



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

Factor Update, September 10, 2017

Market Review

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

- EuroSwiss (interest rate)

Candidate Factor Moves™ are currently ongoing in:

- *EUR/USD
- *CAD/CHF
- Australian Dollar

This issue also comments on global stock market indexes, *USD/TRY, *USD/JPY, precious metals, *Canadian Dollar (spot and futures), Softs (Sugar and Cocoa) and grain markets. *Signifies a position in the Factor \$100,000 Tracking Account

<u>Developing signals</u> <ul style="list-style-type: none"> • EuroSwiss – alert • Cocoa – alert 	<u>Existing positions</u> <ul style="list-style-type: none"> • EUR/USD – protective stop • CAD/CHF – protective stop • USD/TRY – protective stop and target • USD/CAD – protective stop and target • USD/JPY – protective stops and target
The Factor Tracking Account is currently leveraged at 1.6X. The margin-to-equity use for futures and forex is 8.0 %.	

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General market comments – time to be on the sidelines

I came into the trading day on Friday with an uncomfortable amount of leverage in the forex market focused on USD and CAD. I cut back on my exposure on Friday. Additionally, there currently is a near absolute lack of developing chart patterns of the type I seek for risk positions – namely, clearly defined horizontal patterns in the duration of 10 to 26 weeks. Thus, not many markets are included in this Factor Update.

Candidate Factor Moves™ Setting Up

EuroSwiss (interest rate) – Swiss National Bank continues its ZIRP

SNB continues to hold its key central bank interest rate at MINUS 75 basis points. This experiment in insanity will not last forever. I will interpret a daily price print at 100.68 as a sign to short the Jun or Sep 2018 contract of EuroSwiss futures.



Candidate Factor Moves™ in Progress

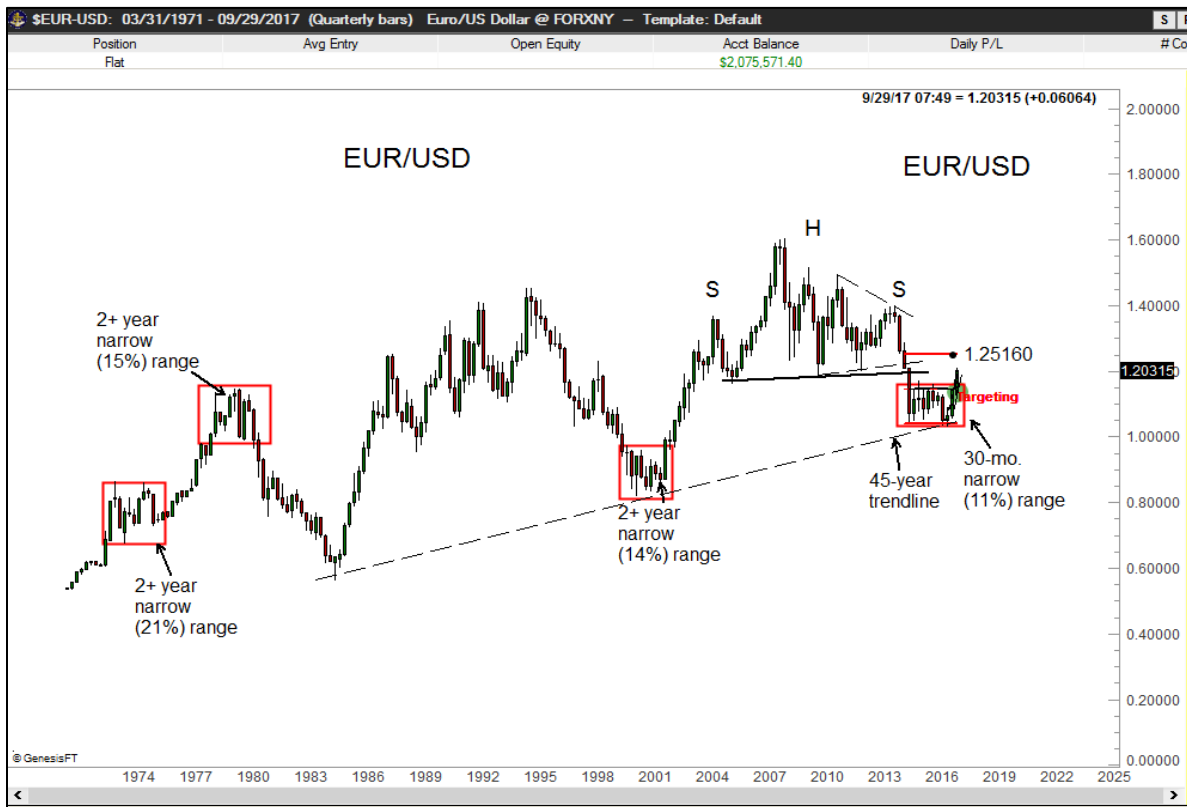
CAD/CHF – forex cross is struggling to complete an upside breakout

See Factor Alert dated Sep 1. The monthly, weekly and daily graphs are shown. This forex cross has penetrated a 10-year multi-point trendline on the monthly graph. The advance on Sep 1 completed a 5-week symmetrical triangle on the daily graph. The weekly chart displays a possible 32-month ascending triangle – the market nicked the upper boundary on Wednesday but lacked follow through. This forex pair is struggling to register an upside breakout on the weekly and daily charts. I covered half of my long position on Friday but remain long the other half with tightened protective stops.



EUR/USD – commercial capitulation underway, but advance may be ahead of itself

Quarterly, weekly and daily graphs are shown. 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 four previous periods of prolonged and narrow-range price congestion during the past 40-plus years produced sizable moves. [Note: Price of EUR prior to creation of Eurocurrency mechanism represents a trade-weighted index of sovereign European currency units.] The minimum target of this rectangle is 1.2500 with a likelihood of 1.35. 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. The price action on Friday was not constructive. Factor is long.



AUD/USD – bull trend continues, but volatility is increasing

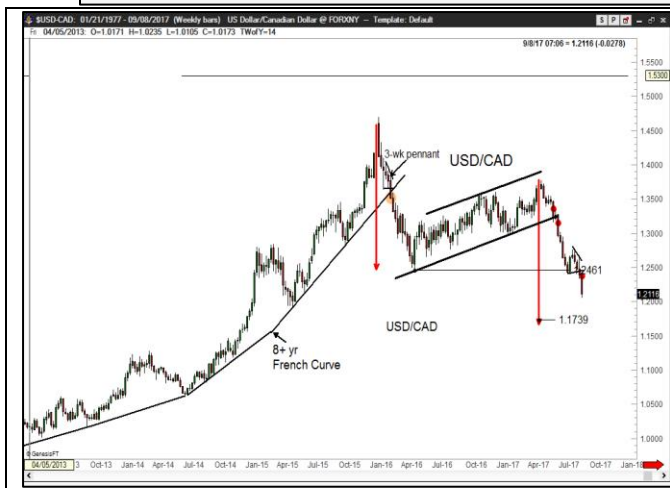
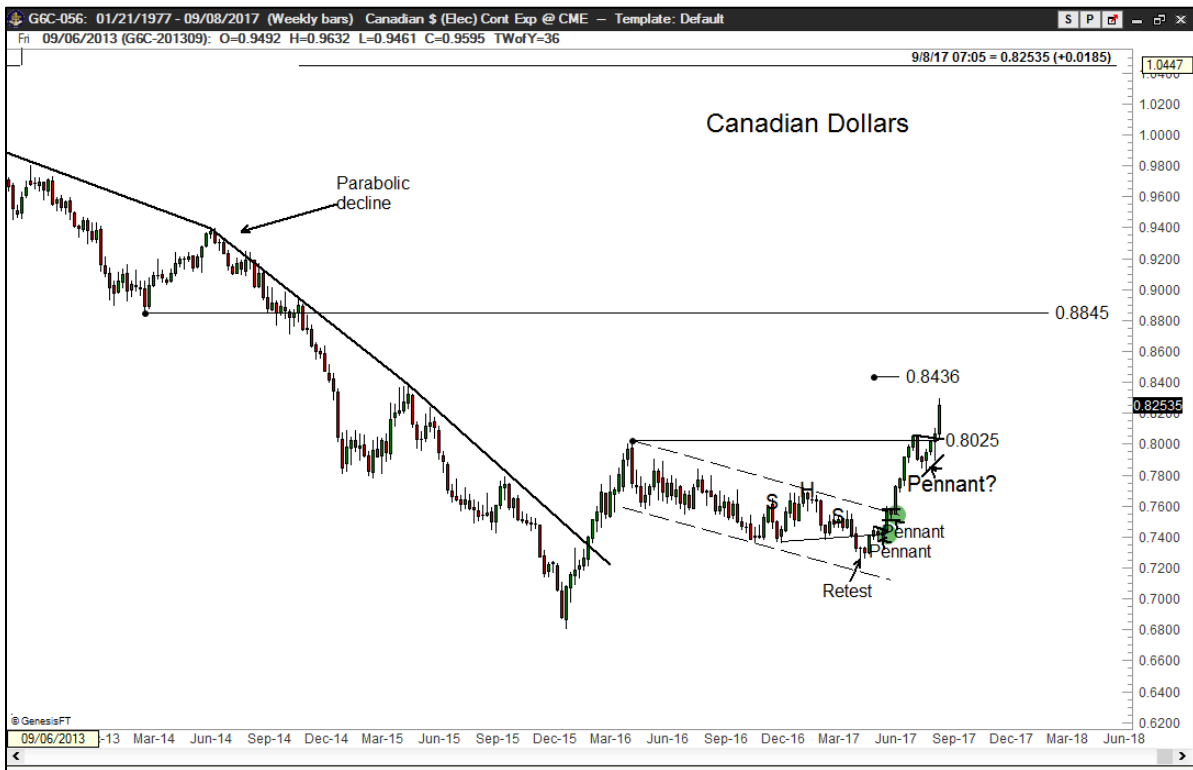
Weekly and daily graphs are shown. The dominant chart construction in the Aussie is the completed 16-month rectangle. A new high for the advance was registered on Friday, but the gains were not sustained. Factor is flat. I have an undefined interest to establish a long position. I rely on Nautilus Capital for cycle and analog research – their analysis suggests that the 2016 cycle low should propel the forex cross into the mid-.9000s (see inset chart).



Other Markets

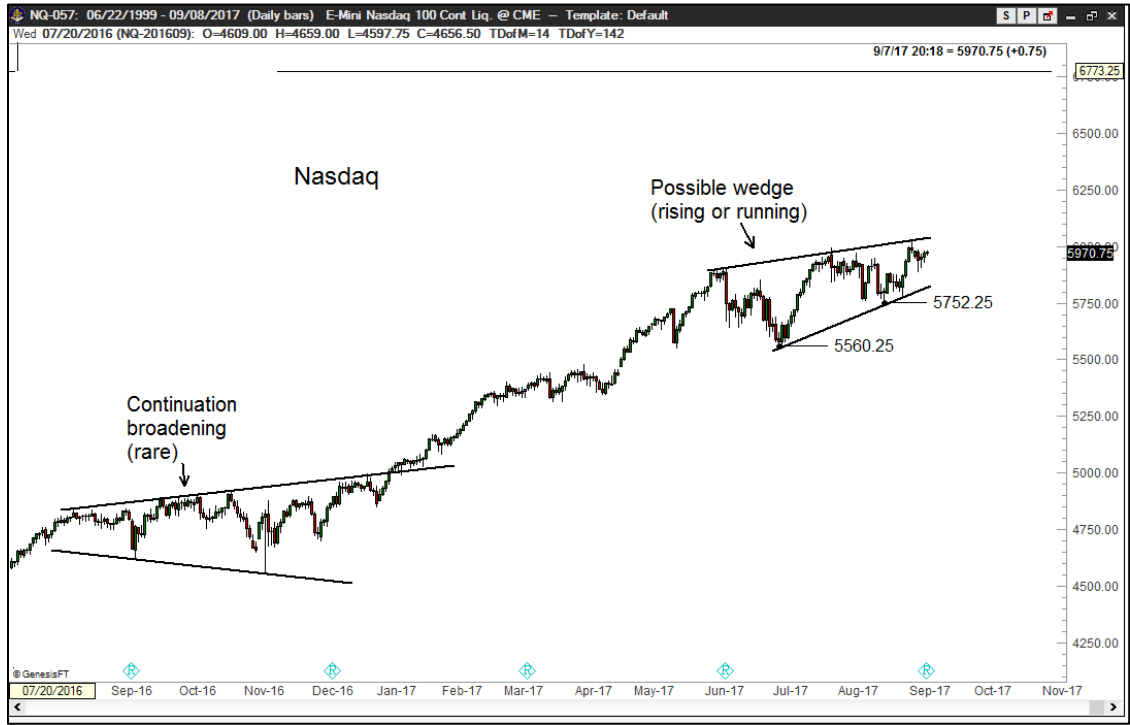
Canadian Dollar (futures) – the advance is over-extended

The weekly chart of CAD futures and the weekly and daily chart of spot USD/CAD are shown. CAD futures and spot USD/CAD trade at reciprocal values. The CAD futures market is in a major up-trend with targets ranging from .8500 to .8850. The weekly spot USD/CAD graph (in a down trend) suggests that the decline from the May 2017 high should equal the Jan through May 2016 decline – this establishes a possible target of 1.1752. The decline on Sep 1 completed a 6-week bear pennant on the daily chart. Per comments in the Sep 3 Factor Update, I shorted USD/CAD on Tuesday. I covered a portion of this short position at the target of the pennant on Friday. I remain flat a portion. The advance has traveled more than 70% of the distance from the Jun 27 breakout to the 1.1752 target and the 3-day-trailing-stop rule (3DTSR) is now in effect.



Global stock markets – some potentially negative chart patterns are forming

The dominant trend in the major U.S. stock market indexes remains up ... up ... up. It must be assumed that any periods of doubt will be resolved to the upside. I am NOT a U.S. stock market bear. Nevertheless, for the first time in many months a bearish possible interpretation can be made in selective stock indexes and individual equities.



REMEMBER – possible patterns are just that – POSSIBLE. A pattern does not become a pattern until it is completed, and even then completed patterns often fail to fulfill their implications.

The daily NASDAQ graph displays a possible rising wedge pattern. The rising wedge is typically a bearish chart construction, although upside thrusts periodically occur. A decisive close below 5750 would generate a target of 5560. The daily chart of the NYSE Composite displays a possible H&S top pattern wherein the right shoulder is forming. A decisive close below 11,670 would put this pattern in play. The daily graph of the USD-denominated Nikkei Dow is attempting to complete a round top pattern. Factor is flat stock indexes.



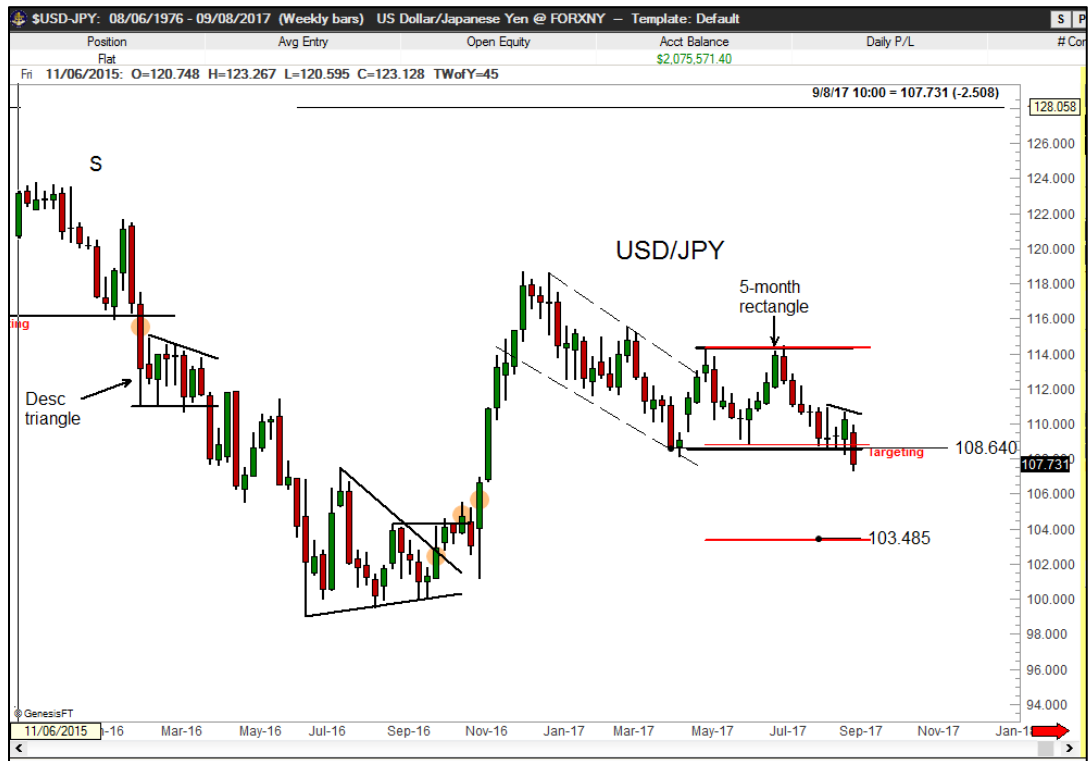
USD/TRY – trend remains lower

The dominant chart construction in this forex pair is the Aug 21 completion of a 4-month H&S failure pattern on the daily graph. Factor is short. The decline has reached 70% of the distance to the target. The Factor 3-day trailing stop rule (3DTSR) is now in effect.



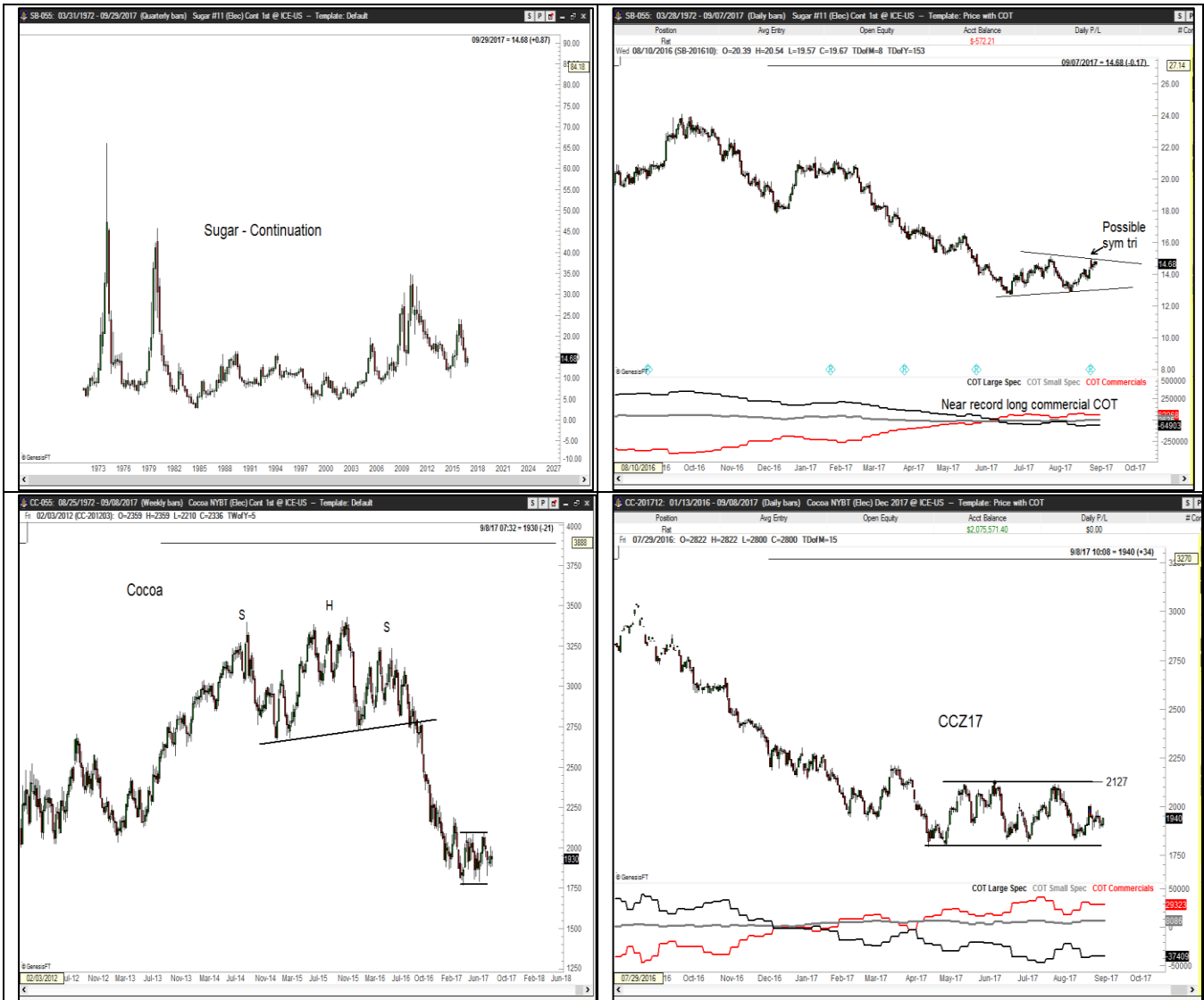
USD/JPY – 5-month trading range is resolved on the downside

The decline and close below 108.13 completed a 5-month rectangle pattern on the weekly chart, establishing a possible profit target of 103.57. I take the "best-fit" approach to drawing pattern boundary lines even if it means slicing through orthodox high and low points. Factor is short USD/JPY, having sold a mid-morning (Mountain time) rally.



Softs (Sugar & Cocoa) – the COT data are at the most bullish levels in history

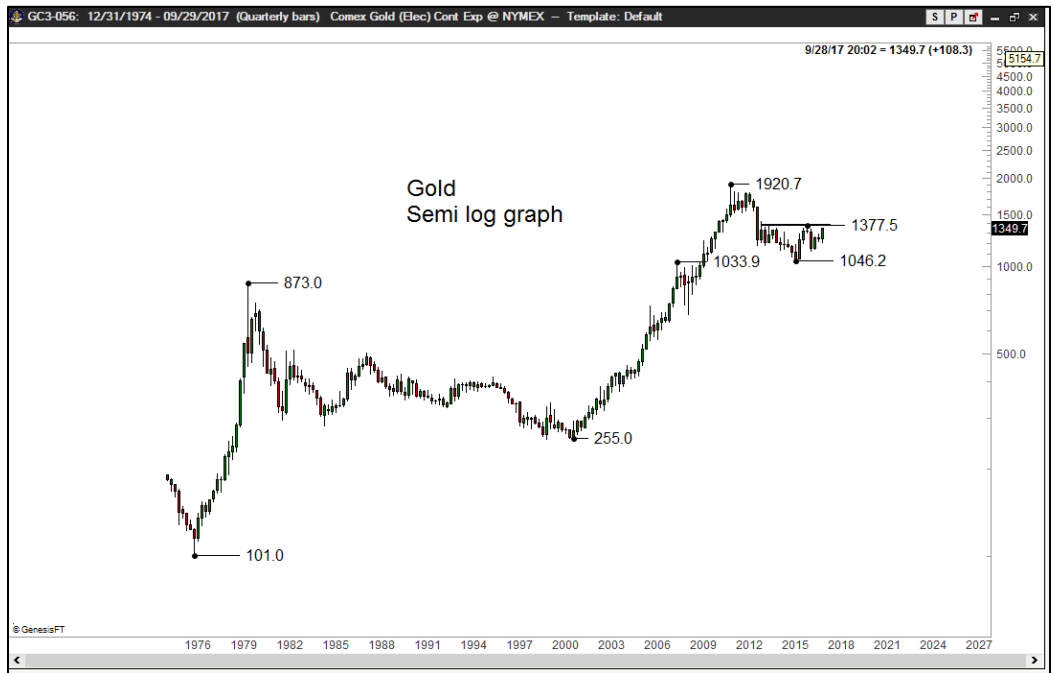
The quarterly and daily graphs of Sugar and weekly and daily charts of Cocoa are shown. The combined net long position in Sugar and Cocoa by Commercial interests is the largest in the history of COT data – just as the combined net long position by speculators has never been larger. My general trading rule is to position myself on the side of Commercials if given a quality daily chart pattern set-up. The daily Sugar chart does not yet display a possible bottom, although a 5-contact point symmetrical triangle bottom could be in the mid-stages of development. The daily Cocoa chart displays a rectangle bottom. A decisive close above 2127 would be a buy signal. Factor is flat Sugar and Cocoa. It is possible (although not likely) that the current congestion zones in both markets might be continuation patterns.



Precious metals – the timing is not yet right for a price explosion

Quarterly (two versions), weekly and daily charts of Gold and the weekly chart of Silver are shown. The long-term charts of Gold and Silver indicate that major bottom patterns are forming – but that an immediate upside explosion should not be expected, at least not for Gold.

The semi-log and arithmetic quarterly charts of Gold suggest that an inverted H&S bottom could be forming. Several technical aspects suggest that further construction of the H&S is forthcoming. Massive H&S patterns tend to be symmetrical in both height and duration. The H&S pattern on the weekly chart (real range) lacks the preferable balance. As the chart shows, the duration of the left shoulder was 18 months. The right shoulder will not reach the 18-month mark until early in the second quarter of 2018. [Note: Symmetrical balance within a H&S pattern is preferable, but not required.] I have drawn the neckline of this H&S horizontally at the existing right shoulder high (≈1380). I always prefer a horizontal to a diagonal neckline. It is my hope that the current rally in Gold fails at the 1380 level and pulls back to 1250 over the next six months. Then I think we have the real makings for a great trade. See additional charts, next page.

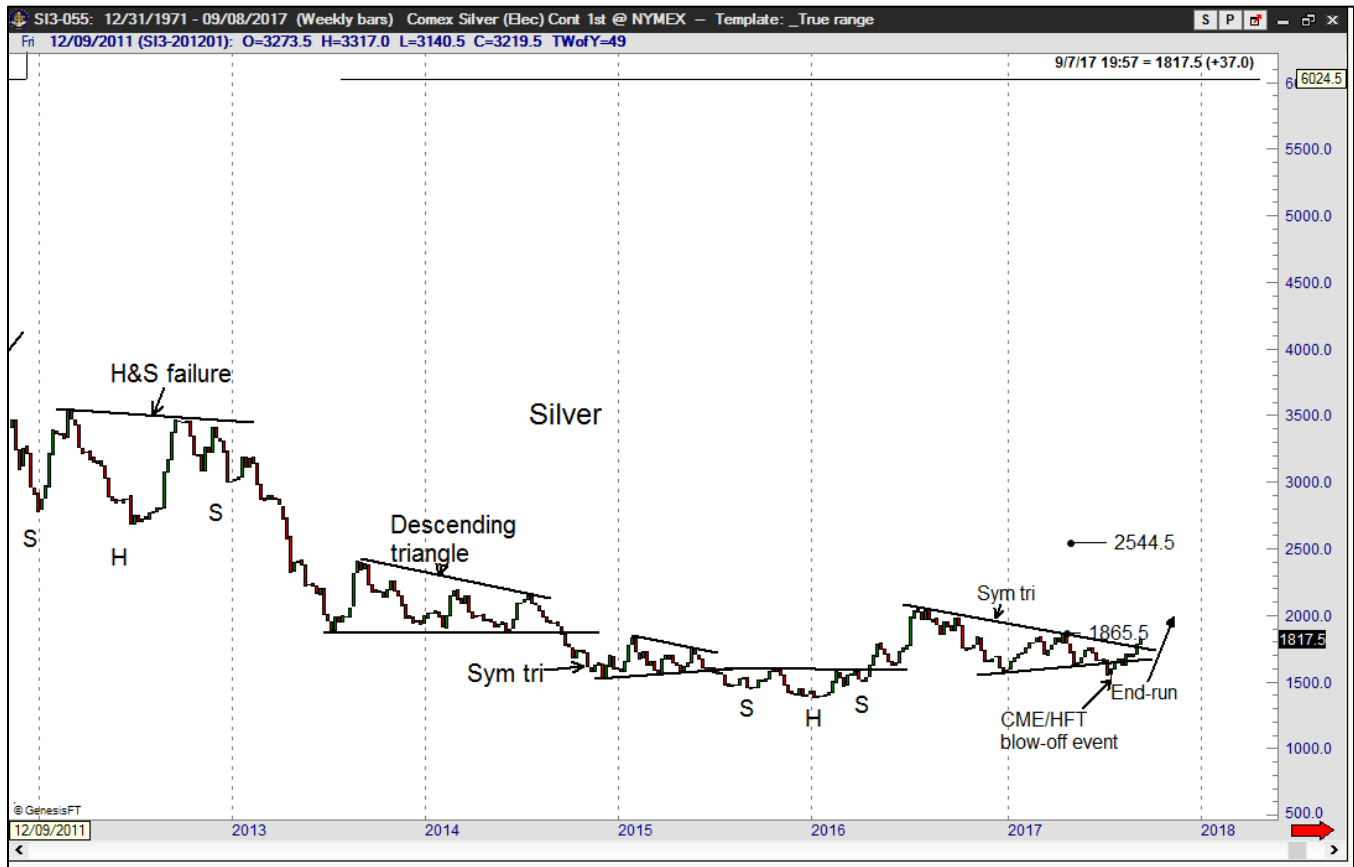




The advance on Aug 28 completed a consolidation in Dec Gold. It is doubtful to me that 1398 target in Dec Gold will be reached - I exited a long position in Gold on Friday.

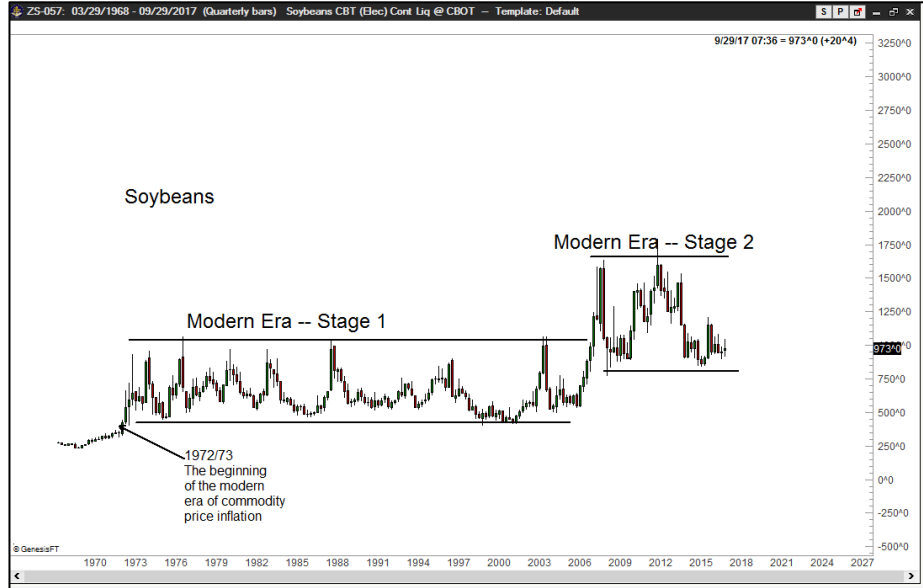


The weekly chart of Silver is a textbook example of classical charting principles. The entire decline from the 2011 high and period since the Jan 2016 low formed highly recognizable classical chart configurations. The next target in Silver is 2544. Factor is flat in Silver.

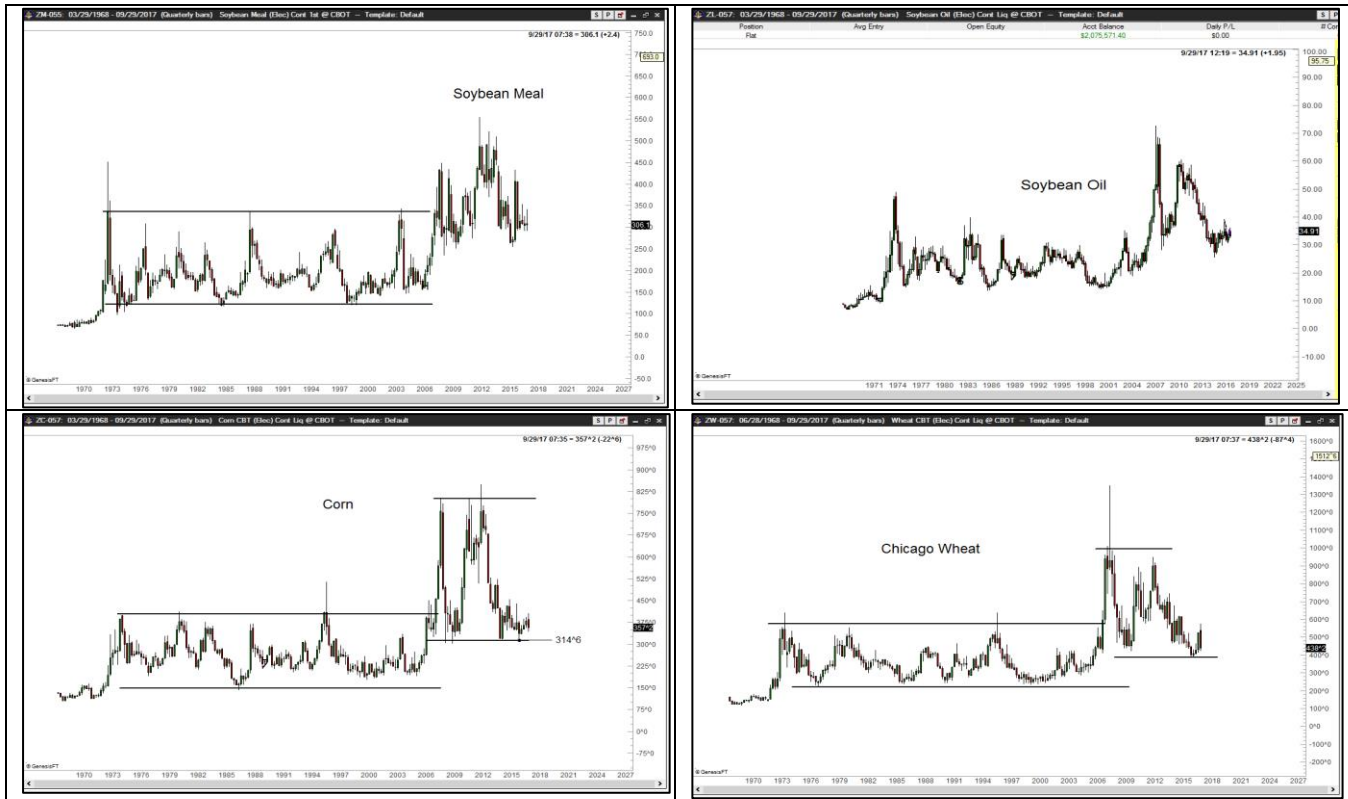


Grain markets – a bottom of generational magnitude could be forming

The early 1970s brought about the termination of the Gold/Silver standard for the U.S. Dollar (the "Nixon shock") as well as severe global crop failures, especially in the Soviet Union. Thus began the Modern Era of U.S. Grain Markets. Broad trading ranges existed in the major U.S. row crops from 1973 through Dec 2007, labeled on the Soybean quarterly chart as Modern Era – Stage 1. A higher level and wider trading range has existed since Dec 2007, labeled as Modern Era – Stage 2. This historical price profile applies to a greater or lesser degree to the long-term charts of the other grain products.



The price of all of the major North American grains are deep into Modern Era – Stage 2 support zones. I believe the grain markets will build major bottoms from which extended bull trends will emerge in the future. However, bottom building in grains can be agonizingly prolonged. Traders who attempt to "hurry" the bottoming process most often are frustrated.



Are there present signs of bottoms in any of the grains? The answer is YES. The quarterly chart of Canadian Rapeseed (Canola) is in a coiling pattern. A decisive close above 555 by the nearby contract would be constructive.

Minneapolis Wheat provides the best case for a near-term bull move. It is my trading policy to be long the strongest member of a category when long and short the weakest member of a category when short. The advance from mid-May through early Jul in Mpls Wheat lead all the grain markets. There is a fundamental reason for the leadership by Mpls Wheat. As the USDA table shows, Mpls Wheat is the only variety with a drawdown in projected ending stocks in the 2017/18 crop year. Whereas the 2017/18 ending stocks of Soft Red Winter Wheat (traded in Chicago) are projected at 77% of total usage (236 mil bu. vs. 307 mil bu.) the ending stocks of Hard Spring Wheat (Mpls) are projected at only 24% of total usage (131 mil bu. vs. 536 mil bu.). The ending stocks of Mpls Wheat in the 2018/2017 crop year will be down 45% from the ending stocks in the 2016/2017 crop year.

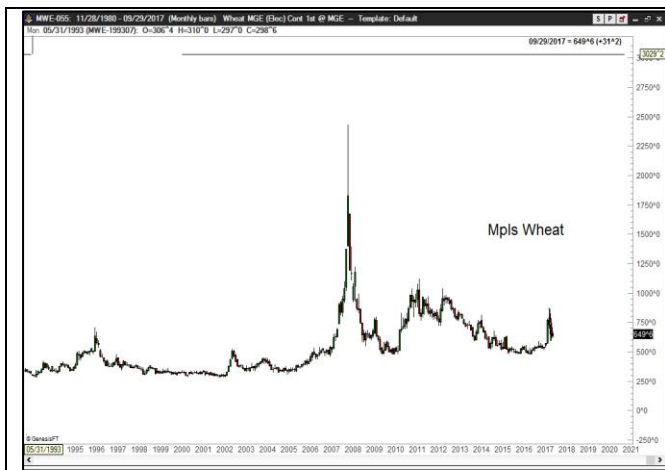


U.S. Wheat by Class: Supply and Use							
Year beginning June 1		Hard Red Winter	Hard Red Spring	Soft Red Winter	White	Durum	Total
		Million Bushels					
2016/17 (Est.)	Beginning Stocks	446	272	157	74	28	976
	Production	1,082	493	345	286	104	2,310
	Supply, Total 3/	1,532	807	535	367	162	3,403
	Domestic Use	484	251	228	98	102	1,164
	Exports	455	321	92	163	24	1,055
	Use, Total	939	572	320	262	126	2,219
Ending Stocks, Total	593	235	215	105	36	1,184	
2017/18 (Proj.)	Beginning Stocks	593	235	215	105	36	1,184
	Production	758	364	306	260	51	1,739
	Supply, Total 3/	1,358	667	543	375	130	3,074
	Domestic Use	495	266	217	100	88	1,166
	Exports	410	270	90	185	20	975
	Use, Total	905	536	307	285	108	2,141
Ending Stocks, Total	Aug	453	131	236	90	22	933
	Jul	448	122	236	107	26	938

Note: Totals may not add due to rounding. 1/ Marketing year beginning June 1. 2/ Marketing-year weighted average price received by farmers. 3/ Includes imports.

The retracement from the Jul high in Mpls Wheat has taken the form of a trading channel. The moving averages I most monitor are in a down profile. I will be monitoring Mpls Wheat for a buying opportunity – and this will require three technical conditions.

1. The MAs will need to move from down to up
2. The down channel will need to be broken
3. A recognizable bottom chart pattern of at least 8 weeks will need to form and complete



Factor Member Q&A

Question:

A number of Factor members have recently asked about the safety of capital with futures brokers, precious metals dealers, forex dealers and cryptocurrency exchanges.

Answer:

[Different countries have different safeguards in place to protect investors. I can only speak specifically about protections in the U.S.]

[The Commodity Futures Trading Commission, as a federal regulatory agency, and the National Futures Association, as an industry self-regulatory organizations, have jurisdiction over futures, forex and swap markets and futures brokers and forex dealers. It is the ultimate duty of these regulatory entities to protect investors. Yet, these entities have been unable to protect investors against major bankruptcies within the futures and forex industry.]

There have been numerous bankruptcies (most due to fraud) among Futures Commission Merchants (FCMs), forex dealers and bullion peddlers. Funds used to meet margin requirements for futures positions are moved to the clearing corporations of the exchanges. These funds are protected against the failure of FCMs. Client cash held by FCMs, forex dealers and metal peddlers is at total risk against fraud and bankruptcies. In some cases clients have recouped most to all of the cash held deposited with bankrupt FCMs. In other cases clients have not been as lucky.

The recovery rate of client funds from bankrupt forex dealers and metal peddlers has been the worst. For example, clients of Refco's forex division recovered only 36% of their money. Just this past week Monex, a U.S. based precious metals dealer, was charged with defrauding more than 3,000 customers out of \$290 million. I predict that several cryptocurrency exchanges will go belly up in the U.S. in the years ahead. These exchanges are currently exempt from any regulatory obligations and there is no protection for investors against the complete loss of funds deposited with these exchanges.

Caveat emptor (buyer beware). Understanding the risk of capital loss due to the fraud and/or bankruptcy of FCMs, forex dealers, metal peddlers and crypto exchanges, U.S. investors and traders should take several precautions.

- Know your FCM, forex/metal dealers and crypto exchanges. It is important to conduct due diligence on any entity with which you have counterparty risk. I clear most of my trading through ADMIS, a subsidiary of Archer Daniels Midland (ADM). ADM has been a member of the CME Group since 1927 and has a market capitalization of \$25 billion. A clearing member of most major global futures exchanges, ADMIS has stringent risk management policies.
- Routinely sweep excess capital (funds not used to meet margin requirements) from FCMs and dealers. Seldom does my margin-to-nominal equity ratio exceed 15%. My policy is to deposit only 20% of my nominal trading capital with futures brokers and forex dealers. The remainder of the capital is held in T-Bills and cash with Factor LLC's banking institutions. I also conduct some trading with prime brokers through which I daily sweep excess capital into federally insured money market instruments.
- Take seriously any rumors of financial troubles experienced by FCMs and forex dealers. In reality, rumors have preceded the bankruptcies of several FCMs and forex dealers by an amount of time which has allowed clients to close and drain their accounts. Often these rumors will be accompanied by unexplained declines in the stock prices of publicly traded FCMs and forex dealers.

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Factor Tracking Account, September 8, 2017

Table shows only open trades as of September 8, 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																	9/8/2017			
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	1.1749	9/8	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	3.4361	9/8	3.3652	4-mo H&S failure	4-wk desc triangle				\$ 1,500	\$ 30,000			
YGZ7	Gold mini	8/31/17	L	1310.2	1	1294.4	51	Mkt	9/8	1389.4	4+ mo rect	4+ mo rect retest	8-Sep	1355.3	\$ 1,445	Closed	-			
NZD/USD	NZD/USD	8/31/17	S	0.7171	30k	0.7253	25	0.7221	9/4	0.6907	11wk H&S	11-wk H&S	5-Sep	0.72212	\$ (151)	Closed	-			
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	5-Sep	0.72212	\$ (151)	Closed	-			
CAD/CHF	CAD/CHF	9/1/17	L	0.77261	30k	0.7664	20	0.7739	9/7	0.8778	32-wk rndg bottom	5-wk sym tri				\$ 1,209	\$ 24,178			
CAD/CHF	CAD/CHF	9/1/17	L	0.77849	30k	0.7679	33	0.7789	9/8	0.8638	32-wk rndg bottom	5-wk sym tri	8-Sep	0.77888	\$ 124	Closed	-			
USD/CAD	USD/CAD	9/5/17	S	1.24030	40k	1.2507	33	1.2253	9/8	1.1752	Major bear trend	6-wk pennant				\$ 2,000	\$ 40,000			
USD/CAD	USD/CAD	9/5/17	S	1.24030	30k	1.2507	30	1.2436	9/6	1.2111	Major bear trend	6-wk pennant	8-Sep	1.2111	\$ 723	Closed	-			
USD/JPY	USD/JPY	9/8/17	S	107.940	30k	109.0100	31			103.5700	5-mo rectangle	5-mo rectangle				\$ 1,500	\$ 30,000			
															Trades as of		\$ 1,990	\$ 7,957	\$ 159,132	
															Indicates open position value as of		YTD	\$20,168	Levered at	1.6
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																			MtE = 8.0%	
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 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.																				
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