



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

Factor Update, May 7, 2017

Market Review

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

- European bank stocks

Candidate Factor Moves™ are currently ongoing in:

- \*Portugal ETF (PGAL)
- \*GBP/USD
- Russell 2000

Other markets of interest. This issue also comments on \*Australian Dollar, \*EuroStoxx, \*EUR/USD, \*grain markets, Bitcoins, Silver, Crude Oil, Kospi (and EWY-etf), and S&Ps, Canadian Dollars, Sugar, New Zealand Dollar, \*Pilgrim's Pride Corp. (PPC), Nifty 50, and SLCA. \*Signifies a position in the Factor \$100,000 Tracking Account

<u>Developing signals</u> <ul style="list-style-type: none"> <li>• NZD/USD – entry and protective stop</li> </ul>	<u>Existing positions (cont.)</u> <ul style="list-style-type: none"> <li>• Soybean Oil – protective stop and target</li> <li>• AUD/USD – protective stop and target</li> <li>• EuroStoxx – protective stop and target</li> <li>• Pilgrim Pride (PPC) – protective stop</li> </ul>
<u>Existing positions</u> <ul style="list-style-type: none"> <li>• PGAL – 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 3.4X The margin-to-equity use for futures and forex is 19.3%.</p>	

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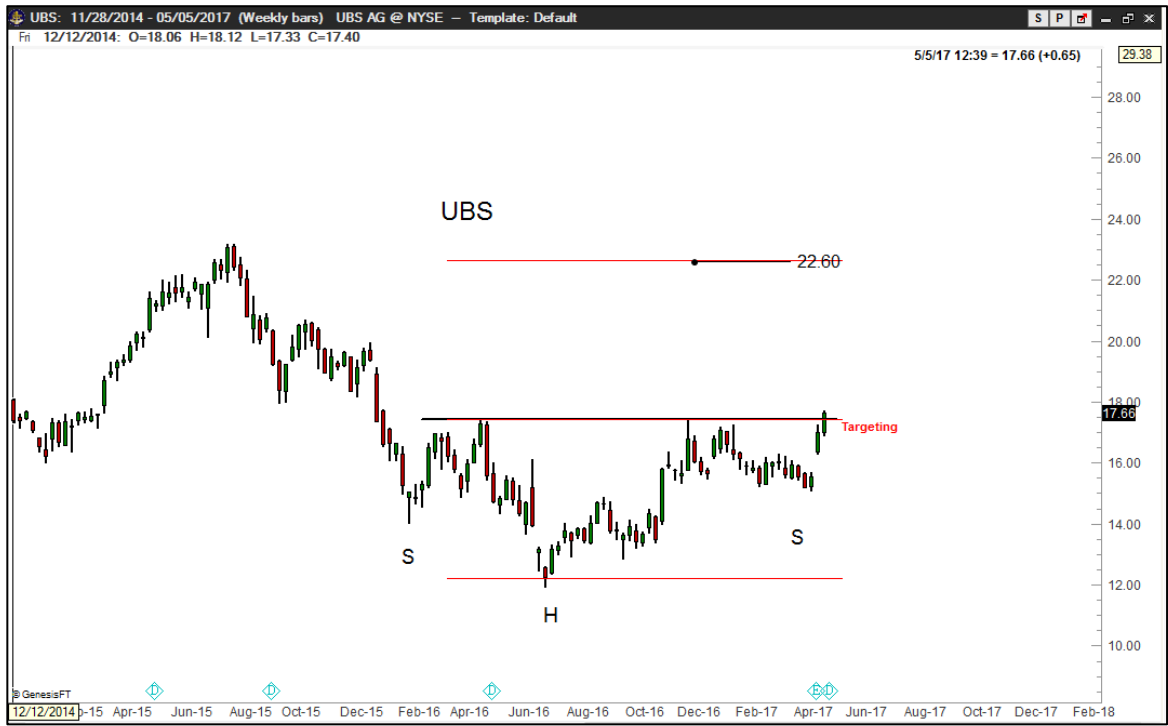
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## Candidate Factor Moves™ Setting Up

European banks – H&S bottoms forming in major banks

Huge H&S bottom patterns continue to form on the weekly graphs of some major European banks – UBS,



Credit Suisse and Deutsche Bank are shown. UBS arguably completed its H&S bottom this past week, but the 3% breakout rule of Edwards and Magee requires a move above 18.01 (revised from the last Update) to confirm the 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. I have a strong feeling that Monday will be either a very profitable or very painful day – and I hate that feeling.**

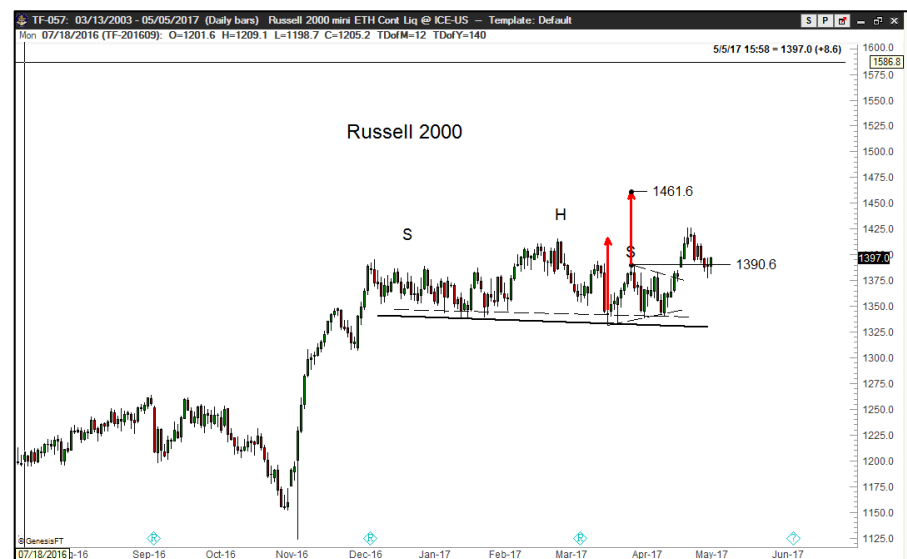
### GBP/USD – might the French election pound the Pound

The dominant chart construction continues to be the 6+ month H&S bottom on the weekly and daily graphs. I was shaken out of the second tranche of longs on Thursday – this buy was based on the Apr 27 completion of a small pennant. I hate being stopped out of a trade only to have the market go my way, but my trading rules for pennants and flags require immediate and sustained follow through. Thus, my options are to either change my trading rules or not let the stop-out bother me. Factor remains long the first tranche of GBP/USD.



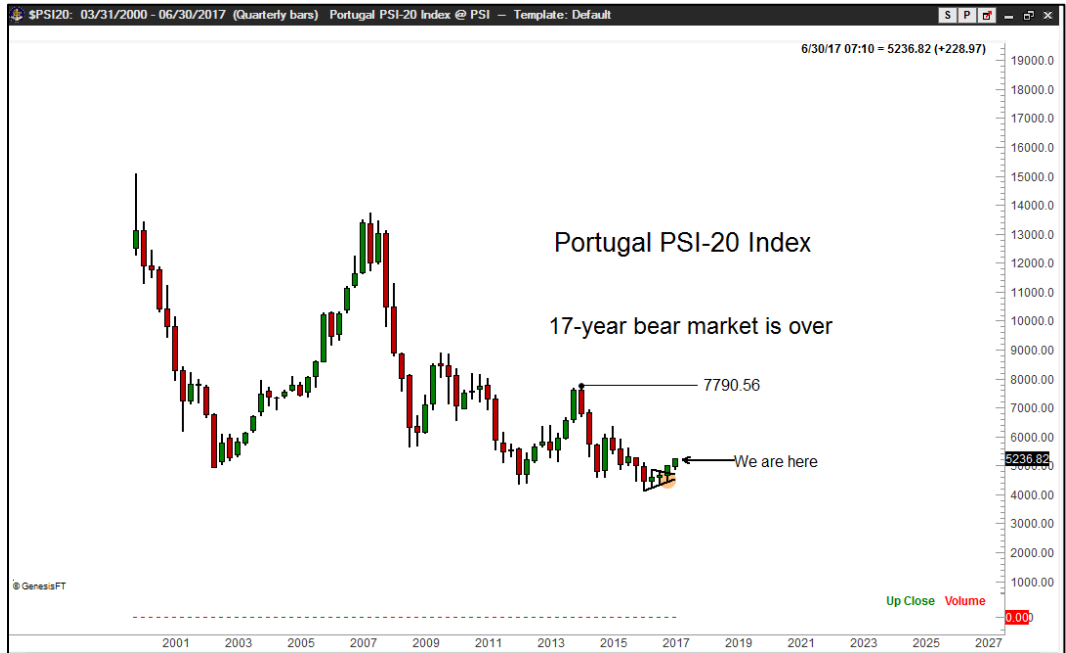
### Russell 2000 – H&S-failure pattern completed, but retest is underway

The advances on Apr 24 & 25 completed a likely 17-week H&S failure pattern. The decline this past week retested the previous right shoulder high and filled the Apr 24 gap. Factor is flat with no real desire to be long the Russell -- I do not want to be long the laggard within a category (stock index futures). The red arrows indicate how I determine the target for a H&S failure – the height of the H&S is projected upwards from the top of the right shoulder.



Portugal PSI-20 and PGAL – after a 17-year decline, a new bull market has emerged

The quarterly graph of the PSI-20 provides a perspective on where the Portuguese equity market has been and where it is now. I am quite certain the 17-year bear



market is over and that 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, although I will take 1/3<sup>rd</sup> profits at 11.88.

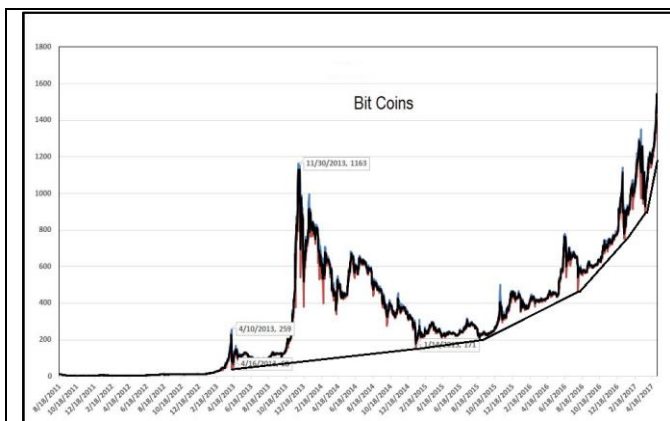


## Other Markets

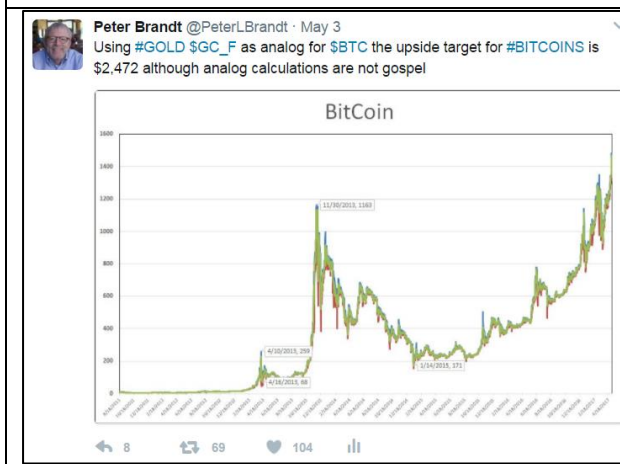
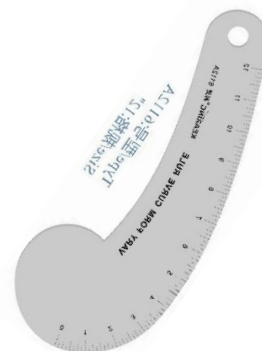
### Bitcoins – Probably going much higher, but this is a tulip bulb mania

Good news! Bad news! The Bitcoin chart has entered a parabolic phase – a chart construction I define as a French Curve. It is difficult to calculate price targets for markets that enter parabolic advances. One method to ballpark a target is to identify and study analog situations. A possible analog is the parabolic advance in Gold from 1976 (and especially 2001) through 2011.

Using the Gold move as an analog establishes targets in Bitcoins up to 2472 (although this target need not be reached). A possible target of 2472 is the good news. Now onto the bad news. Cryptocurrency fanatics are caught up by the hype of block chain technology. *"The sky is the limit,"* is the cry of the Bitcoiners. *"Up, up, up forever!"* Sorry – and I could be wrong on this – but Bitcoin addicts are caught up in their own narrative. In the final analysis the Bitcoin is nothing more than a computerized IOU. This time is NOT different! The advance in Bitcoins from basically zero to \$1,600 in seven years could go much further, but in the end Bitcoins are just another market – and parabolic trends do not end well. I remember price projections of \$10,000 per oz. in Gold and \$200 per oz. in Silver by precious metal bulls in 2011.

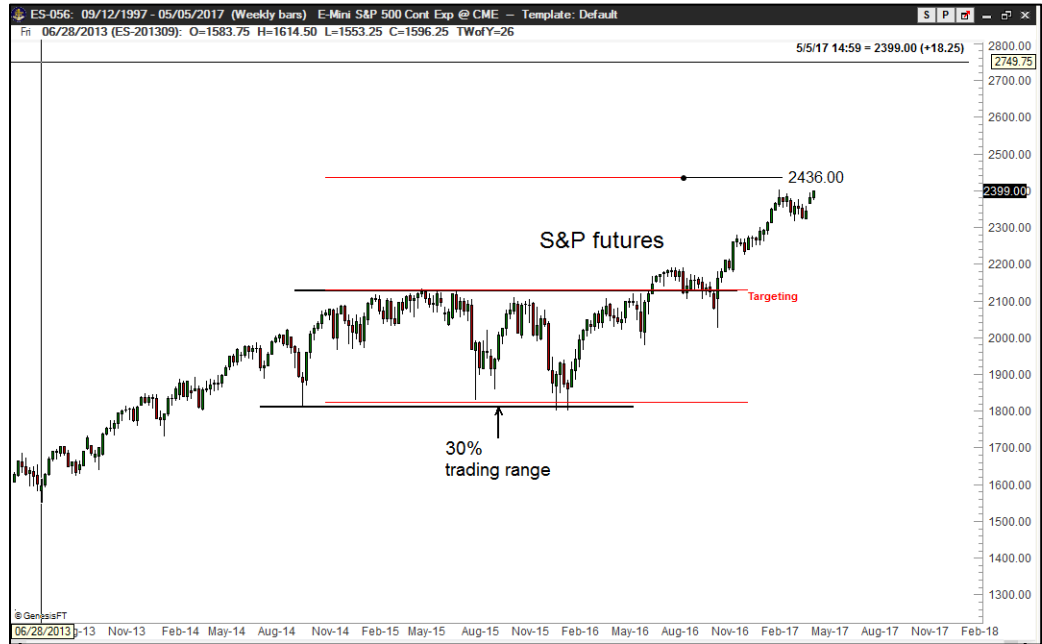


French Curve

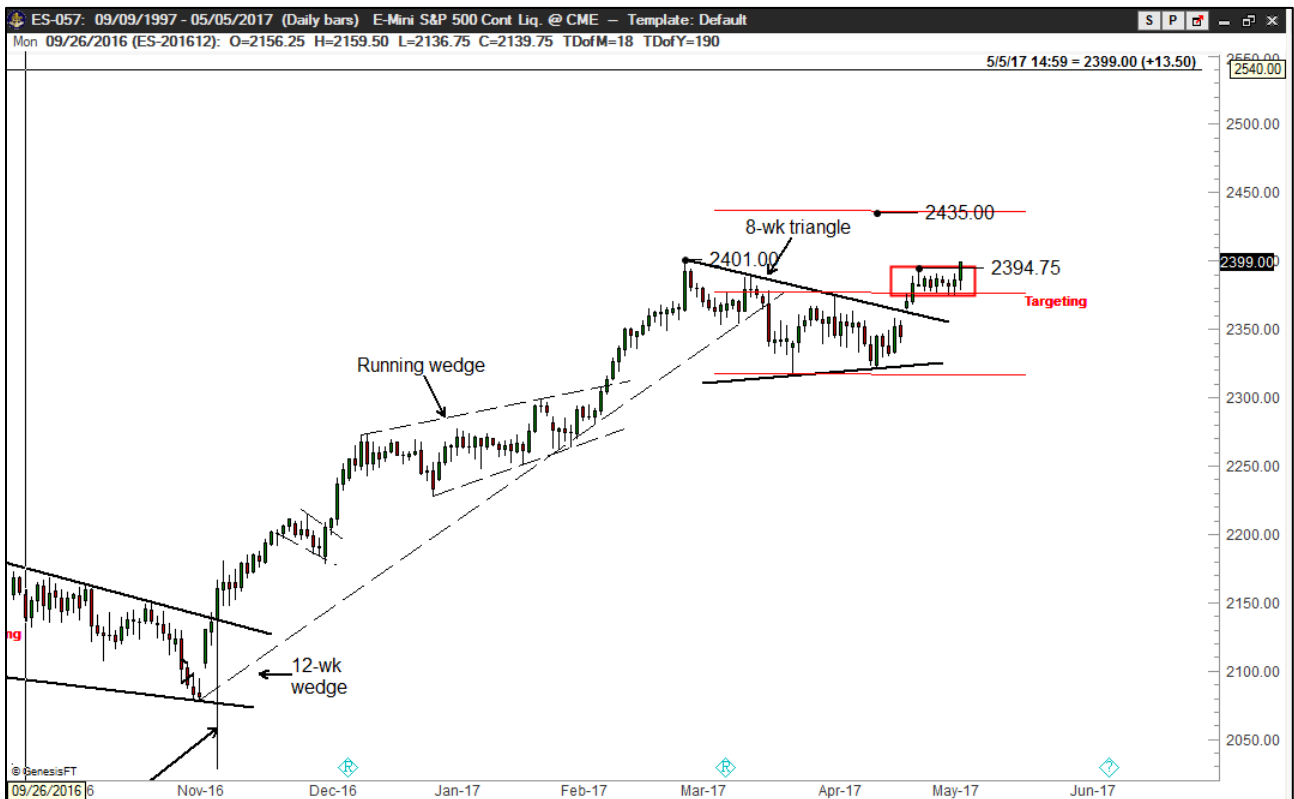


S&Ps – continuation triangle completed, pennant completed, new all-time highs

The advance in Nov 2016 completed an 18-month congestion on the weekly graph. This pattern established a seemingly unattainable target of 2436. [Note: The charts have

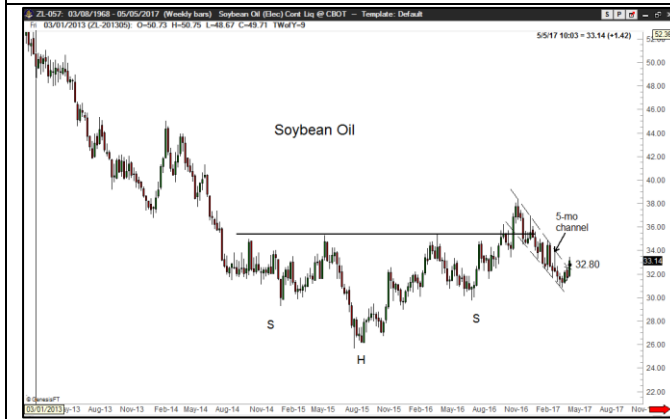
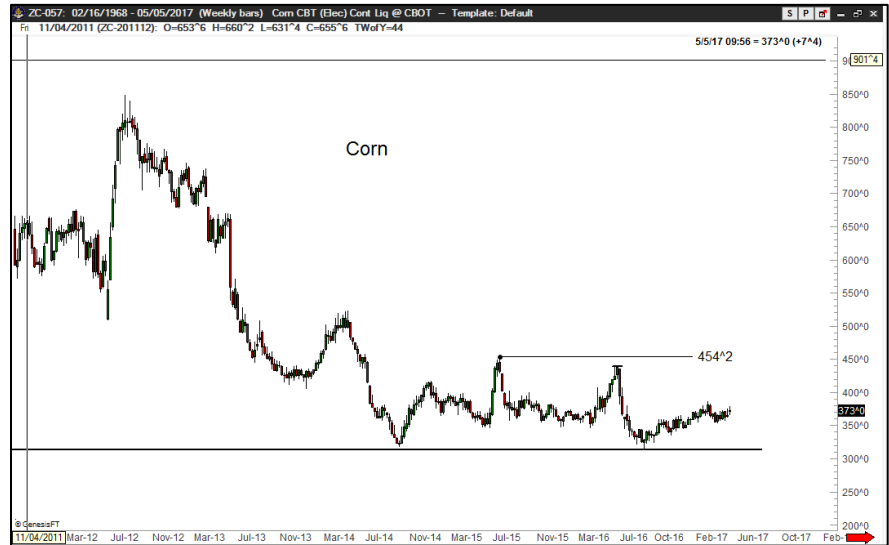


NO higher target than 2436.] The advance on Apr 24 completed an 8-week triangle on the daily graph. The advance on Friday completed a 2-week pennant. The market closed on Friday at a new all-time high. Markets that move into new record high ground have a high probability of following through – but the French election may impact this. Factor bought the breakout of the pennant on Friday – a fact that could become painful if the French election has any surprises.



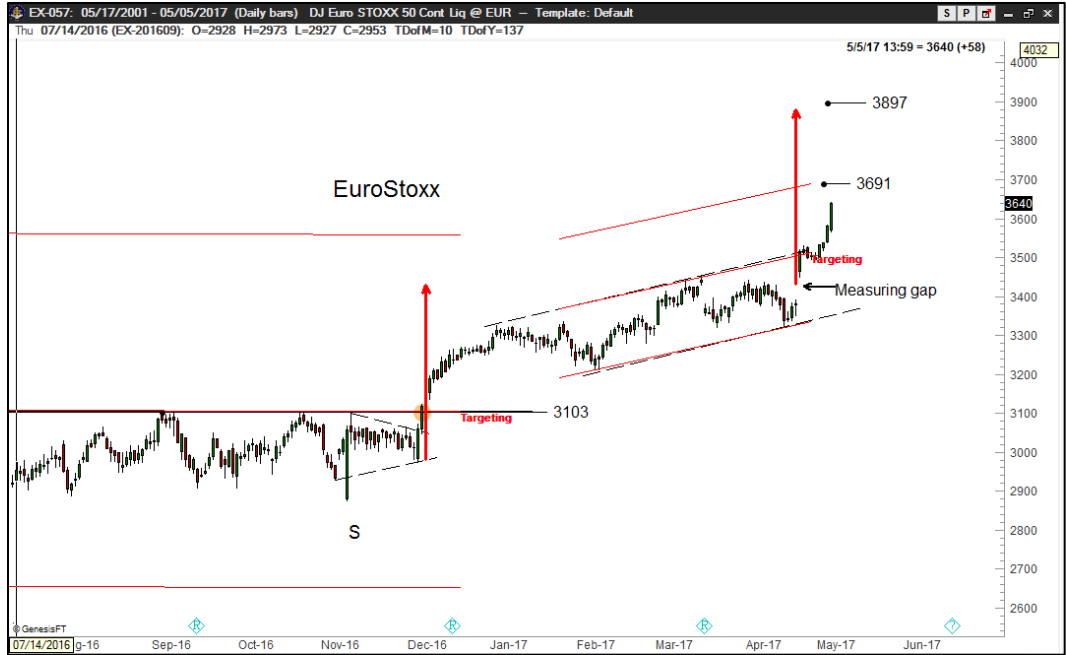
Grain markets – major bottoms can take a very long time

Bottoms can take an excruciating long time to form in the grain markets. I do believe we are in the bottoming process in all of the grains (see Factor Special Report dated Apr 14, 2017). The weekly Corn continuation graph displays a broad-based double bottom, but serious consideration of a bull trend could be an entire crop year (or two) away. The weekly chart of KC Wheat displays a possible 17-month H&S bottom and the weekly chart of the Jul contract exhibits an 8-month broadening pattern. It is too early to tell if the recent hard freeze throughout Kansas will be the catalyst to launch a bull trend in KC Wheat. The chart that has my greatest attention is Soybean Oil. A 5-month channel pattern has been completed on the weekly continuation and daily July contract charts. As a general rule, advances through the boundary of a channel will travel a distance equal to the width of the channel. Factor is long Jul Bean Oil with a target of 34.94.



EuroStoxx – Advance is accelerating but French election could delay the party

The daily continuation graph broke through the upper boundary of a 4-month channel on Thursday. This establishes a pattern target of 3687. 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. Factor is long Jun EuroStoxx Jun futures.

Canadian Dollars – Friday’s sweeping key reversal brings blows arctic air

See the Factor Alert dated Apr 25 on the Canadian Dollar. The advance on Apr 25 completed a 5+ month continuation H&S pattern. The target of this pattern is 1.4029. The sweeping downside reversal on Friday indicates that a step correction could develop.

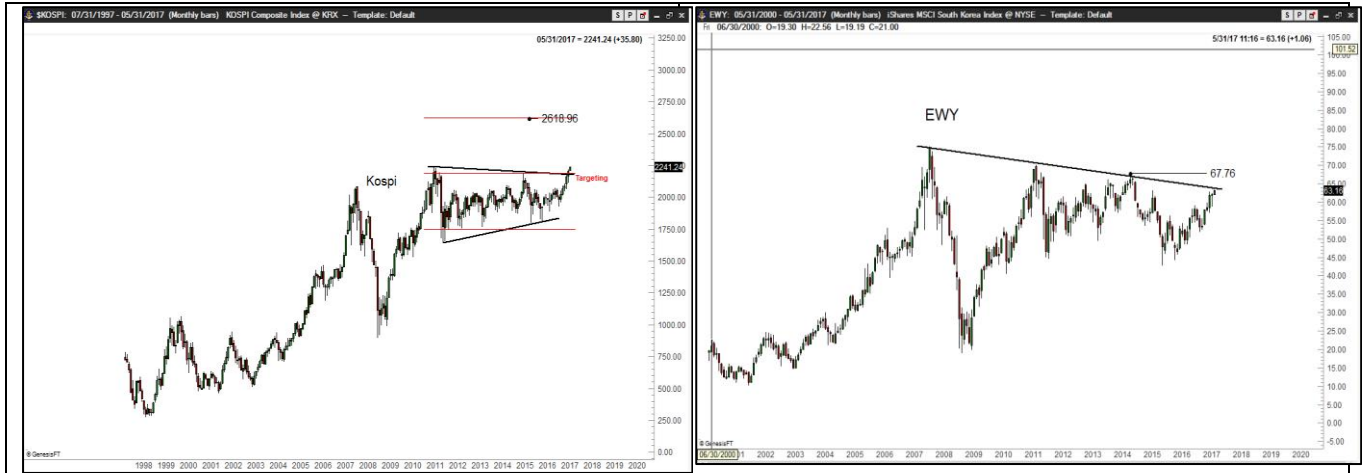


Factor is flat – having covered on Friday’s close.



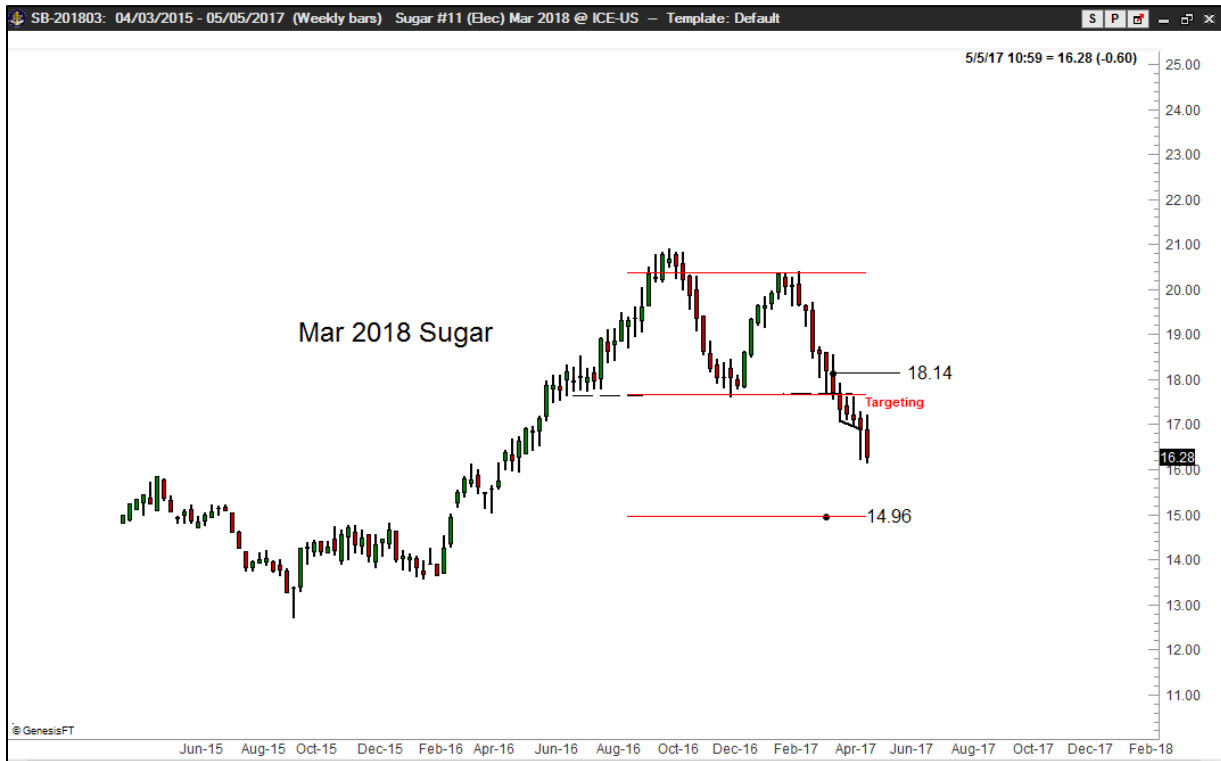
Kospi (and EWY-etf) – new all-time highs (so much for Krazy Kim)

A 5-year continuation symmetrical triangle has been completed in the Kospi with a suggested price target of 2616. The U.S. etf (EWY) has not yet completed its continuation pattern. A close above 67.76 would be a buy signal. Factor is flat.



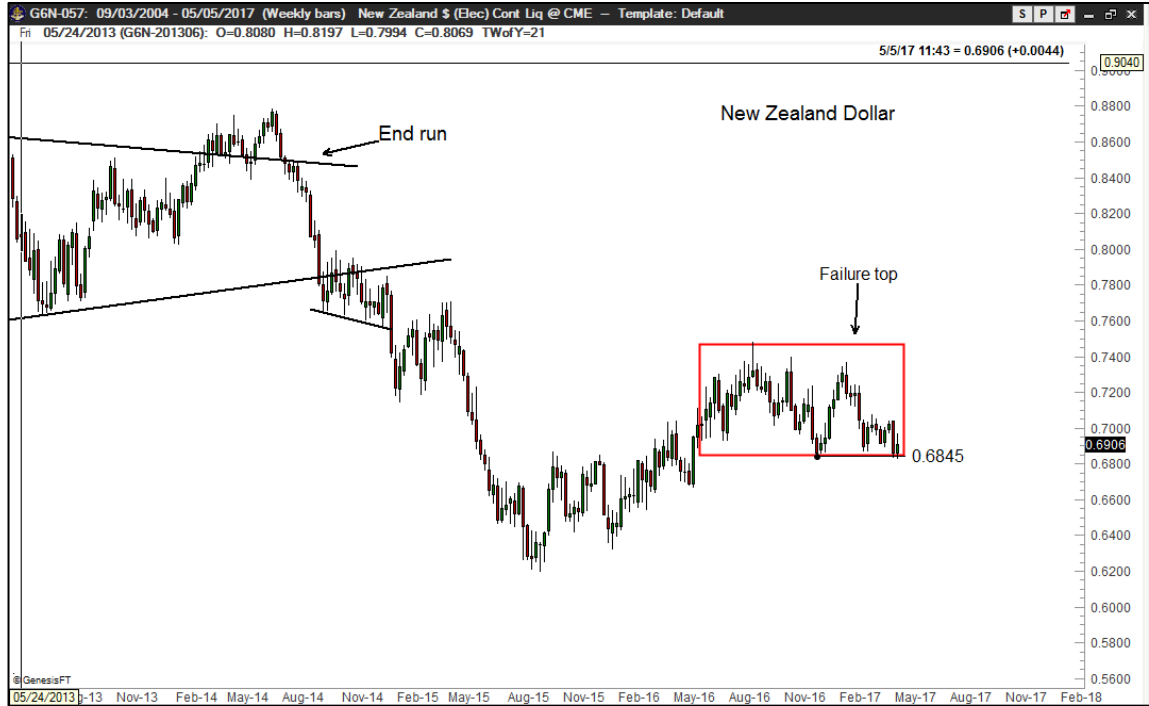
Sugar – from sweet to sour

The weekly and daily charts of Mar futures display a completed double top pattern with a target of 15.00. Factor is flat – I count this as a missed trade for 2017.



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). Factor is flat NZD and will short a downside breakout.

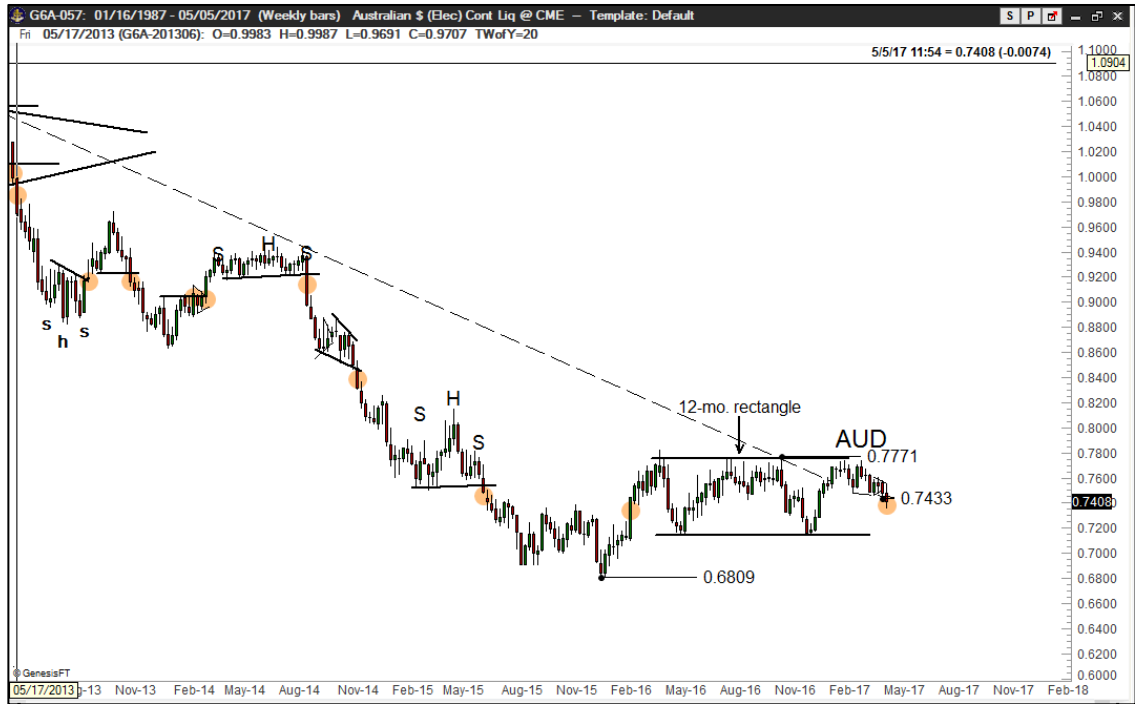
Crude Oil – if you find a way to be short North Dakota let me know

The decline on Thursday completed a possible 8-month H&S top on the daily chart of the Jul contract. Factor is flat – I am willing to short a retest of 47.90.



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).

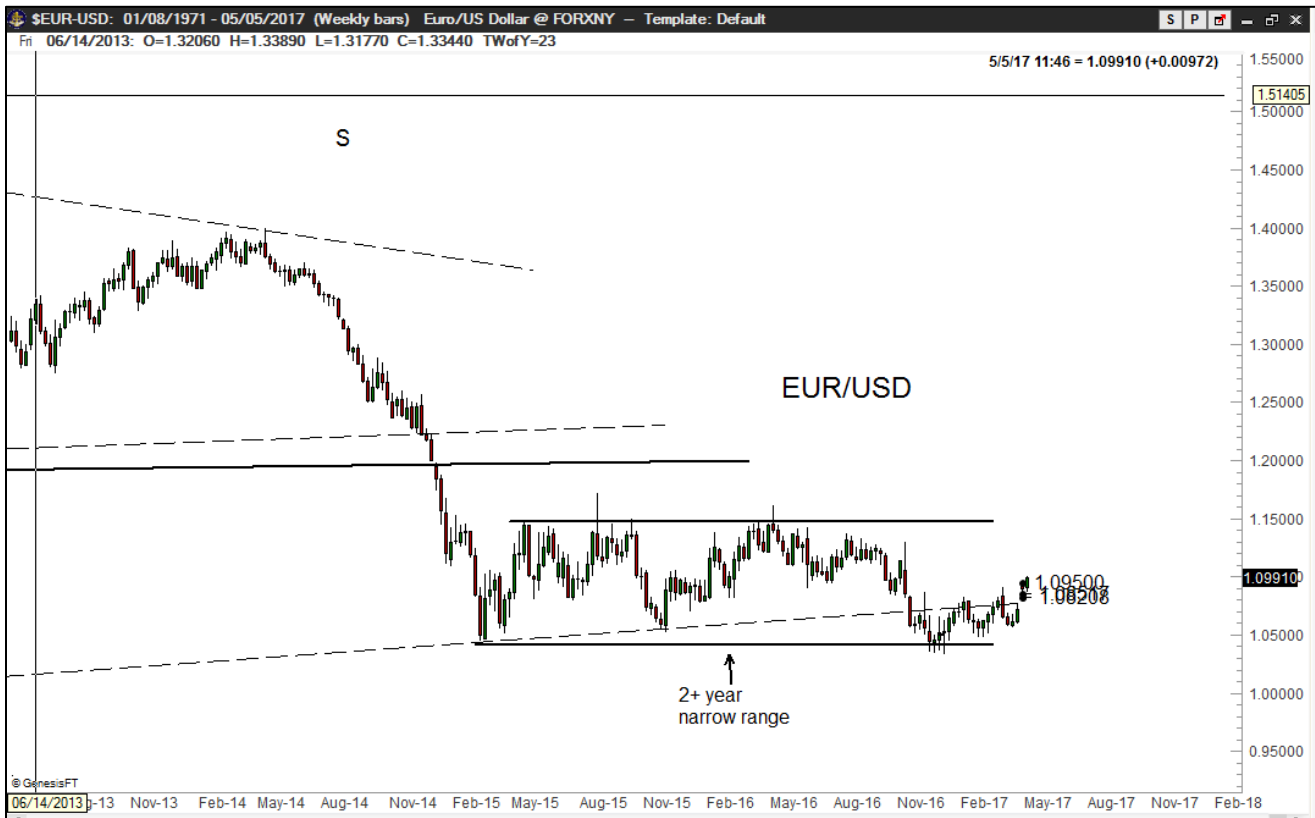


This would indicate a test of the Jan 2016 low at .6809. The decline on Wednesday completed a possible 9-week horn or sloping top on the daily graph. Factor is short AUD/USD. Friday's candlestick indicates that a rally is possible next week.



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

Monday could be wild – hand on for dear life! 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 be prepositioned. I consider the advance on Apr 24 to be a break-away gap as part of a horn bottom. Factor is long EUR/USD. There is still a possibility that the U.S. Dollar Index (chart shown) is forming a bullish falling wedge, but this requires the market to turn up soon and quickly. Obviously, if the wedge in DX works the sloping bottom in EUR/USD will be a bust.



Silver – the biggest sucker play of 2017 is starting to attract bottom feeders

I have been a bold and unapologetic Silver bear for several weeks – but I do not have a dime to show for it. Being right on a market means nothing if I cannot make money on the idea. I remain negative on Silver with a target of 15.25. After closing lower for 15 straight days the market could experience a sharp correction. A rally into the 16.80 to 17.40 might entice me to establish a short position. Factor is flat.



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PPC (Pilgrim's Pride Corp) – is this chicken 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. The market retested the upper boundary of the triangle this past week. Accordingly, Factor is long PPC. I am risking the trade to below the opening price of Apr 21.



## Post Mortems

### Lumber Liquidators

(LL). The decline on May 2 blew me out. I have been on the wrong side of earnings reports way too many times in the past couple of years.



### U.S. Silica (SLCA)

This chart displays a trading rule I often use – but unfortunately did not use it in the case of this stock. My original short signal came with the Apr 21 completion of a H&S top pattern. The rally on Apr 26 bumped me out of the trade. Of course it is easy to see after the fact I should have given the trade more leeway by using the Apr 20 high at 45.64 as my risk point (coulda, woulda, shouldas). When stopped out in such a case a renewed close back below the neckline as well as a new low for the decline are both re-entry signals for me.



plb  
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