



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

Factor Update, May 14, 2017

Market Review

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

- European bank stocks
- New Zealand Dollar

Candidate Factor Moves™ are currently ongoing in:

- *Portugal ETF (PGAL)
- GBP/USD

Other markets of interest. This issue also comments on *Australian Dollar, *EuroStoxx, U.S. Dollar Index, EUR/USD, FTSE, grain markets, Palladium, USD/SEK, Bitcoins, Silver, Crude Oil, Kospi (and EWY-etf), *Pilgrim’s Pride (PPC) and Canadian Dollars. *Signifies a position in the Factor \$100,000 Tracking Account

<u>Developing signals</u>	<u>Existing positions (cont.)</u>
<ul style="list-style-type: none"> • NZD/USD – entry stop and protective stop • Crude Oil – monitoring • EWY – entry order and protective stop • Palladium -- monitoring 	<ul style="list-style-type: none"> • AUD/USD – protective stop and target • EuroStoxx – protective stop and target • PGAL – protective stops and targets • PPC – protective stop and target
<p>The Factor Tracking Account is currently leveraged at 1.0X. The margin-to-equity use for futures and forex is 8.1%.</p>	

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Market Commentary – nobody promised it would be easy

The use of stop-loss orders to protect trades always carries the risk that a stop will be picked off only to have a market reverse back in the intended direction of the trade. This has happened frequently to me in recent months. In fact, I cannot remember a time when my stops have been picked off so often followed by a move in the direction of the original trade. This is most frustrating.

There are several schools of thought when it comes to the use of protective stop orders.

- A. Do not use stops at all – believe in a trade and be prepared to lose a bunch
- B. Do not use physical stops – use price alerts instead, then monitor the market for a day or so (existing a trade if the loss grows)
- C. Use loose stops to prevent against being picked off – these stops can be based on significant pivot points or with a moving average system
- D. Use active and aggressive trade management protocols

Tactic A above will lead eventually to disaster when trading futures and forex markets. Tactic B is actually a good alternative but requires discipline in throwing in the towel. Tactic C is also an acceptable alternative but requires adopting smaller trade sizes and a willingness to experience deeper drawdowns.

From mid-2014 through the end of 2016 Tactic D was a very success approach to trade management. It has been a terrible tactical approach in 2017. My trading performance in 2017 would have been far more profitable using Tactic C than with Tactic D. But it is far too easy to optimize after the fact. Unfortunately, I trade real markets in real time with real money. Altering my trading outcomes after the fact is not the world I live in.

Tactic C would have negatively impacted my trading outcomes from mid-2014 through 2016. I am not smart enough to successfully align my trading approach to constantly changing trading conditions. My trading approach is firmly planted on two foundational ideas.

- 1. My first priority is to protect my trading capital. Capital preservation is far more important than a market opinion. Once I lose my pile of chips the game is over.
- 2. I can endure lengthy periods of choppy markets with numerous small losses.

I am giving some thought to adopting wider stops on a portion of each trade. Yet, I am highly skeptical of an approach to market speculation whereby I would constantly change my approach based on what would have worked best in the last trade or series of trades. I am open to the idea of making modifications to my overall trading plan, but I would do so reluctantly only after great thought, paper trading an idea for six months or so and then trading a modified tactic in a sub account for another six months.

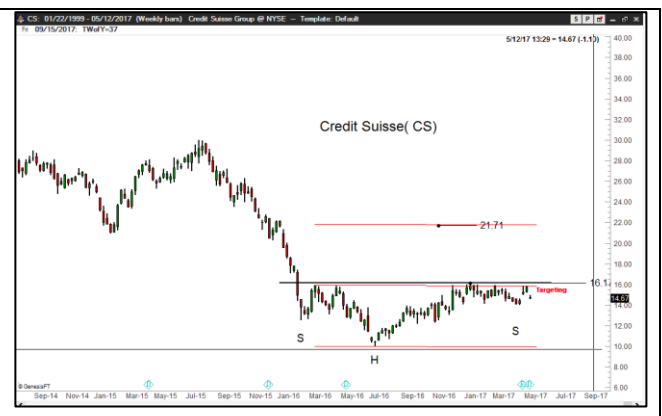
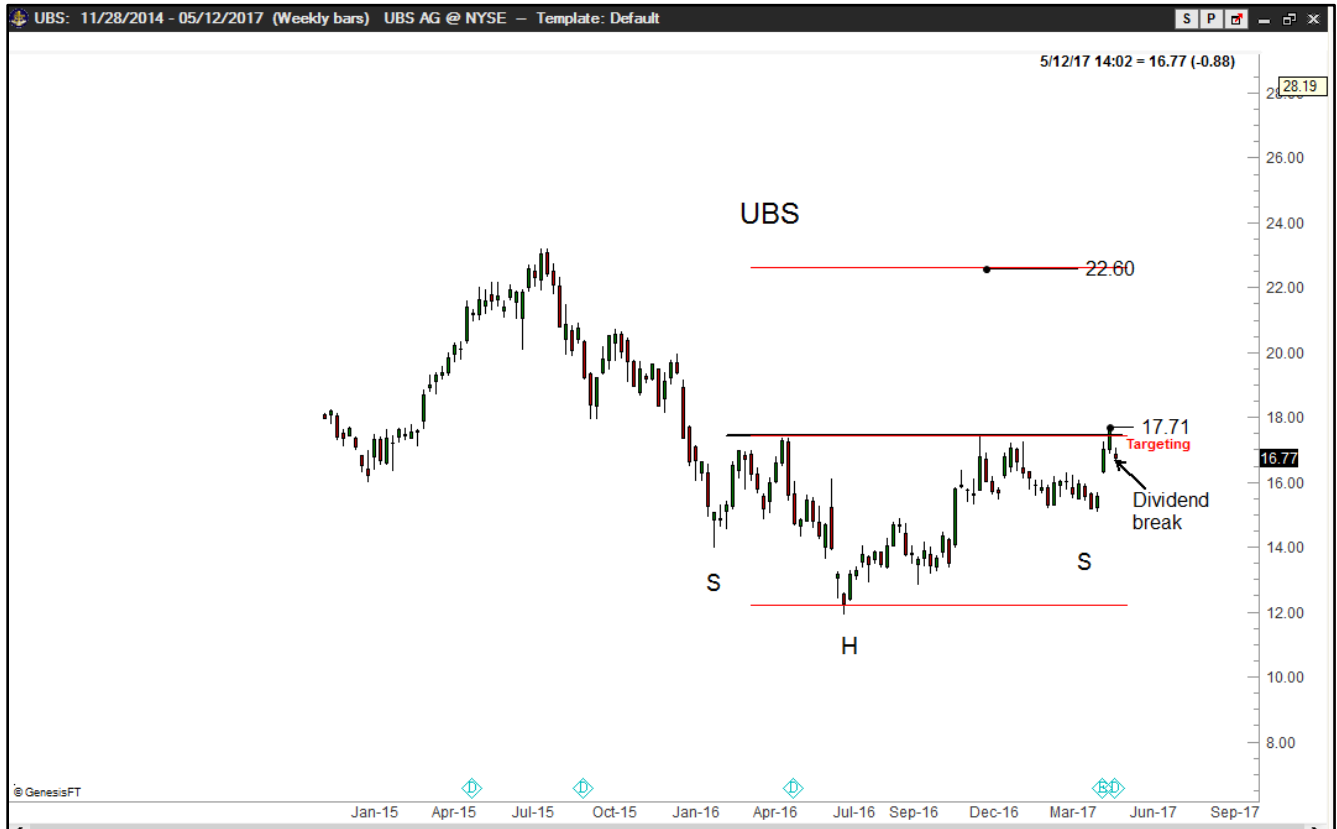
Successful market speculation is a matter of making trade-offs. Certain changes to a trading approach will produce different outcome profiles. It comes down to picking one's poison.

<u>Wider stop placement, slower stop advancement</u>	<u>Active and aggressive trade management</u>
<ul style="list-style-type: none">• Advantage in choppy trends• Higher long-term ROR• Larger drawdowns• Lower Gain-to-Pain Ratio and Profit Factor• Longer hold times for trades	<ul style="list-style-type: none">• Advantage in markets with sustained trends• Lower long-term RORs• Smaller drawdowns• Higher Gain-to-Pain Ratio and Profit Factor• Shorter hold times for trades• Subject to whipsaws

Candidate Factor Moves™ Setting Up

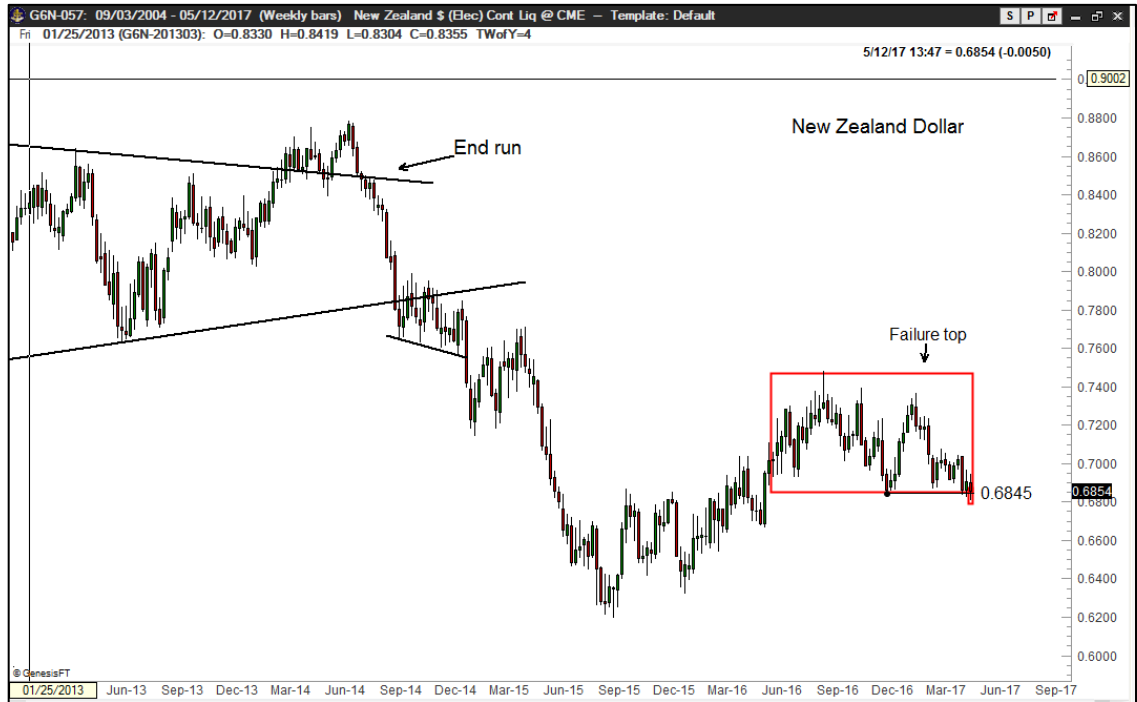
European banks – H&S bottoms forming in major banks

Huge H&S bottom patterns continue to form on the weekly graphs of some major European banks – UBS, Credit Suisse and Deutsche Bank are shown. UBS traded through its neckline, but the ex-dividend adjustment put prices back under the breakout level. Factor is flat. I will buy UBS if it climb above 18.01.



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

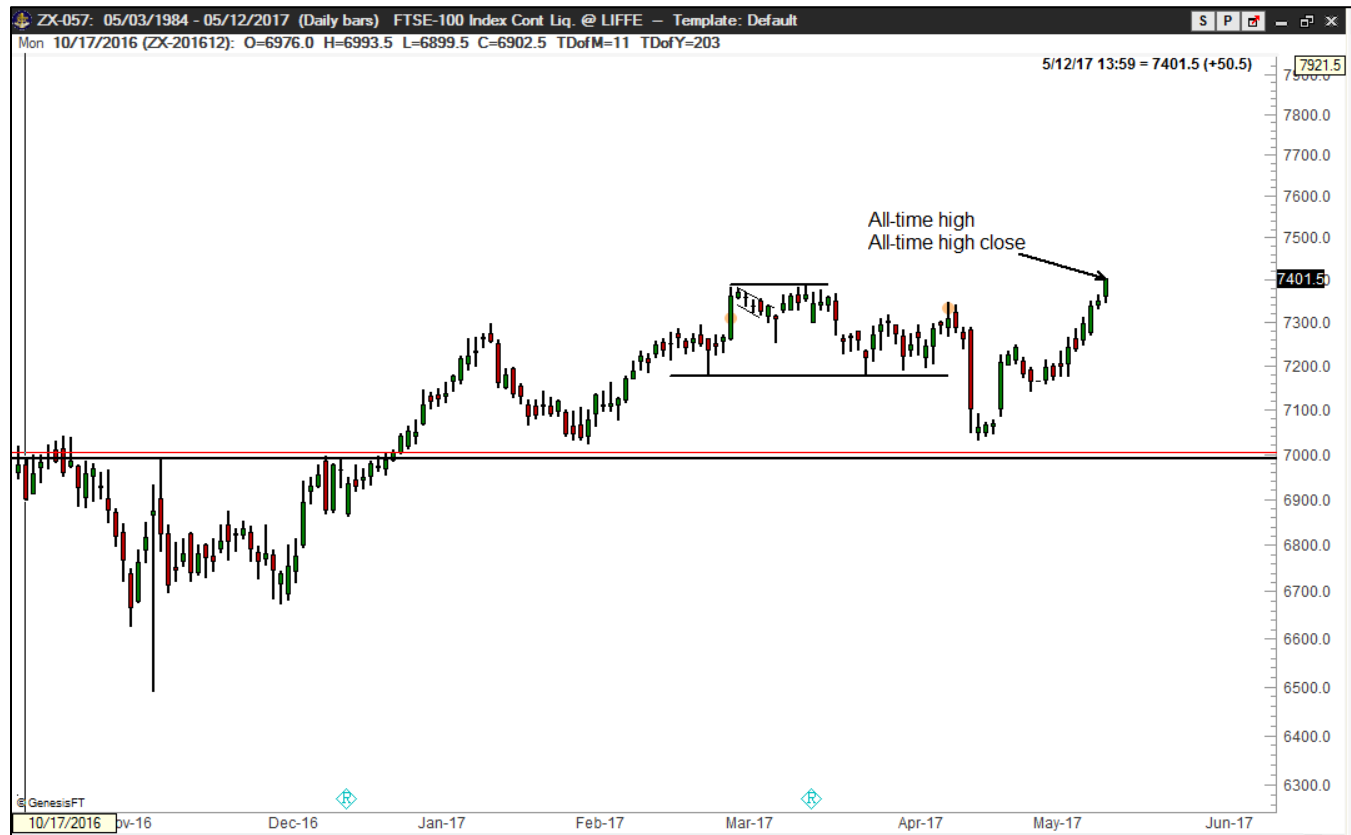
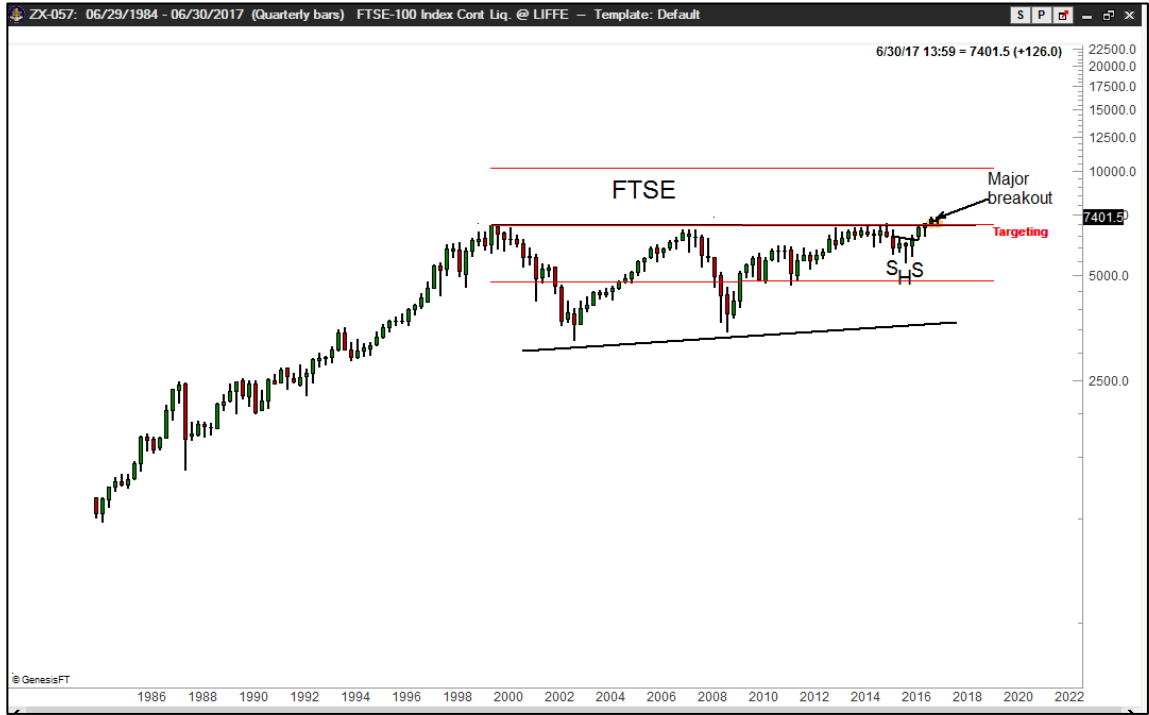


failure top (red box). The market gapped down on Thursday, but the decline was unable to complete the top on a closing price basis. Factor is flat NZD. A close below .6812 would be a sell signal.



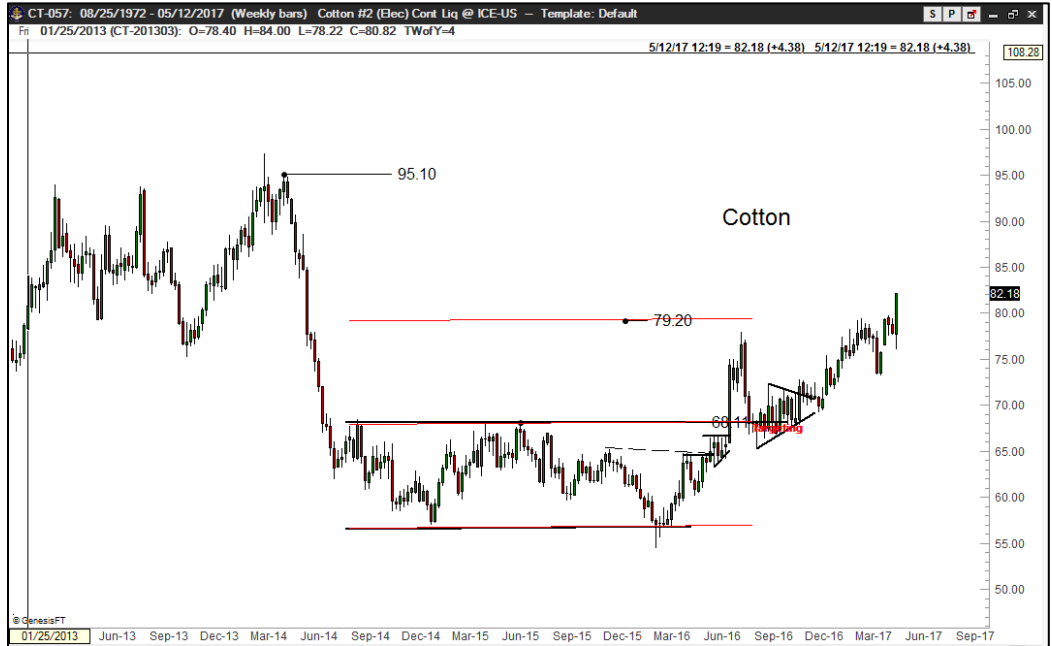
FTSE 100 –
leading
Europe
higher

The quarterly graph of the FTSE shows that the market has now cleanly broken out of a massive multi-year ascending triangle with a target of 10,158. The index posted a new all-time high close on Friday – this is a very constructive sign. Factor is flat



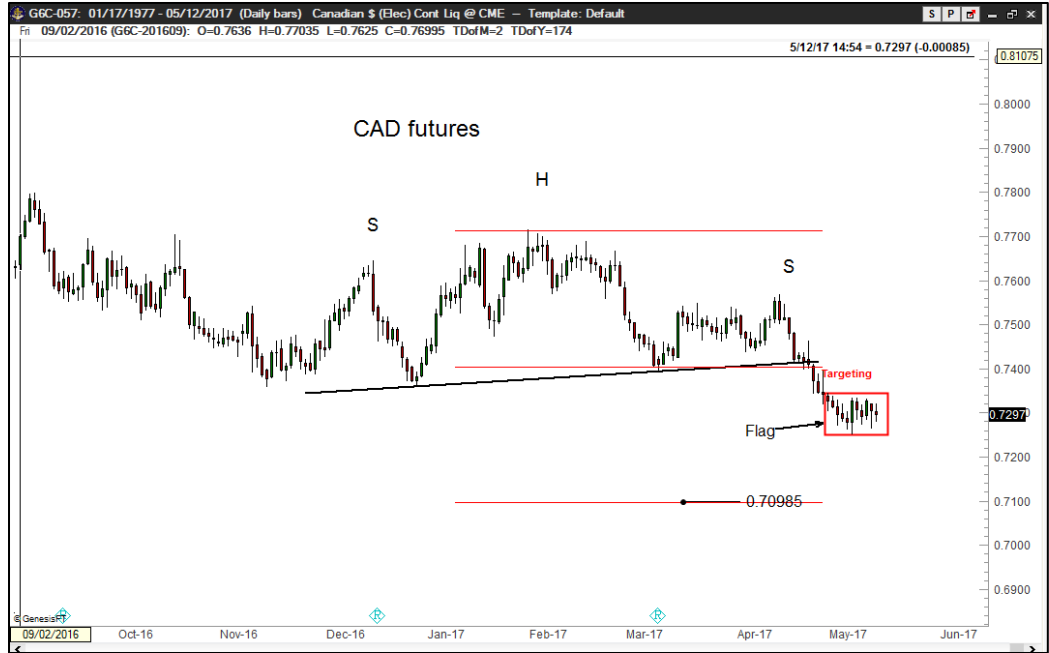
Grain markets (row crops) – major bottoms can take a very long time

See Factor Special Report dated Apr 14, 2017. The weekly Corn continuation graph displays a broad-based double bottom. The weekly chart of KC Wheat displays a possible 17-month H&S bottom. A 5-month channel pattern has been completed on the weekly Soybean Oil continuation and daily July contract charts. Cotton is in a well-established bull trend with a target of 95.10. Factor is flat.



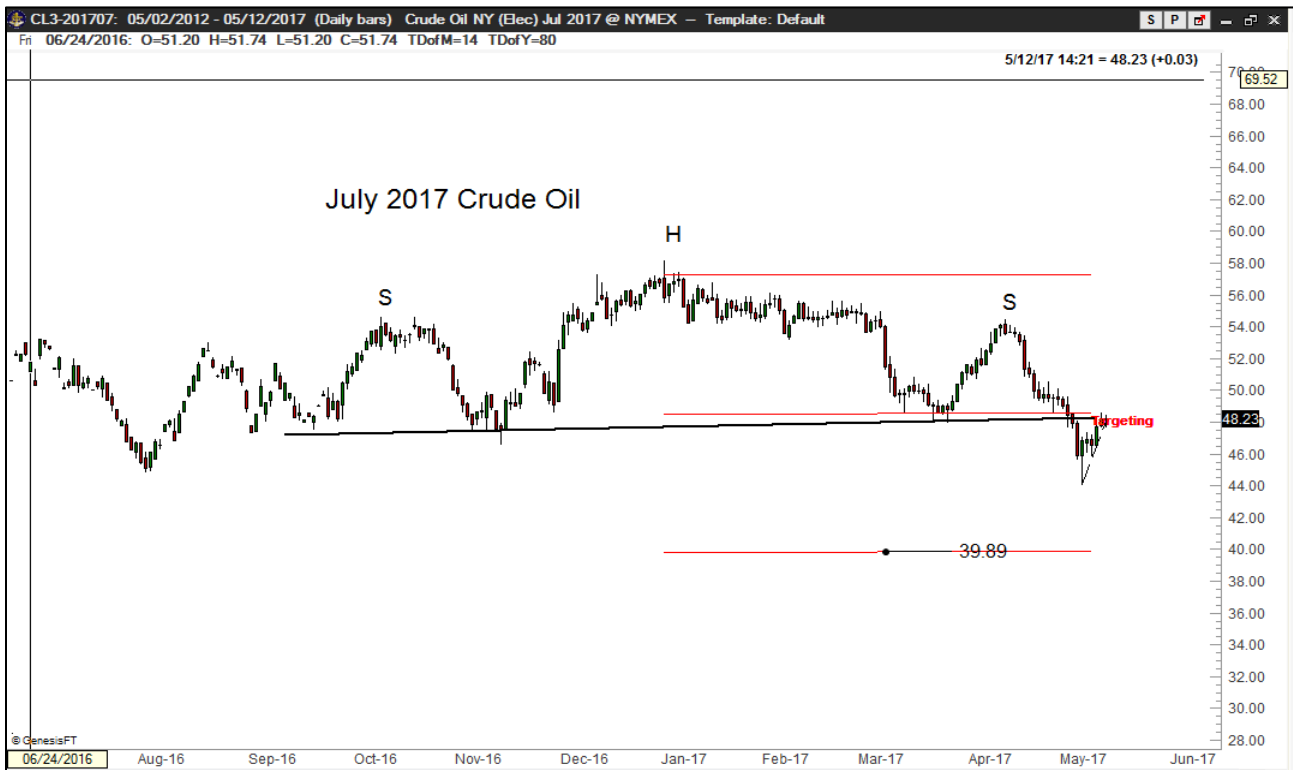
Canadian Dollars (futures) – market is forming a possible half-mast flag

The dominant chart construction is the completed 5-month continuation H&S top pattern with a target of .7100. The market could be forming a half-mast flag pattern. I might consider shorting this continuation pattern if a low risk entry presents itself. Factor is flat.



Crude Oil – if you find a way to be short North Dakota let me know

The 450-point rally this past six days appears to be a retest of the overhead 7+ month H&S top. I am monitoring this retest for a selling opportunity in the form of a recognizable top pattern on the 4-hour graph.



Kospi (and EWY-etf) – new all-time highs (so much for Krazy Kim)

The 5-year continuation symmetrical triangle in the Kospi was further confirmed by the strength this past week. This index has a price target of 2616. The U.S. etf (EWY) has now completed its bullish pattern. I will buy EWY with a protective stop under 62.00.

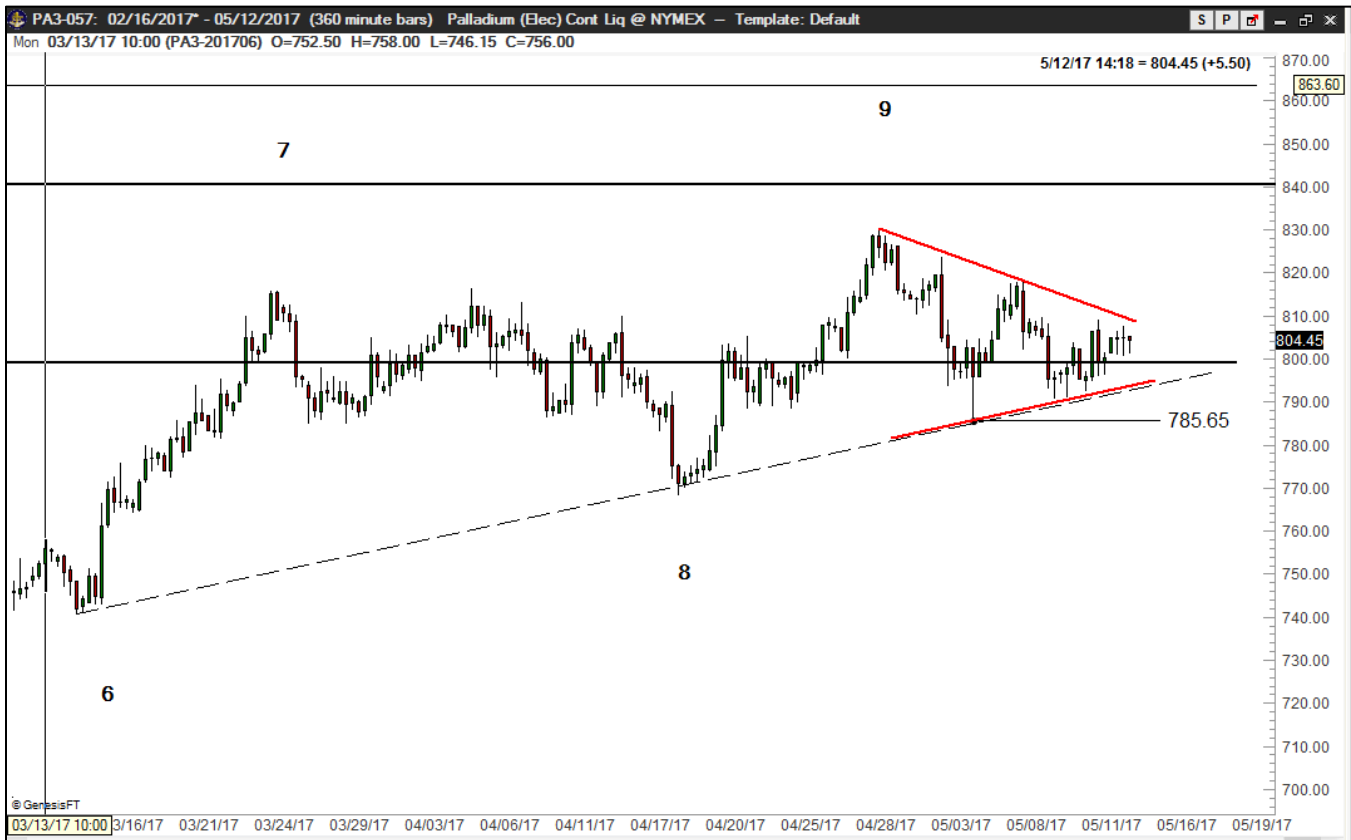


Palladium – the mother of all wedges

The daily graph has formed an 8-month rising wedge pattern with multiple contact points. It is possible that a 2-week symmetrical triangle top pattern is the capstone of this wedge, as shown on the 6-hour

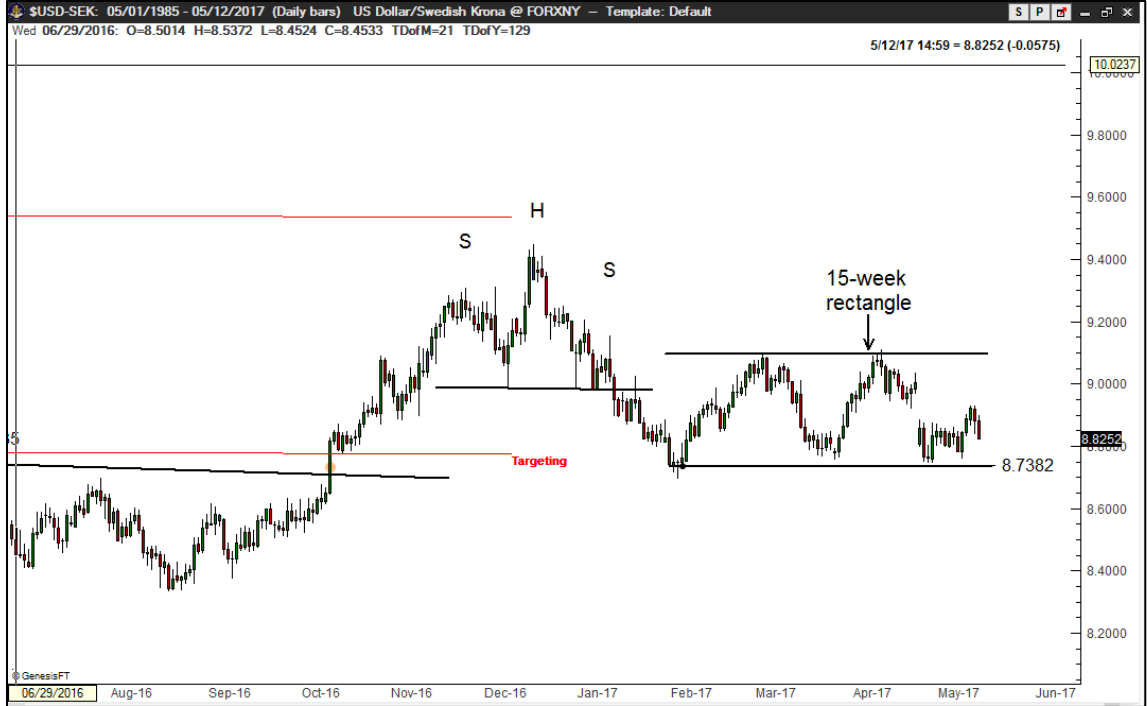


graph. Factor is flat. If I can find a clear chart point with a risk of less than \$500 per contract I will take a shot at the short side of this market for the Factor Tracking Account. Otherwise I will be a spectator.



USD/SEK – trend looks lower

This forex cross is forming a 15-week rectangle pattern. A decisive close below 8.7000 would complete this pattern and be a sell signal. Factor is flat.



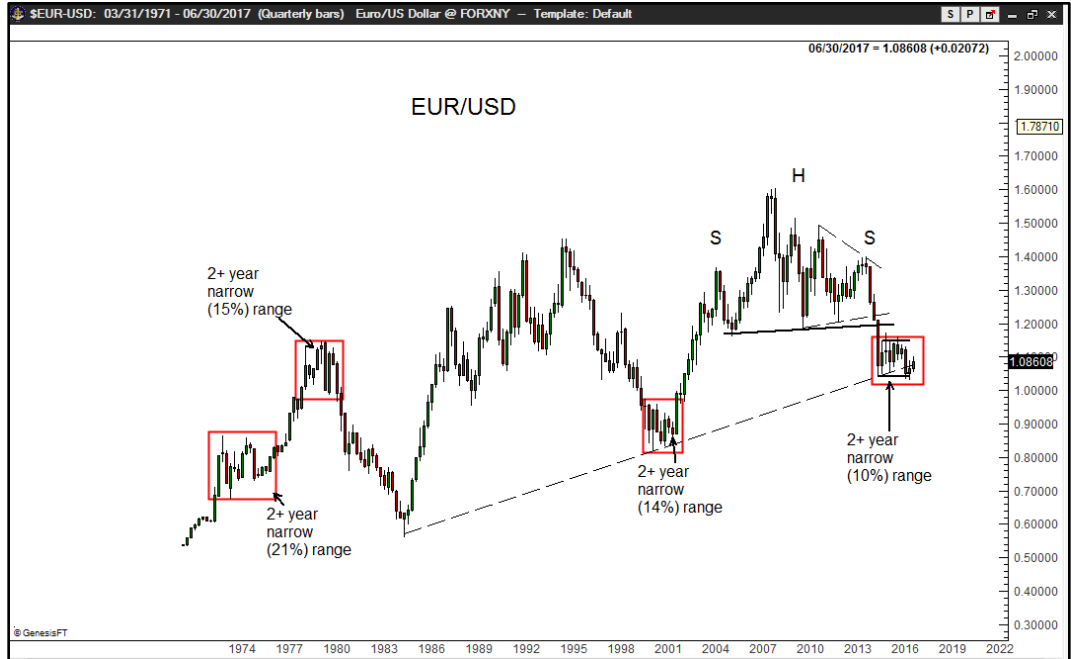
Australian Dollar (AUD/USD spot) – small top completed, but rectangle continues to form

A 12-month rectangle continues to unfold on the weekly chart (futures chart shown). This would indicate a test of the Jan 2016 low at .6809. The decline on May 3 completed a possible 9-week horn or sloping top on the daily graph. Factor is short AUD/USD. I have this trade on a very short leash.



EUR/USD – someday there is going to be an explosion

In the entire history of EUR/USD (and its pre-2000 proxy) it has NEVER been coiled as tightly for such a prolonged period. As shown on the quarterly graph, narrow two-year-plus trading ranges have produced substantial trends in EUR/USD over



the years. The Eurocurrency became the official currency of the EU in Jan 2002. Price bars prior to this date represent a trade-weighted basket of European currency units. I have attempted on numerous occasions to enter this market in anticipation of the eventual resolution of the narrow 26-month trading range. Factor is flat – I am not inclined to trade this market again until the larger rectangle is resolved, unless an extremely clean horizontal pattern develops.



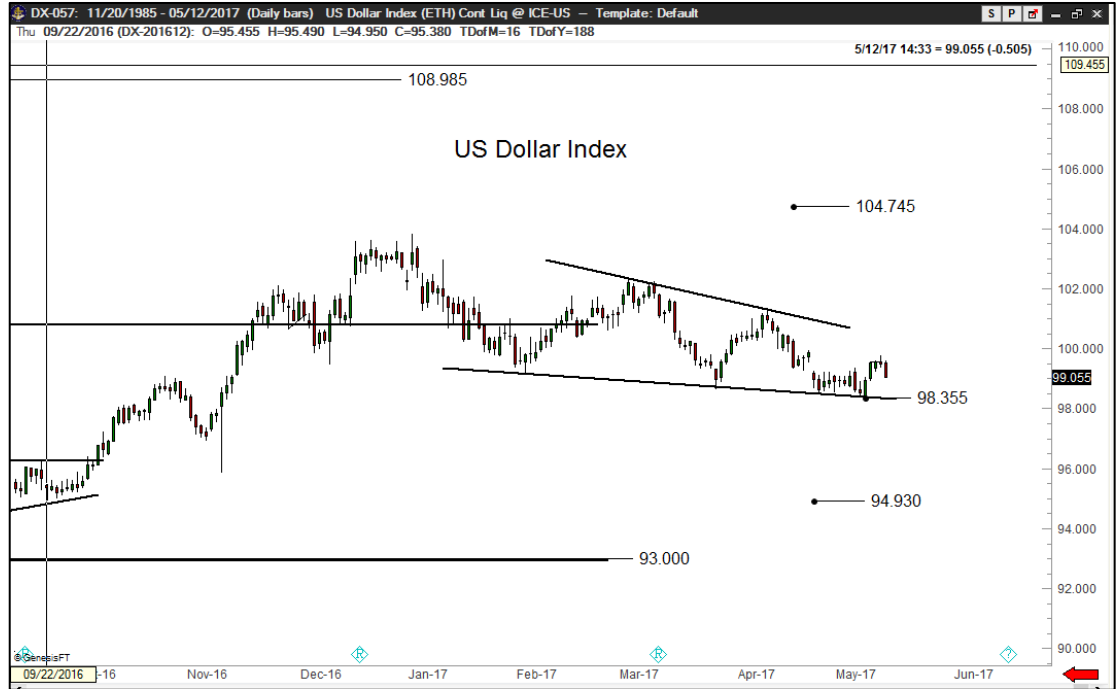
PPC – I am not chickening out on this trade

I entered last week long PPC – and was stopped out by the decline on Wednesday. Friday was a sweeping key reversal – and an indication that the retest of the completed symmetrical triangle is complete. I re-entered the market on Friday and will use Thursday’s low as my risk point.



U.S. Dollar Index – this type of wedge can take prices in either direction

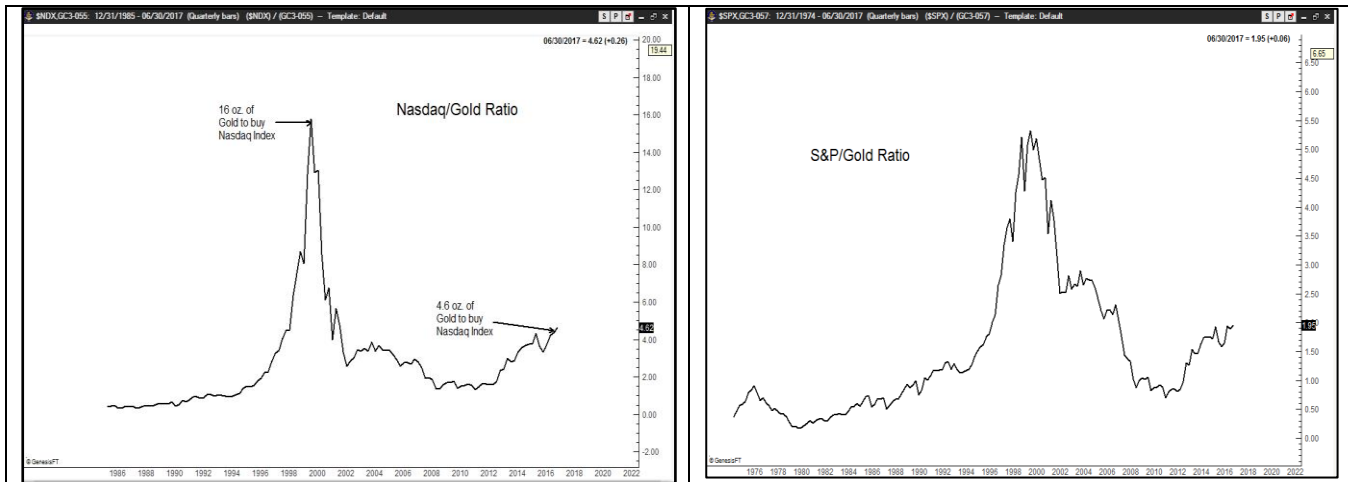
A very well-defined wedge originating on Feb 2 has formed in the Dollar Index. The default nature of a falling wedge is for a sharp price advance. Falling wedges typically produce bullish outcomes.

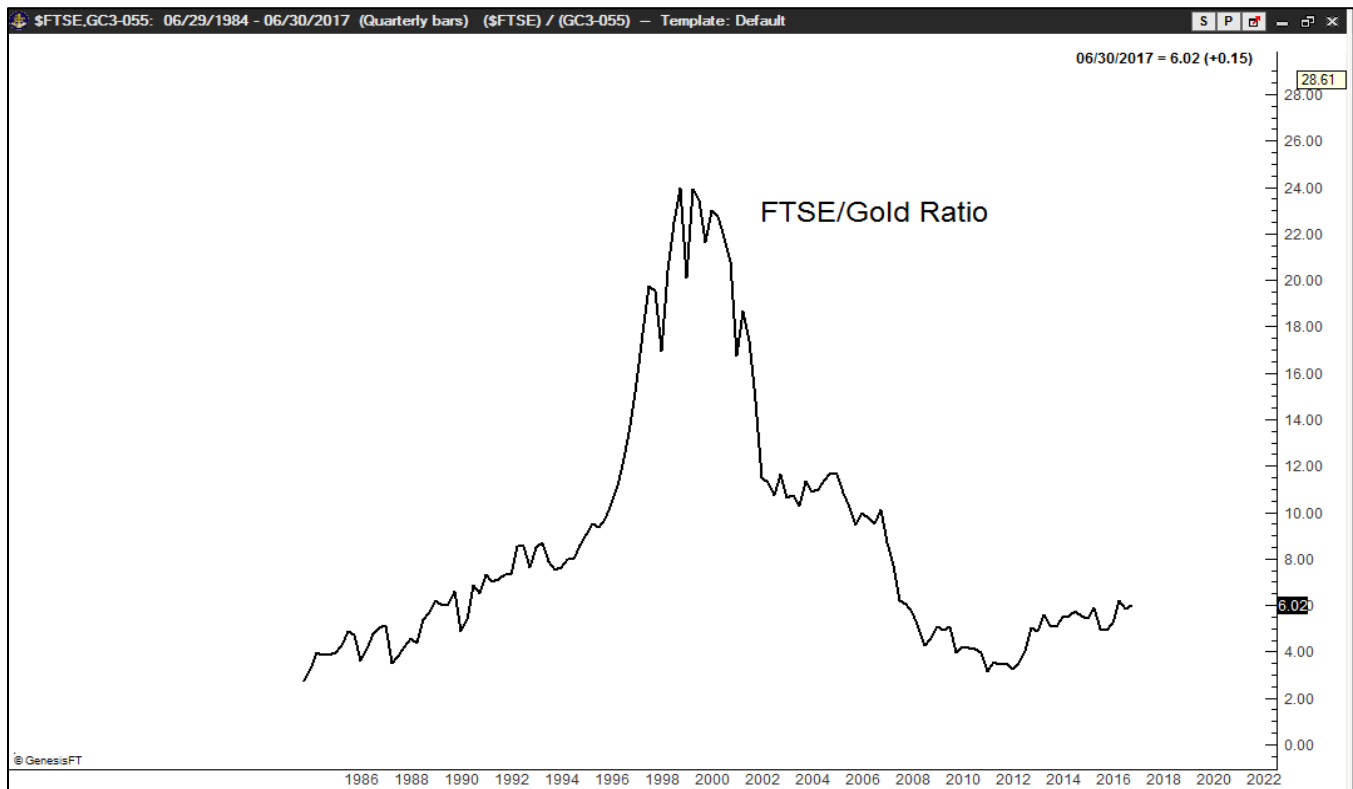
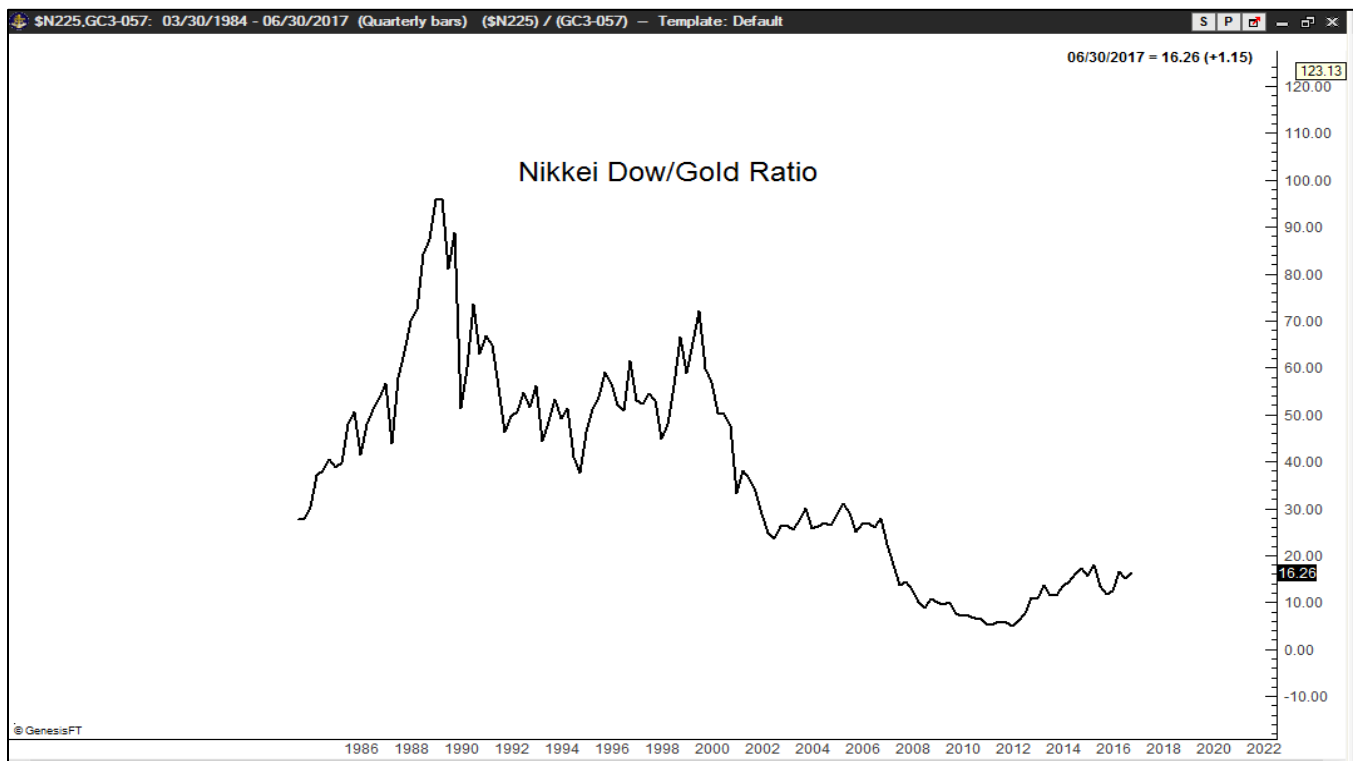


However, wedges periodically become continuation patterns. A decisive close below 98.10 would be a sell signal with a profit target of 95.02.

Is Gold cheap relative to equity prices?

Several market commentators have posited in recent weeks that Gold prices must go up and/or equity prices must go down because Gold is historically cheap compared to stocks. One can argue just the opposite – that equity prices are NOT historically expensive relative to the price of Gold. In fact, a good argument can be made that equities are fairly priced (even cheap in some countries) against Gold. The following charts display how many ounces of Gold are needed to purchase the stock index in question. When the line is high on the chart the equity index in question is expensive in relationship to Gold. When the line is near the bottom of the chart, the equity index in question is relatively cheap in relationship to Gold. At the 2000 stock market peak it took nearly 16 of Gold to buy one NASDAQ point – the price is now 4.6 ounces. The Sorry Gold bulls!





plb
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Factor Trading Account as of May 12, 2017

Factor LLC															5/12/2017					
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																				
															\$ (457)					
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	1/3/17	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	-			
FGBMH7	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	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	10-Mar	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	-			
GBEH8	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	100	8.99	11	10.290	5/12	11.88	10-wk sym tri	10-wk sym tri			\$ 1,022	\$ 1,022				
PGAL	Port. ETF	3/31/17	L	10.22	200	8.99	22	9.970	4/24	Open	10-wk sym tri	10-wk sym tri			\$ 2,044	\$ 2,044				
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	21.97	4/28	30.34 r	20-mo H&S	20-mo H&S	2-May	21.93	\$ 339	Closed	-			
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	1.2889	5/9	1.3288	6+ mo H&S	6+ mo H&S	11-May	1.2888	\$ 675	Closed	-			
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	-			
USD/CAD	USD/CAD	4/25/17	L	1.3591	30k	1.3398	43	Mkt	5/5		5+ mo cont. H&S	5+ mo cont. H&S	5-May	1.3644	\$ 116	Closed	-			
EUR/USD	EUR/USD	4/25/17	L	1.0881	30k	1.0759	56	1.0904	5/8	1.1389	4-mo Horn	Breakaway gap	9-May	1.09038	\$ 70	Closed	-			
GBPUSD	GBPUSD	4/27/17	L	1.2876	30k	1.2809	17	Mkt	5/3		6+ mo H&S	Half mast pennant	3-May	1.2882	\$ 18	Closed	-			
ZLN7	Bean Oil	5/2/17	L	32.60	1	32.24	22	32.77	5/9	33.98	5-mo channel	5-wk rounding	10-May	32.77	\$ 97	Closed	-			
ZLN7	Bean Oil	5/2/17	L	32.60	1	31.98	37	32.64	5/9	Open	5-mo channel	5-wk rounding	10-May	32.64	\$ 19	Closed	-			
AUD/USD	Aussie	5/3/17	S	0.7436	70k	0.7503	50	0.7462	5/12	0.7216	Poss 12-mo rect	12-wk horn			\$ 2,603	\$ 52,052				
EXM7	EuroStoxx	5/4/17	L	3552	1	3513	44	3559	5/5	3836	4-mo channel	Upside BO			\$ 5,545	\$ 38,440				
PPC	Pilgrims P.	5/4/17	L	25.12	200	23.49	33	24.44	5/9	36.48	Poss 17-mo sym tri	Retest	10-May	24.44	\$ (141)	Closed	-			
ESM7	S&Ps	5/5/17	L	2393.50	1	2383.75	50	2389.00	5/9	2434.00	8-wk triangle	2-wk pennant	10-May	2389.00	\$ (230)	Closed	-			
PPC	Pilgrims P.	5/12/17	L	24.51	400	23.74	30			36.48	17-mo sym tri	Retest/reversal			\$ 9,804	\$ 9,804				
															Trades as of					
															Indicates open position value as of					
															\$ 3,018		\$ 21,018		\$ 103,362	
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																	Levered at		1.0	
																			MTE = 8.1%	
f = revised RO = Rollover																				
The Factor Service \$100,000 Tracking Account represented herein is a proxy representation of the trading executed by Peter Brandt for the Factor LLC's proprietary trading accounts. There are some major differences between the trading activity conducted in the Factor Service \$100,000 Tracking Account and trading in the Factor LLC's proprietary accounts. Peter's trade sizing and trade management tactics in the proprietary account is sized and managed per \$1MM of proprietary capital. There may be trades Peter believes are not suitable for a \$100,000 block of capital, and these trades are not executed in the Factor Service \$100,000 Tracking Account. Factor LLC's proprietary account trades multiple contract trades wherein Peter layers into and out of a position at different prices and on different dates. The Factor Services \$100,000 Tracking Account most often holds a single futures contract in a trade whereby layering is not possible. Factor LLC's proprietary accounts may also pyramid some trades not pyramided in the Factor Service Tracking Account. Because the Factor Service Tracking Account represents how Peter would trade a \$100,000 block of capital in contrast to the actual trading of Factor LLC's proprietary account, the Factor Tracking Account should be considered as hypothetical. Hypothetical trading performance is subject to the following disclaimer required by the Commodity Futures Trading Commission.																				
CFTC RULE 4.41 - HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER-OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN.																				