



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

Factor Update, September 3, 2017

Market Review

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

- EuroSwiss (interest rate)
- *CAD/CHF

Candidate Factor Moves™ are currently ongoing in:

- *EUR/USD
- Australian Dollar

This issue also comments on global stock indexes, *USD/TRY, *precious metals, Canadian Dollar, Bitcoin, grain markets, *New Zealand Dollar, Copper, Gold/Yen ratio, Cocoa, Sugar, Crude Oil and the ED6/ED12 Eurodollar spread. *Signifies a position in the Factor \$100,000 Tracking Account

<p><u>Developing signals</u></p> <ul style="list-style-type: none"> • CAD/CHF – alert • EuroSwiss – entry order and protective stop • Canadian Dollar – entry order and protective stop 	<p><u>Existing positions</u></p> <ul style="list-style-type: none"> • EUR/USD – protective stop • NZD/USD – protective stop and target • CAD/CHF – protective stop • USD/TRY – protective stop and target • Gold – protective stop and target
<p>The Factor Tracking Account is currently leveraged at 2.0 X. The margin-to-equity use for futures and forex is 9.6%.</p>	

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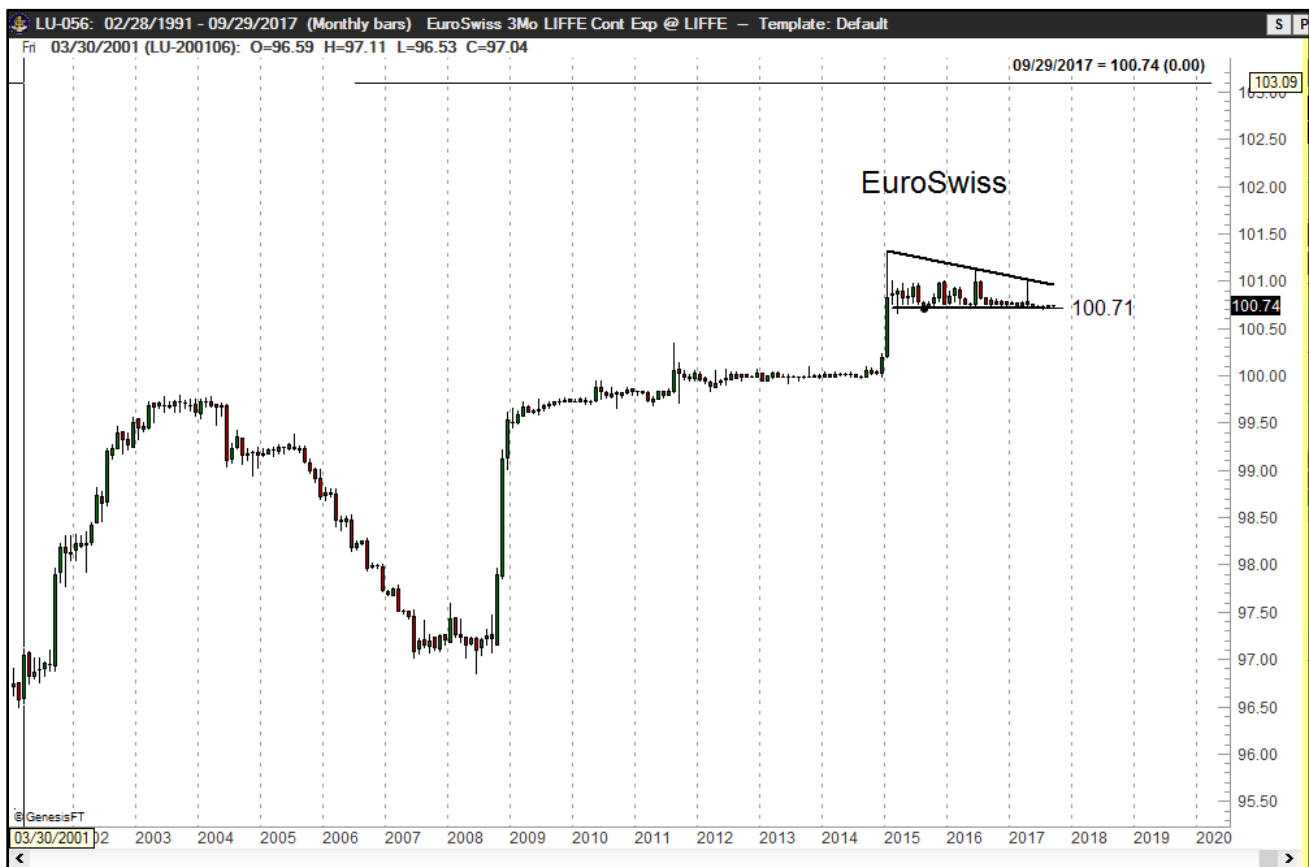
General market comments

I continue to view the trading environment in 2017 as challenging. My risk level per trade presently is at 50 BPs. The win rate in the Factor Tracking Account for trades entered and exited since Jul 1 has been 32% without a single 100 BP winner. My approach to trade identification and risk management are not in synch with market behavior. This is not a concern to me. My present portfolio consists primarily of spot forex positions – and this does not make me comfortable. I would much rather have some diversification across different types of markets. I am not willing to ride off 2017 as a complete bust – yet. My continued focus will be on selecting quality classical chart set ups and pursuing aggressive risk and trade management.

Candidate Factor Moves™ Setting Up

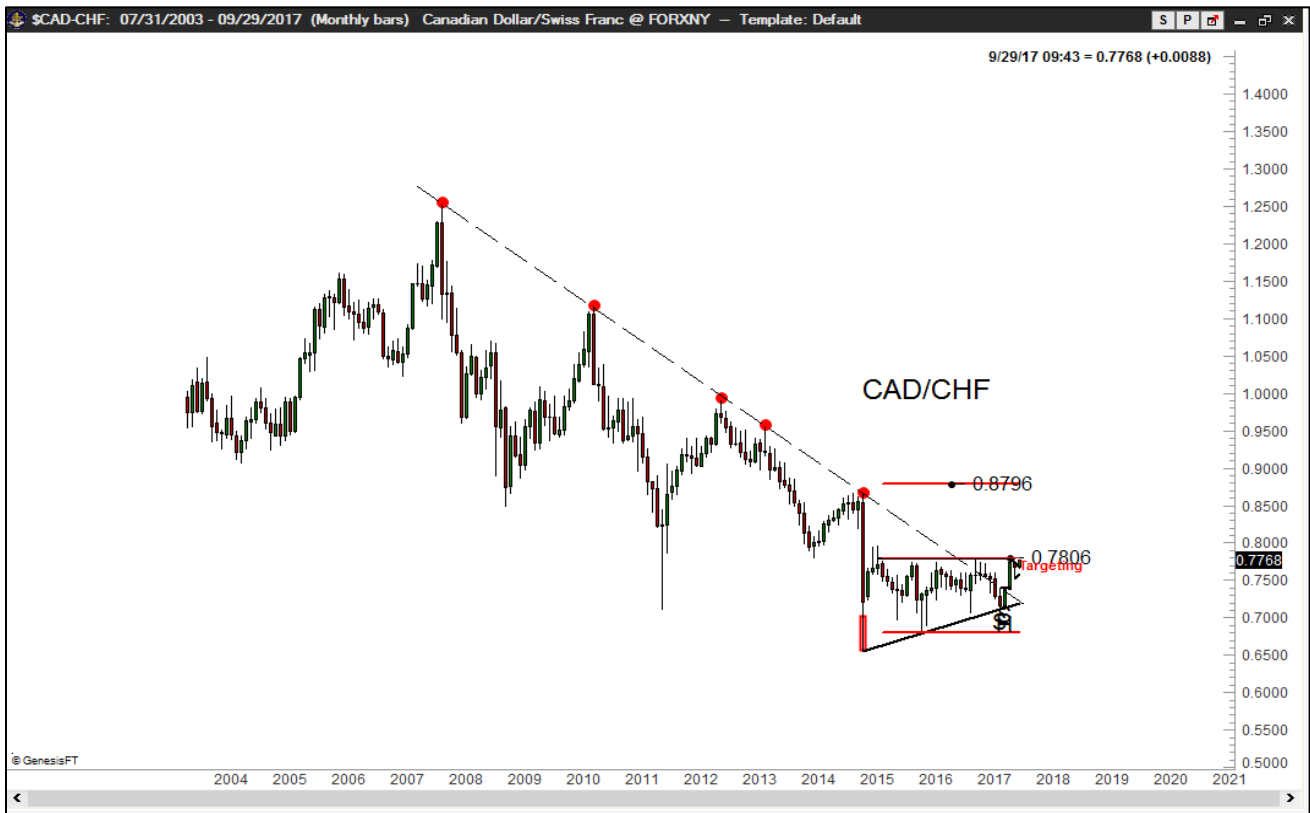
EuroSwiss (interest rate) – this will be an incredible trade, the question is when

I continue to believe that the crazy negative interest rate policies of Western Europe cannot be maintained forever. A successful trade requires being correct on direction as well as on timing. If the timing is wrong, the trade is wrong. I am flat in this market but will continue to monitor the EuroSwiss, the Euribor and Bund/Bobl/Schatz for indications the European central bankers are returning to sanity. The monthly chart of the EuroSwiss displays a possible 32-month descending triangle top. A daily print of 100.68 for the spot 3-month EuroSwiss Libor rate will be my sign to reenter the short side of this market. Factor is flat.



CAD/CHF – long-term downtrend could be ending

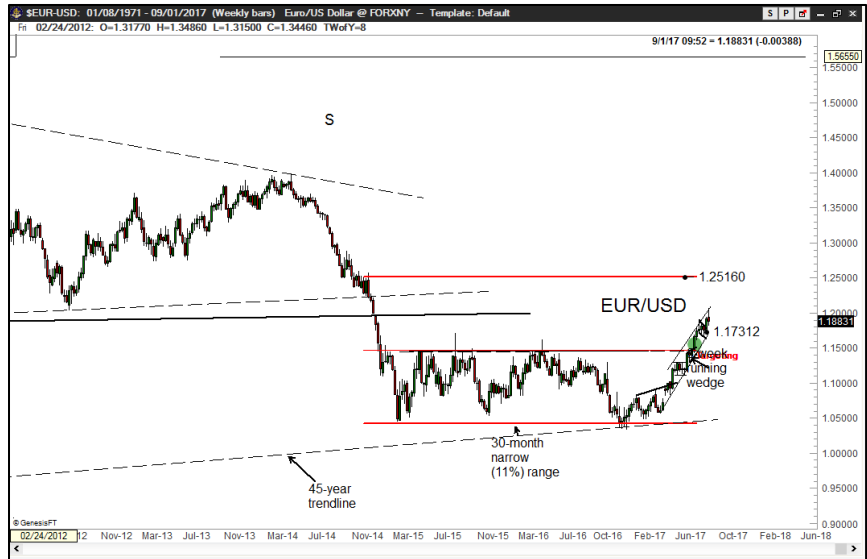
See Factor Alert dated Sep 1. This forex cross has penetrated a 10-year multi-point trendline on the monthly graph. The weekly chart displays a possible 32-month descending triangle using my data source. Other data sources do not show the spike low in Jan 2016 (red box) – reflecting a possible rounding bottom. A close above .7830 would complete the weekly chart bottom regardless of the data source. The advance on Friday (9/1) completed a 5-week symmetrical triangle on the daily graph. Factor bought an early Friday morning break at .79261 and added on the Friday close at .7785. I acknowledge that I bought this market right into very heavy resistance as represented by the upper boundary of the bottoming pattern. I have an interest to extend the long position on a decisive close above .7830. The long-term target of the ascending triangle on the weekly graph (if completed) would be .8796.



Candidate Factor Moves™ in Progress

EUR/USD – the bull trend remains intact with higher targets

The dominant chart construction is the completed 30-month rectangle on the weekly chart. I have previously discussed the historical power generated by prolonged narrow-range patterns in EUR/USD. The minimum target of this rectangle is 1.2500. The daily chart displays an orderly advance. The moving average combination I most watch (14- and 21-bars) has remained in a bullish profile since late Apr. Factor is long.



Spot AUD/USD – bull market is hanging on, without me

The dominant chart construction in the Aussie is the completed 16-month rectangle. The weekly and daily graphs are shown. I was shaken out of my long position in AUD/USD and remain flat. I missed buying the retest in mid Aug as I was preparing for a period away from the markets.



Other Markets

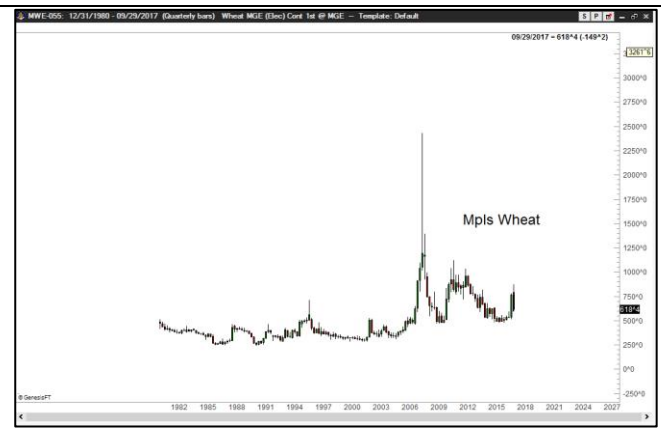
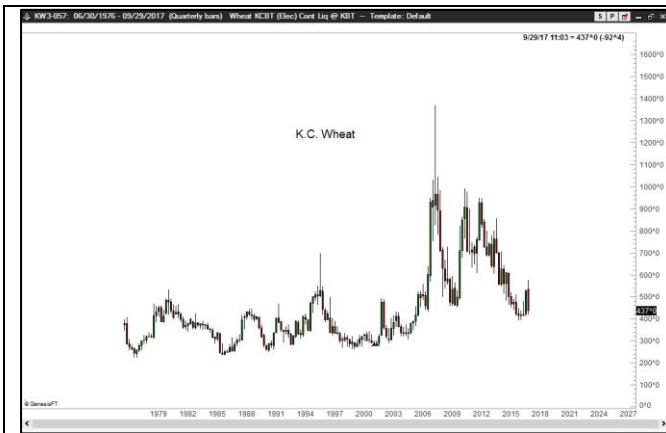
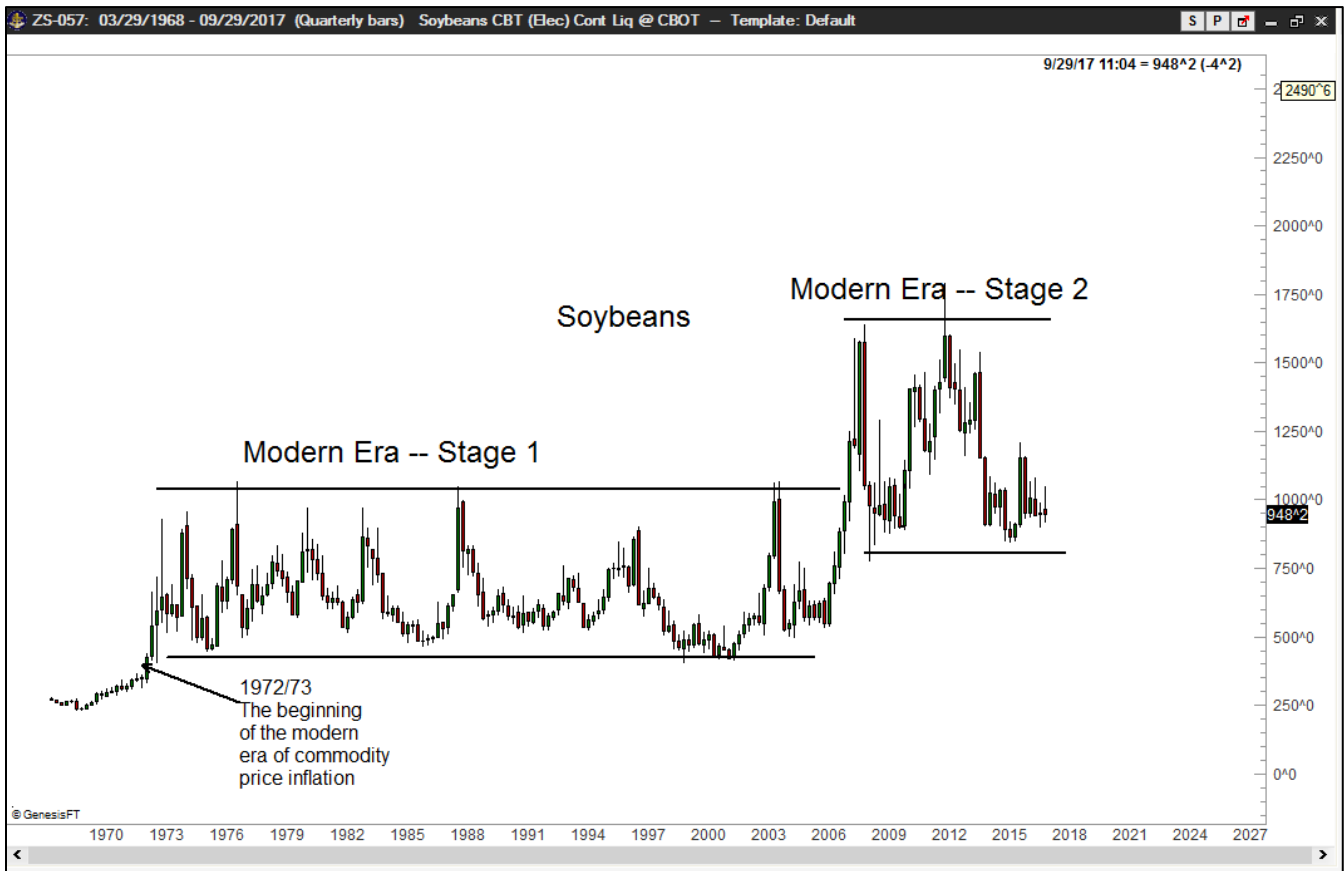
Canadian Dollar (futures) – market could be entering a consolidation phase

CAD is in a major up-trend with targets ranging from .8500 to .8850. I have been monitoring this market for a continuation chart pattern. It is possible that the advance on Friday (9/1) completed a 5-week pennant. I was hoping for a more prolonged continuation pattern. I will return to the long side on a slight break next week using Friday's low for protection. Factor is flat.

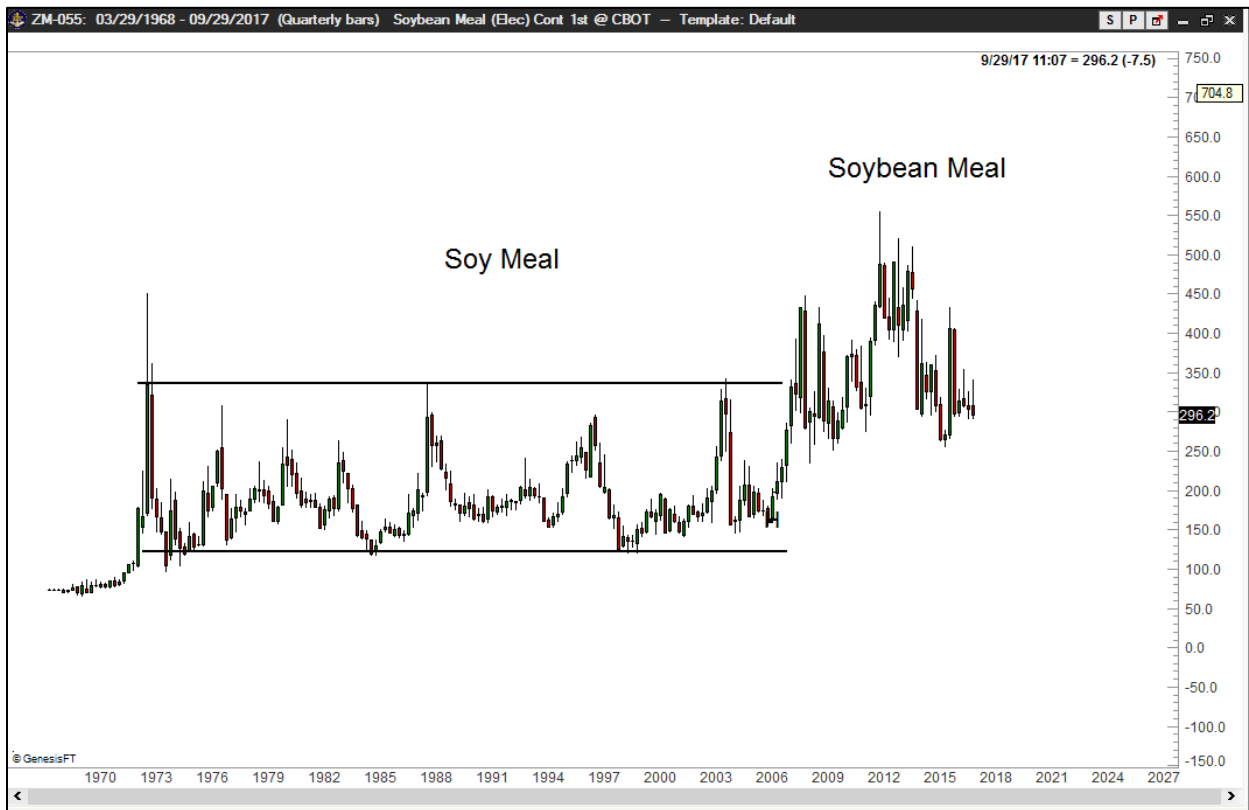
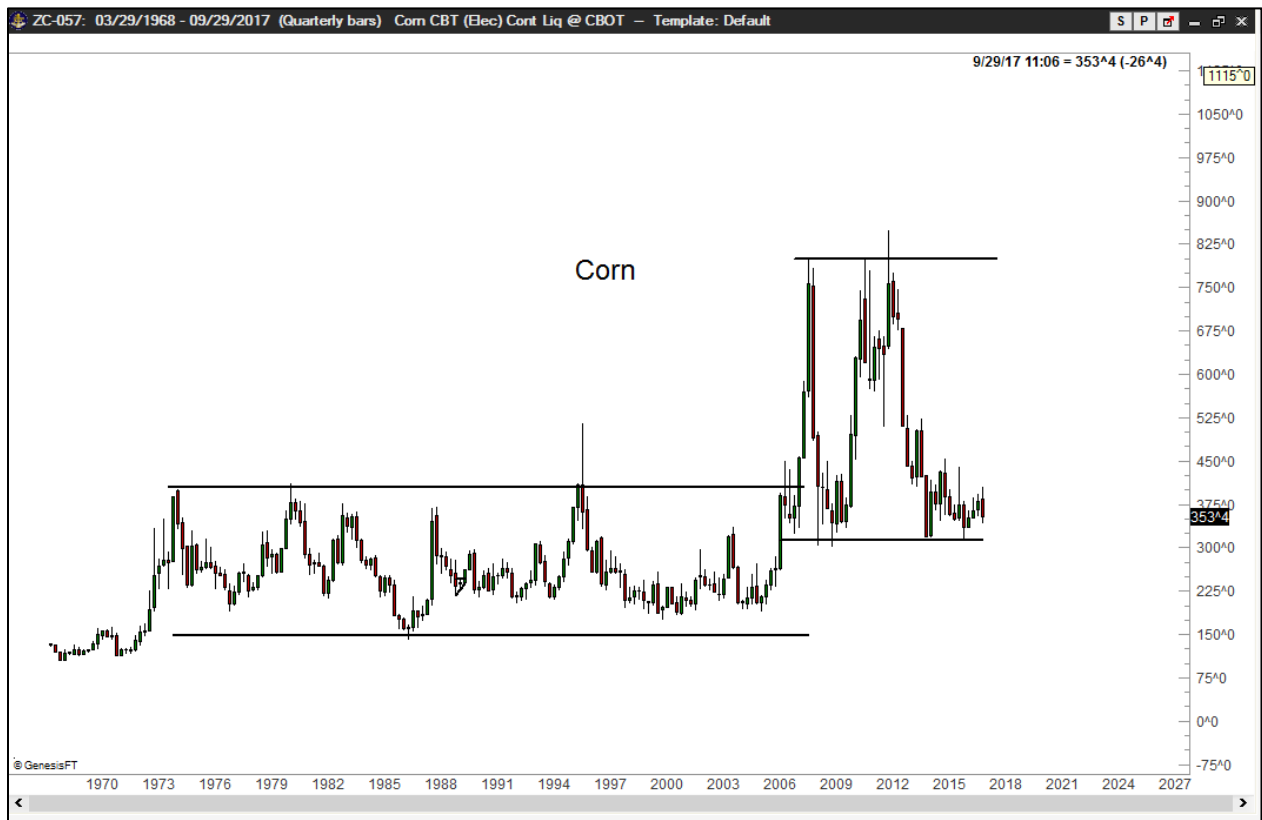


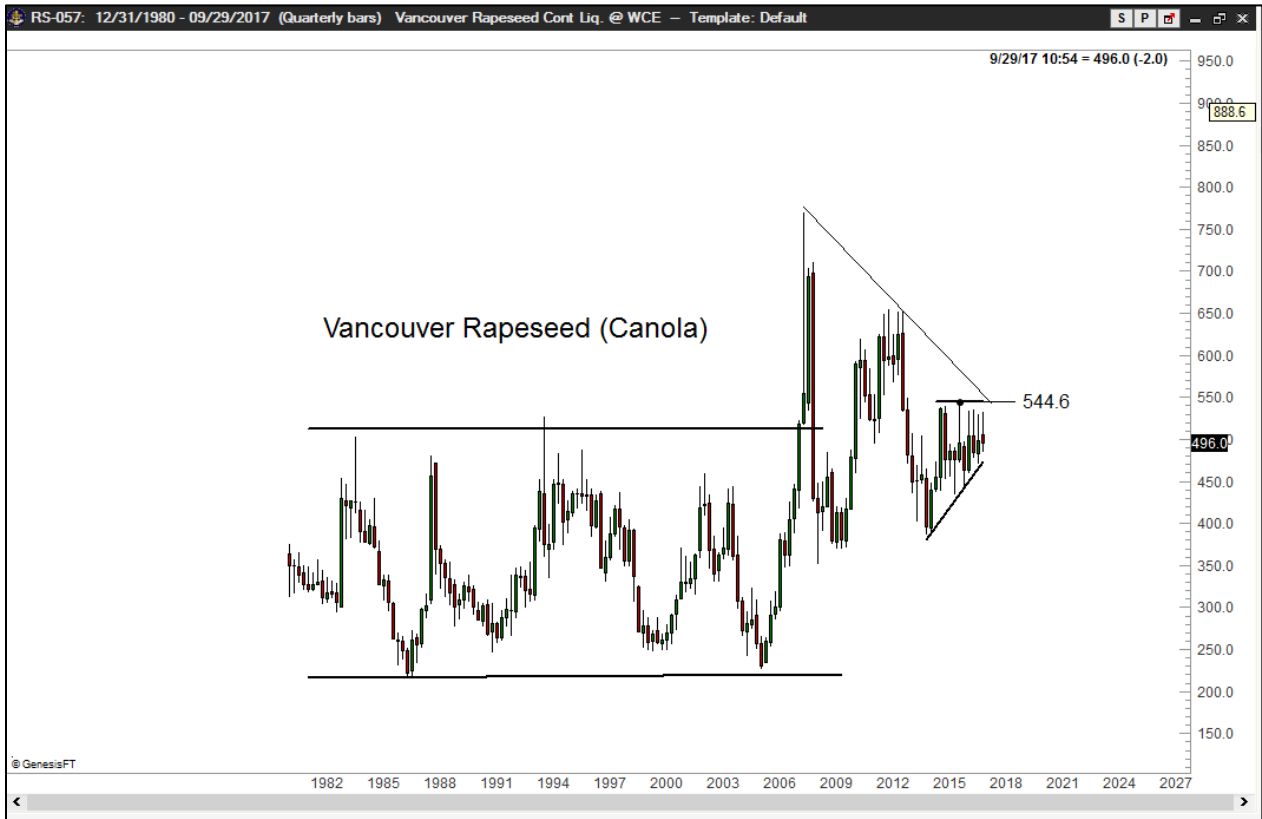
Grain markets – a bottom of generational magnitude could be forming

I view the early 1970s as the beginning of the modern era of futures trading – labeled as Stage 1 on the Soybean graph. I view the period beginning in Dec 2007 as the Stage 2 of the modern era. All grain markets are in an area of heavy support based on the Stage 1/Stage 2 framework. Base building in the grain markets can be prolonged and agonizing. The rally in Jun/Jul of this year was simply a blip in the base building process. Traders hurried to be long grains will likely find only frustration. My bias for a position near term would be in Canadian Rapeseed (Canola). Factor is flat.



See more grain charts, next two pages.





Copper – arguable H&S bottom has target of 370

The weekly graph of Copper displays an arguable H&S bottom with a target of 370. I use the word “arguable” because the period from Dec 2014 to May 2015 is more accurately viewed as a rally in the Aug 2011 to Jan 2016 bear market than as the left shoulder of a singular bottom pattern. Factor is flat.



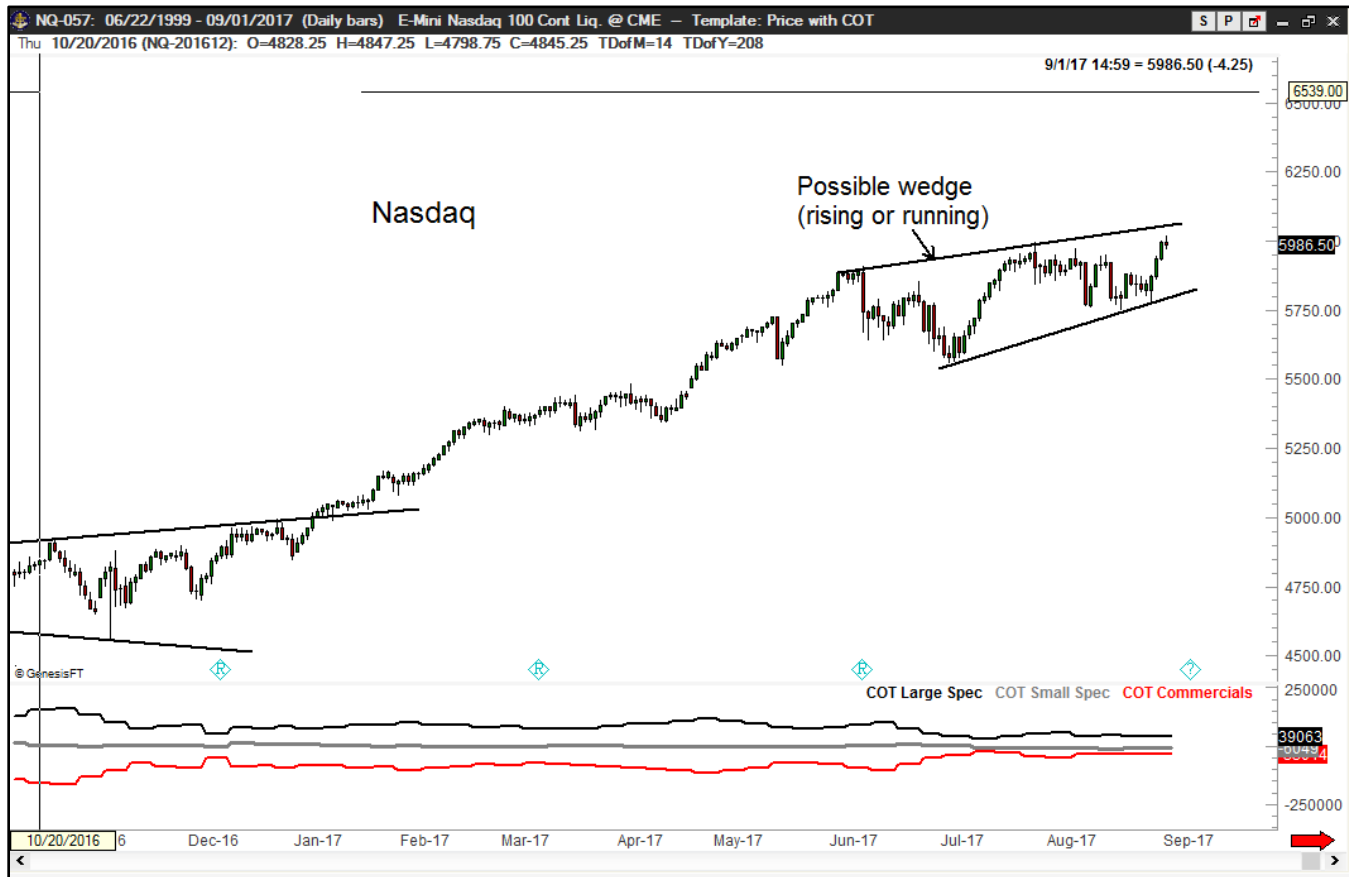
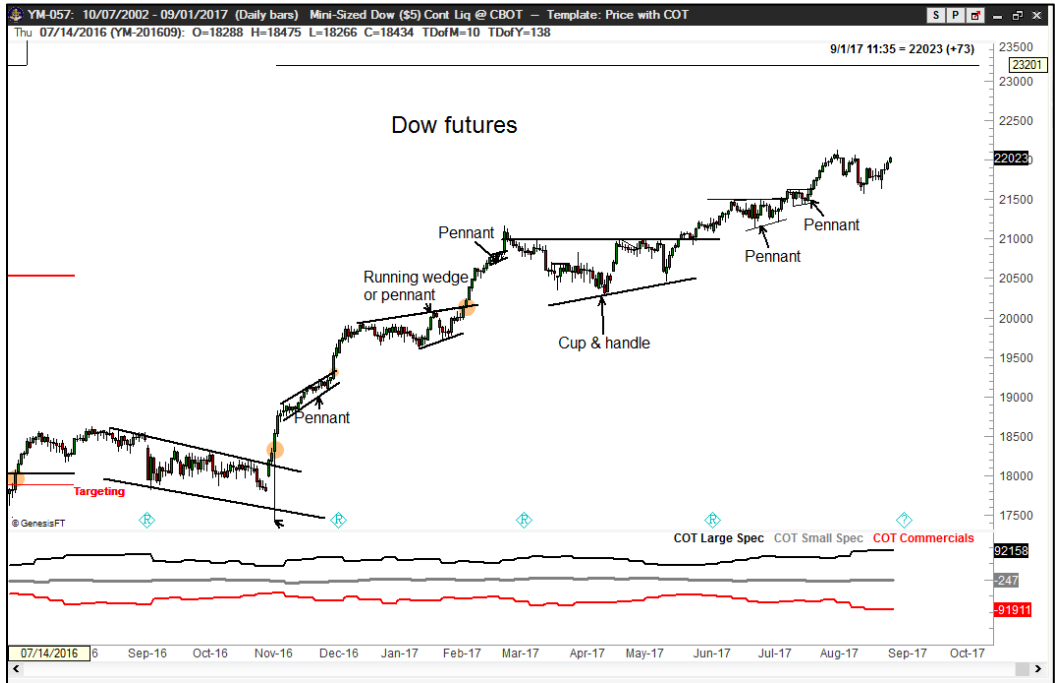
Bitcoin – the biggest bull market in my entire trading career

There has not been a more dramatic bull market than BTC in my entire trading career – I wish I could say I nailed it. From the Feb 2011 level of \$1 the price increased 10-fold to \$10, another 10-fold to \$100, another 10-fold to \$1,000 and now an additional 4.8-fold to \$4,800. Absolutely incredible! In respect for those geniuses (I mean it) who figured this market out early I will no longer make snide comments about cryptos on Twitter. I hold in awe those individuals who understood blockchain technology early in the game. Depending on chart developments I may trade cryptocurrency in the Factor Tracking Account, but on a cash basis (not on margin). The Factor Tracking Account is flat.



Global stock indexes – mixed signals continue

In my opinion there are only two legitimate positions in global stock market indexes for swing and position traders – flat or long. There is no sign of a chart top in the U.S. stock indexes with the exception of the Russell (wherein Commercials have been **heavy** buyers). The Taiwan Index (traded in Singapore) appears poised for another upward thrust. Factor is flat.





USD/TRY – H&S failure has been completed, trend is lower

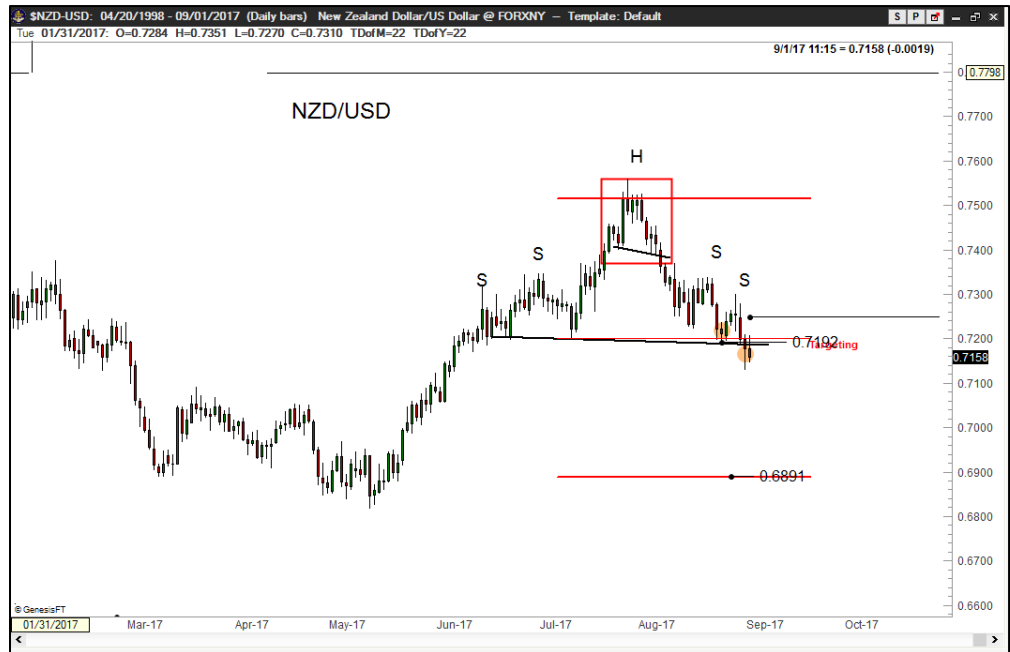
Recent Factor updates have discussed the prospects of either a 4-month H&S bottom or a 4-month H&S failure in this forex pair. The decline on Aug 21 completed a descending triangle that had been forming in the right shoulder position – and thus settled the matter by



completing a H&S failure. I view the H&S failure as a singular and distinct chart pattern. The inset chart better displays the form taken by a H&S failure. Factor established a short position on Aug 22. Partial profits were taken at the target of the descending triangle. Factor remains short a partial position with a target of 3.3652.

New Zealand Dollar – historic commercial short selling has turned the currency down

The decline on Aug 31 completed an 11-week H&S top with an extremely awkward right shoulder. I was willing to short NZD/USD primarily because Commercials retain a near record high short position. I missed shorting the completion of a small H&S top on Aug 7 for the Factor Tracking Account even though I had been monitoring the currency unit for a selling opportunity – sorry. Factor is short spot NZD with split protective stops.



Precious metals – Gold completes sizable consolidation

The wide-body-bar (WBB) advance on Aug 28 resolved a 4+ month trading range in Gold. I have mixed feelings about this breakout. On one hand the entire period from the Feb 2017 high through Aug defied



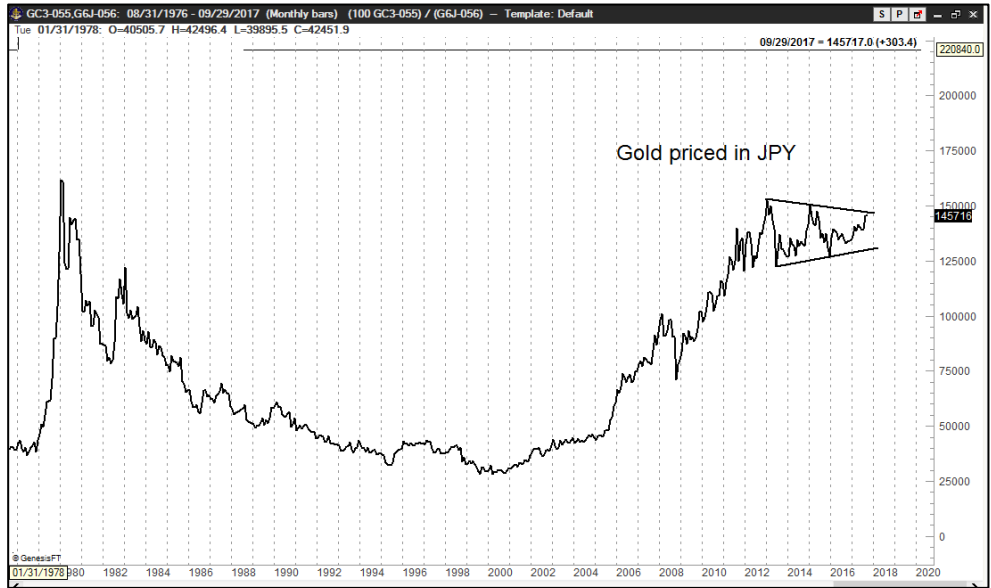
definition in terms of classical charting principles. On the other hand, the resistance line was horizontal – and this is extremely important to me. Being on vacation I did not buy the Aug 28 breakout. I placed an order to buy the retest of the breakout in the Dec contract and was filled on Thursday. I am now using Thursday’s low to protect the trade with a target of 1389.

Of particular interest is the possible massive 4+ year H&S bottom on the weekly Real Range graph. H&S patterns have the tendency toward symmetry in terms of the height and duration of the shoulders. Accordingly, Gold could drift sideways for another six months. Factor is long Gold. The weekly Silver chart (Real Range) is shown without comment.



Gold/Japanese Yen ratio – sacred correlations do NOT last forever

I am always amazed by the sacred correlations adopted as conventional wisdom. The relationship between the Japanese Yen and Gold is one such sacred correlation that has been adopted by traders. I am a believer that each market must be appraised on the basis of its own chart and not the chart of a supposed "sister" market. Over my trading career dating back to 1974/75 I have seen many sacred

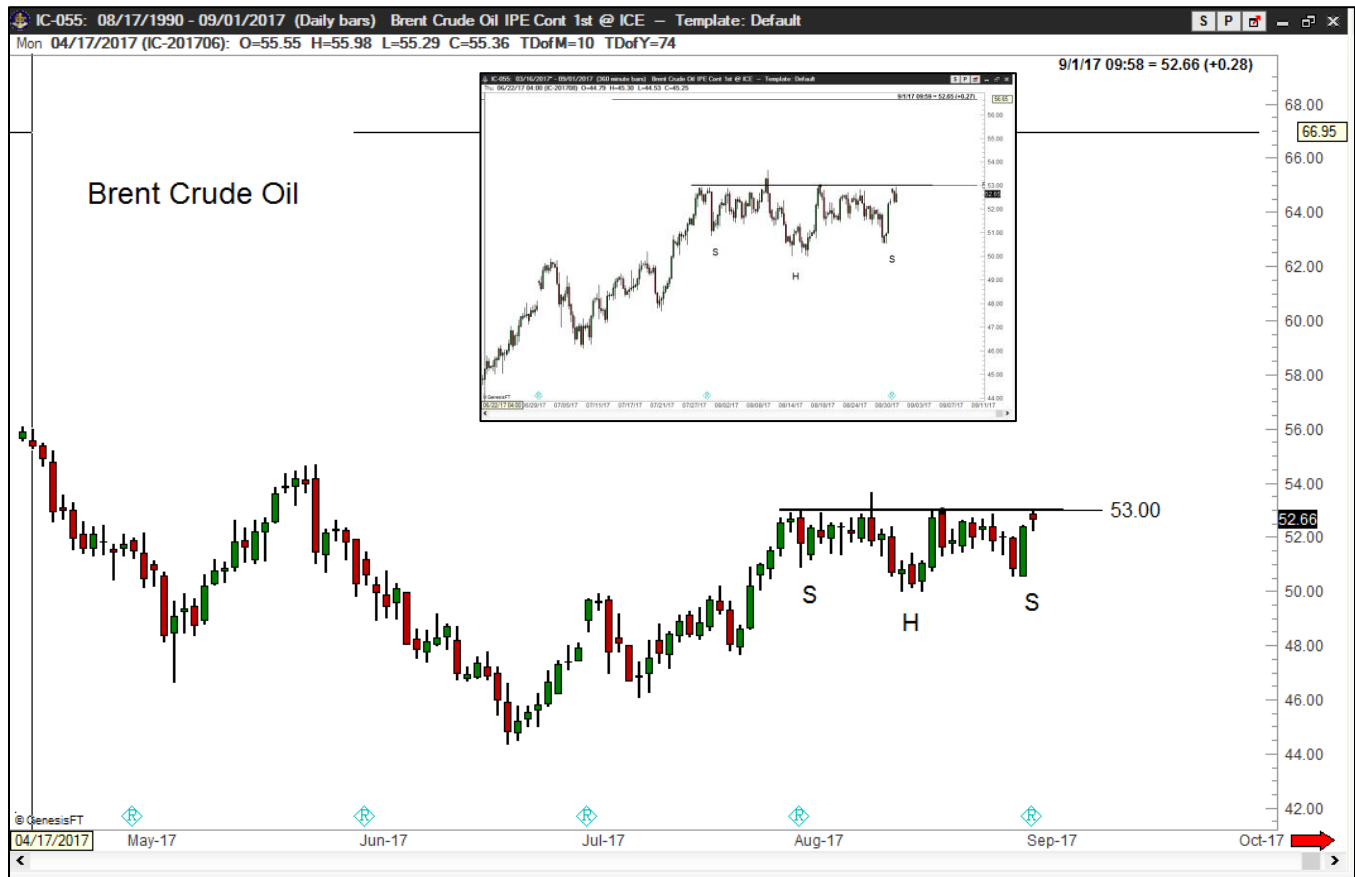


correlations come and go. The sacred correlation between Gold and the Yen may be on its way into the history books. The monthly graph shows that Gold priced in Yen has formed a massive symmetrical triangle at the approximate level of its all-time record high in 1979. I believe Gold priced in Yen will break out to the upside and substantially harm traders who are betting that the sacred correlation will continue forever. Factor is flat.



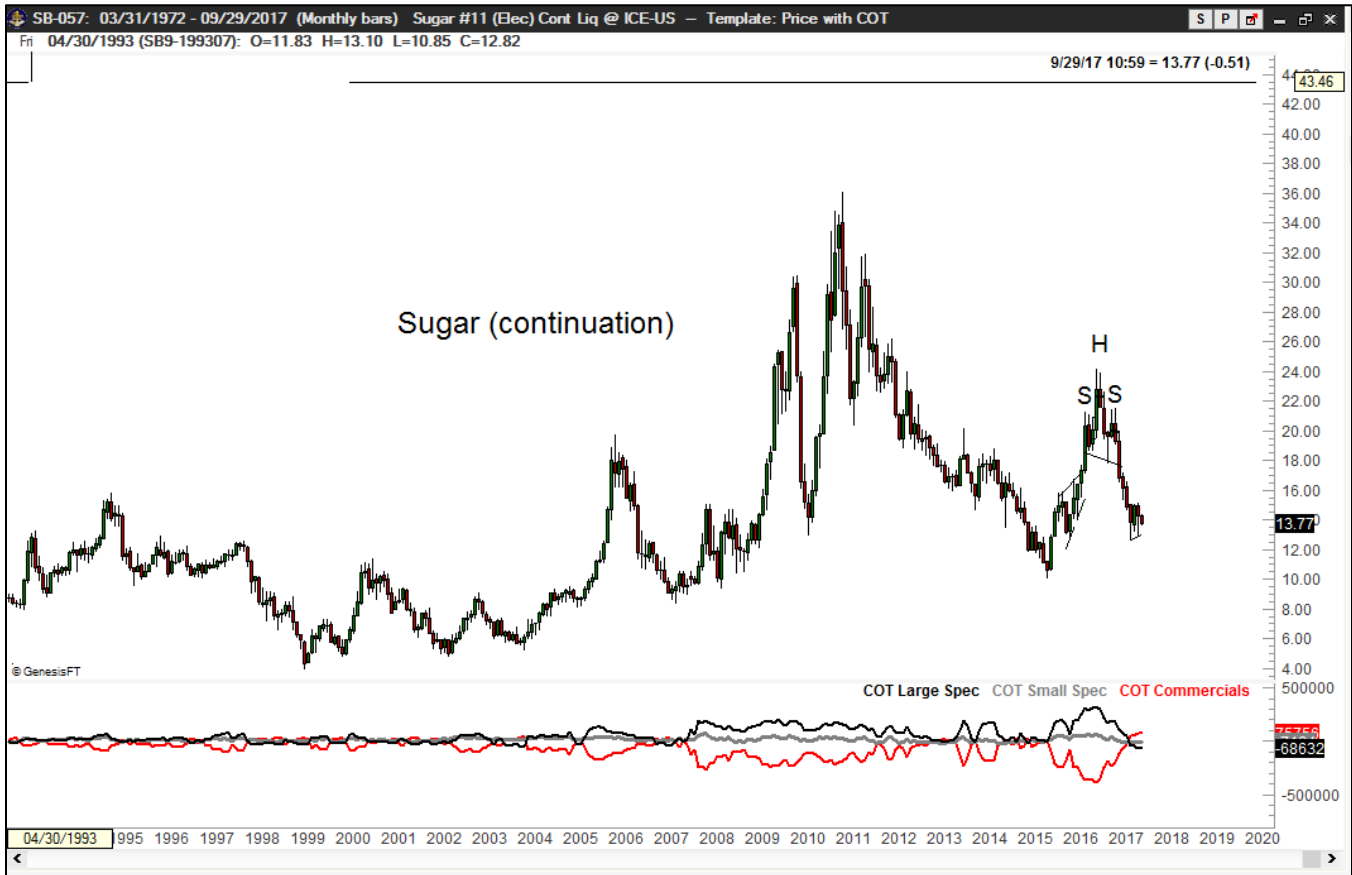
Crude Oil – will Hurricane Harvey (and now Irma) change the course of energy prices?

My focus in this Factor Update is on Brent Crude Oil – I normally comment on WTI Crude. The weekly Brent Oil chart displays a possible 13-month H&S top – mirroring the pattern in WTI Crude. Hurricanes Harvey and now Irma have understandably caused upward pressure in all energy markets. The daily chart of Brent now exhibits a possible 5-week continuation inverted H&S pattern – the 6-hour intraday chart is shown as an inset. Factor is flat. I have a short-term interest to be long and a longer-term interest to be short – so it is time for me to block out my attention to Crude Oil.



Softs (Sugar and Cocoa) – setting up for major buy signals?

The key feature for me in Sugar and Cocoa is the all-time record long positions by Commercial interests. This is big time stuff, Factor members. I am monitoring both markets for buying opportunities based on the charts. The weekly and daily Cocoa charts display a possible rectangle bottom. It is possible (although not likely) that the current trading ranges in both markets become continuation patterns. Factor is flat.



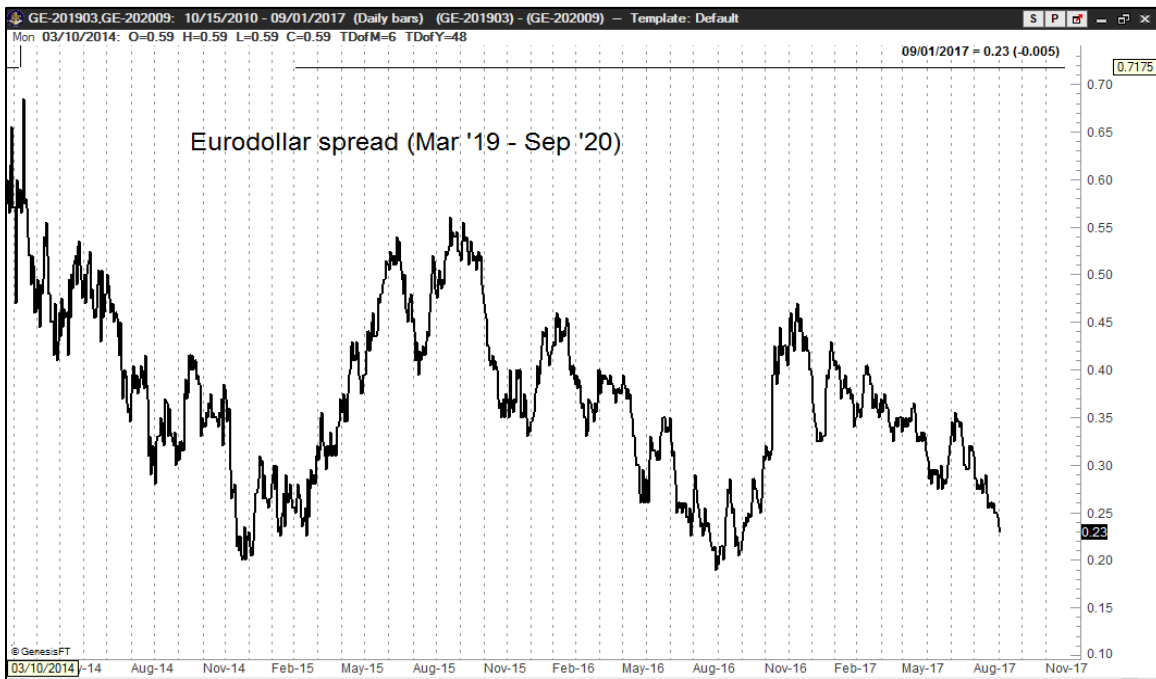
ED6/ED12 spread – a major cycle low is due in the next six months, so get ready

The Factor Alert dated Oct 27, 2016 first presented the idea of being forward spread in the Eurodollar market (think interest rates, not foreign exchange). A Nov 8 Factor Alert outlined a specific trading strategy for being long the 6th contract out and short the 12th contract out in Eurodollars. According to that strategy a profit of 40+ points was quickly taken on half of the trade and the other half has been rolled forward – erasing the gain on the first half. Looking back, my timing of the trade in Nov 2016 was cyclically premature.



It is time for Chapter 2 of this trade. The Mar 2019 vs. Sep 2020 Eurodollar spread currently trades at 25 points premium the Mar 2019 contract. This means that the market has priced in only one Fed rate hike during this 18-month period. This spread reflects a very dovish posture by the Fed with a very low likelihood of rate hikes.

The rolling ED6/ED12 Eurodollar spread is very cyclic, with cycle lows possible within the next four to six months. Further, the current spread has reach the long-term price trend. Remember, a spread below 0 (even money) would indicate a rather serious deflation – and this is always a possibility so no trade is completely risk-free. I will continue to monitor this spread for signs of a bottom.



Factor Member Q&A

Question:

Peter, how do you protect against large open trade profits from disappearing?

--J.U., Perth, Australia

Answer:

No trader likes it when market reversals erase large open profits. The hardest trades to deal with for a discretionary trader who uses price targets are profitable trades that have yet to run their course. I know exactly what to do with a losing trade. I know exactly what to do with a trade that closely approaches its target. But trades in the middle are the most difficult. Let me address four aspects of how I view this subject.

1. I make every attempt to prevent a large profit from turning into a net loss by taking some money off the table on half of a position (when appropriate) even if the exit is premature. While it can be emotionally challenging to exit a trade prematurely only to watch the market keep running, it is far more emotionally challenging for most traders to exit after a market makes a sharp V-turn (see points #3 and #4).
2. Through a technique I call the 3-day trailing stop rule (3DTSR), I jam my protective stops on trades that travel 70% of their expected distance.
3. I pay very little attention to open trade equity except when filing year-end tax forms (the U.S. IRS taxes open equity). Open trade profits do not belong to me. The only profits that matter are from closed trades. I plot my trading capital based on sequential closed trade outcomes. This is the most important metric I maintain.
4. Here is a hypothetical question for you relating to point #3 above. Assume you have an open trade profit in a futures contract of \$3,000. Then the market reverses suddenly and sharply and you exit the trade after a \$1,500 per contract correction. Question – in your mind did you just lose \$1,500 or make \$1,500? BE HONEST. It is my observation that most traders believe they lost \$1,500. In my mind I just made \$1,500 and very possibly my career closed trade NAV registered a new all-time high in the process. How can I possibly be bummed out about that?

Question:

You often make reference to “nominal” trading capital. Can you explain what that means? Is that different than the amount of actual capital in your account?

Peter R., Anchorage, Alaska

Answer:

Many traders consider the amount of money in their futures/forex or stock account to be the total of their capital. I dropped this concept years ago. Usually at the beginning of each year I declare a level of capital I will trade for the purpose of sizing and calculating risk – this is what I define as my “nominal” capitalization. There are several features of the nominal capitalization of most prop trading accounts (including mine) that are different from how retail traders view capitalization.

- The total amount of actual capital in my various prop accounts (Interactive Brokers, ADM, Forex.com, TD Ameritrade) plus Factor LLC’s bank money market account is often substantially greater than what I have declared as my nominal capitalization – and at times may be less than my nominal capitalization.
- Closed trade profits and losses do not add or subtract from my nominal capitalization. The level of nominal capitalization remains the same until I declare it to be a different amount (usually the following Jan 1).
- I calculate the ROR of a closed trade in relationship to my nominal capital, not the total actual capital held in various buckets.

This approach to dealing with my level of capitalization has not always been true. In the early days my goal was to grow the actual capital of my trading accounts – and my ROR in those years was calculated against actual capitalization.

plb
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Factor Tracking Account, September 1, 2017

Table shows only open trades as of September 1, trades closed in the past week and open trades for which protective stops were changed. Complete listing of Factor Tracking Account for 2017 is updated monthly.

Factor LLC		9/1/2017																
Model Tracking Account Trade History and Portfolio																		
Nominal capitalization: \$100,000																		
(See disclaimers and notes below)																		
Market		Entry								Stop Date	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)
		Date	L/S	Price	Size	Initial stop	BP risk	Current Stop	Δ			Weekly	Daily	Date	Price			
EUR/USD	EUR/USD	7/21/17	L	1.16513	30k	1.14240	68	1.1723	8/29	1.2497	30-mo rect	30-mo rect					\$ 1,748	\$ 34,954
USD/TRY	USD/TRY	8/22/17	S	3.4946	30k	3.5251	26	3.5011	9/1	3.3652	4-mo H&S failure	4-wk desc triangle					\$ 1,500	\$ 30,000
USD/TRY	USD/TRY	8/22/17	S	3.4946	30k	3.5251	26	3.4961	8/25	3.4441 r	4-mo H&S failure	4-wk desc triangle	28-Aug	3.4395	\$ 474	Closed		-
YGZ7	Gold mini	8/31/17	L	1310.2	1	1294.4	51	1304.8	9/1	1389.4	4+ mo rect	4+ mo rect retest					\$ 1,770	\$ 42,123
NZD/USD	NZD/USD	8/31/17	S	0.7171	30k	0.7253	25			0.6907	11wk H&S	11-wk H&S					\$ 1,076	\$ 21,513
NZD/USD	NZD/USD	8/31/17	S	0.7171	30k	0.7253	25	0.7221	8/31	0.6907	11wk H&S	11-wk H&S					\$ 1,076	\$ 21,513
CAD/JPY	CAD/JPY	9/1/17	L	0.77261	30k	0.7664	20			0.8778	32-wk mdg bottom	5-wk sym tri					\$ 1,209	\$ 24,178
CAD/JPY	CAD/JPY	9/1/17	L	0.77849	30k	0.7679	33			0.8638	32-wk mdg bottom	5-wk sym tri					\$ 1,211	\$ 24,218
Trades as of															\$ 474	\$ 9,589	\$ 198,499	
Indicates open position value as of																Levered at	2.0	
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																		
r = 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 Service \$100,000 Tracking Account most often holds a single futures contract in a trade where 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.																		
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