



"Sharing real experiences from decades of profitable trading. Focusing on the important factors that lead to trading success."

Factor Update, November 20, 2016

Market Review

New candidate *Factor Moves™* (trading set-ups) are developing in:

- *US Dollar (*futures and ETF)
- *EUR/USD (futures)
- Crude Oil
- Freeport-McMoran (FCX)

Candidate *Factor Moves™* are currently ongoing in:

- British Pounds
- USD/SEK
- *Eurodollars (interest rate)
- *Copper (futures and *ETF)
- *Cotton (*futures and ETF)

Other markets of interest. This issue also comments on Gold, *IYT, T-Bonds, FXI, Japanese Bonds (JGBs), Soybean Oil, *Sugar and *U.S. stock index market indexes (futures and *ETF). *Signifies a position in the Factor \$100,000 Tracking Account

Trading – at its most basic – can be reduced to simple order entry. A trader is nothing more than a glorified order enterer.

A trader can have all the opinions he or she wants – but what matters are only 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. Markets in which I am holding or considering orders include:

<u>Developing signals</u>	<u>Existing positions</u>
<ul style="list-style-type: none"> • Crude Oil – alert • FCX – entry order with protective stop • EUR/USD – alert • Copper -- alert 	<ul style="list-style-type: none"> • Eurodollars – protective stop and target • EUR/USD – protective stop • IYT-ETF – protective stop and target • SPY-ETF – protective stop and target • JJC-ETF – protective stop and target • Cotton – protective stop and target • Sugar – protective stop and target • U.S. Dollar Index – protective stop

The Factor Tracking Account is currently leveraged at 2.7. The margin-to-equity use for futures and forex positions is 8.8%.

Markets Setting Up for a Candidate Factor Move™ Signal

Freeport-McMoran (FCX)

The dominant chart construction in this stock is the 16-month H&S bottom on the weekly chart. A decisive move and close above 14.70 will be my signal to buy. My plan is to buy half of my position with an intraday stop and half with a closing price stop. Factor is flat.



EUR/USD (futures)

The "Forex January Effect" special report was released on Nov 17. Research covering the past 46 years shows that EUR/USD realized its annual high or low in January in 78% of the years with the annual high or low in Feb/early Mar occurring in another 9% of the years. THIS IS NOT THE SAME THING AS SAYING THAT EUR/USD TOPPED OR BOTTOMED IN JANUARY IN 78% OF THE YEARS. My bias is that the 2017 high will be made in January as part of the present downtrend. There is an outside chance that January will mark the 2017 low – and that the trend in 2017 will be up. This is NOT the way I am presently positioned.

The dominant chart construction in EUR/USD remains the 19-month descending triangle on the weekly graph (symmetrical triangle on the spot chart). A 9+ month complex H&S top pattern completed this past week could prove to be the launching pad for the 19-month pattern. This H&S pattern has a target of 1.0228. The market is now seriously challenging the lower boundary of this descending triangle. A decisive move and close below the Dec 2015 low of 1.0490 would complete this larger pattern and establish a profit target of .9408. There are further downside targets depending on how one interprets the monthly and quarterly graphs. A decisive move by EUR/USD below par (1.0000) would no doubt

indicate serious challenges to the European Currency Mechanism and perhaps to the EU itself – although I hate reading too much global-macro stuff into a price chart. Factor established a full short position this past Monday, but covered half of the position at support at 1.0626 (spot). I will not be shy to extend leverage if underlying support gives way. Whenever we have such a massive pattern as currently exists a trader must always be alert for a possible bear trap.



Crude Oil

The weekly Crude Oil chart continues to morph – at present I am considering three different alternatives.

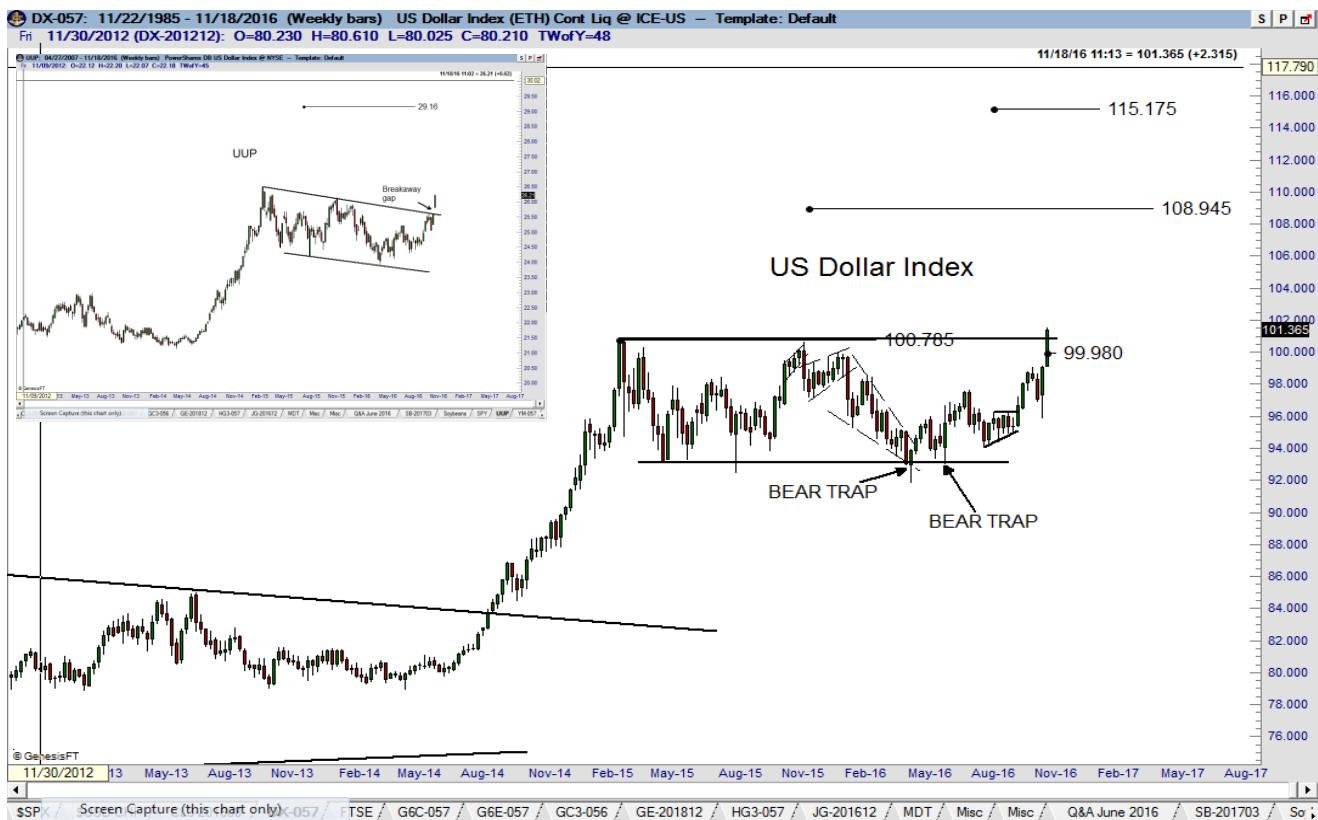
1. An upturn from present levels leading to the possible completion of a H&S bottom
2. An “end-around” the 12-week symmetrical triangle – with prices heading back to the early 2016 low
3. Substantially greater morphing of the chart

I favor the morphing alternative. Factor is flat.



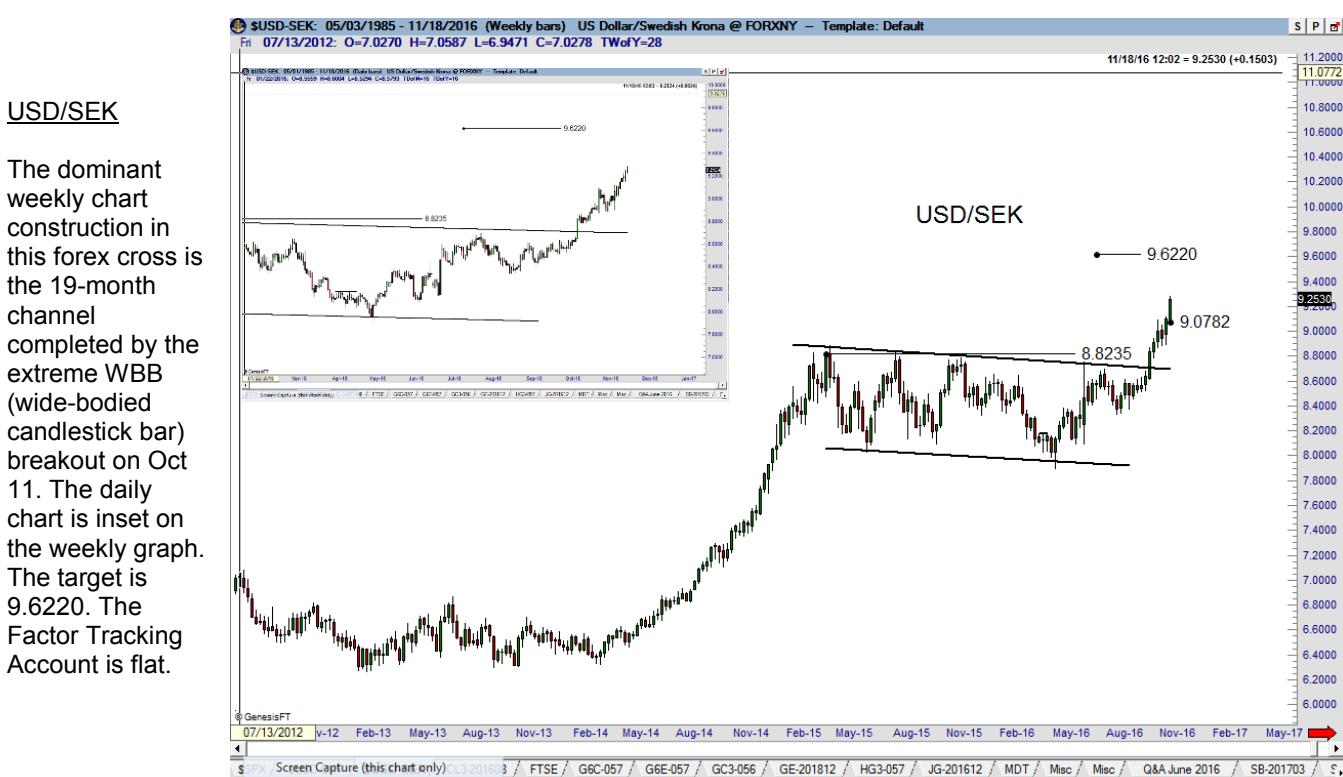
U.S. Dollar Index

Same song – now up to the 117th verse. I view the period since Mar 2015 as a pause in an ongoing dominant bull trend on the monthly and weekly charts. The rally this past week sliced through the upper boundary of the 20-month rectangle. The upside targets in USDX are 109.94, 115.17 and 120.80. The Factor Tracking Account established a long position in DX on Friday. I hate buying a market on such a bulge – this trade falls into the category of the “*law of least regret*.” My regret in not buying this breakout only to have the market go straight up would be far greater than my regret in being wrong and taking a loss. This is a “white-knuckle” trade. The chart of UUP (USDX ETF) is inset on the weekly graph of USDX. UUP has completed a massive channel with a breakaway gap. See daily chart, next page.





Candidate Factor Moves™ in Progress



USD/SEK

The dominant weekly chart construction in this forex cross is the 19-month channel completed by the extreme WBB (wide-bodied candlestick bar) breakout on Oct 11. The daily chart is inset on the weekly graph. The target is 9.6220. The Factor Tracking Account is flat.

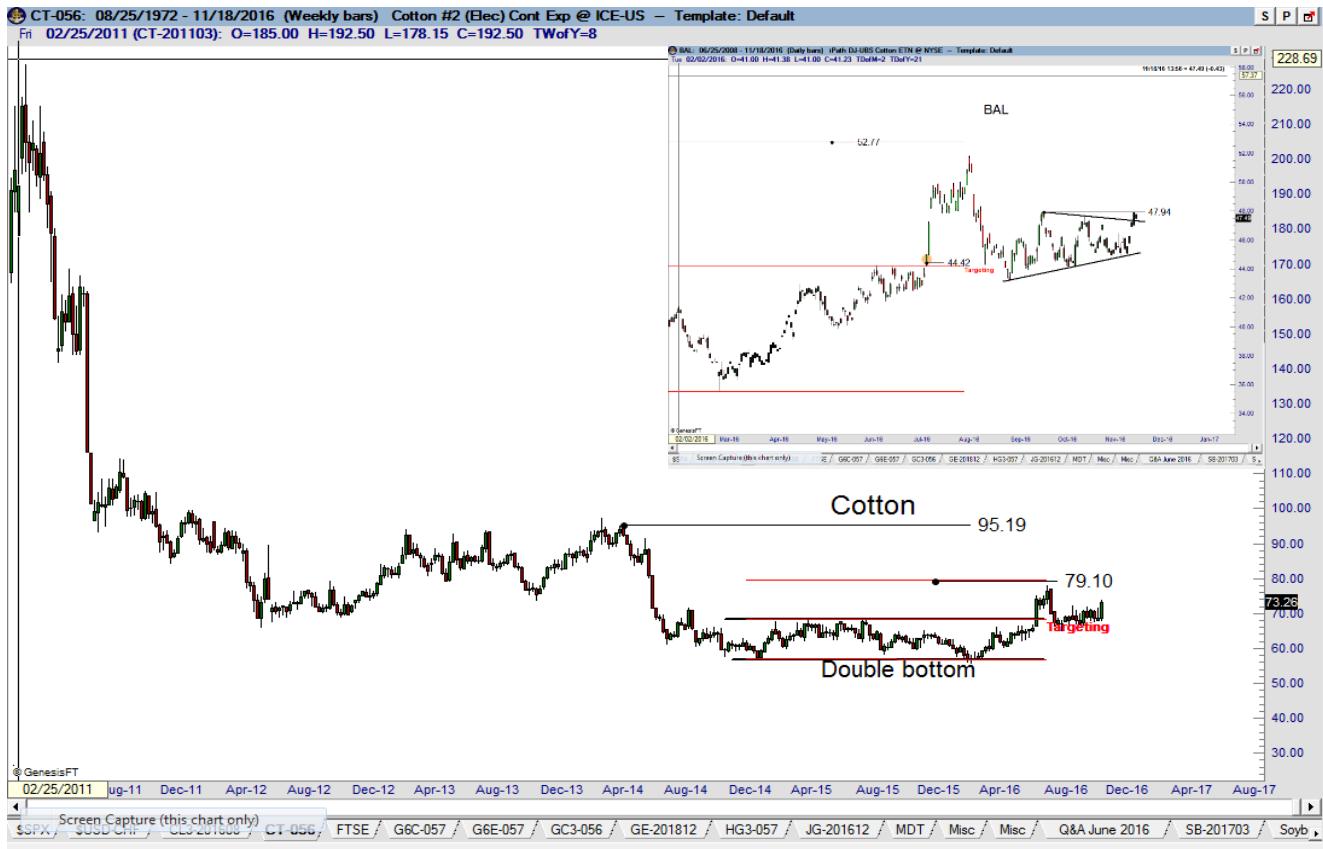
Copper (futures and ETF)

Copper is included in a discussion of Commitment of Traders data at the end of this week's Update. The dominant chart construction in Copper is the completed symmetrical triangle bottom on the daily and weekly graphs. The initial targets of 2.65 and 2.70 have been met. The next logical target would be the resistance at 300. The Factor Tracking Account is long JJC, the Copper ETF. The ETF has not yet met its target.



Cotton (futures and ETF)

The dominant chart construction in Cotton was the completion in Jul of a 12-month double bottom on the weekly continuation chart. The daily chart of the Dec and Mar contracts are also shown side-by-side. The Dec contract broke out on Wednesday, the Mar contract on Thursday when it climbed above 72.20. The Factor Tracking Account is long the Mar contract. The weekly chart of BAL, the Cotton ETF, is inset on the weekly Cotton graph.



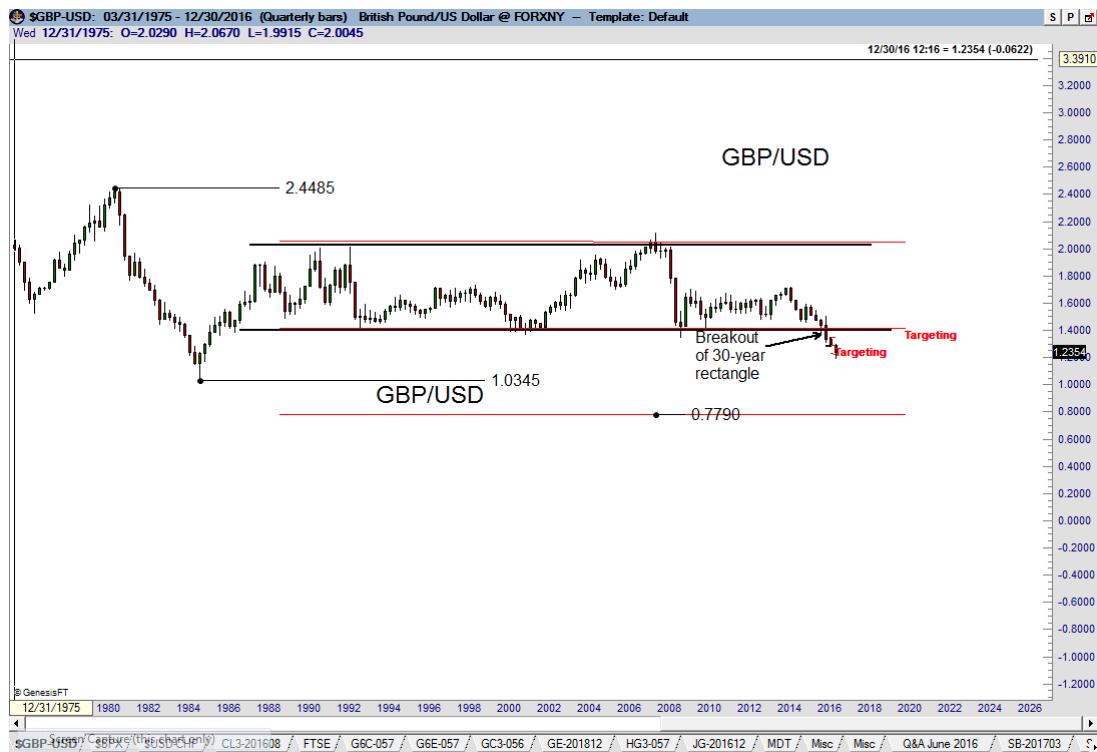
Eurodollars (the interest rate)

The dominant chart construction for the Dec 2018 weekly contract is the penetration of the lower boundary of a 39-month trading channel. A general rule of thumb is that the decline from a channel will reach a line that is parallel and of equal height to the completed channel. This would place a target in the area of 97.80. Factor is short the Dec 2018 contract. Note on the daily chart the completion on Friday of a possible half-mast pennant. The closing price chart of the Mar 2018 vs. Sep 2019 Eurodollar spread is also shown – it is my hope that this spread has a near full participation of Factor members.



GBP/USD

The dominant chart construction in Cable is the completed 30-year rectangle on the quarterly graph with a target of 1.0345 -- and .7790 as an outside possibility. Factor is flat. I am monitoring Cable for a continuation pattern.



Other Markets

FXI

The daily chart of the FTSE China Index Fund exhibits a 12-week rounding top pattern. This would indicate further near-term weakness in Chinese equities. However, the monthly graph of FXI (inset) suggests the potential for an upside explosion in Chinese equities over the longer term.



Gold

See the discussion of COT data as they relate to Gold at the end of this Update. I have no idea where Gold is headed in the immediate future. However, I will suggest two resolutions for the monthly chart – neither of which are likely to occur.

- The decline from the Sep 2011 high to the Dec 2015 low was a correction in the dominant bull trend. The advance in Feb 2016 completed a falling wedge bottom. The current decline from the Jul 2016 high is the initial part of a right shoulder of a major H&S bottom pattern. Right shoulder lows are often at the same level as left shoulder lows. Thus, the current decline could bottom in the 1170 to 1180 zone.
- The rally from the Dec 2015 low to the Jul 2016 high was simply a bounce in the bear trend that began at the Sep 2011 high. A topping pattern should form to usher in the next wave down. I agree with all of you who believe this resolution is totally inconsistent with the out-of-control printing of money by the world's central bankers.

Factor is flat.



Japanese 10-Yr Bonds

A monthly semi-log graph is shown without comment for the Japanese 10-Yr JGBs. The daily graph displays a completed 9-month H&S top pattern with a target of 147.81. On Wednesday I issued a Factor Alert on this market recommending a short sale in the Dec contract at 150.78. However, I reversed course based on comments flowing from the Bank of Japan. I still like the short side of this market based on the charts – but I place a higher priority on capital protection than on any given chart interpretation. I am willing to take another go at the short side if the neckline is again retested. The Factor Tracking Account is flat.

