



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

Factor Update, May 21, 2017

Market Review

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

- European bank stocks
- NZD/USD
- USD/SEK
- EuroSwiss (interest rate)

Candidate Factor Moves™ are currently ongoing in:

- *Portugal ETF (PGAL)
- Palladium
- *GBP/USD

Other markets of interest. This issue also comments on EuroStoxx, *U.S. Dollar Index, EUR/USD, FTSE, grain markets, U.S. equity indexes, Financial Select Sector (XLF), Bitcoins, Crude Oil, and *Kospi (and EWY-etf). *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"> • Palladium – entry order and protective stop • Soybean Oil and Meal – alerts • USD/SEK – entry order and protective stop • EuroSwiss – alert • XLF – entry order and protective stop 	<ul style="list-style-type: none"> • PGAL – protective stops and targets • EWY – protective stop • U.S. Dollar Index – protective stop and target • GBP/USD – protective stop and target
<p>The Factor Tracking Account is currently leveraged at 1.5X. The margin-to-equity use for futures and forex is 3.9%.</p>	

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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. Factor is flat. My buy levels are 21.33 for DB, 17.01 for CS and 18.01 for UBS. I will buy the first two stocks that breakout, risking 35 to 40 basis points on each. This is how I work out my sizing: I would probably risk about \$2 per share in DB. A risk of \$400 per \$100,000 of trading capital (40 BPs) would represent sizing at 200 shares. If these stocks rally precisely to the neckline and back off for a week or two I am likely to up my risk to 50 BPs each. Assuming a buy level at 21.41 in DB and a trend to the target at 30.41 my reward to risk ratio would be 4.5 to 1. Factor is presently flat.



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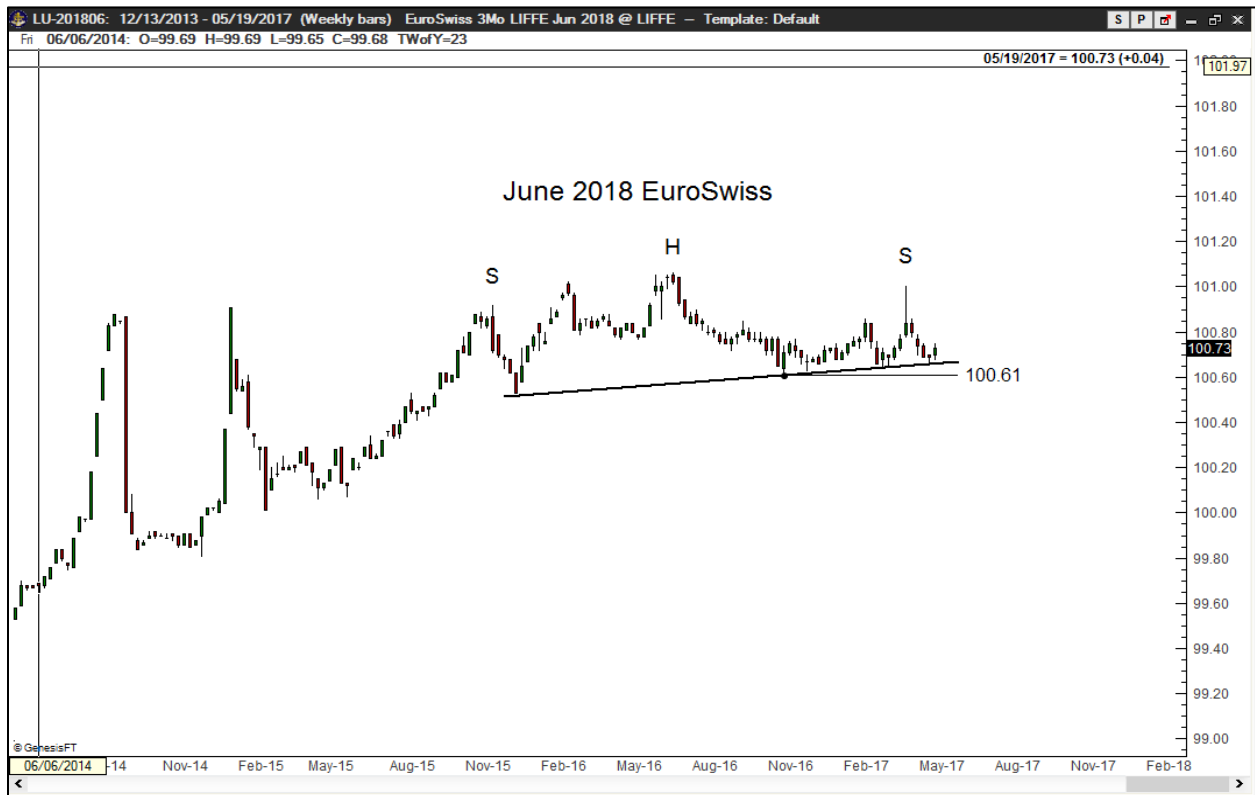


EuroSwiss (interest rate) – is the era of NIRP coming to an end?

The charts of the EuroSwiss indicate that the Swiss National Bank is getting close to ending its insane love affair with negative interest rates. EuroSwiss rates have been negative since late 2014. Never in history has a central bank charged people so much for so long for the “privilege” to hold



its currency. The weekly continuation graph displays a textbook descending triangle – a bearish pattern. The weekly graph of the Jun 2018 contract displays a complex H&S top pattern. Interestingly, the nearby Jun 2017 contract and Jun 2018 contract are trading at even money. This means that the market structure is not anticipating any interest rate hikes by SNB in the next 12 months. Factor is flat. I will short the Jun 2018 contract if support at 100.61 gives way.



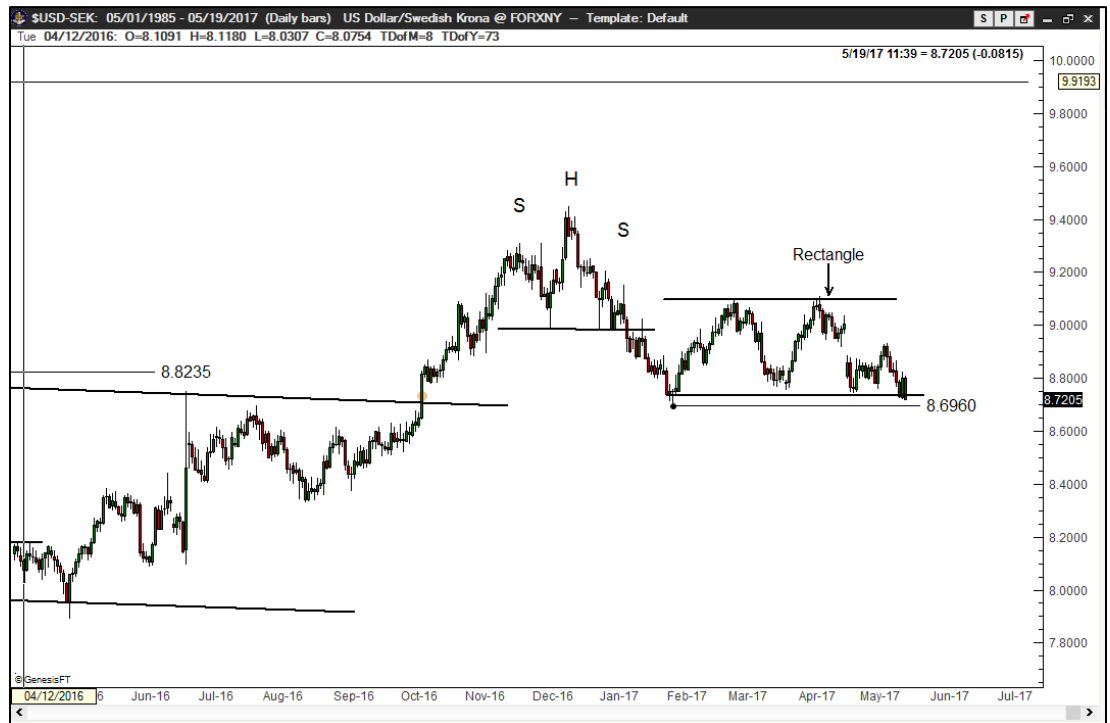
New Zealand Dollar (spot) – preparing for a retest of the 2015 low at .6200?

The weekly chart of the NZD/USD is forming an 11-month failure top. My hope is that a rally toward 71.50 occurs – thus forming a much more tradable descending triangle. Factor is flat.



USD/SEK – set for a dumping?

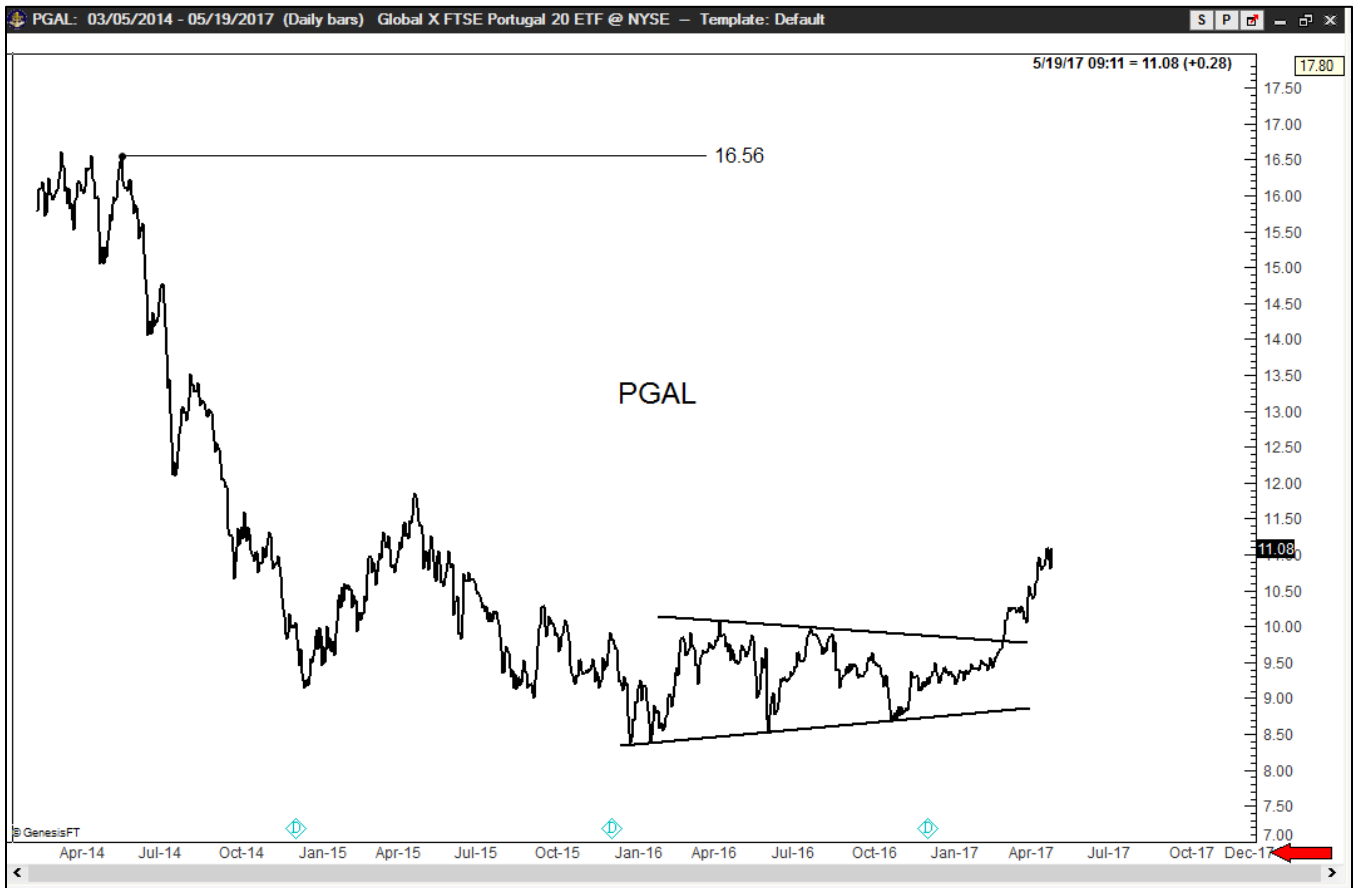
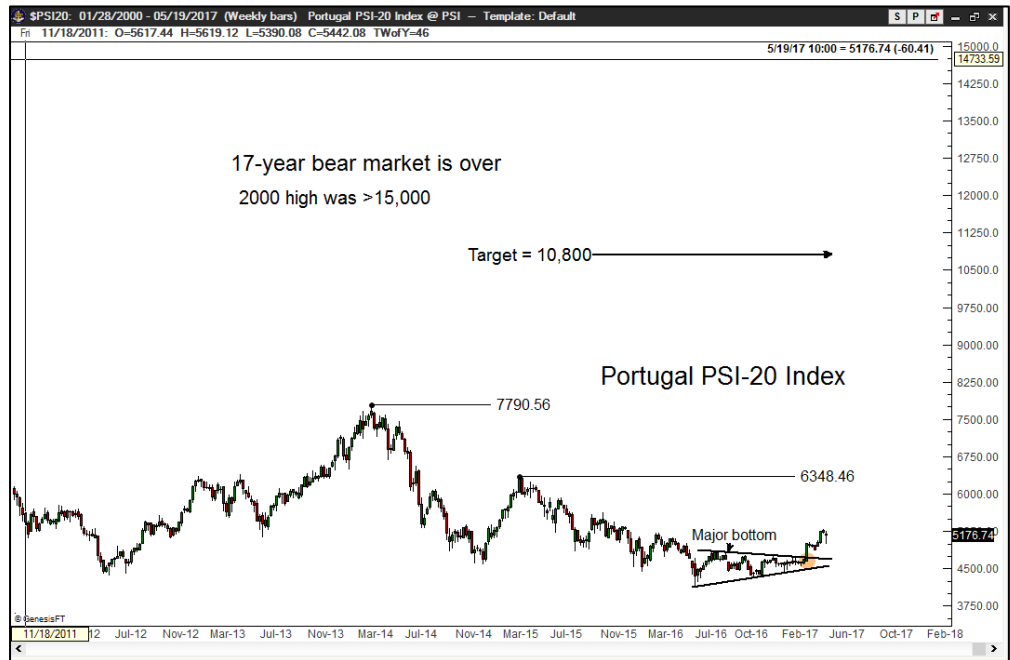
This forex cross is forming a 15-week rectangle pattern. A decisive close below 8.6960 would complete this pattern and be a sell signal. Factor is flat.



Candidate Factor Moves™ in Progress

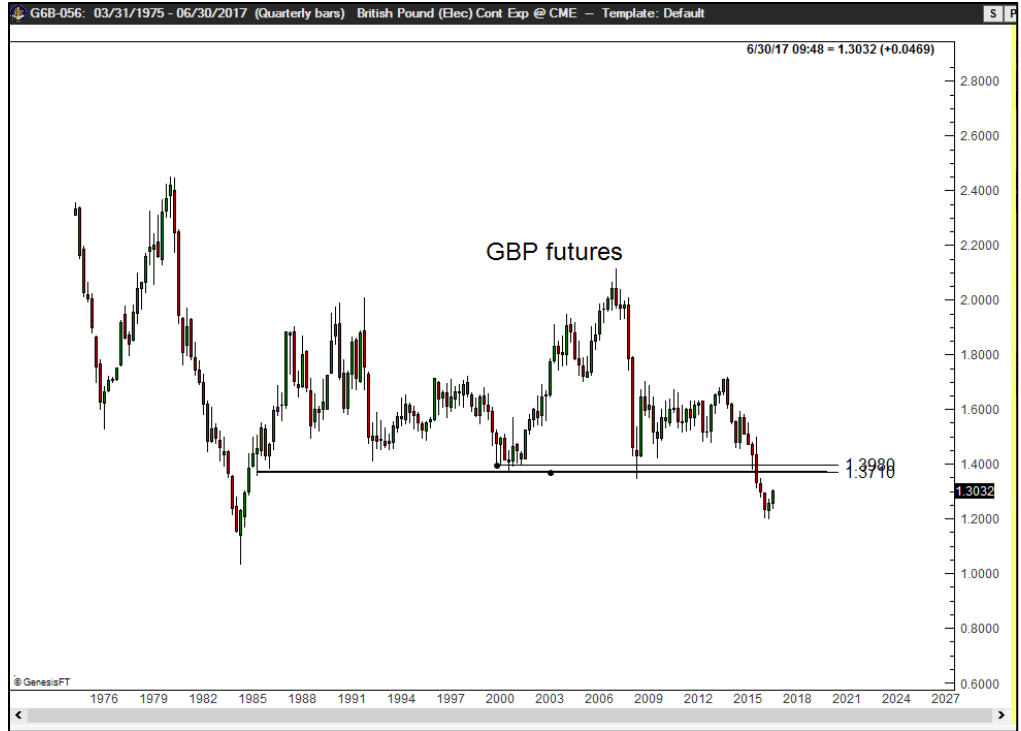
Portugal PSI-20 and PGAL – after a 17-year decline, bull market is now well entrenched

The completion of a 9-month symmetrical triangle on the weekly graph has ushered in a new bull trend. The objective of this trend should be a test of the 2014 high at 7790. Factor is long PGAL, the Portugal ETF. This is a trade I could be in for quite some time, with a revised target of 16.49.

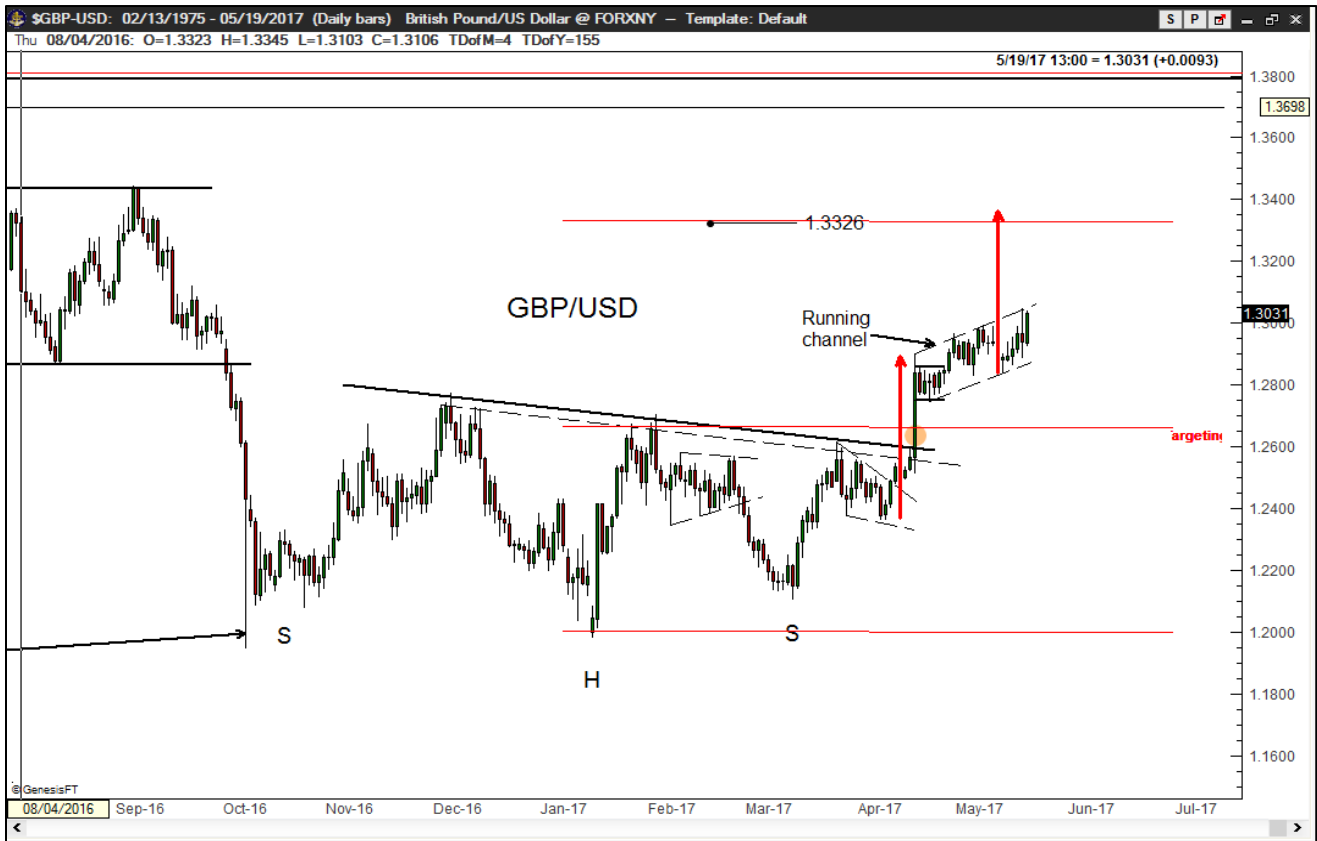


GBP/USD – bullish pennant should provide launch to 1.3300 target

I have included the quarterly chart to provide a long-term perspective on the Pound. The Brexit decline sliced through a 3-year shelf of support. A rally back toward 1.37xx would retest the under belly of the previous support level. A dominant chart construction continues to be the 6+ month H&S bottom on the weekly and daily graphs. The daily



graph is forming a possible up-slanted 5-week flag. Patterns such as this often occur at half-way points in a trend, indicating a target of 1.3326. The close on Friday was the high for the advance. Factor has returned to a small long position.



How many times do I have to make the same trading mistake?

Identifying candidate trades is the easiest part of trading classical chart patterns. Entering trades is only slightly more difficult. By far the hardest challenge in trading is the tactical management of positions. I use trading rules to combat my human tendency to sabotage good trades. One of my trading rules is to stay with a position as long as it remains profitable until the trade reaches 70% of its expected move (at which point I have other rules that attempt to sidestep a steep market reversal). I established a long position on Apr 18. The trade has never put me in trouble – in fact the worst intraday loss I had in the trade was less than 10 pips. My premature exit of long Cable violated my trading rules. Profitable trading is an upstream swim against human nature. After 42 years of trading I still am capable of making the same mistake.

Palladium – the mother of all wedges

The May 14 Factor Update identified the massive rising wedge in Palladium as well as the possible 3-week symmetrical triangle launching pattern (dashed lines). The close on Wednesday penetrated the lower boundary of the wedge and the May 4 low of the symmetrical triangle. The May 4 close was 782.90. The most appropriate risk point of a short position would have been above the May 4 high of 799.00. I deemed a risk of approximately \$2,000 per contract (200 BPs) to be too large for the Factor Tracking Account given that the risking wedge is a diagonal pattern. The target is 715 and Factor is flat.



Other Markets

Cryptocurrencies – this commentary will not make me popular with the Cryptos among you

I will admit at the onset of this commentary that I could be very wrong on my view of Cryptocurrencies, but I think I will be right in the end. It is not recommendation for owners of Cryptocurrencies to liquidate their holdings. The following represents my own opinions. If you own Cryptocurrencies or are considering the purchase of same I highly recommend you conduct your own thorough research and reach your own conclusions.

I have begun hearing some real horror stories about the Cryptocurrency market from members of the Factor community.

Examples:

- Wire transfers into Crypto dealers/exchanges are posted within 24 hours
- No limit on wire transfers to Crypto dealers
- Wire transfers out of Crypto dealers/exchanges (back to investors) are delayed by as much as five days to ten days
- Wire transfers out of Crypto dealers/exchanges (to investors) are limited to as little as \$1,000 (example: itBit)
- [Note: Let's see, some exchanges/dealers take your money instantly but do not return it very quickly or only return a little at a time. Sound a little like Bernie M.??]
- Withdrawals of funds from Crypto dealers/exchanges are experiencing various complications, requiring multiple inquiries and delays
- Inquiries on important matters dealing with accounts are not be answered or addressed for as long as two weeks (example: GDAX)
- At least two major Crypto exchanges are subject to current IRS subpoenas (of course the exchanges in question are crying government intervention)
- Other Crypto exchanges have reportedly been curtailed or cut off from the banking system due to money laundering concerns
- Some Crypto dealers have introduced enormous bid/offer spreads as wide as \$150 on BTC/USD to retail customers

I have other concerns about the world of Cryptocurrencies

- There is a tremendous explosion of Crypto units – my research indicates that more than 800 Cryptos are being marketed with more than 650 Cryptos with a reportable market cap (<https://coinmarketcap.com/all/views/all/>). This represents dilution on an exponential scale. And, because a Cryptocurrency is nothing more than a computer program, there is no imaginable end to possible dilution. Worded differently, there is a grand dilution of a grand illusion.
- The Crypto world is almost totally unregulated and subject to potential manipulation or scam
- Crypto trading on margin has been introduced (example: Bitfinex)
- Despite the claims by Crypto addicts that blockchain technology is immune from hacking or infection – is it really?

#	Name	Symbol	Market Cap	Price	Circulating Supply	Volume (24h)	% Ch	% 24h	% 7d
1	Bitcoin	BTC	\$11,898,942,422	\$199.134	59,209,237	\$99,137,308	-0.4%	0.0%	0.0%
2	Ripple	XRP	\$13,291,969,419	\$0.240564	55,222,226,769**	\$210,299,000	+0.0%	+0.0%	71.0%
3	Ethereum	ETH	\$42,627,968,919	\$178.00	237,780,000	\$423,487,000	1.8%	24.9%	-28.9%
4	USD	ADA	\$2,208,928,000	\$0.229626	9,663,999,999**	\$76,072,500	+0.0%	29.0%	40.0%
7	Litecoin	LTC	\$1,422,385,697	\$27.90	51,176,000	\$103,145,000	0.4%	0.0%	-0.7%
6	Ethereum Classic	ETC	\$790,442,802	\$7.50	10,539,333	\$71,499,000	0.0%	10.0%	10.7%
7	Dash	DASH	\$677,928,800	\$93.75	7,238,400	\$28,493,000	0.0%	0.0%	2.0%
8	Stellar Lumina	XLM	\$514,400,000	\$0.00496	6,564,760,000**	\$42,619,000	0.0%	0.0%	0.0%
9	Monero	XMR	\$487,211,000	\$11.97	40,697,000	\$12,898,000	0.0%	0.0%	0.0%
10	Bytecoin	BCN	\$268,758,948	\$0.001075	162,910,940,000	\$1,204,400	-0.4%	-29.9%	-110.0%
11	Neo	NEO	\$236,194,100	\$1.00	236,194,100	\$4,493,000	+0.0%	-0.0%	-0.0%
12	GoChain	GOC	\$212,241,219	\$0.00790	69,472,000**	\$10,016,000	0.0%	14.0%	10.0%
13	BitShares	BTS	\$200,249,219	\$0.00910	2,201,420,000**	\$12,209,000	14.0%	0.0%	0.0%

- Crypto ETFs are being introduced – I am sure 2X and 3X varieties are just around the corner
- My observation is that many of the same people who were Silver maniacs have now become Crypto maniacs. Talk about joining the wrong crowd!

I know this sentence drives you Crypto maniacs crazy, but in the final analysis a Cryptocurrency unit is nothing more than a blockchain computerized IOU. The Crypto world claims that computerized IOUs such as Bitcoins are the ultimate alternative to fiat paper currencies (which represent promises backed by the “full faith and credit” of sovereign governments). But Cryptocurrencies are nothing more than computerized IOUs backed by the “full faith and credit” of a global conglomerate of personal PCs. I am sorry, but other than the ability to cross geographic boundaries seamlessly I fail to view a computerized IOU as a tangible asset.

I still own Bitcoins from a purchase in Mar 2016 – I hope the game plays out enough for me to exit at my predetermined profit objective. But Bitcoins and other Crypto units have become an historic bubble – and this is not going to end well. With no real economic tangibility, we have reached the point that Cryptocurrencies are only worth what the next sucker is willing to pay. The price chart of BTC/USD speaks for itself – this has been a remarkable bull market. How high is high? I have no idea, although my price target for Bitcoins has been in the mid-\$2000 range.



Good news bad news!

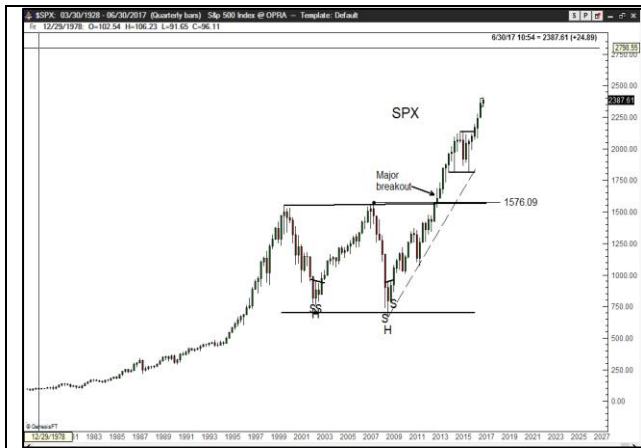
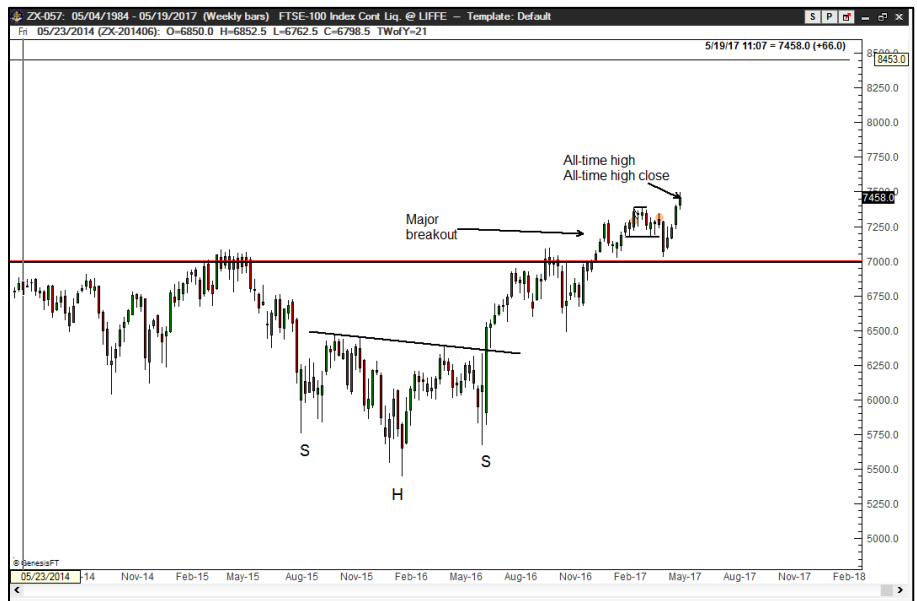
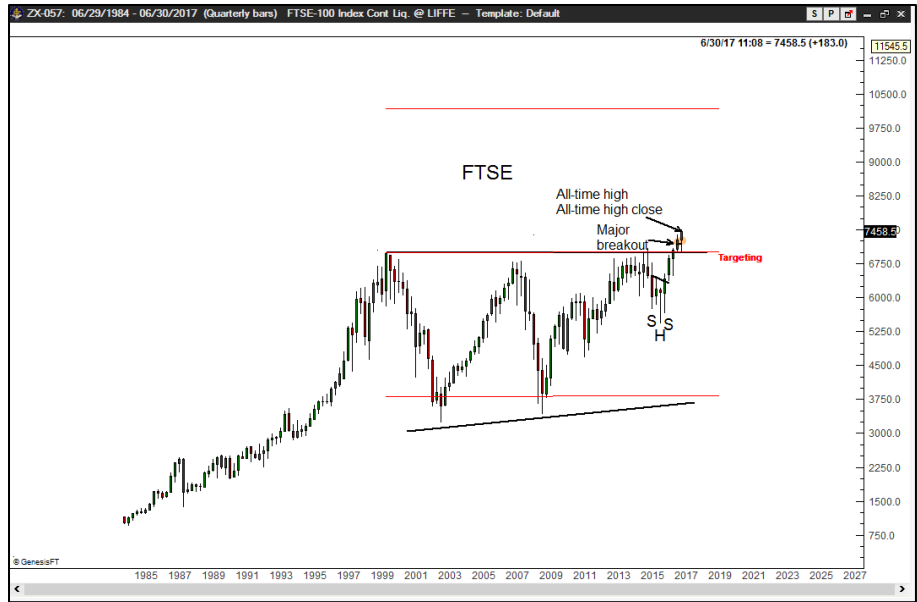
Good news first. Let’s say that Cryptos will become the global standard for storing value and transferring capital outside the greedy hands of incompetent governments and crooked central bankers. Next, let’s say that blockchain financial instruments possess all the other remarkable benefits acclaimed to them in the narrative of Crypto-maniacs. But, as what price level are all these wonderful attributes fully discounted. A bullish story at \$300 per unit is not the same bullish story at \$1,950 per unit. Fundamentals become discounted by price – with suckers putting in the top.

Bad news – and there is plenty to be said here. My sense is that most of the buying in recent months has been by “investors” with no interest to take advantage of the utility of Cryptocurrencies. They are buying because of all the hype that the sky is the limit. Yet, because a Cryptocurrency unit has no real tangibility, they are basically buying a bag of air. All it will take is one major default or successful computer virus infection introduced into a major Cryptocurrency blockchain to pop this speculative bubble. And when it pops, whether it is at BTC \$2,400 or BTC \$10,000, a new chapter will be written for the book “*Extraordinary Popular Delusions and the Madness of Crowds.*” Move over tulip bulbs!

I can hear the Crypto maniacs among you now – “*Brandt, you do not have a clue what this market is all about.*” Well, maybe you are right, and maybe you are wrong.

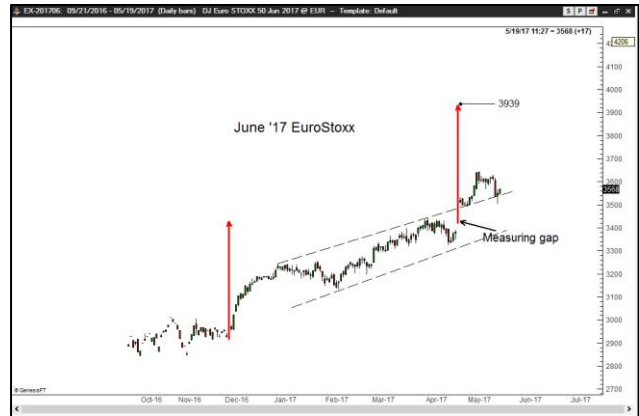
FTSE 100 – leading Europe higher

The quarterly graph of the FTSE shows that the market has now clearly broken out of a massive multi-year ascending triangle with a target of 10,158. This breakout reminds me of the breakouts in the DAX and S&Ps in 2013 (see charts below). FTSE posted a new all-time high weekly close on Friday. Factor is flat (unfortunately). The correction on Thursday may prove to have been an outstanding buying opportunity.



EuroStoxx – measuring gap remains the best interpretation

A test of 4600 on the monthly graph is likely. The Apr 24 gap was probably of the measuring variety – suggesting profit targets of 3691 and 3897. Factor is now flat.



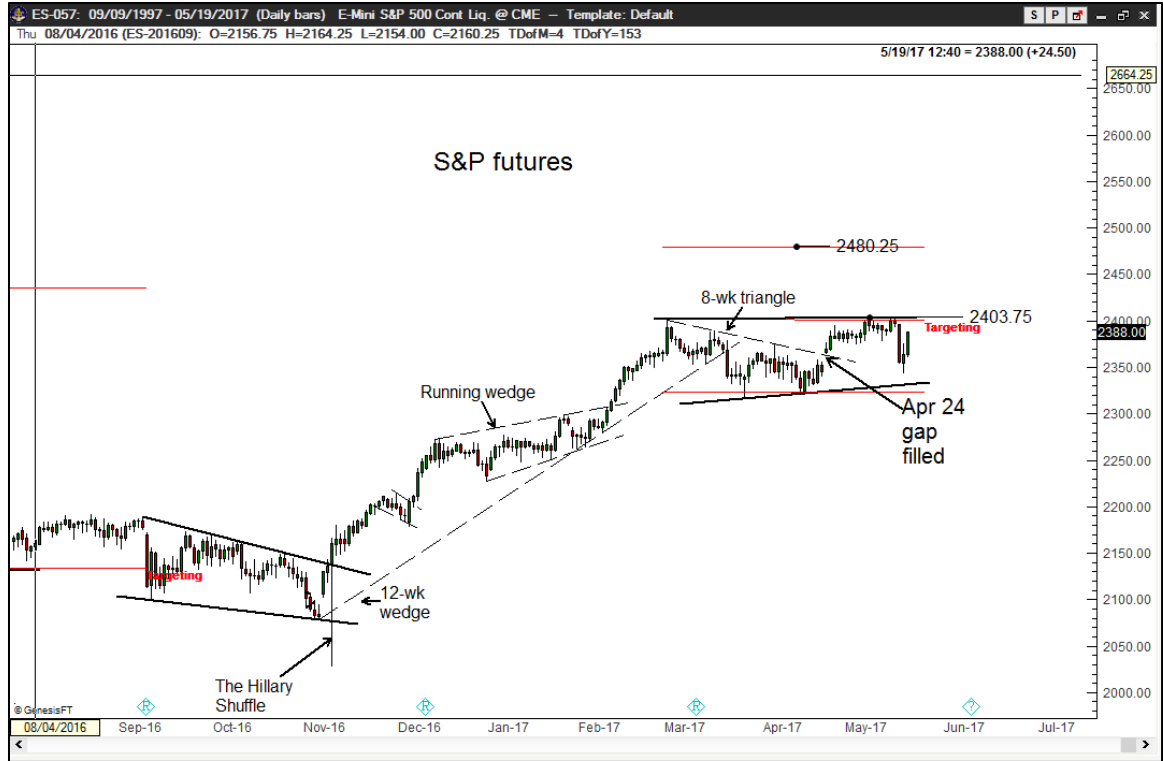
Grain markets (row crops) – major bottoms can take a very long time

See Factor Special Report dated Apr 14, 2017. 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 chart. There is a possibility that this channel is simply a very deep retest of the previously completed 27-month H&S bottom. The daily chart of Jul Soybean Oil appears to be forming a rounding bottom and exhibits a 3-week triangle. I am prepared to take a shot at the long side of Bean Oil. Just as the Bean Oil graph is constructive, the Soybean Meal graph displays a potential negative set up in the form of a possible 7-month continuation H&S top pattern on the weekly graph. If breached, the 308 level on the Dec Meal chart (not shown) could represent a possible low sell signal. Factor is currently flat in all grain markets.

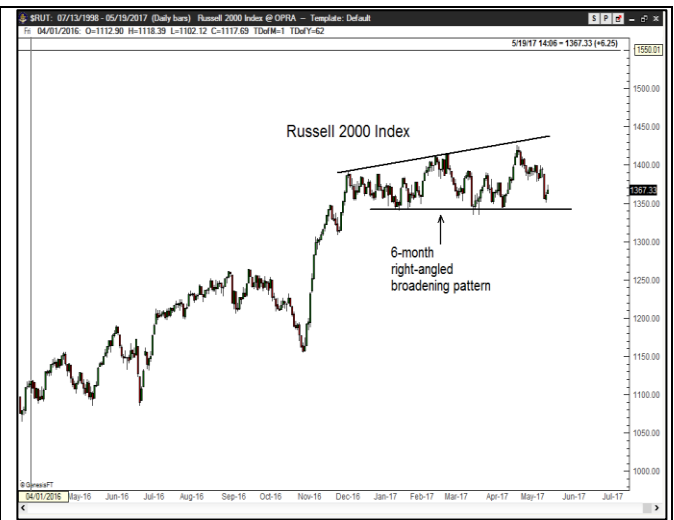
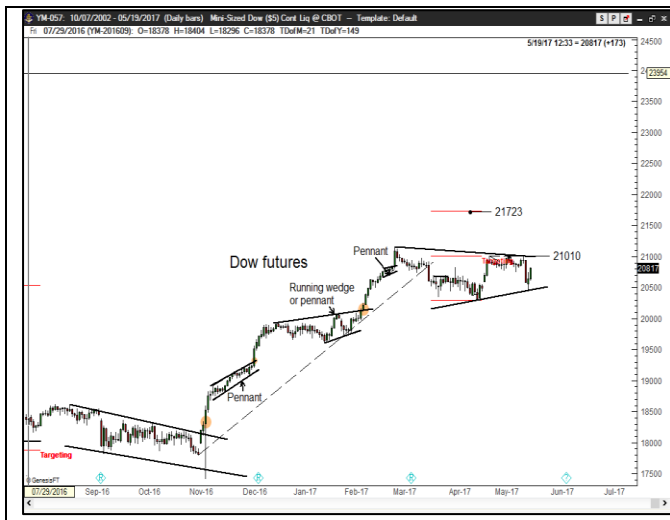


U.S. equity indexes – a little something for everyone to be excited about

If you are a bull or a bear, the U.S. stock market indexes have something to make you drool. Many years ago I learned to be long the strongest

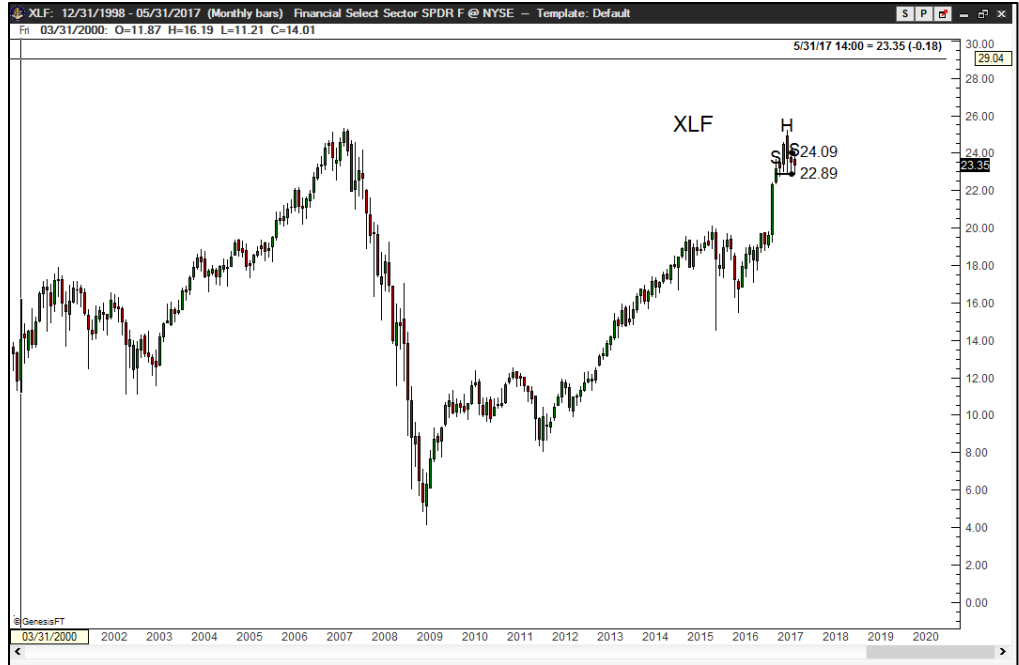


member of a category when long and short the weakest member of a category when short. Interestingly, a case can be made on the charts for an advance or decline depending upon the specific index examined. The sharp decline on Wednesday appears to have simply covered the Apr 24 gap. This, in and of itself, means nothing. We now need to look for more clues on the charts to indicate the potential for a meaningful trend. The bullish case can be made from the daily charts of the S&Ps (ascending triangle) and Dow (symmetrical triangle). The bearish case can be made from the Russell daily graph (right-angled broadening pattern). Factor is flat. The case in which I would be most interested this coming week would be a decisive close by the S&Ps above 2407. Otherwise I will be a spectator next week.

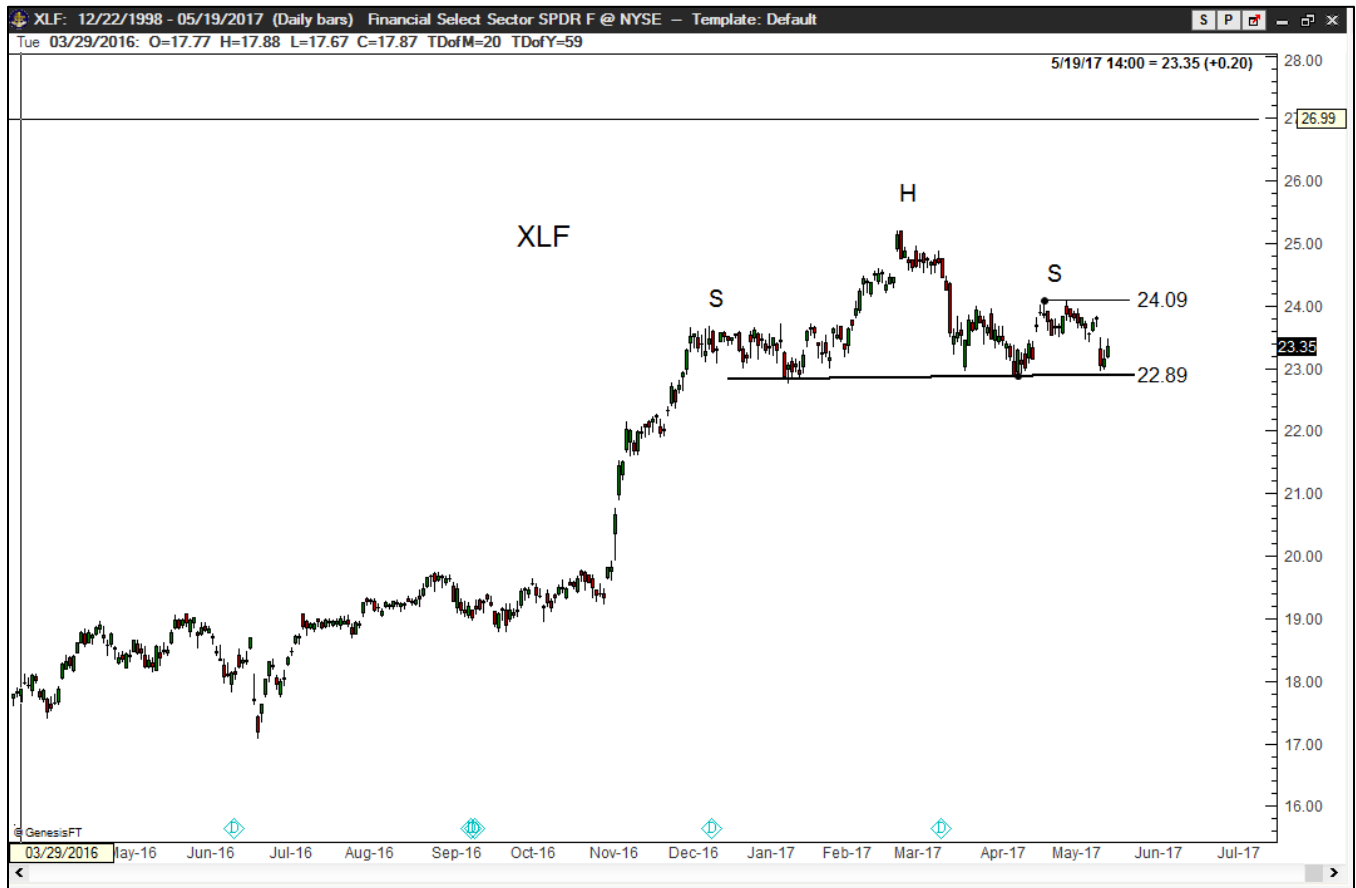


Financial Select Sector (XLF) – a dog waiting to be shot

I will closely monitor this ETF in the days ahead. This market is testing the 2007 high – and this is a likely resistance zone. The daily chart displays a near perfectly balanced H&S top with symmetry between the duration and height of the left and right shoulders. This ETF appears to be a dog waiting to be shot. A move below 22.19 would complete this top and establish a likely target of a test of the 17.10. A decisive close above 24.51 would negate this analysis. Factor is flat with an order to short XLF.



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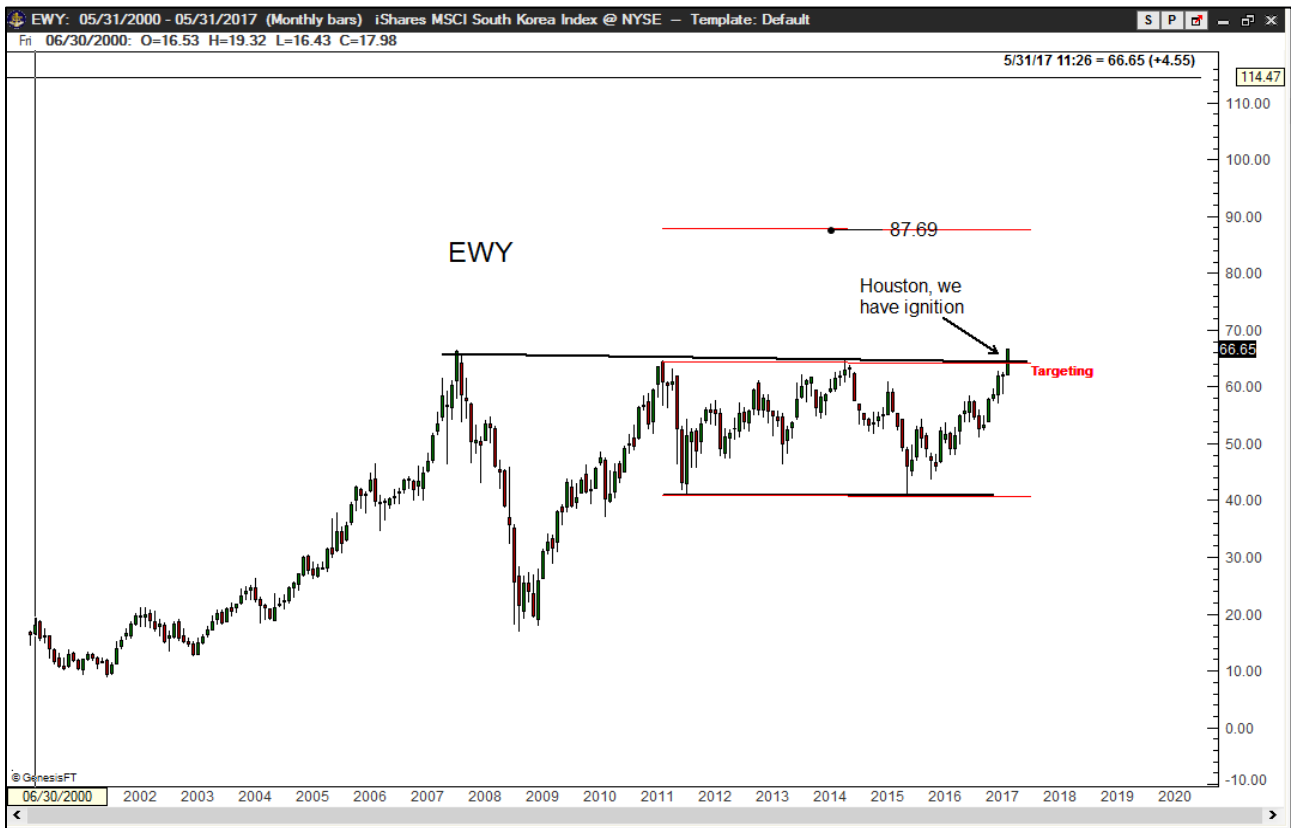
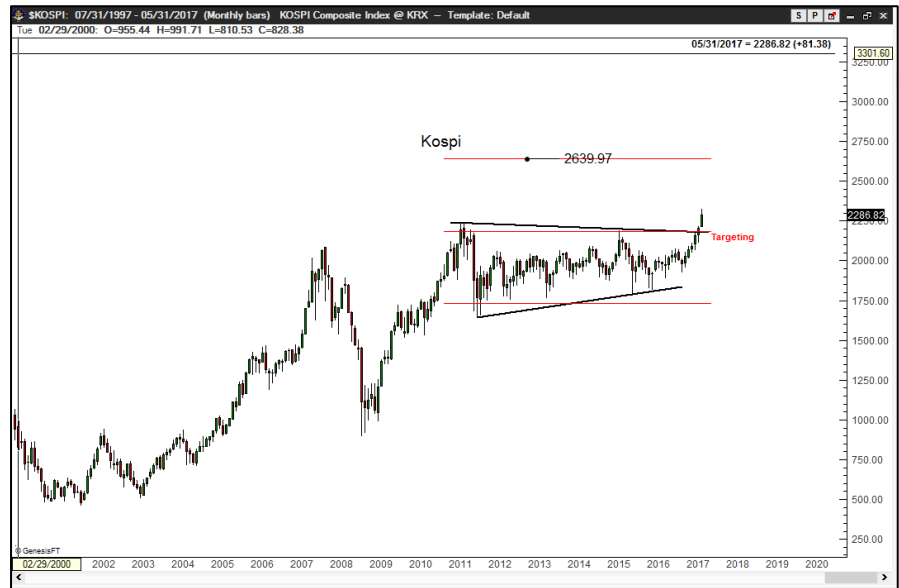


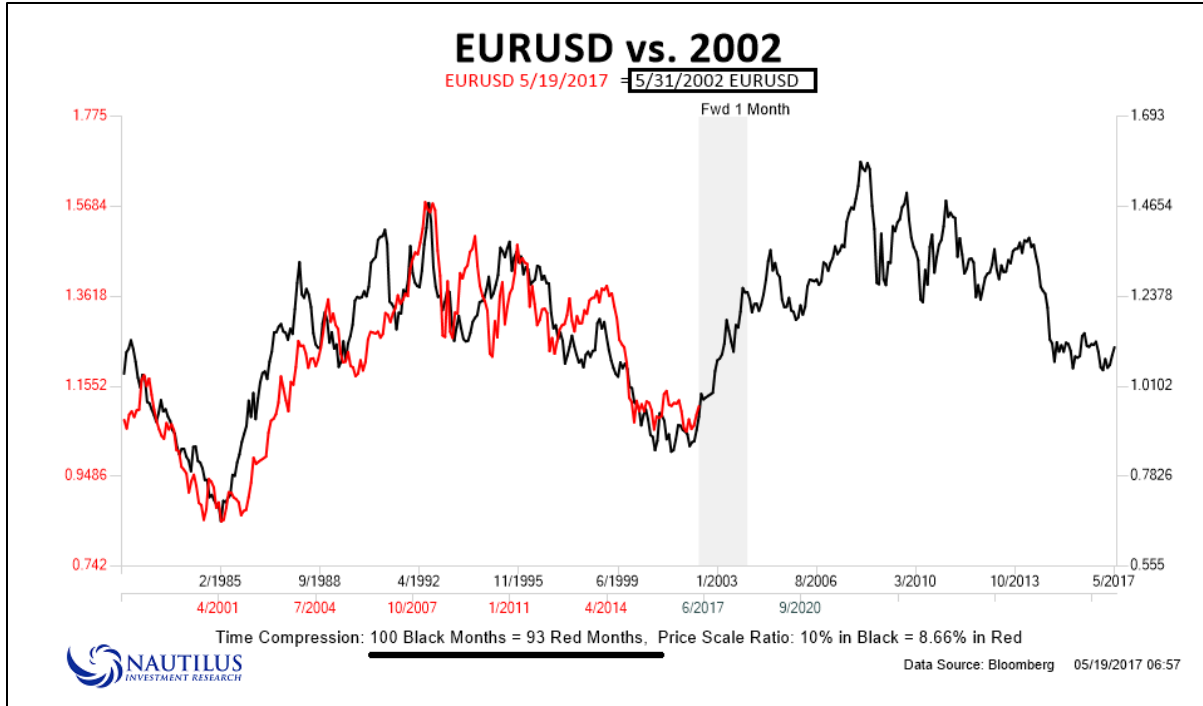
A comment on the Factor's trading of individual stocks

I have been too quick to advance protective stops in the trading of individual equities in the past six or so months. A perfect example is Lumber Liquidators (LL), a stock trade I mistimed in recent weeks – leaving a chunk of sawdust on the table. I have made the decision to adopt a more accommodating tactical trade management with individual equities.

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

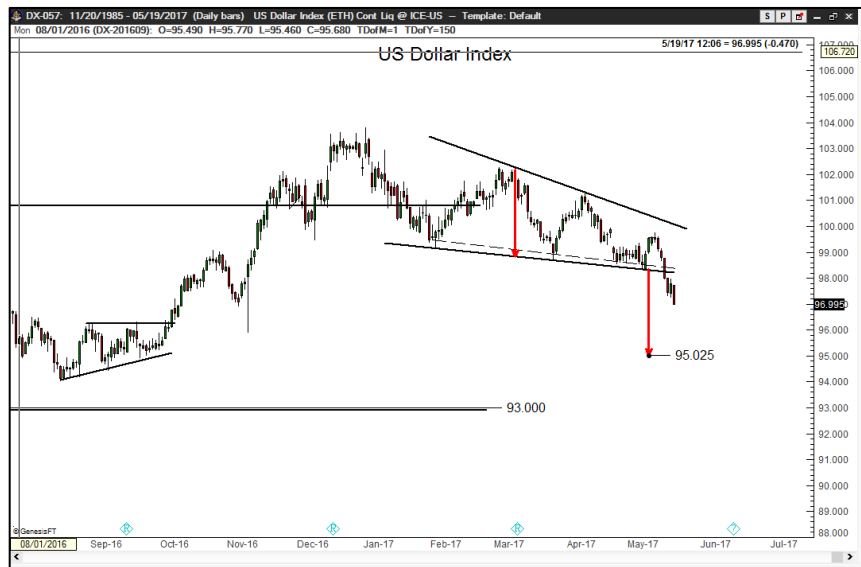
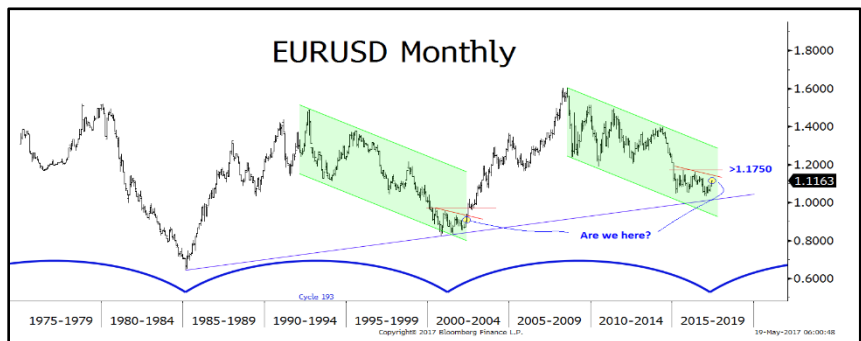
The 5-year continuation symmetrical triangle in the Kospi was further confirmed by the strength this past week. This index has a price target of 2616. The U.S. etf (EWY) has also confirmed its bullish pattern. Factor is long EWY with a protective stop under \$62 and a target of \$87.48.





U.S. Dollar Index – wedge is resolved on downside

The U.S. Dollar Index has an extremely high inverse correlation with EUR/USD. Any chart or comment on one applies (in the inverse) to the other. The decline on Tuesday sliced decisively through the lower boundary of the wedge discussed in the May 15 Factor Update, flashing a sell signal. Factor is short with a target of 95.025.



Crude Oil – a case can be made for a bottom

It is possible to interpret the entire period since last 2014 as a massive complex H&S bottom – although I highly doubt this scenario. Factor is flat with no desire to trade Crude Oil.



Post Mortems

AUD/USD. I shorted AUD/USD on May 3, viewing the sharp decline as the first thrust to possibly complete a massive rectangle on the weekly graph (not shown). I exist the trade on May 15 when prices were clearly not following through.



plb
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