



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

Factor Update, April 30, 2017

Market Review	
New candidate Factor Moves™ (trading set-up) are developing in:	
<ul style="list-style-type: none"> <li>• European bank stocks</li> </ul>	
Candidate Factor Moves™ are currently ongoing in:	
<ul style="list-style-type: none"> <li>• *Portugal ETF (PGAL)</li> <li>• *GBP/USD</li> </ul>	<ul style="list-style-type: none"> <li>• *Lumber Liquidators (LL)</li> <li>• Russell 2000</li> </ul>
<p><u>Other markets of interest.</u> This issue also comments on Australian Dollar, EuroStoxx, EUR/USD, grain markets, Silver, S&amp;Ps, *Canadian Dollars, Pilgrim's Pride Corp. (PPC), Nifty 50, Nat Gas, TLT and SLCA. *Signifies a position in the Factor \$100,000 Tracking Account</p>	

<u>Developing signals</u>	<u>Existing positions</u>
<ul style="list-style-type: none"> <li>• NZD/USD – entry and protective stop</li> <li>• PPC – entry orders and protective stops</li> <li>• Soybean Oil – entry and protective stops</li> </ul>	<ul style="list-style-type: none"> <li>• PGAL – protective stop and target</li> <li>• LL – protective stop and target</li> <li>• GBP/USD – protective stop and target</li> <li>• EUR/USD – protective stop and target</li> </ul>
<p>The Factor Tracking Account is currently leveraged at 1.6X The margin-to-equity use for futures and forex positions is 7.0%.</p>	

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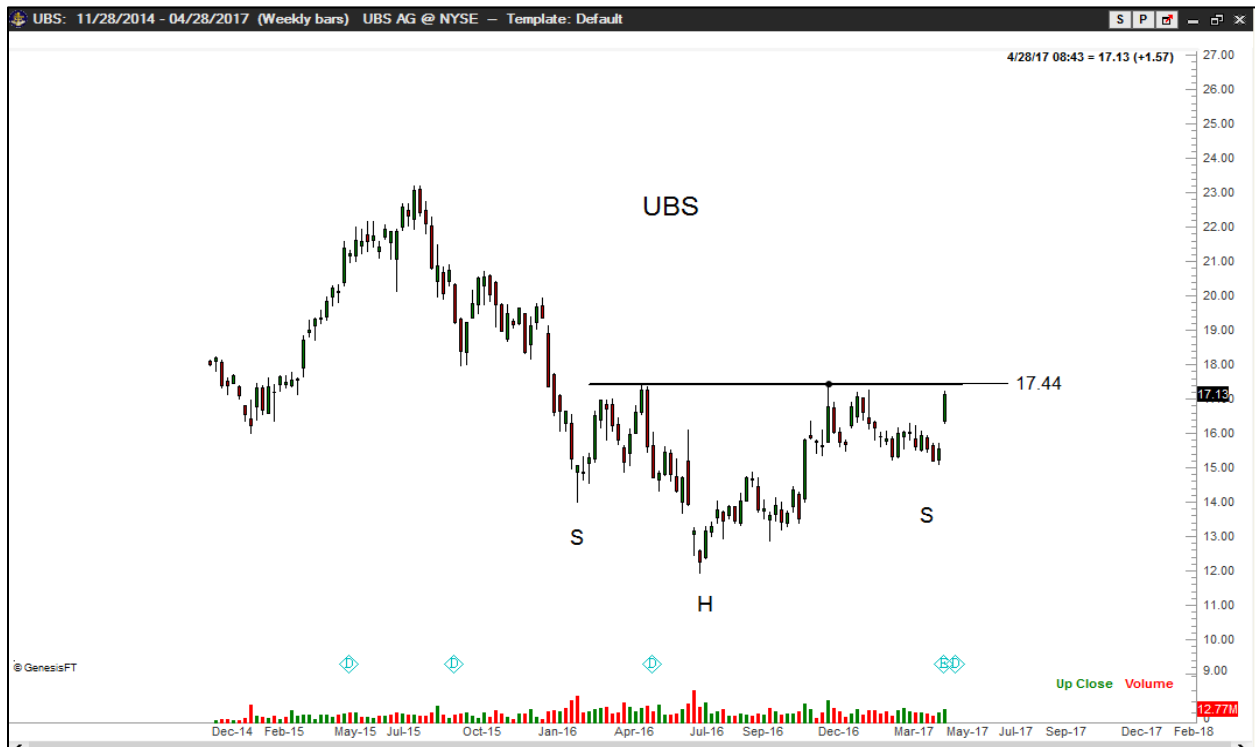
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## Candidate Factor Moves™ Setting Up

### European banks – H&S bottoms forming in major banks

Huge H&S bottom patterns are forming on the weekly graphs of some major European banks – UBS, Credit Suisse and Deutsche Bank are shown. I will purchase the first two of these stocks that complete their H&S bottoms. UBS shows the greatest strength – perhaps due to first quarter earnings. Using the 3% breakout rule of Edwards and Magee, a move above 17.85 would be a buy signal. The Factor Tracking Account is flat European bank stocks.

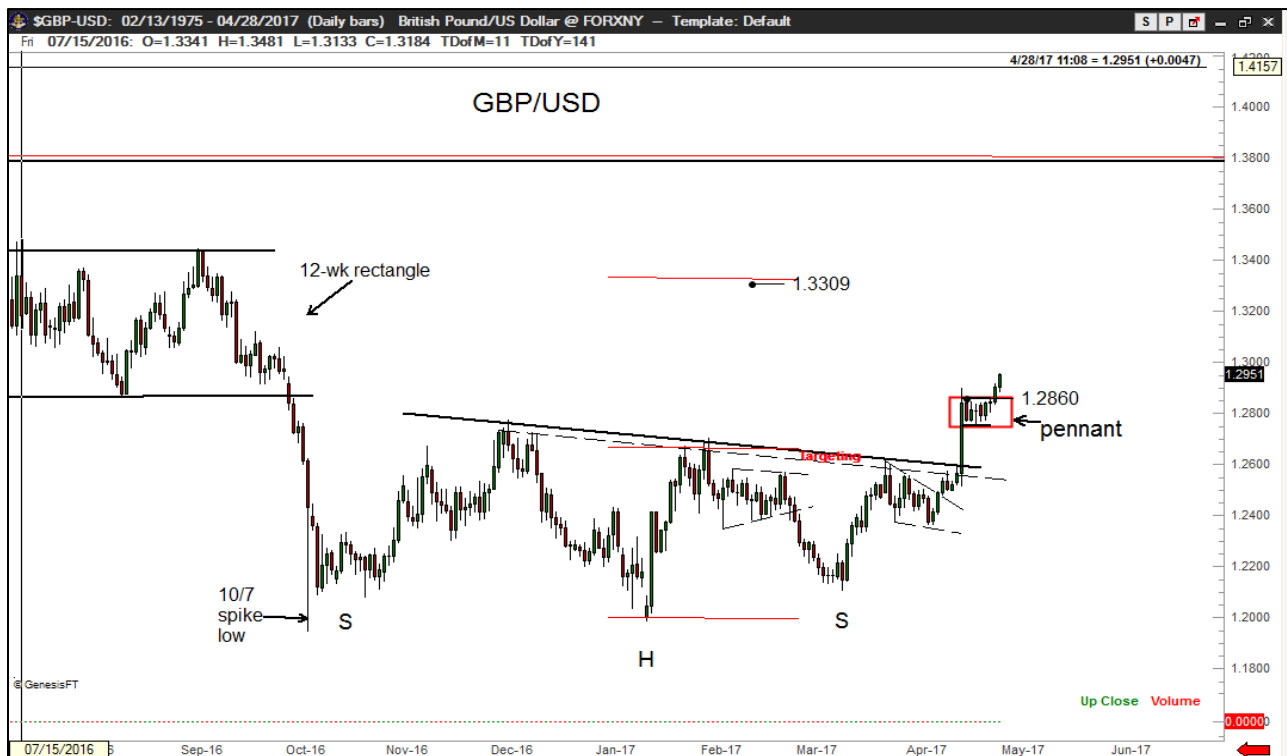


## Candidate Factor Moves™ in Progress

**Warning: The French election run-off will be May 7. A surprise outcome (a victory or even strong showing by Le Pen) would send tremors into financial markets**

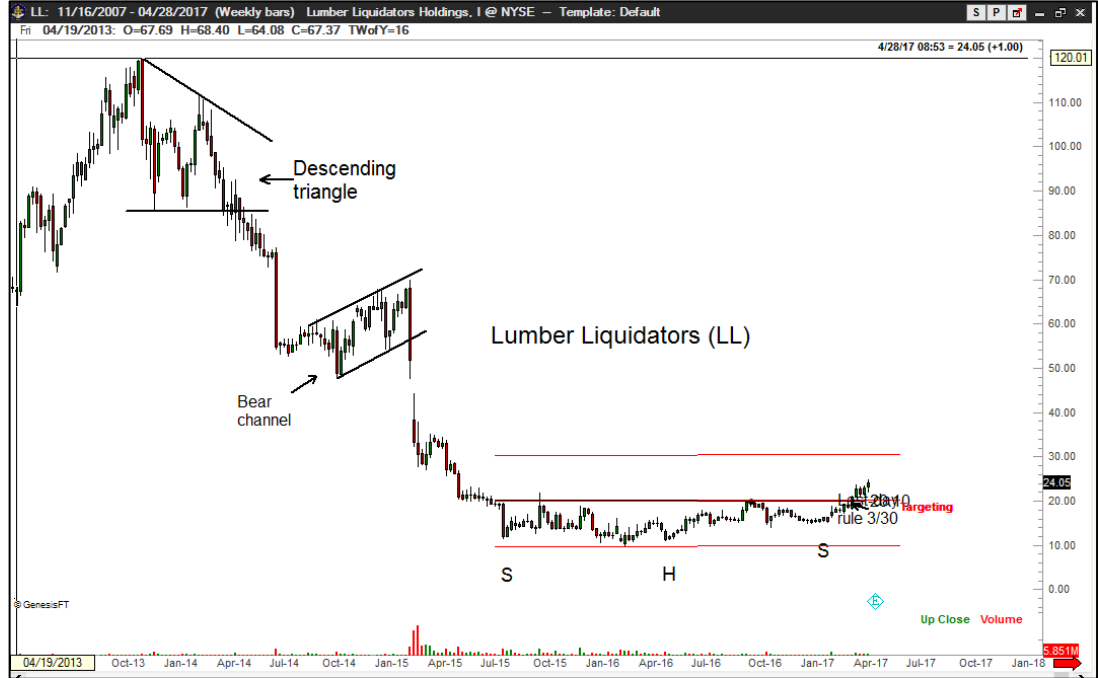
GBP/USD – might the French election pound the Pound

See Factor Update on Currency Markets dated Apr 26. The dominant chart construction is the Apr 18 completion of the 6+ month H&S bottom on the weekly and daily graphs. I established a tranche of longs on this breakout. The advance on Thursday completed a possible “half-mast” pennant on the daily and intraday graphs. I established another tranche of longs based on the breakout of this pennant. Half-mast pennants should result in swift and immediate moves, so I will be very impatient should the market falter. I need to decide on Thursday or Friday next week whether to take my long position into the French election. Factor is long GBP/USD.



Lumber Liquidators (LL) - will the turn-around be the real deal?

The advance on Mar 31 and follow through on Apr 3 confirmed a 9+ month H&S bottom pattern. The initial targets are 29.94 and 34.79. Factor is long LL.



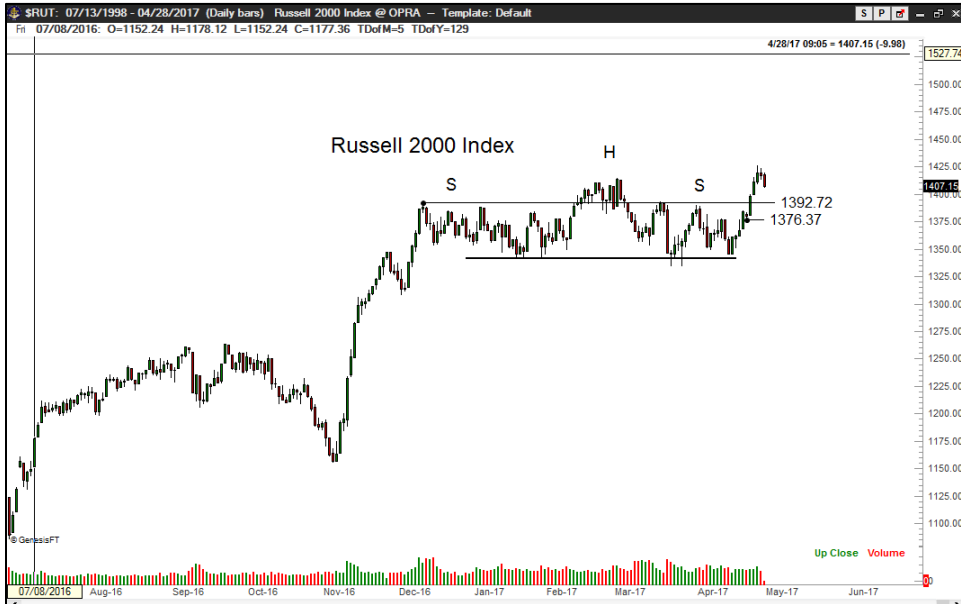
Portugal PSI-20 and PGAL – is the 17-year bear trend in Portugal over?

The Portugal PSI-20 Index has completed a 9-month symmetrical triangle or common bottom on the weekly graph. This is a strong indication the 17-year bear trend on the monthly graph has run its course. Factor is long PGAL, the Portugal ETF. I view this as a very long-term trade (assuming I do not get stopped out).



## Russell 2000 – H&S-failure pattern completed

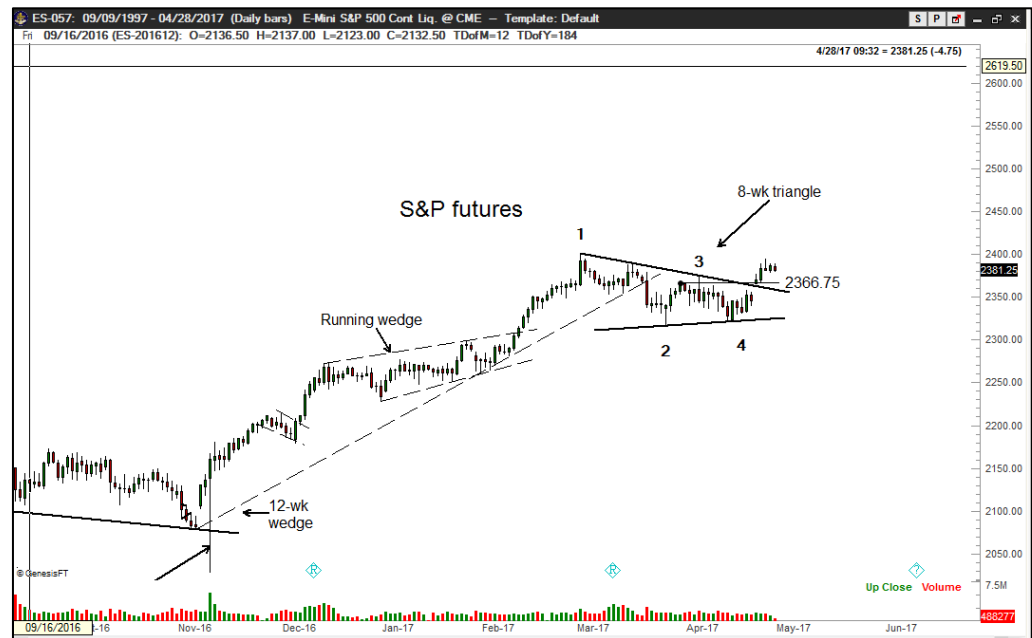
The advance on Monday completed a likely 17-week H&S failure pattern. I consider the H&S failure to be a separate and distinct chart configuration. Support should exist at 1392.



## Other Markets

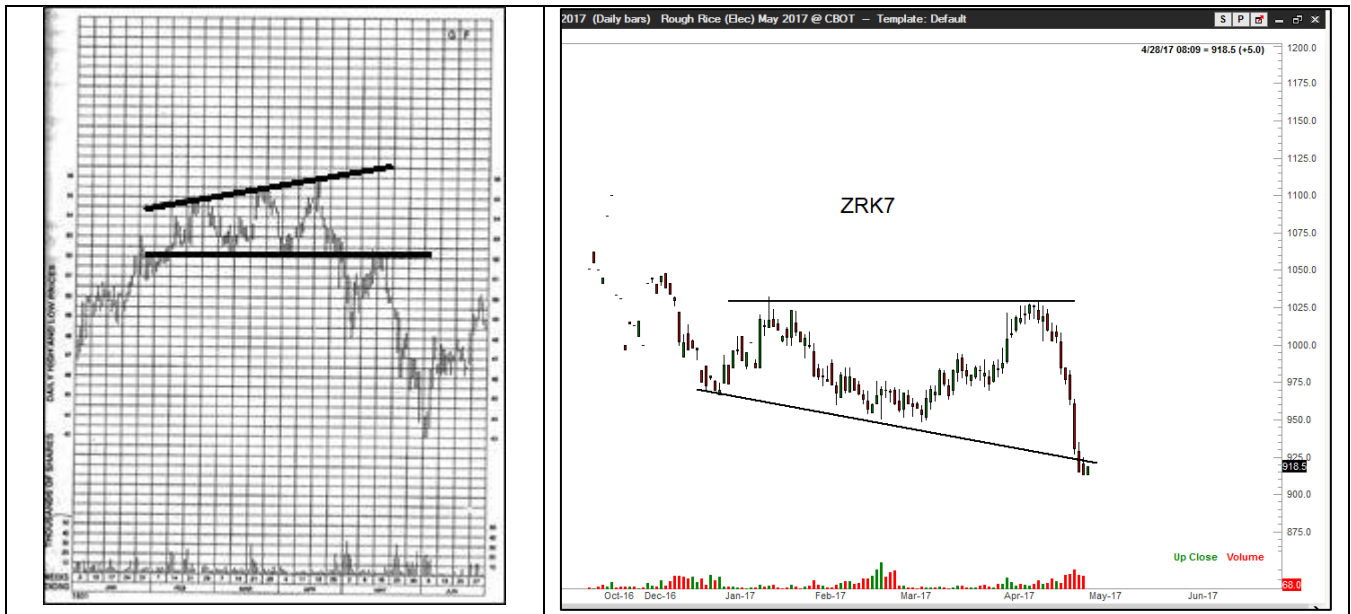
### S&Ps – continuation triangle has been completed

The advance on Monday closed above the upper boundary line of an 8-week continuation symmetrical triangle. The follow through on Tuesday confirmed the pattern. Factor is flat. I have an interest in buying a retest of the 2338 level using the Apr 24 gap for protection. Factor is flat.



Grain markets – major bottoms can take a very long time

The U.S. grain markets have entered what could be a prolonged period of bottoming. I want to remain alert over the months ahead for more immediate signs of a bottom. The May **Rough Rice** contract could be forming a rare right-angled broadening pattern – assuming that absolute lows develop around current levels. Also shown is an example of this reversal pattern (General Goods, 1931) from Schabacker’s 1932 book, “*Technical Analysis and Stock Market Profits.*” Factor is flat all grain markets.



The weekly continuation and July 2017 contract month charts of **Soybean Oil** could be forming a wedge serving as an extremely deep retest of a massive H&S bottom. I am willing to take a shot at the long side of the July contract if the 32.76 level is breached.



## The problems with probabilistic thinking about classical charting

There are books and web sites that attempt to convert classical chart patterns into a matter of probability. I have a fundamental disagreement with this way of looking at charting. Charts provide “possibilities” – not probabilities. These books and web sites are based on faulty premises. They attempt to assign a probability (of working) to various chart patterns. My review of these books and web sites suggest that they grossly misunderstand and misdiagnose classical configurations.

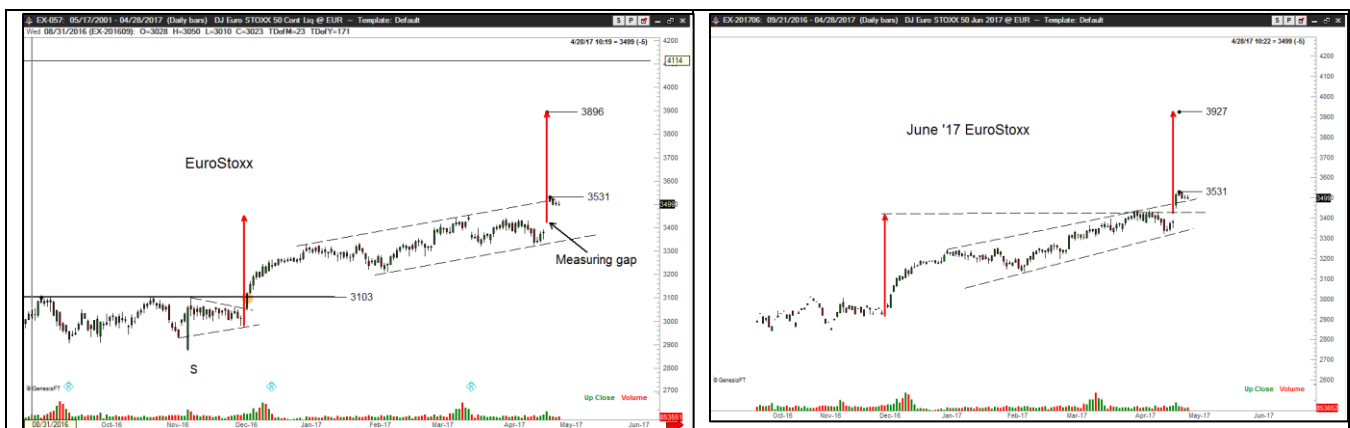
My experience is that a H&S does not work unless it is a true H&S – and that all true H&S patterns provide subsequent price action consistent with the pattern. The same thing can be said about rectangles, right-angled triangles, symmetrical triangles, double bottoms and all other chart formations. An apparent H&S that does not work, but morphs into some other form of chart construction was not a true H&S.

The questions these books and web sites should attempt to answer is this:

- “What is the probability that an apparent H&S chart configuration that meets the correct construction criteria of a H&S will morph into another form of chart construction – thus never becoming a true H&S?”

## EuroStoxx – French election could propel another leg up

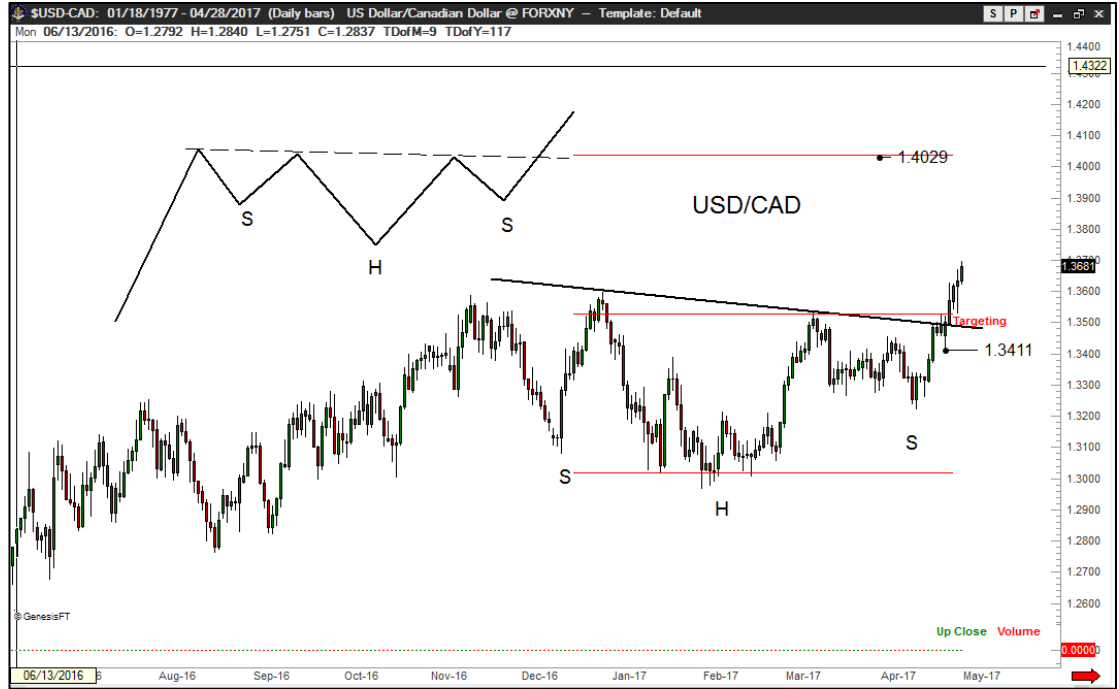
This market is fast approaching the 3554 target established by the H&S pattern completed on Dec 6. The daily continuation graph has been advancing within the boundaries of a 4-month channel. There is a chance the gap advance on Apr 24 was a measuring gap – indicating that the upcoming advance from the mid-point of the gap will equal the distance traveled from the Dec 4 low to the Mar 16 high. This would suggest a target of 3896. The daily chart of the Jun 2017 contract is attempting to climb out of the upper boundary of a similar channel. A move and close above 3540 would be constructive and establish a profit target of 3927. Factor is flat – but I am interest in establishing a long in EuroStoxx. This stock index, unfortunately, will be subject to volatility from the French election. I am not sure I want to take a bet with an outcome subject to the whims of French voters.





Canadian Dollars – will prices retest the 2016 low?

See the Factor Alert on the Canadian Dollar dated Apr 25. The advance on Apr 25 completed a 5+ month continuation H&S pattern. Note the idealized form of the

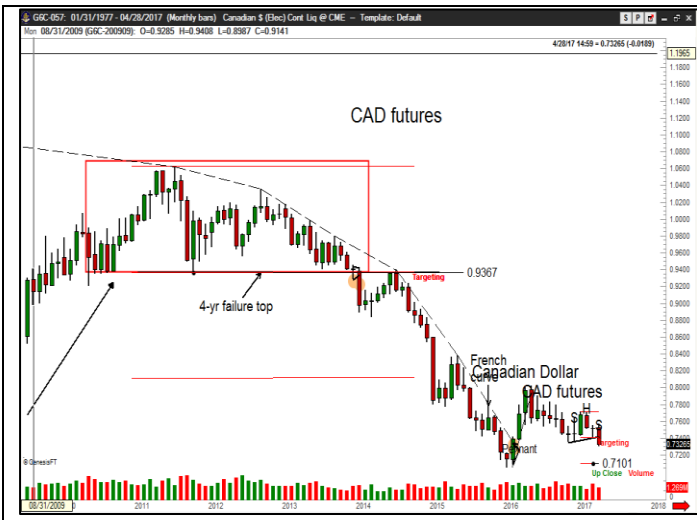
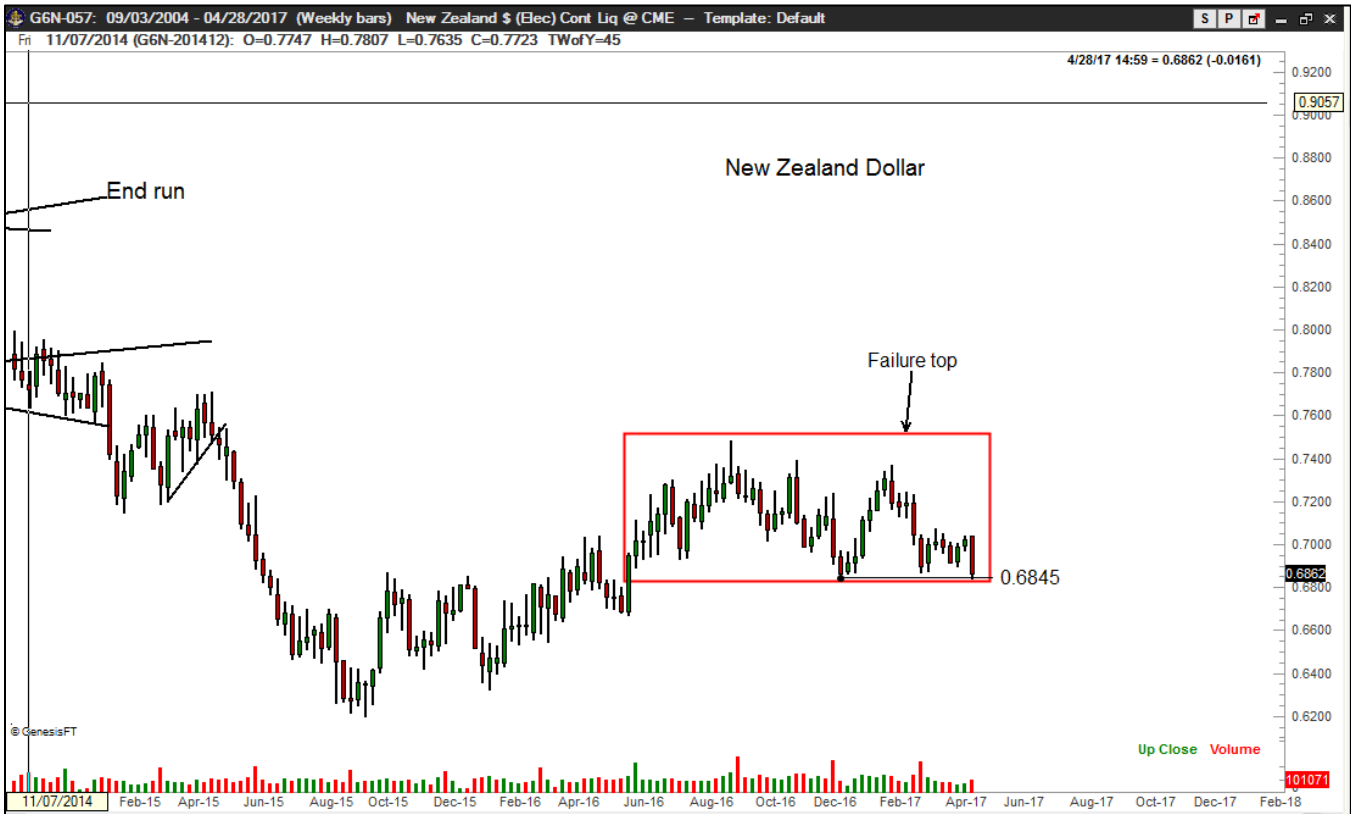


continuation H&S drawn on the spot chart. The target of this pattern is 1.4029. The daily continuation chart of the CAD futures is also shown. Factor is long USD/CAD.

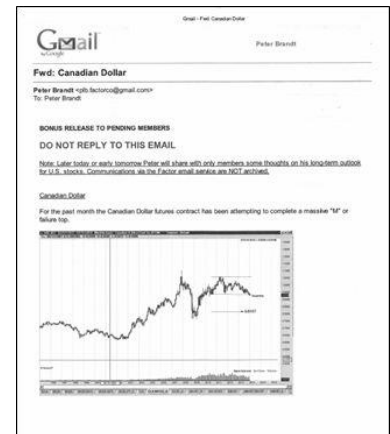


New Zealand Dollar (futures) – preparing for a retest of the 2015 low at .6200?

The daily and weekly charts of the New Zealand Dollar (futures chart shown – spot chart, not shown, mirrors the futures chart) are forming a 10-month failure top (red box). As a point of comparison, see a similar failure top on the monthly CAD chart which was completed in early 2014. Original members to the Factor Service will recall my analysis of this top on the day it was completed. Similar patterns that form on charts of different time frames (monthly, weekly, daily and intraday) are called fractals. Factor is flat NZD and will short a downside breakout.

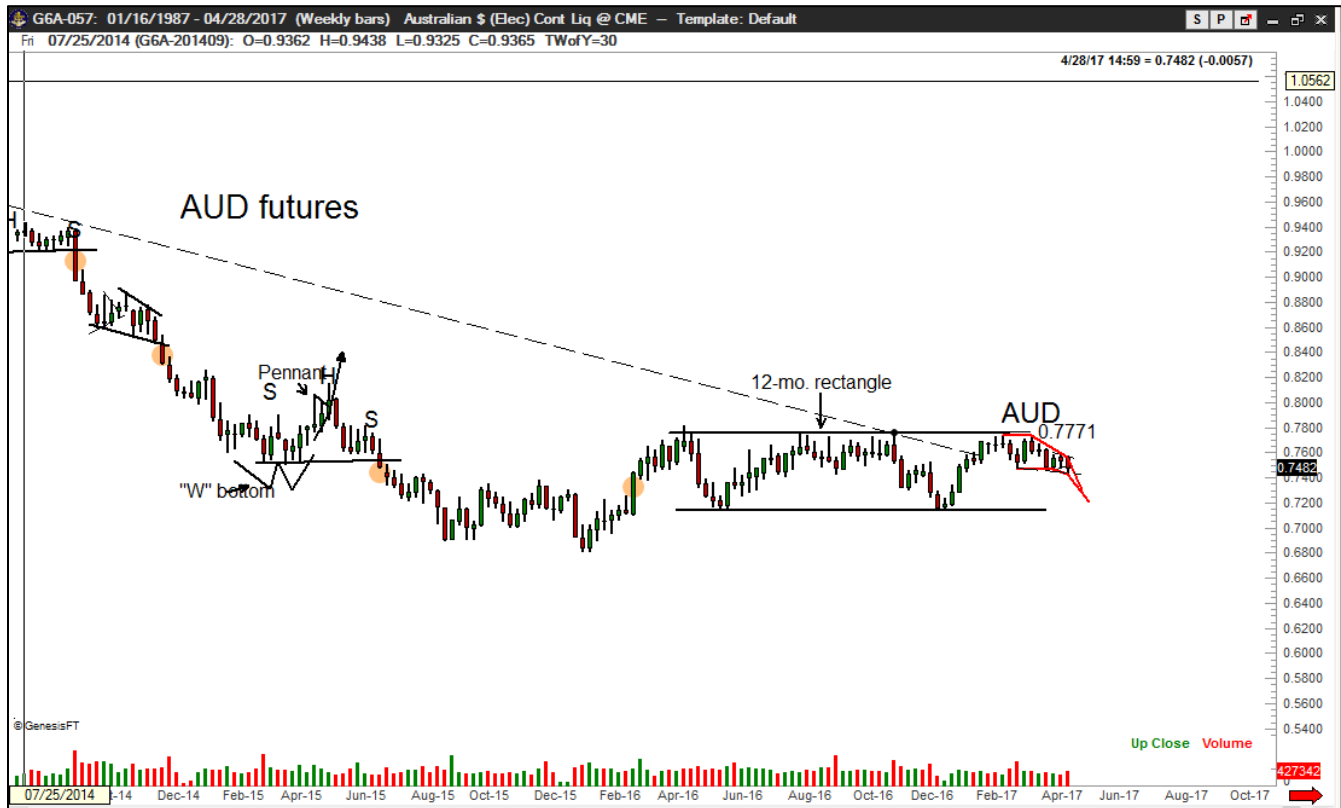


The very first email issued by the Factor Service to pending members in early Jan 2014 was on the failure top in the Canadian Dollar. See a copy of the first page of that email (right).



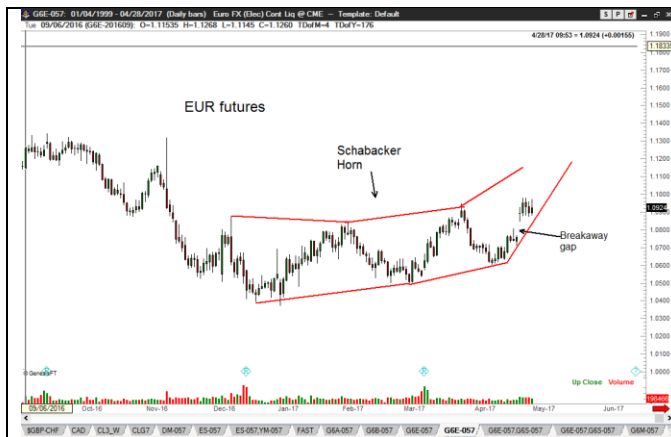
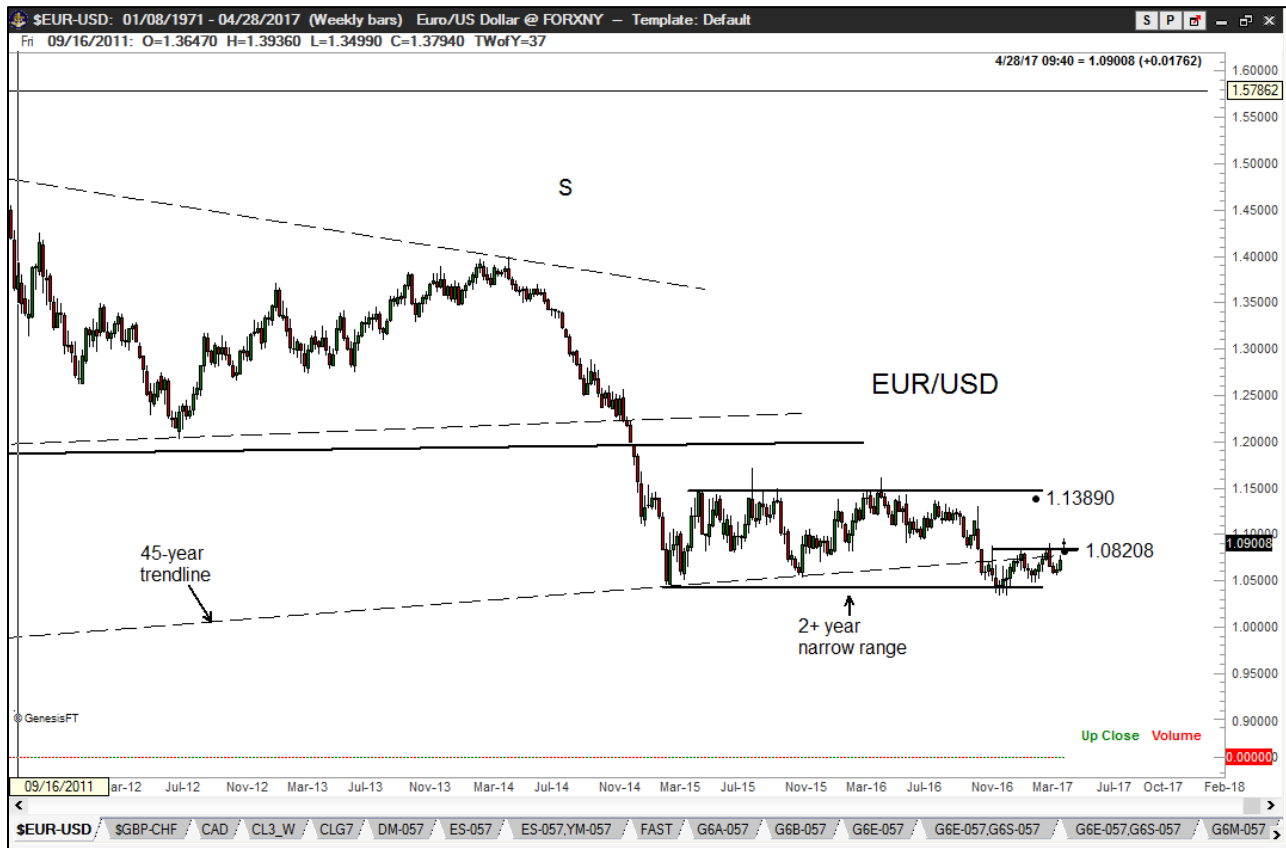
## Australian Dollar (AUD/USD spot) – the possibility exists for a major move

The rectangle referenced in many recent Factor updates could prove to be a continuation pattern within the bear trend that began in early 2013. The daily AUD futures chart displays a possible 9-week horn or sloping top. A number of Factor members have asked for clarification on the horn pattern. The horn pattern resembles the traditional Viking horn, as shown next to the daily graph. Factor is flat. My preference is to short the NZD.



EUR/USD – the weekly chart continues to gain tremendous potential energy

See the Factor Update on Currency Markets dated Apr 26. The major chart construction in EUR continues to be the ongoing formation of a massive rectangle. The longer this rectangle forms the more power it will gain. Because of the likely eventual explosion out of the rectangle I've had an interest to become prepositioned. I consider the advance on Apr 24 to be a break-away gap as part of a horn bottom. As discussed in the Apr 26 email update, the alternative interpretation is that of a bearish channel or wedge, both diagonal patterns. I consider the horn or sloping pattern to be of the horizontal variety – and I prefer horizontal patterns to diagonal patterns. Factor is long EUR/USD.



Nifty 50  
(India) – the  
bull trend  
continues

The Nifty is in a major bull trend – launched in Mar 2014 from a 6+ year ascending triangle on the monthly graph. The advance in mid-Mar competed a 27-month cup and handle pattern on the weekly chart.



This pattern has a minimum target of 11,180. Factor is flat – I had orders in this past week to buy a break that never occurred. There is a good chance this train has left me on the platform, but I am not a big fan of chasing leveraged markets.



# Silver – the biggest sucker play of 2017

The Apr 16 Factor Update cautioned traders from being sucked into the long side of Silver based on the well-advertised (by other chartists) H&S bottom on daily graph. My caution was based



on the questionable validity of the H&S pattern plus the fact speculators are holding an all-time record long position (against a record all-time short position held by commercial operators). The daily chart on the left below is reprinted from last week's Factor Update. The daily chart through Friday is on the right. The current chart shows in red what I had hoped would happen this past week – a slight rally to form the right shoulder of a 5-week H&S top followed by a collapse. The slight rally never occurred – and I was unable to establish a corresponding short position. Silver has closed down 10 consecutive days – and hopefully a rally back toward 17.75 might offer a chance to go short. As shown on the weekly chart, a decline to test the 2016 and 2015 lows could occur. Factor is holding an empty bag in the Silver market.



PPC (Pilgrim's Pride Corp) – this chicken is about to fly the coop

The extreme WBB advance on Apr 21 accompanied by massive volume penetrated the upper boundary of a 29-month symmetrical triangle. A decisive close above the May 2016 high is required to complete this pattern. Using the 3% Edwards and Magee rule, a move to 27.31 would represent a breakout. I am willing to buy a set back into the zone



marked in red on the daily chart. An earnings report will be release on Wednesday, May 3. Earnings' reports have tripped me up in the past in U.S. stocks, so I am always cautious of surprises. Yet, the WBB nature and volume of the Apr 21 advance suggests that earnings could exceed the street estimate of \$.38. We shall see. Factor is flat.



## Post Mortems

The Factor exited positions this past week in SLCA, TLT and Natural Gas. Capital preservation is my number one priority as a trader. I have very little patience with positions that turn red, even for a day or two.



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# Factor Trading Account as of April 28, 2017

Factor LLC																	4/28/2017					
Model Tracking Account Trade History and Portfolio																	Initial capitalization: \$100,000					
																	(See disclaimers and notes below)					
Market	Date	L/S	Entry					Current Stop	Stop Date Δ	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)					
			Price	Size	Initial stop	BP risk	Weekly				Daily	Date	Price									
Positions open as of 12/30/16																						
EXH7	EuroStoxx	12/6/16	L	3102.0	1	3029.0	78	3247	12/28	3289	11+mo H&S	11+ mo H&S	2-Jan	3289	\$ 1,970	Closed	-					
NZD/USD	Spot fx	12/15/16	S	0.7077	70k	0.7126	36	0.7002	12/27	0.6821	Poss 6+ mo H&S	4-wk wedge	5-Jan	0.7003	\$ 518	Closed	-					
															Total -- Carry in positions		\$ 2,488					
2017 forex roll charges and FX losses on foreign margin deposits; day trade P/Ls on repositioned trades																	\$ (415)					
EUR/USD	EUR/USD	1/3/17	S	1.0445	50k	1.0532	43	1.0502	1/4	0.9621	21-mo sym tri	Jan Effect high	5-Jan	1.0503	\$ (290)	Closed	-					
EUR/NOK	EUR/NOK	1/3/17	S	9.0058	50k	9.1011	55	8.8631	2/24	8.7352	14-mo H&S top	Poss 14-wk H&S	27-Feb	8.8633	\$ 851	Closed	-					
MWEH7	Mpls Wheat	1/5/17	L	5.4700	1	5.3900	80	5.690	1/16	5.86	6+ mo H&S	5-wk asc tri	17-Jan	5.860	\$ 1,945	Closed	-					
MWEH7	Mpls Wheat	1/5/17	L	5.4700	1	5.3900	80	554.75	1/27	6.34 r	6+ mo H&S	5-wk asc tri	30-Jan	5.5450	\$ 370	Closed	-					
AUD/NZD	AUD/NZD	1/9/17	L	1.0508	70k	1.0419	45	1.0459	1/11	1.0746	Poss 7-mo H&S	10-wk wedge	24-Jan	1.0459	\$ (248)	Closed	-					
GGCH7	Canadian \$	1/12/17	L	0.7652	1	0.7584	72			0.8023	9-mo channel	3-mo double bottom	18-Jan	0.7583	\$ (695)	Closed	-					
FAST	Fastenal	1/18/17	L	50.220	200	47.740	50	47.98	1/30	62.5900	57-mo rectangle		2-Feb	49.04	\$ (241)	Closed	-					
FBMNH7	Bobl	1/23/17	S	133.1900	1	133.4200	23	133.13	1/25	130.41	Poss 12-mo H&S	5-wk H&S	2-Feb	133.13	\$ 55	Closed	-					
ZCH7	Corn	1/24/17	L	363.00	1	354.50	45	359.75	1/27	384.750	13-wk sym tri	13-wk sym tri	30-Jan	359.75	\$ (167)	Closed	-					
EUR/NOK	EUR/NOK	1/30/17	S	8.9124	80k	8.9442	31	8.9102	2/9	8.7351	14-mo H&S top	Poss 16-wk H&S	10-Feb	8.9103	\$ 20	Closed	-					
YIH7	Mini Silver	1/31/17	L	17.43	2	17.07	36	17.32	2/2	18.8800	11-wk H&S	11-wk H&S	3-Feb	17.32	\$ (230)	Closed	-					
FVAH7	5-Yr Ts	2/9/17	L	118.08	1	108.03	32			119.18	12-wk H&S	12-wk H&S	9-Feb	118.03	\$ (318)	Closed	-					
JJC -ETF	Copper	2/9/17	L	31.66	800	30.98	55	Mkt	2/14	34.48		HG = 13-wk rect	16-Feb	31.73	\$ 51	Closed	-					
HGH7	Copper	2/14/17	L	274.10	1	269.3	120	271.9	2/15	299.30	13-wk rectangle	Retest	16-Feb	281.85	\$ (568)	Closed	-					
AUD/USD	Aussie	2/15/17	L	0.7702	50k	0.7629	36	Mkt	2/17	0.8338	Poss 10-mo rect	2-wk pennant	17-Feb	0.7664	\$ (190)	Closed	-					
EUR/USD	EUR/USD	2/16/17	L	1.06712	30	1.0498	47	Mkt	2/17	1.0674	Poss 23-mo rect	Poss 13-wk H&S	17-Feb	1.06077	\$ (191)	Closed	-					
ZH7	FTSE	3/1/17	L	7322.0	1	7269.0	65	7314.0	3/7	7722.0	17-year asc tri	Pennant	8-Mar	7314.00	\$ (20)	Closed	-					
DXH7	US Dollar	3/1/17	L	101.865	1	101.28	60	101.49	3/3	108.84	20-mo rectangle	Poss 15-wk H&S fail		101.485	\$ (385)	Closed	-					
FAST	Fastenal	3/3/17	L	51.53	300	50.29	40	50.94	3/7	62.59	6-mo H&S	7-wk pennant	9-Mar	50.94	\$ (182)	Closed	-					
QMK7	Min Crude	3/10/17	S	51.20	1	52.35	60			48.125		10-week horn	14-Mar	48.13	\$ 1,533	Closed	-					
GBH8	Euribor	3/10/17	S	100.170	3	100.225	42	100.200	3/28	99.770	14-mo H&S top	14-mo H&S top	29-Mar	100.20	\$ (272)	Closed	-					
EURUSD	EURUSD	3/10/17	L	1.0688	40k	1.0594	36	1.07540	3/28	1.1234	25-mo rectangle	Poss 4-mo H&S	29-Mar	1.07538	\$ 263	Closed	-					
EURUSD	EURUSD	3/27/17	L	1.0861	20k	1.07690	19	1.07890	3/28	1.1197	4-mo H&S	4-mo H&S	29-Mar	1.07888	\$ (144)	Closed	-					
EURUSD	EURUSD	3/27/17	L	1.08645	20k	1.07920	19	1.07890	3/28	1.1197	4-mo H&S	4-mo H&S	29-Mar	1.07888	\$ (153)	Closed	-					
SNFJ7	Nifty	3/28/17	L	9155.0	1	8989.0	32	Mkt	4/13	11174.0	27-mo cup & handle	27-mo cup & handle	13-Apr	9200	\$ 80	Closed	-					
SNFJ7	Nifty	3/28/17	L	9155.0	1	8989.0	32	Mkt	4/13	11174.0	27-mo cup & handle	27-mo cup & handle	13-Apr	9200	\$ 80	Closed	-					
PGAL	Port. ETF	3/31/17	L	10.22	150	8.99	16	9.960	4/9	12.7400	10-wk sym tri	10-wk sym tri			\$ 26	\$ 1,533	\$ 1,533					
PGAL	Port. ETF	3/31/17	L	10.22	150	8.99	16	9.970	4/24	12.7400	10-wk sym tri	10-wk sym tri			\$ 26	\$ 1,533	\$ 1,533					
LL	Lumber Liq	3/31/17	L	20.21	200	19.29	32	21.59	4/12	34.79	20-mo H&S	20-mo H&S	12-Apr	21.59	\$ 271	Closed	-					
LL	Lumber Liq	3/31/17	L	20.21	200	19.29	32	29.64	4/25	30.34 r	20-mo H&S	20-mo H&S			\$ 868	\$ 4,042	\$ 4,042					
VRNS	Varonia	3/31/17	L	31.79	200	30.09	32	30.78	4/5	37.49	7-mo rectangle	7-mo rectangle	6-Apr	29.74	\$ (415)	Closed	-					
GBPUSD	GBPUSD	4/18/17	L	1.2663	30k	1.2508	45	1.2728	4/28	1.3288	6+ mo H&S	6+ mo H&S			\$ 858	\$ 1,899	\$ 37,989					
TLT	20-Yr ETF	4/18/17	L	123.89	150	121.54	36	Mkt	4/25	126.93	5-mo double bottom	5-mo double bottom	25-Apr	121.76	\$ (325)	Closed	-					
SLCA	U.S. Silica	4/21/17	S	40.98	120	44.02	36			25.21	7-mo H&S top	7-mo H&S top	26-Apr	44.03	\$ (371)	Closed	-					
QGM7	Mini Nat Gas	4/21/17	S	3.190	2	3.280	45	3.225	4/25	3.030	Poss 10-mo H&S	Poss 4-wk H&S	26-Apr	3.225	\$ (93)	Closed	\$ 15,950					
USD/CAD	USD/CAD	4/25/17	L	1.3591	30k	1.3398	43				5+ mo cont. H&S	5+ mo cont. H&S			\$ 125	\$ 1,500	\$ 30,000					
EUR/USD	EUR/USD	4/25/17	L	1.0881	30k	1.0759	56	1.0839	4/26	1.1389	4-mo Horn	Breakaway gap			\$ 39	\$ 1,632	\$ 32,642					
GBPUSD	GBPUSD	4/27/17	L	1.2876	30k	1.2809	17	1.2832	4/27		6+ mo H&S	Half mast pennant			\$ 219	\$ 1,931	\$ 38,628					
															Trades as of		\$ 4,257		\$ 14,071		\$ 162,317	
															Indicates open position value as of		4/28/2017		Levered at		1.6	
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																	\$6,963		ME =		7.0%	
r = revised		RO = RollOver																				