and this current decline suggests the possibility of a H&S failure. The market is forming a 3-week pennant pattern on the daily chart (red box) right at the level of the Nov right shoulder low. Thus, a downward resolution of the small pennant could launch a completed H&S failure. I will trade this possible H&S failure pattern accordingly. It is difficult for me to imagine the Kiwi trading at a premium to the Kangaroo, but given recent events in the forex markets anything is possible. Factor is flat.

See charts, next page.


$AUD-NZD: 06/11/1999 - 06/24/2016 (Weekly bars) Australian Dollar/NZ Dollar @ FORXNY — Template: Default
Fri 04/22/2011: O=1.3217 H=1.3449 L=1.3176 C=1.3380 TWofY=16
6/24/16 12:17 = 1.0493 (+0.0032)
AUD/NZD
S
H
S
1.0491
1.0409
Up Close Volume
Screen Capture (this chart only)


$AUD-NZD: 06/07/1999 - 06/24/2016 (Daily bars) Australian Dollar/NZ Dollar @ FORXNY — Template: Default
Thu 10/01/2015: O=1.0962 H=1.1037 L=1.0947 C=1.0976 TDofM=1 TDofY=195
6/24/16 12:19 = 1.0496 (+0.0008)
S
1.0409
Up Close Volume
Screen Capture (this chart only)

GBP/USD futures (daily graph)

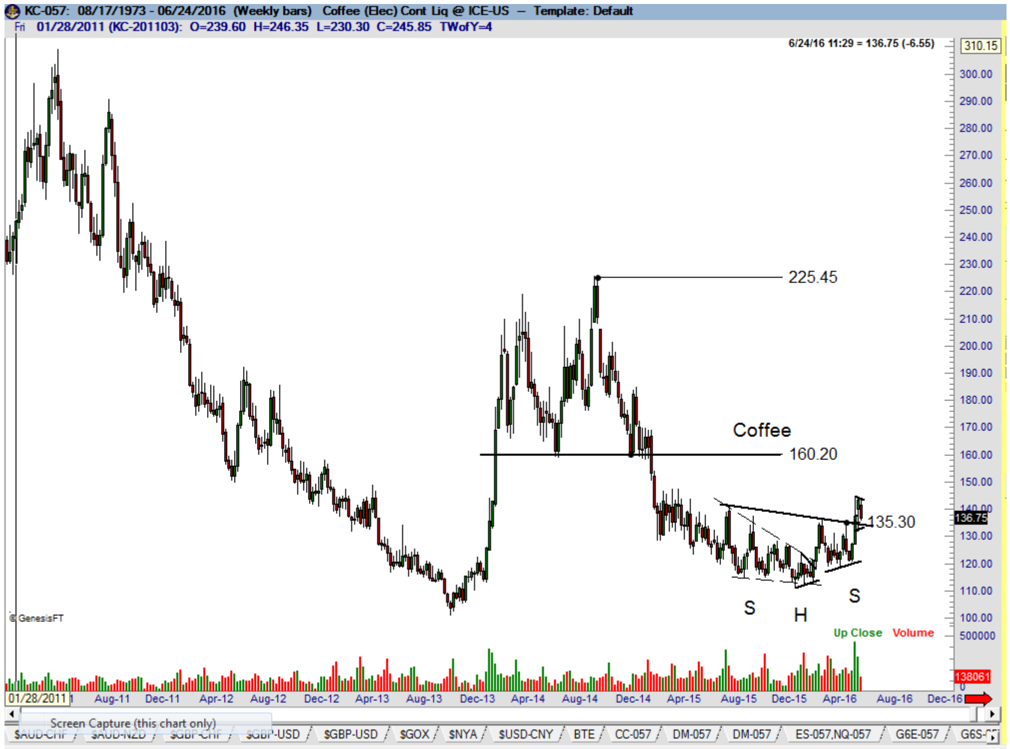
From the Jun 19 Factor Update:

> *"The daily chart of the Pound has morphed to the point of being meaningless. I have no interest in trading GBP prior to the Brexit vote. Anticipating a political vote represents gambling, not calculated speculation. I think there is a difference between being a trader and being a gambler."*

I also suggested in the Jun 19 Update that the Brexit vote could result in a 4 or 5 big handle move (i.e., a 400 to 500 pips). The close on Friday, Jun 17 was 1.4358. Little did I expect a 660 pip advance immediately followed by a 1790 pip decline. HISTORIC! Absolutely astonishing. So, what's next in Cable? Your guess is as good as mine. The market remains in a broad 30-year trading range. Does Cable penetrate the lower boundary and move to 1.0345 or even .7335? Or does Cable find support and advance to the upper end of the broad trading range? Or, do both happen – in the same month? I have no desire to trade GBP/USD. My gut says the GBP will follow through to the downside next week.

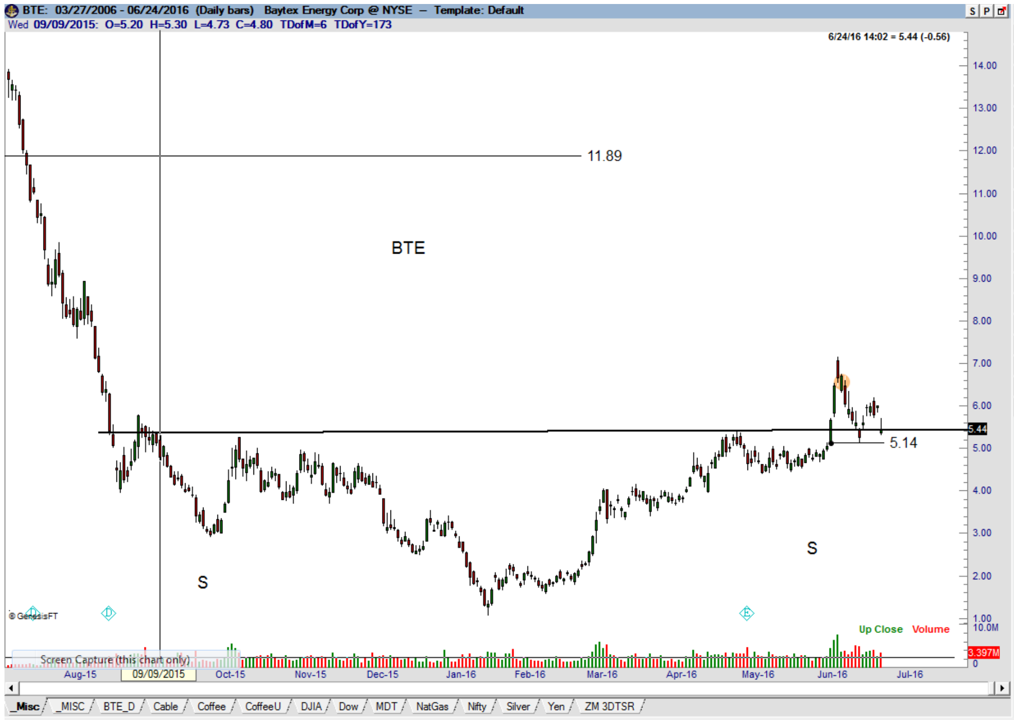
Coffee (weekly and daily graphs)

If you have recently attempted to get long Coffee, hopefully you now know why I have learned over the years to hate this market. I believe that Coffee has either completed a H&S or common bottom or is still building a rounding bottom. Rounding bottoms are notoriously difficult to trade because of their stair-step, backing-and-filling nature. The Sep contract could be forming a 3+ week pennant. I have no desire to buy upside breakouts in Coffee. The initial upside target is 160.



Baytex Energy (BTE) – daily chart

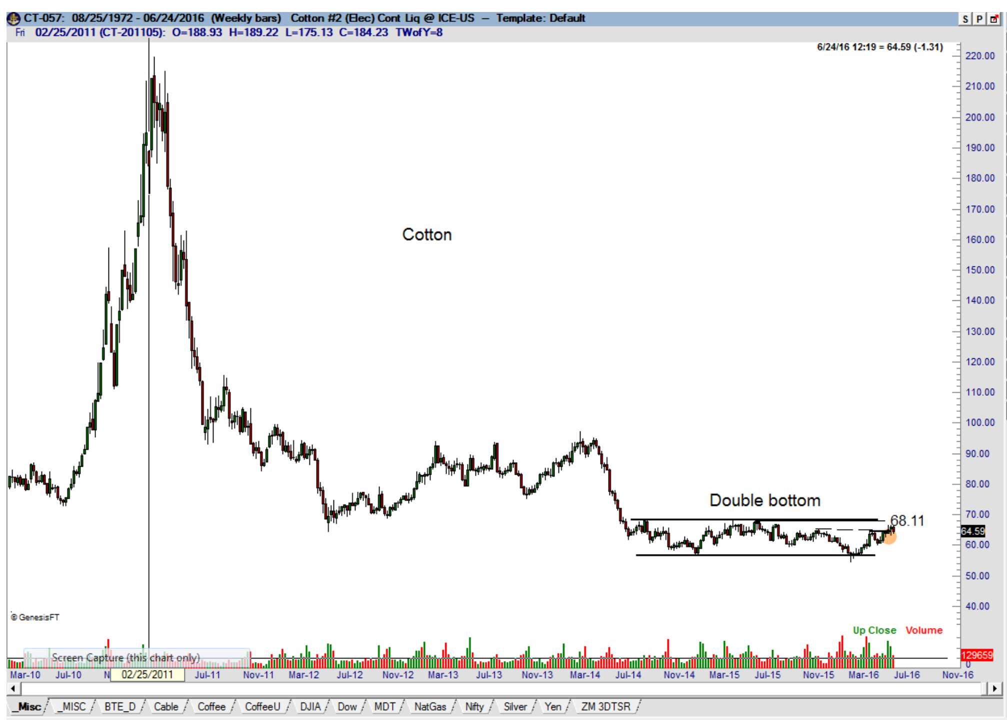
The dominant chart construction is the 10-month H&S bottom pattern. The market has lacked follow through. My stops below 5.14 will most likely be triggered.



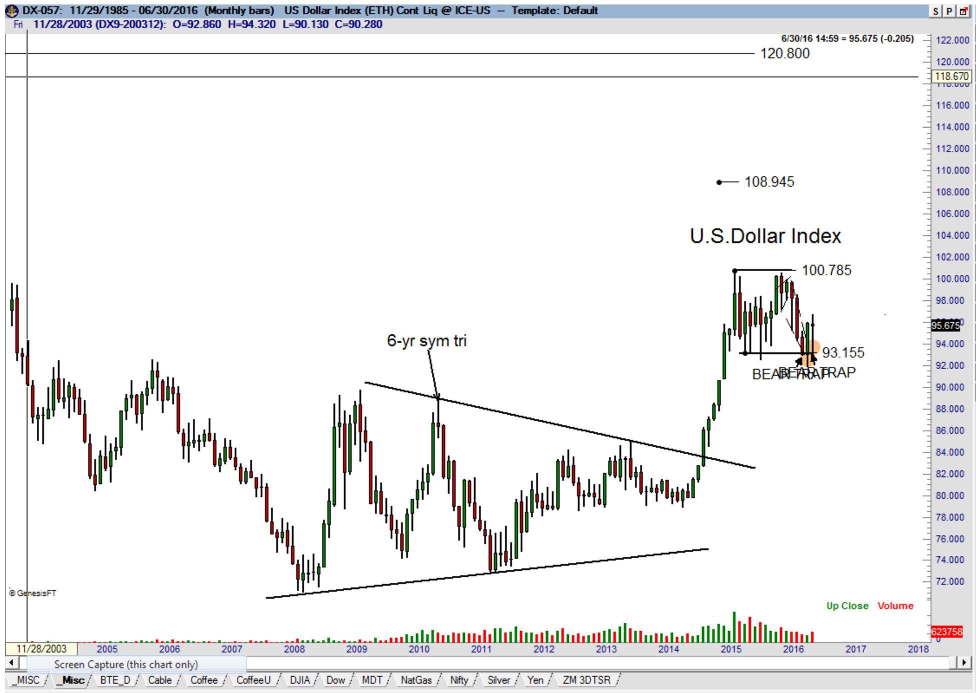
Novice and aspiring traders believe that large profits come from large positions. It is a hard truth to grasp, but trading undersized positions produces greater profits over the long pull.

Cotton (weekly graph)

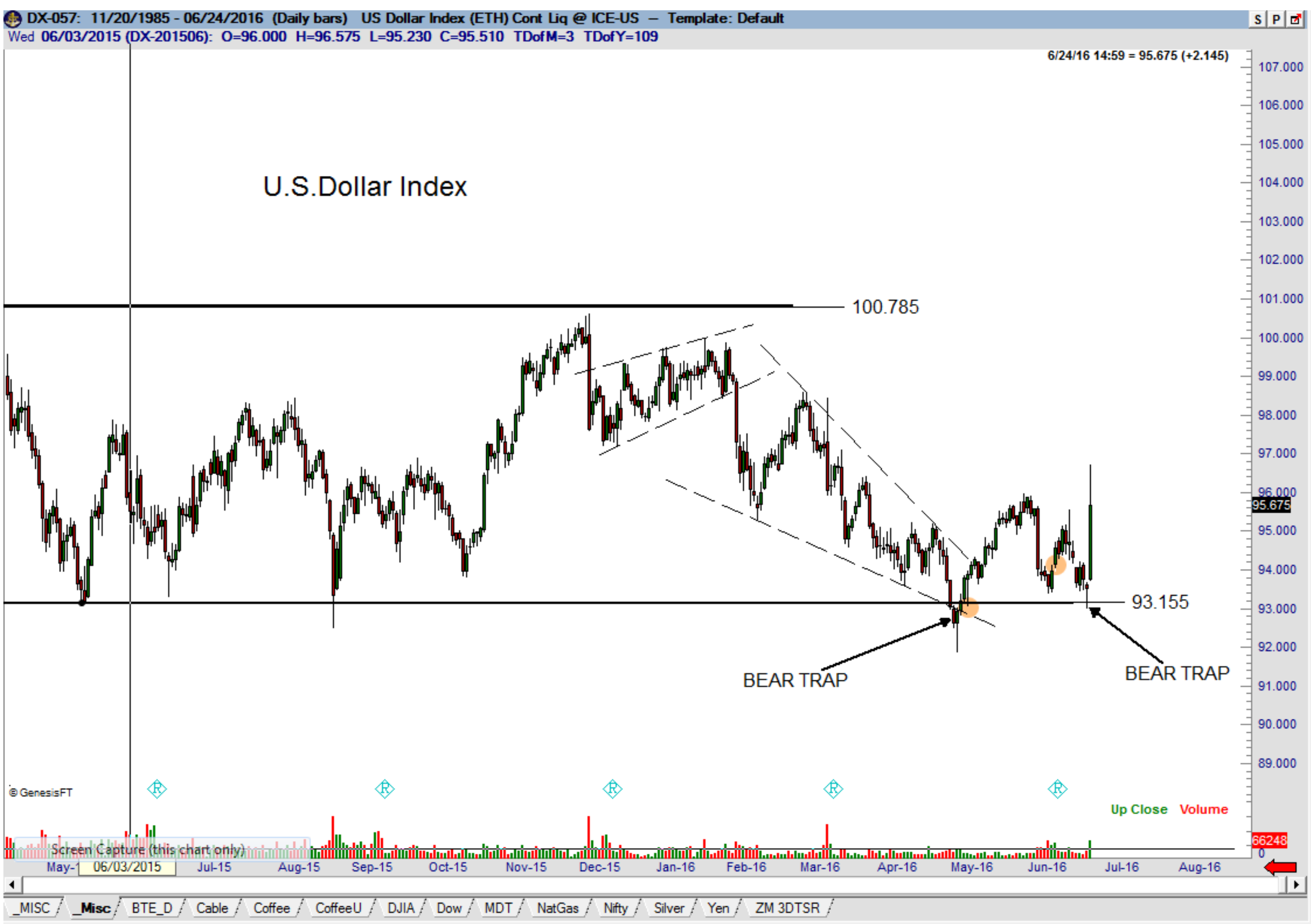
The monthly graph in Cotton continues to form a possible 23-month double bottom. I believe Cotton is an emerging bull market – at this point I have no exact idea how I would enter the long side. My career-long experience with trading major breakouts in NY-traded markets that begin with the letter "C" has not been favorable. Factor is flat.



Dollar Index (monthly and daily charts)

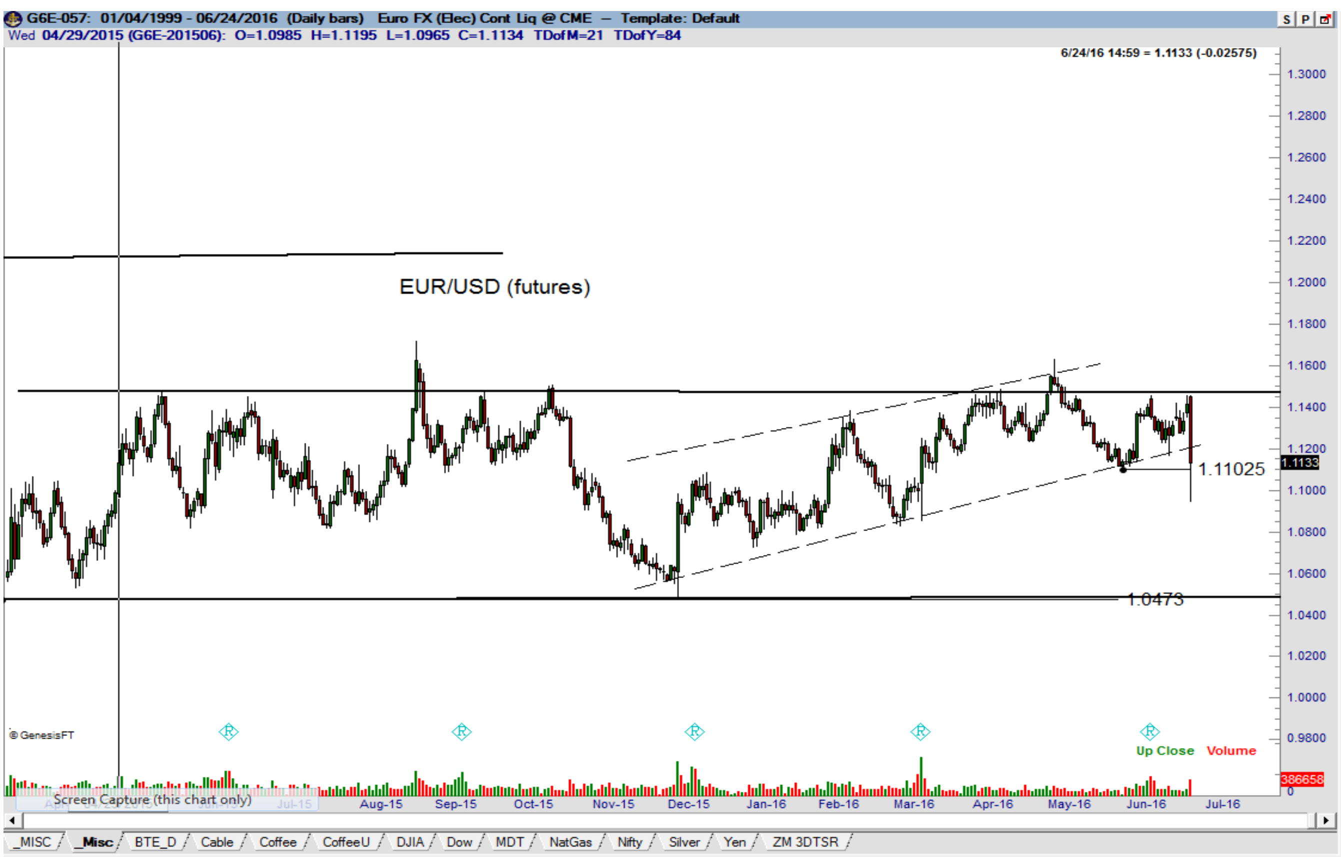


Same song – 96th verse (that's the number of consecutive weeks I have been a long-term "super bull" on the U.S. Dollar, and super bear on the Eurocurrency). My perspective of both markets is based on an analysis of the monthly charts of each. In the case of the USDX, the advance in Sep 2014 completed a massive 6-year symmetrical triangle bottom. The market has been forming a continuation rectangle since Mar 2015. I believe this rectangle will eventually be resolved by an upward breakout followed by a move to 109, then 120. I view the price action on Thursday of this past week as another bear trap on the daily graph – confirmed by Friday's strong advance. Factor established a long position on Friday.



__EUR/USD (weekly and daily graphs)__

The weekly EUR/USD chart displays a possible 16-month rectangle. The cross appears to be turning down from the upper boundary of this pattern. The daily chart violated a possible 7-month channel on Friday, but not convincingly. A decisive close below the May 30 low of 1.1103 would seal the deal. Factor is flat with no intention of shorting EUR at this time.



Gold (daily chart)

The daily chart appears to be forming a rare continuation broadening pattern. Broadening patterns are almost always reversal in nature. I believe a decisive close above 1335 would lead to a sustained advance to 1430. Other chartists have labeled the weekly graph as a H&S bottom dating back to Sep 2014. I disagree with this labeling for reasons too nuanced to get into in this forum. I do not disagree with the 1550 target such a H&S pattern would suggest, so the exact labeling is not relevent. Factor is flat. The charts have failed to provide me with low risk entry points that made sense. The labeling of the H&S bottom on the weekly graph does allow for a measured-risk entry with a stop below 1293 (close only), Monday's opening price. I am a fan of "true range" charts – and the true range bar for this past week had a range of 1293 to 1319.

Natural Gas (daily graph)

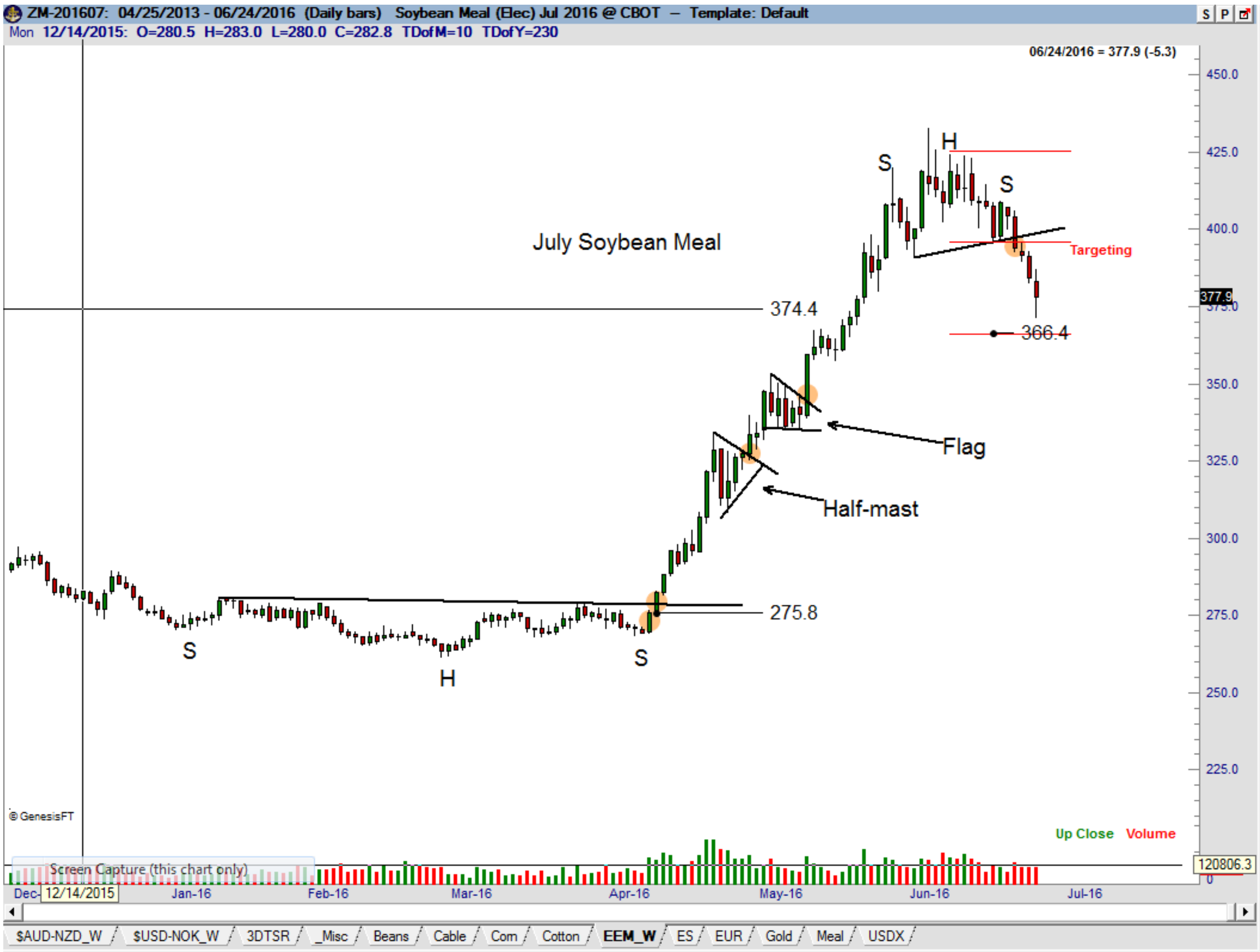
The dominant chart construction in Nat Gas is the completed 7-month H&S bottom on the daily graph (Oct contract). Factor is long. I have taken profits on half my position with trailing stops on the other half. The market has triggered the 3-day trailing stop rule (red box) just shy of the 70% mark.

T-Bonds

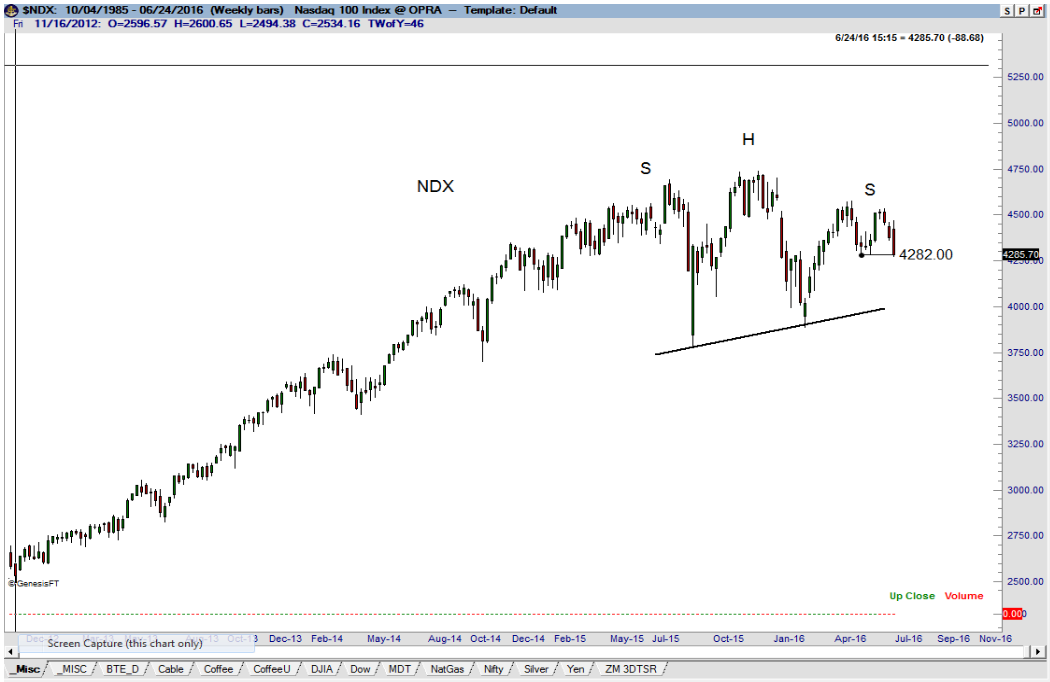
I thought I was a genius for exiting a long position in Sep T-Bonds on Jun 16 – until Friday that is. I have no interest in trading interest rate markets. Factor is flat.

Soybean Meal (and Corn)

I am including Soybean Meal in this Update because I love tight and well-defined patterns. Remember, the grain markets usually top in an abbreviated manner. Soybean Meal completed a 4-week H&S top on May 21 – the target is within reach. It is my opinion that the crop year highs are in place in the grains (see June 21 Tweet) – although nothing the markets might do would ever surprise me. Unlike the equities markets which seem to go up and up forever, the raw material markets trade like yo-yos. Big bull moves are eventually followed by near-full retracements.



Stock index markets



See separate comments on DJIA. Otherwise, a lot of interesting possibilities exist. MSCI World Index weekly graph is rolling over. Monthly CAC chart – possible H&S top. Daily S&P chart – possible 3-month right angled broadening top. Weekly EuroStoxx chart – massive possible H&S top and recompleted 17-week symmetrical triangle. DAX monthly chart – massive possible H&S top. Nasdaq weekly chart – massive possible H&S top (this is the best looking chart of the lot – see chart on this page). Shanghai weekly chart – possible continuation triangle. EEM (eft) – possible H&S failure. Keep in mind that the overwhelmingly bearish conventional wisdom related to Brexit makes somewhat questionable any bearish interpretations of these graphs.

This coming week should be a wild roller coaster. Hang on.

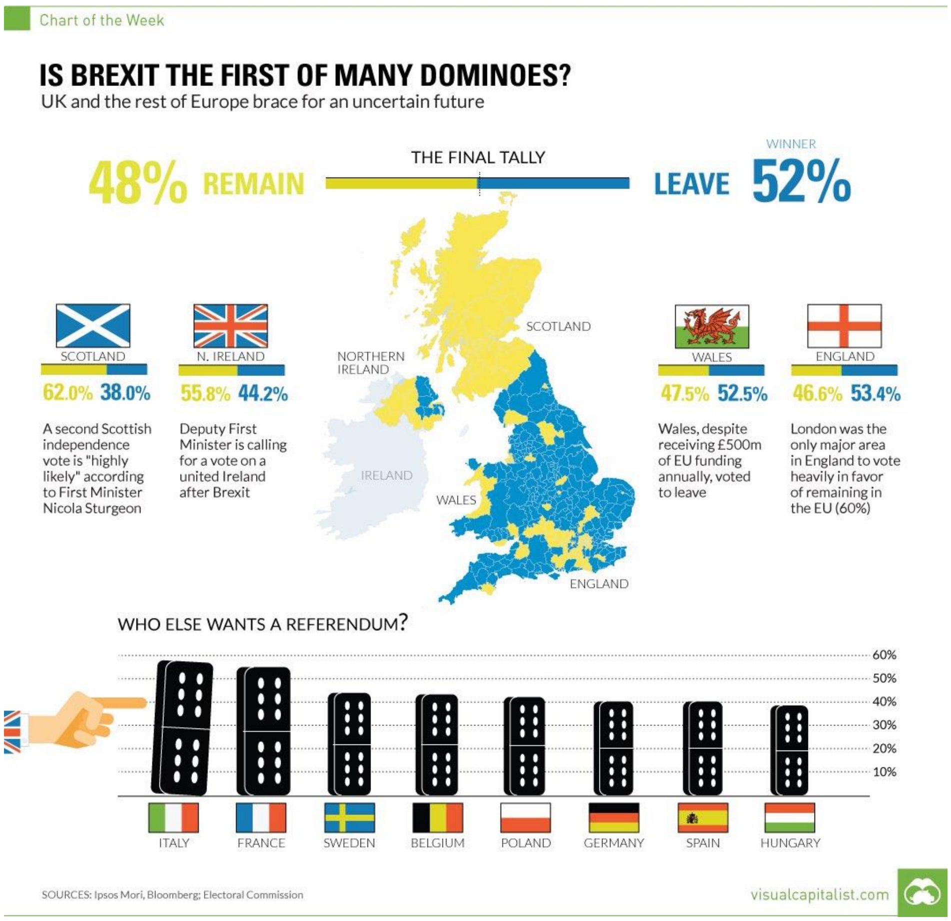
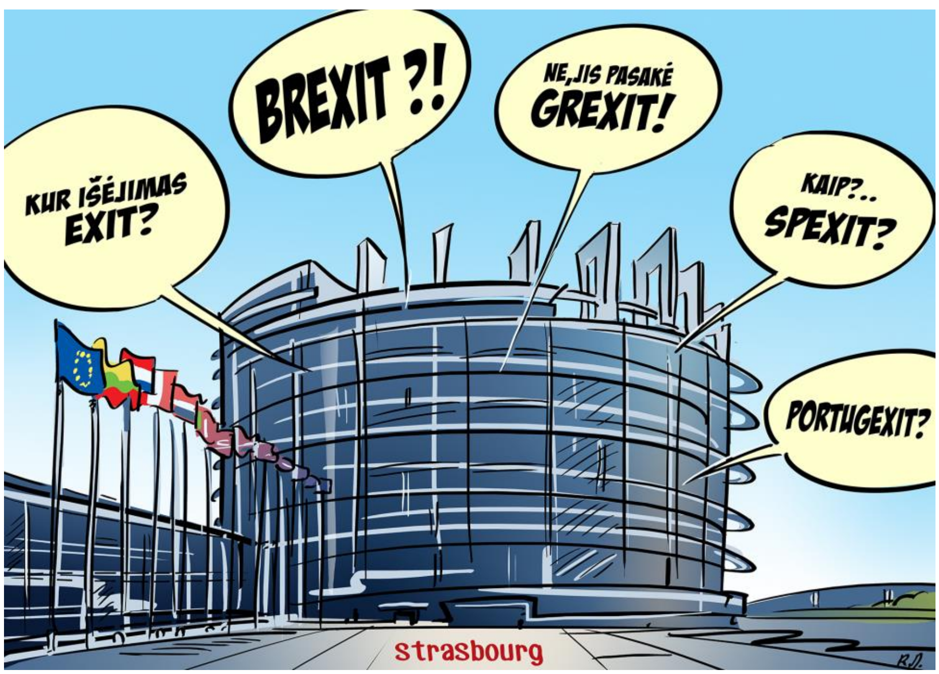


Chart of the Week
IS BREXIT THE FIRST OF MANY DOMINOES?
UK and the rest of Europe brace for an uncertain future
48% REMAIN
THE FINAL TALLY
WINNER
LEAVE 52%
SCOTLAND
62.0% 38.0%
A second Scottish independence vote is "highly likely" according to First Minister Nicola Sturgeon
N. IRELAND
55.8% 44.2%
Deputy First Minister is calling for a vote on a united Ireland after Brexit
NORTHERN IRELAND
IRELAND
SCOTLAND
WALES
ENGLAND
WALES
47.5% 52.5%
Wales, despite receiving £500m of EU funding annually, voted to leave
ENGLAND
46.6% 53.4%
London was the only major area in England to vote heavily in favor of remaining in the EU (60%)
WHO ELSE WANTS A REFERENDUM?
60%
50%
40%
30%
20%
10%
ITALY
FRANCE
SWEDEN
BELGIUM
POLAND
GERMANY
SPAIN
HUNGARY
SOURCES: Ipsos Mori, Bloomberg; Electoral Commission
visualcapitalist.com


KUR IŠĖJIMAS EXIT?
BREXIT ?!
NE, JIS PASAKĖ GREXIT!
KAIP?.. SPEXIT?
PORTUGEXIT?
strasbourg

plb

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