



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

Factor Update, September 24, 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 (AUD/USD)

This issue also comments on global stock markets, Canadian Dollar, \*GBP/JPY, \*CAD/JPY, \*PGAL, U.S. Treasury futures, \*Feeder Cattle, Australian Bonds, cryptocurrencies, Gold, softs (Sugar and Cocoa) and grain markets. \*Signifies a position in the Factor \$100,000 Tracking Account

<u>Developing signals</u>	<u>Existing positions</u>
<ul style="list-style-type: none"> <li>• EuroSwiss – alert</li> <li>• Cocoa – alert</li> <li>• Taiwan Index – alert</li> <li>• CACI – entry order and protective stop</li> <li>• Australian 3-Yr Bonds -- alert</li> </ul>	<ul style="list-style-type: none"> <li>• EUR/USD – protective stop</li> <li>• CAD/CHF – protective stop</li> <li>• GBP/JPY – protective stop and target</li> <li>• CAD/JPY – protective stop and target</li> <li>• PGAL – protective stop</li> <li>• Feeder Cattle – protective stop and target</li> </ul>
<p>The Factor Tracking Account is currently leveraged at 2.0 X. The margin-to-equity use for futures and forex is 8.8%.</p>	

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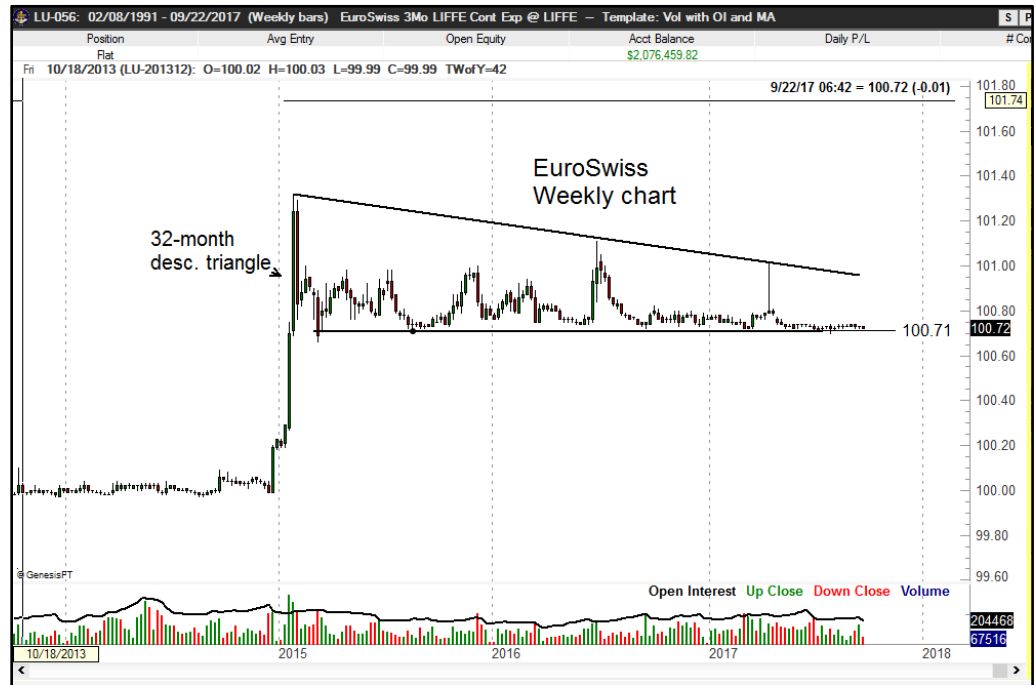
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## Candidate Factor Moves™ Setting Up

EuroSwiss (interest rate) – will the European ZIRP ever end?

The weekly graph is shown. I hate to beat a dead horse – a daily peg at 100.68 by the Swiss National Bank should signal a change in this Central Bank’s insane NIRP.



## Candidate Factor Moves™ in Progress

CAD/CHF – the upside breakout has been completed with questionable follow through

See Factor Alerts dated Sep 1 and Sep 14. The weekly and daily graphs are shown. The advance has been tenuous, but I am willing to hang onto the trade unless it puts me into the red. Factor is long.



EUR/USD – the bull trend continues, but a small H&S top is forming

The weekly and daily graphs are shown. The dominant chart construction is the completed 30-month rectangle on the weekly chart. The minimum target of this rectangle is 1.2500 with a likelihood of 1.35. The advance from the Apr low has taken the form of a trading channel. A



small 4-week H&S top is forming. Friday's Doji candlestick bar is another yellow flag. A completion of this top would simultaneously penetrate the lower boundary of the channel. The H&S top – if completed – would have a target of under 1.1600. Factor is long.



AUD/USD – weekly trend is up but no clear continuation pattern has yet developed

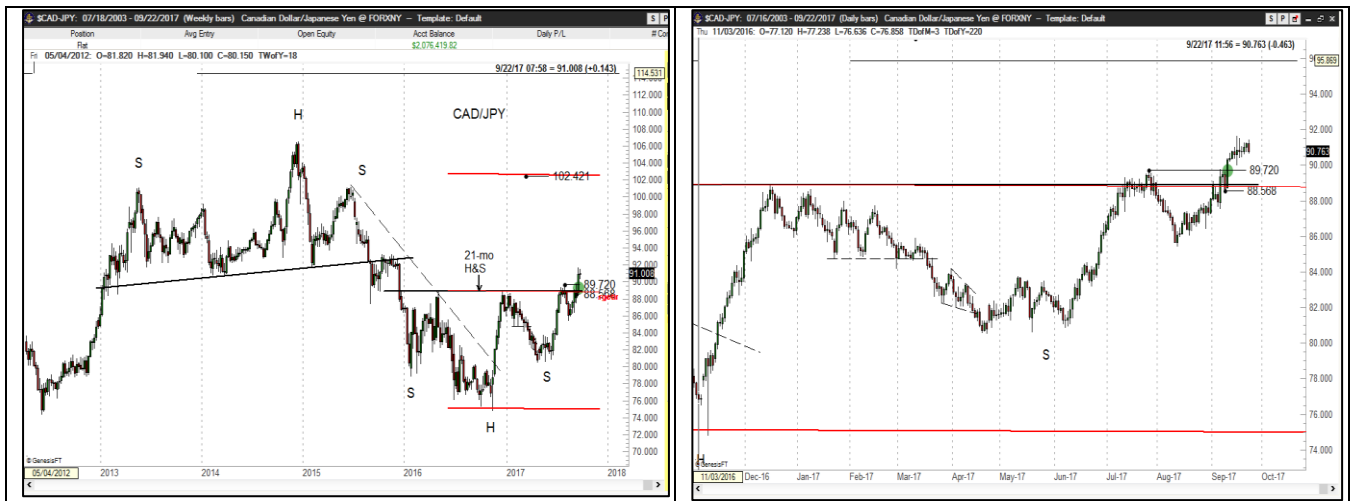
The weekly graph is shown. The dominant chart construction in the Aussie is the completed 16-month rectangle with a target of .8400. Factor is flat. I am monitoring this cross for a continuation pattern.



Other Markets

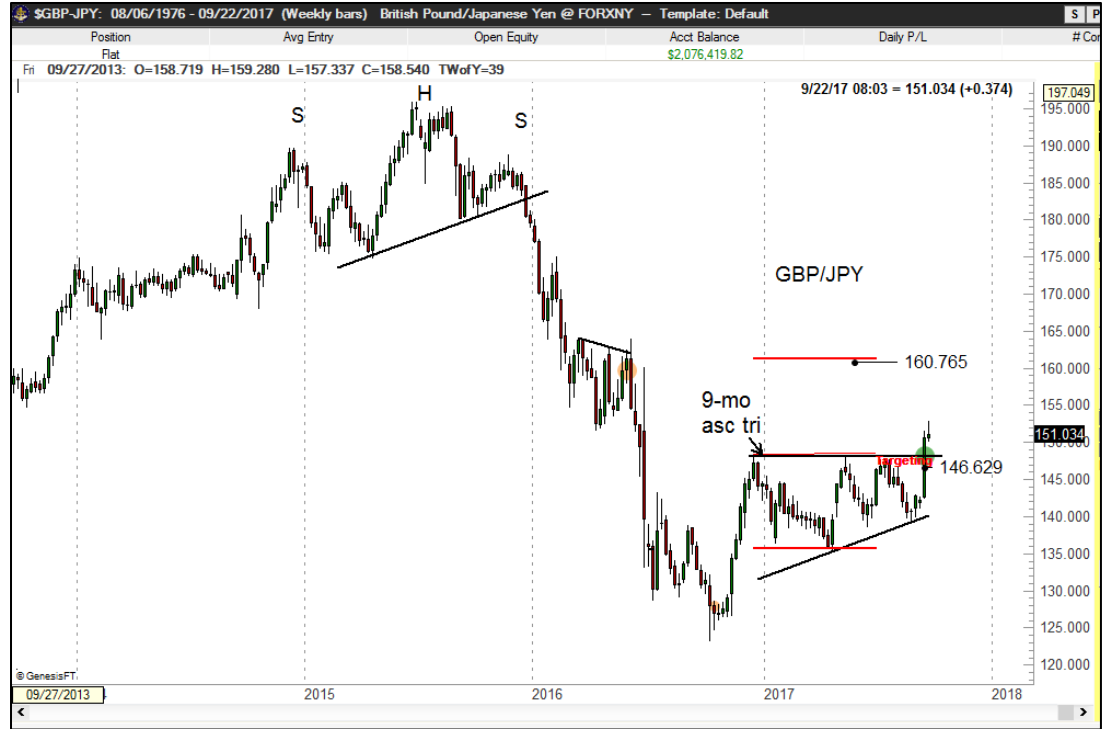
CAD/JPY – massive base completed

See the Factor Alert dated Sep 14. The weekly and daily charts are shown. The advance on Sep 11 completed a 21-month H&S bottom pattern with a possible profit target at 102.42. Factor is long. I would not want to see 89.72 penetrated for risk management purposes, although a retest of 88.50 would not damage the technical condition of the crossrate.



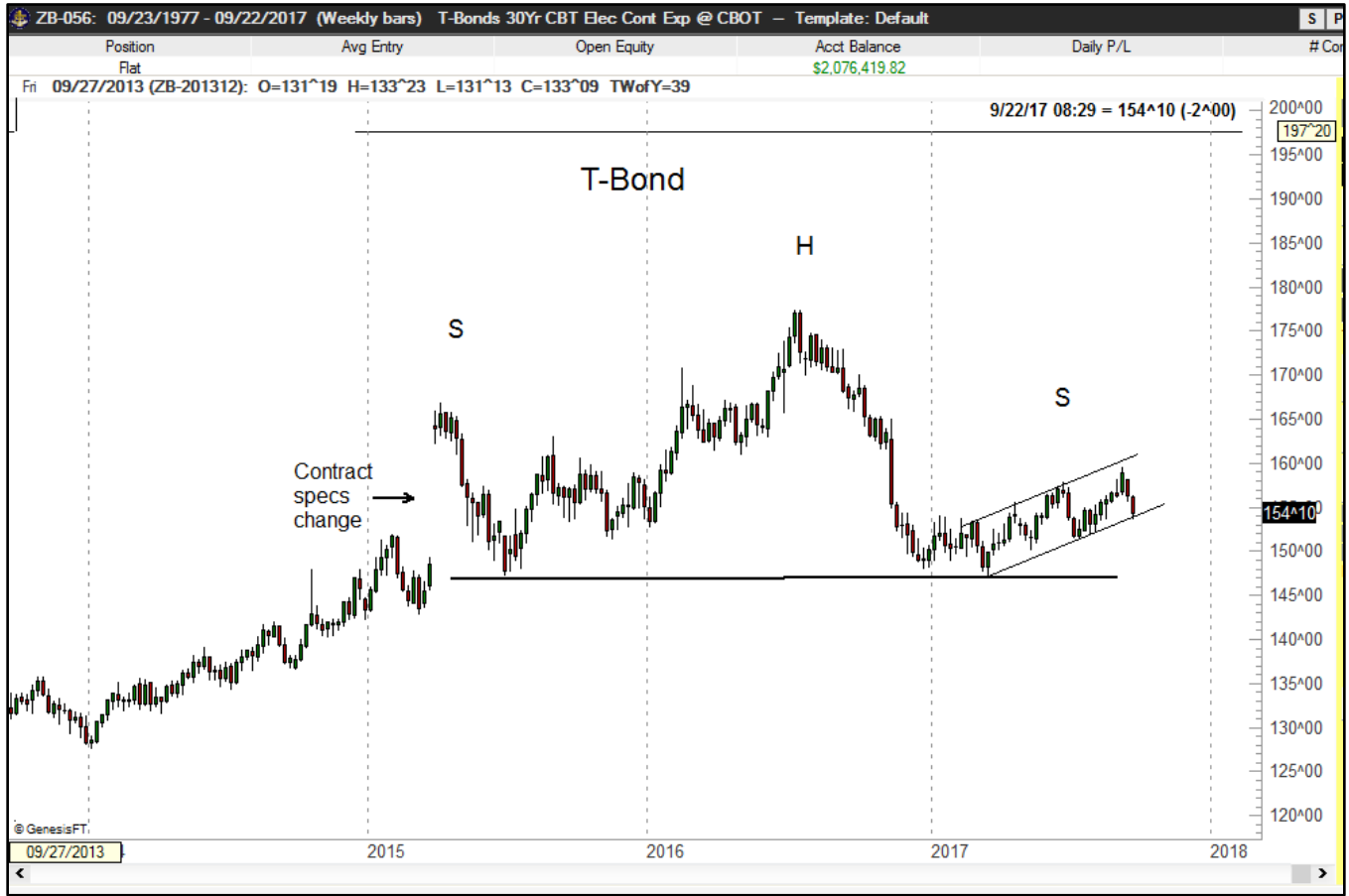
GBP/JPY – 10-month ascending triangle completed

See the Factor Alert dated Sep 14. The weekly and daily charts are displayed. The advance on Sep 15 completed a 9-month ascending triangle. Factor established a very small long position. Factor is long.



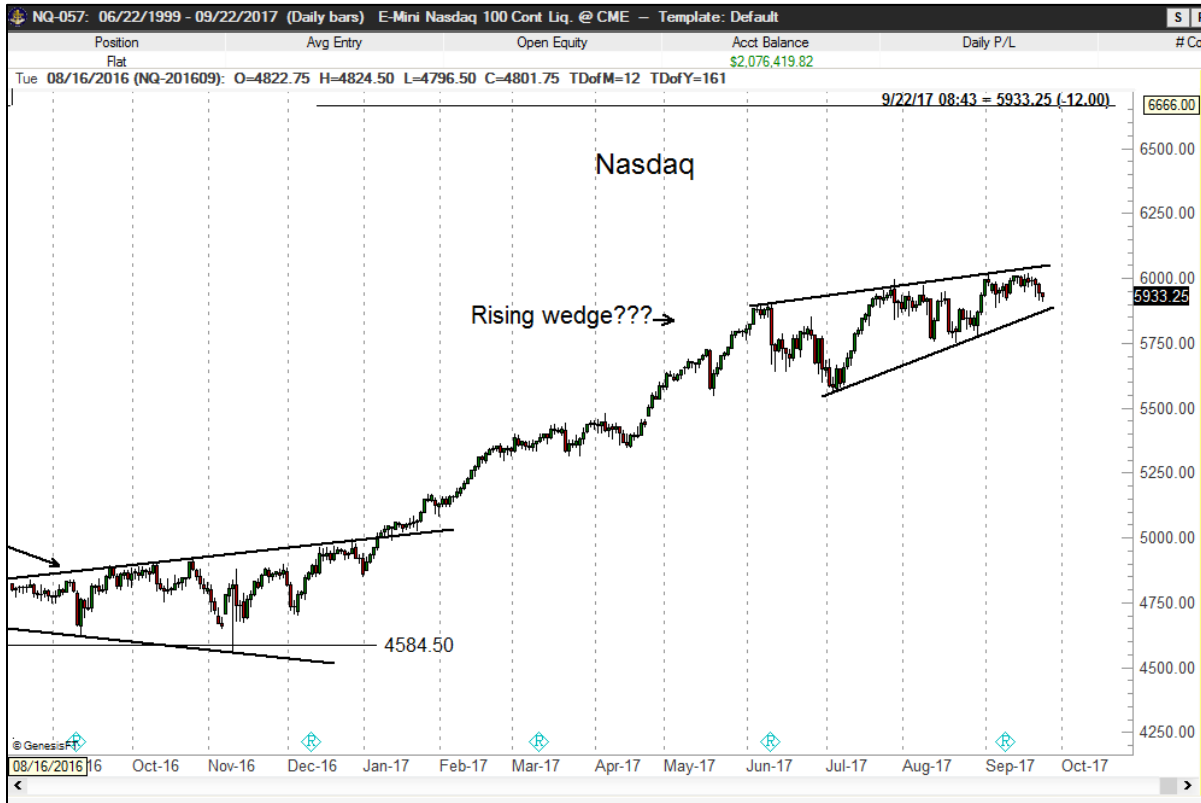
U.S. Treasury futures – higher rates likely in the U.S., but not yet

I could be really wrong, but the cycle work I rely upon from Nautilus Capital suggests that a high in prices (low in yields) may not occur until the end of 2017 or early 2018. The weekly continuation chart of T-Bonds displays a possible massive H&S top. My hope is to buy the ED6-ED12 spread at plus 10 (premium ED6). Factor is flat.



Global stock markets – trend remain up

The major trend remains up in U.S. equity markets. The daily NASDAQ chart displays a possible rising wedge pattern. The rising wedge pattern is biased in favor a downside breakout, however a rising wedge will periodically launch a strong upward surge in what is known as a running wedge. Factor is flat.



Several mega-cap stocks may be contributing to the possibility (NOT A PREDICTION) of a downside move by the NASDAQ. The daily chart of AMZN displays a possible textbook H&S top, requiring a decisive close below 905 (based on Edwards and Magee’s 3% breakout rule). THIS IS NOT A PREDICTION. The daily GOOGL graph also displays a possible developing top pattern, the exact identification of which is yet to be determined.



The daily chart of CACI (NYSE) completed a 9+ month continuation pattern on Friday. Factor is flat – I will buy any weakness in this stock next week with a target of 153.39.



The Taiwan Index (traded at the Singapore Futures Exchange, or SGX) is forming a very well-defined 13-week ascending triangle on the daily graph. I have been treated very well throughout my trading career by tight horizontal patterns of similar

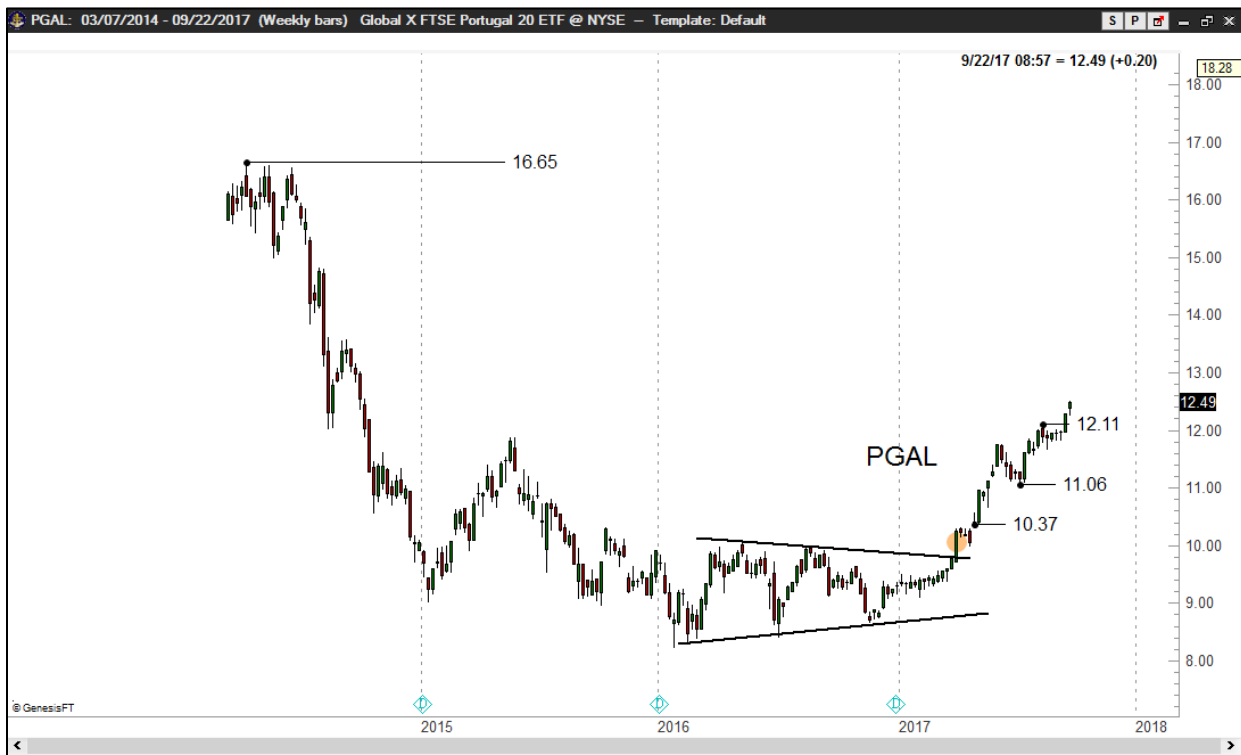


duration. This futures contract is very thinly traded. Factor is flat – my intention is to buy an upside breakout. A decline below 384.5 nullifies this analysis.



PGAL (Portugal ETF) – I will probably retire owning this ETF

The monthly Portugal stock index (PSI20) and weekly PGAL graphs are shown. Factor is long PGAL with a target of 16.48.



Softs (Sugar & Cocoa) – bottoming patterns are consistent with COT data

The daily Sugar and Cocoa charts are shown. The COT profile in each market is constructive in that Commercials are a rare net holder of long positions in each market. The daily chart of Sugar does not yet display an area



bottoming pattern although a decline toward 14.00 could become the required fifth contact point of a possible symmetrical triangle bottom. This triangle also could become a continuation pattern with negative price implications. The daily graph of Cocoa exhibits a possible 4-month rectangle. I am monitoring both markets for a buying opportunity.



Cryptocurrencies – the parabolic advance interpretation could be placed in doubt

My preferred chart interpretation is that Bitcoin has enjoyed a parabolic advance. Under this interpretation the fan line connecting the Jul and Sep lows is now dominant support.



The charting principles for a parabola specify that an entire bull trend is over once the final fan line is penetrated. Accordingly, support at the mid-Sep low around 3,000 would be of great importance. There is nothing magic about moving averages (MAs). Yet, they can serve as a proxy for trend. I most rely on the 21-bar MA (21 days on a daily chart, 21 weeks on a weekly chart, etc.). The daily MA has turned down. The market is testing the weekly MA. A very unofficial poll I did on Twitter this past week indicated that more than half of cryptomaniacs (as defined by individuals with a crypto-line Twitter handle) would be put into the red should BTC decline into the low \$2000s. I am not predicting it, but a hard test into the \$2000s would stir things up.



**Peter Brandt**  
@PeterLBrandt

What do you think is the average \$BTC entry price among the thousands of Tweeters with a @crypto-type Tweet handle Please RT this.

- 12% Below \$500
- 12% \$501 to \$1000
- 20% \$1001 to \$2000
- 56% Above \$2001

3,387 votes • 10 hours left

8:40 PM - 21 Sep 2017

94 Retweets 41 Likes

Gold – the timing is not yet right for a price explosion

The monthly and daily Gold graphs are shown. The Gold long-term chart (RealRange version) continues to develop a possible massive 4+ year inverted H&S bottom. Under the Principle of Symmetry, the completion of this pattern would not occur until Jun 2018. Thus, I am expecting the market to correct into a Q1 2018 low somewhere above 1200. The daily chart (Dec contract) has sliced back



through the support line at the Apr and Jun 2017 highs. The Factor Tracking Account was fortunate to have bailed out of a long position on the Sep 8 high day. As seen by the daily chart, a decline below \$1200 would go a long way to destroy bullish sentiment. Factor is flat precious metals.



## Grain markets – a bottom of generational magnitude continues to form

I personally know a number of traders who are biting at the bit to be long grain markets. As I have often mentioned, the bottoming process in grains can be agonizing and frustrating. The fundamentals for U.S. row crops is not constructive. A case can be made to be short Dec Corn – a continuation pennant is forming on the daily graph with a possible swing target at 3.17. The 11-year support line is at 3.15 as shown on the monthly graph. Mpls Wheat is the only row crop with an established base on the weekly graph. I will monitor Mpls Wheat daily charts for a buying opportunity.



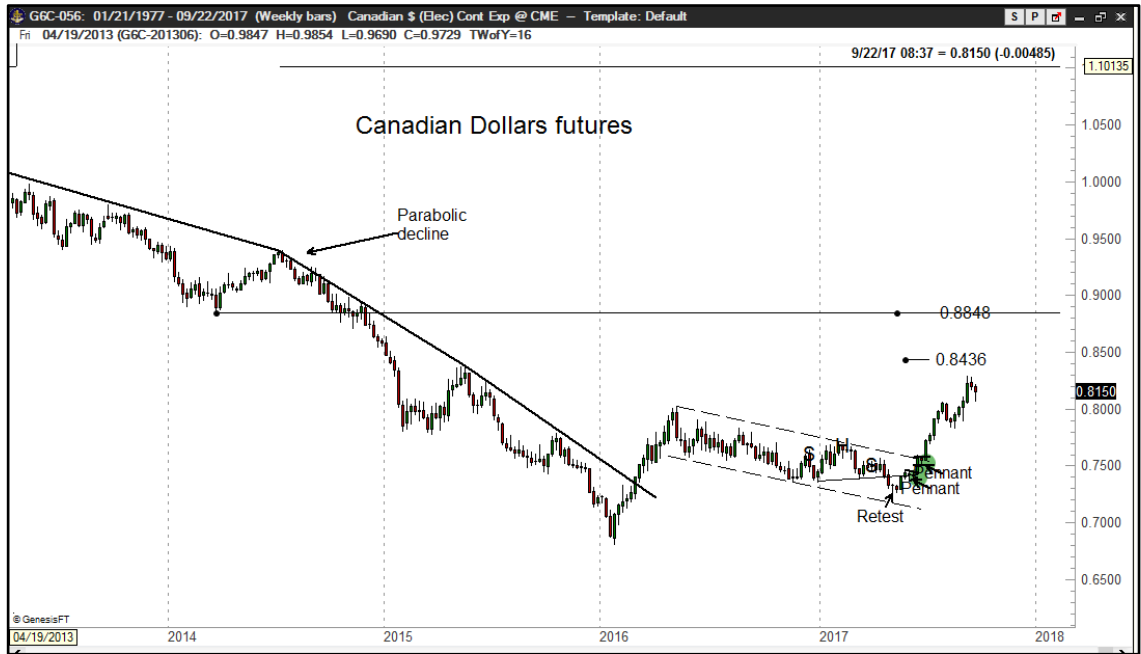
Feeder Cattle – a market that does not go down usually goes up (duh!!!!)

The daily continuation and Jan '18 delivery contract charts are shown. The Sep 17 Factor Update laid out both bullish and bearish pathways for Feeder Cattle. No matter what my bias is during the construction of an area chart pattern, price ultimately is king. My trading philosophy is "strong opinions, weakly held." The advance and close on Tuesday resolved the issue by completing a 19-week congestion (a continuation H&S or continuation symmetrical triangle are both perfectly acceptable labels). The daily continuation chart is shown to make a point. Note that the Jan '18 chart is stronger than the continuation chart (by charging into new high ground). I would always prefer to be long a market when the continuation chart is stronger than the chart of the nearby contract. This, the laggard nature of the continuation chart is a yellow flag for the present long position, established on Tuesday. The Cattle on Feed report issued by the USDA after Friday's close was negative. The market should come under weakness on Monday. The target is 163.85.



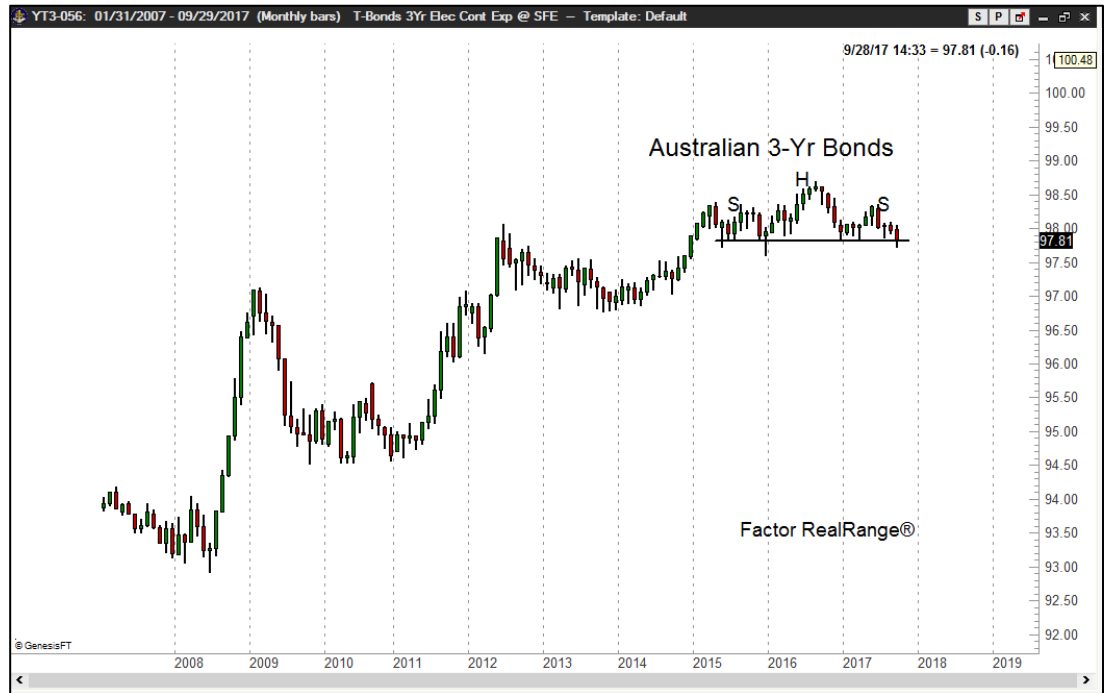
Canadian Dollar – much higher targets, waiting for a continuation pattern

The weekly and daily graphs are shown. Targets of .8436 and .8848 exist in CAD futures. Factor is flat, waiting (hoping) for a continuation pattern offering a measured-risk reentry opportunity.

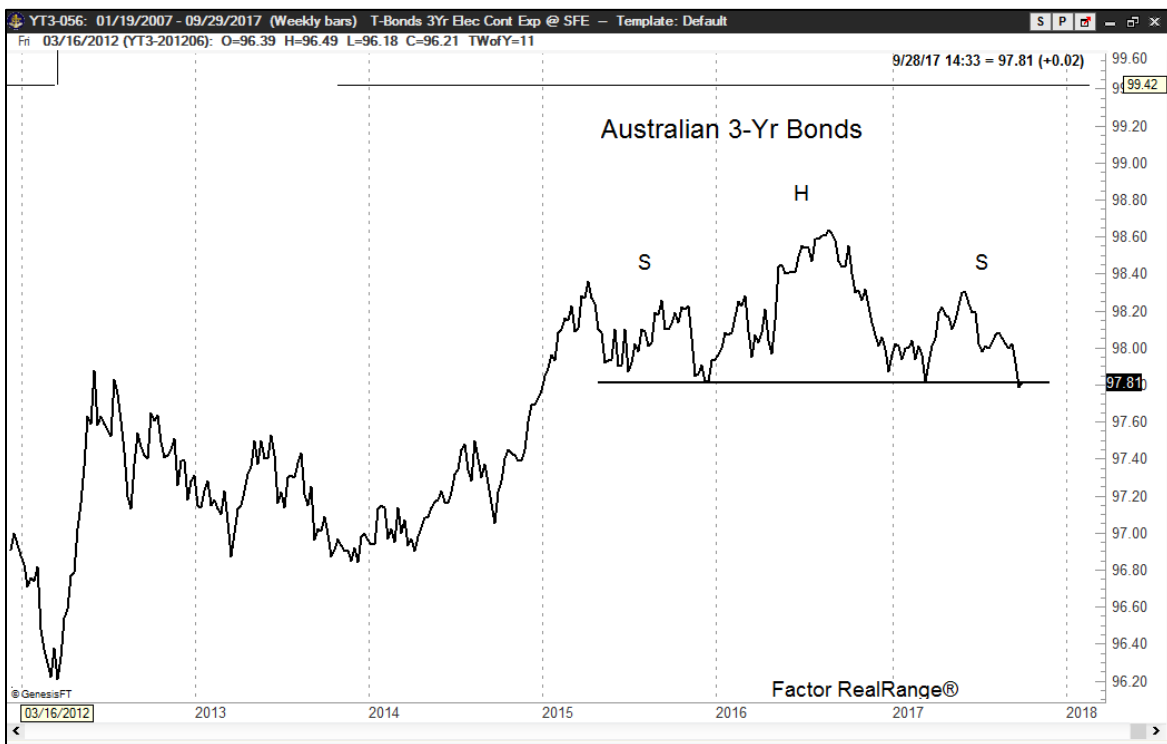


## Australian 3-Yr Bonds – H&S top developing

The monthly candlestick and weekly closing price charts display a developing 33-month H&S top pattern. It is easy to have an opinion on the chart structure in the Aussie Bonds – trading this market is another matter. Long-duration patterns such as this are extremely difficult to trade in leveraged markets. Where



exactly is the breakout level? How does one set a logical protective risk point? Can the precision of the continuation chart be trusted? I have an interest in shorting this market – my idea set up would be a close under 97.74 and then a kick back to the neckline at 97.81 with a risk back to 98.01 in the Dec contract (chart not shown).





## Factor Member Q&A

Some quickies left unanswered from this past week's webinar

Question:

*Where do you put your [protective stop?] whether it is a triangle or a rectangle or a H&S pattern?*

Answer:

Initially above the high of the last full day within a pattern prior to a downside breakout or below the low of the last full day within a pattern prior to an upside breakout. If I deem this stop as too wide to allow for meaningful sizing I will find some pivot point on the 4-hour chart. I almost immediately look for an opportunity to move my protective stop to a breakeven status.

Question:

*Is there a forex dealer you recommend for U.S. traders?*

Answer:

I do not like recommending brokers in OTC markets due to unknown counter-party risk. It is becoming harder to find a retail spot forex broker in the U.S. I understand that many FXCM traders moved their accounts to Gain Capital (Forex.com). This is a suggestion, not a recommendation.

Question:

*Do you use log scale or linear scale? Which one is more reliable?*

Answer:

Complex question. For multi-decade trends I recommend semi-log graphs. I am a swing trader, seldom holding a position for more than a few months. So, linear or arithmetic scale works just fine.

Question:

*How many markets do you follow in total?*

Answer:

On Friday I scroll through a list of more than 400 symbols representing more than 100 different markets. Most are futures or forex markets, the remainder are global indexes and individual equities. I may scroll through five or more symbols for a given market – several different continuation chart versions and several individual contract months. On average I spend about five seconds on each chart. If something does not pop out at me immediately I move on. I do not believe in “studying” charts to see what secrets they might reveal.

Question:

*When you use Interactive Brokers (IB) for non-U.S. stocks does it cause issues with currency translations in preparing U.S. tax returns?*

Answer:

Don't even get me going on the subject of IB's trading and tax reporting statements. 80% of my trading last year was cleared through ADMIS. Its IRS tax statement was two pages long. About 10% of my trading was through IB – represented by more than 30 pages for tax reporting. If I set out to create the most complicated trade and tax reporting system possible I could not even come close to IB's version of hell. My tax accountant requires that I annually sign a “hold-harmless” letter for any tax reporting issues originating from IB. The short answer – I lump together all forex income/losses from IB and report same to the IRS as a short-term gain/loss. I do NOT trade spot forex with IB for the reasons cited above.

plb  
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