



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

Factor Update, December 10, 2017

Market Review

New candidate Factor Moves™ are developing in:

- None

Candidate Factor Moves™ are currently ongoing in:

- *Ethereum

This issue also comments on U.S. stock market, EUR/JPY, Canadian Dollar, Sugar, grain markets, USD/CNH, EuroSwiss, cryptocurrencies, EUR/USD, *Eurodollar spread, Crude Oil, *Gold and *SILJ. *Signifies a position in the Factor \$100,000 Tracking Account

<u>Developing signals</u>	<u>Existing positions</u>
<ul style="list-style-type: none"> • EuroSwiss – entry order and protective stop • USD/CHN – alert • EUR/JPY – entry order and protective stop • CAD -- alerts 	<ul style="list-style-type: none"> • Eurodollar spread (ED5-ED10) -- alert • SILJ – protective stop and target • Ethereum – alert and target • Gold – protective stops and targets
<p>The Factor Tracking Account is currently leveraged at .9X. The margin-to-equity use for futures and forex is 8.3%.</p>	

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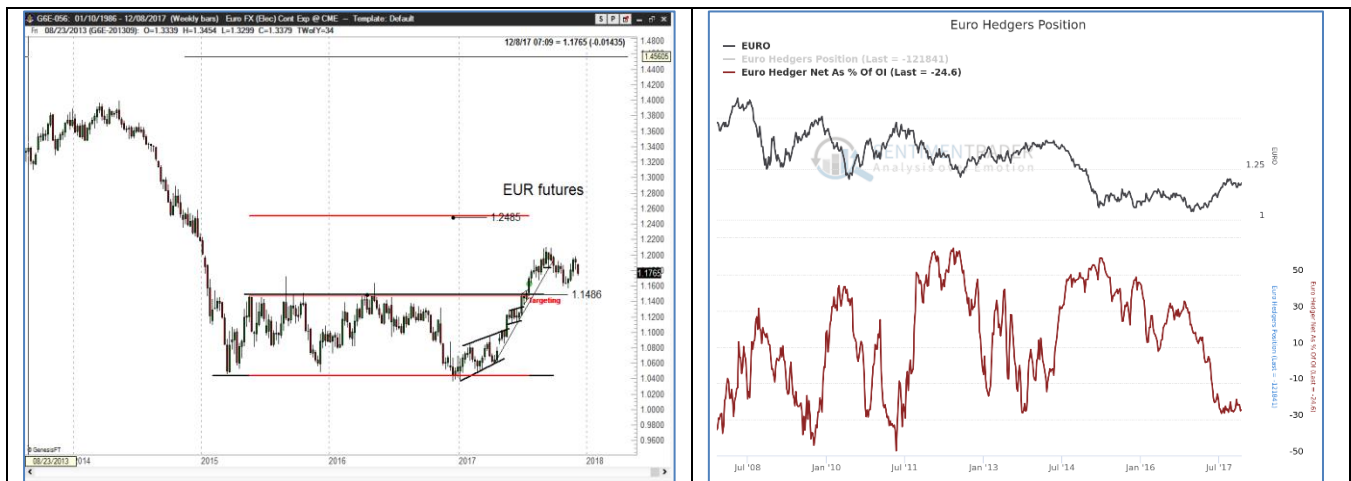
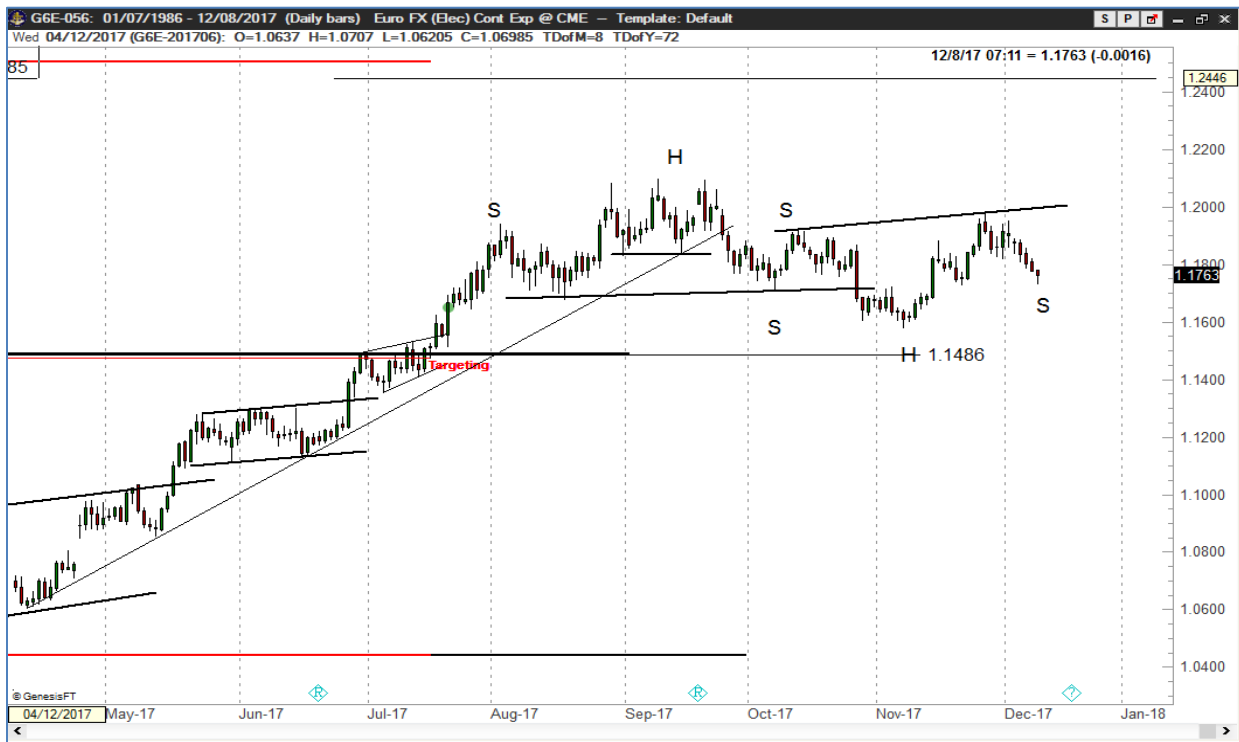
Candidate Factor Moves – Ongoing and Under Development

Ethereum – see Cryptocurrencies

Other Markets

EUR/USD – commercial short position reaching record levels

The dominant chart construction continues to be the underlying 30-month rectangle on the weekly chart. This pattern has a minimum target of 1.2485 (futures). The daily chart has thrown a number of curve balls. The long position I carried into the week was stopped out on Thursday. I can create an argument for either direction. The daily chart is forming a possible interlocking H&S pattern whereby the right shoulder of a H&S top is serving as the left shoulder of an inverted H&S. This pattern, if completed by a move/close above 1.2000, would confirm an advance to the upside target. One major cautionary and opposing factor is the composition of open interest. Commercials hold a near-record short position (as a percent of OI). I typically do not like being on the other side of a trade from near-record or record commercial positioning. Factor is flat.



Sugar – prolonged bottom process is my best guess

I have taken several shots at the long side of Sugar in recent months for a combined loss of 128 basis points. The daily chart is forming a possible 4-point continuation or 5-contact point reversal symmetrical triangle, although this pattern feels rather convoluted. I will likely drop Sugar from weekly commentary. Factor is flat.



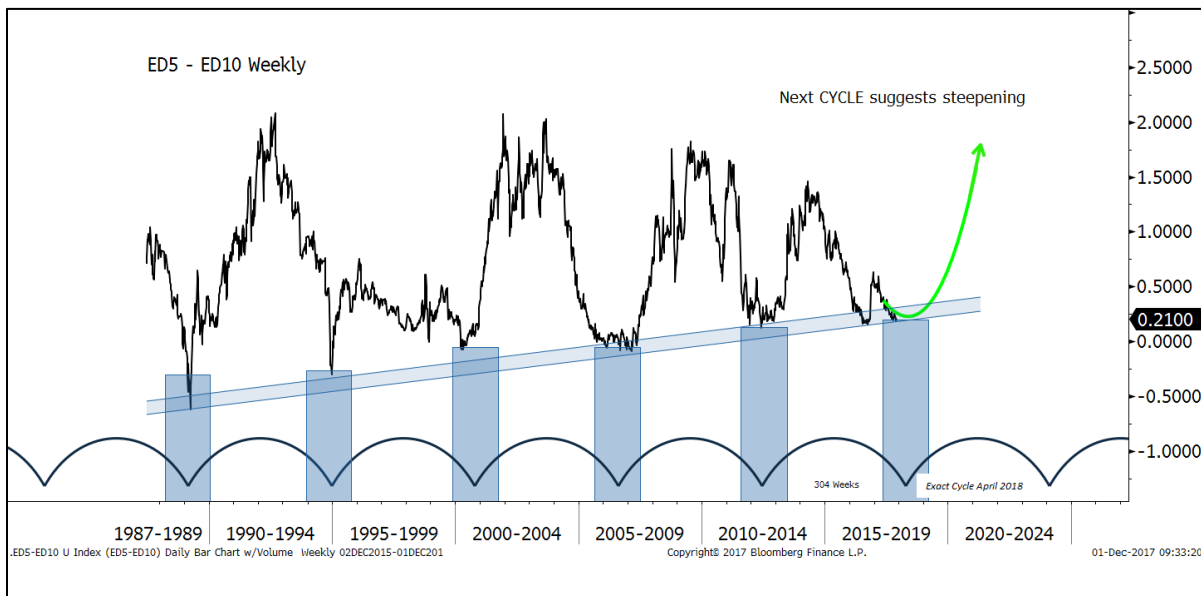
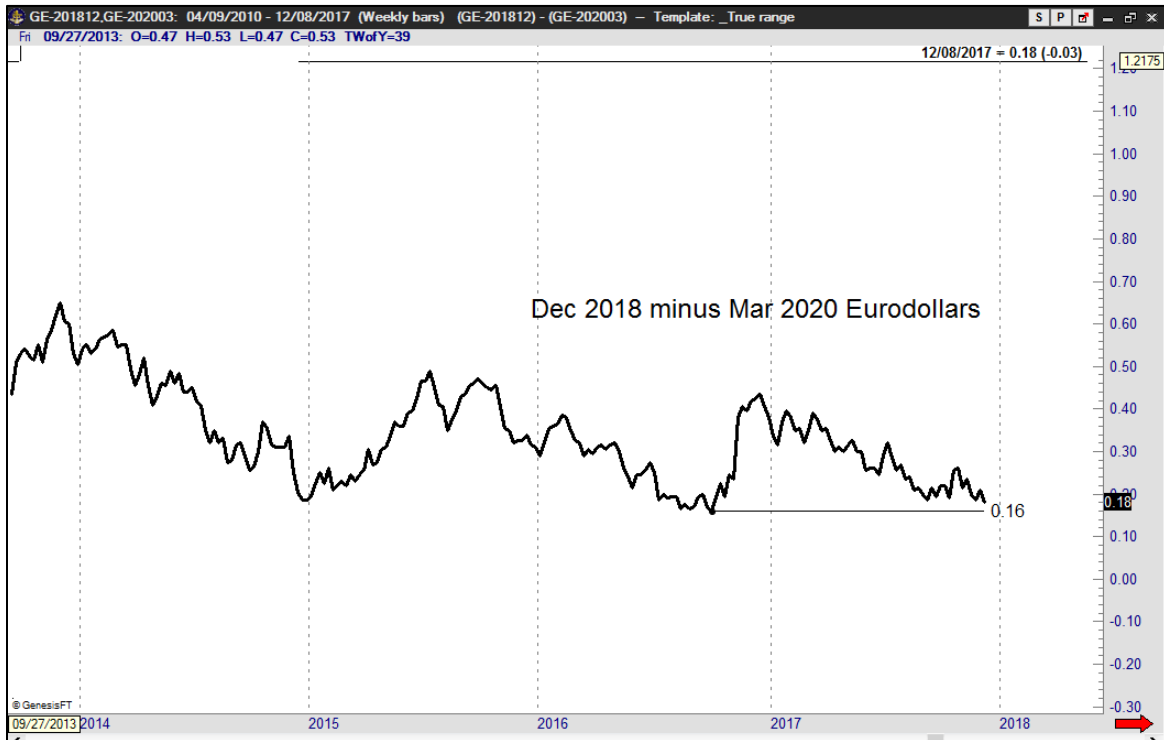
U.S. stock index markets – no end in sight

I readily admit that I have missed this historic bull market as a futures trader. I am not a trend follower, and the U.S. stock market has been a trend-follower's sweetest dream. A simple moving average system would have worked wonderfully in the U.S. stock market, as shown on the DJIA chart.



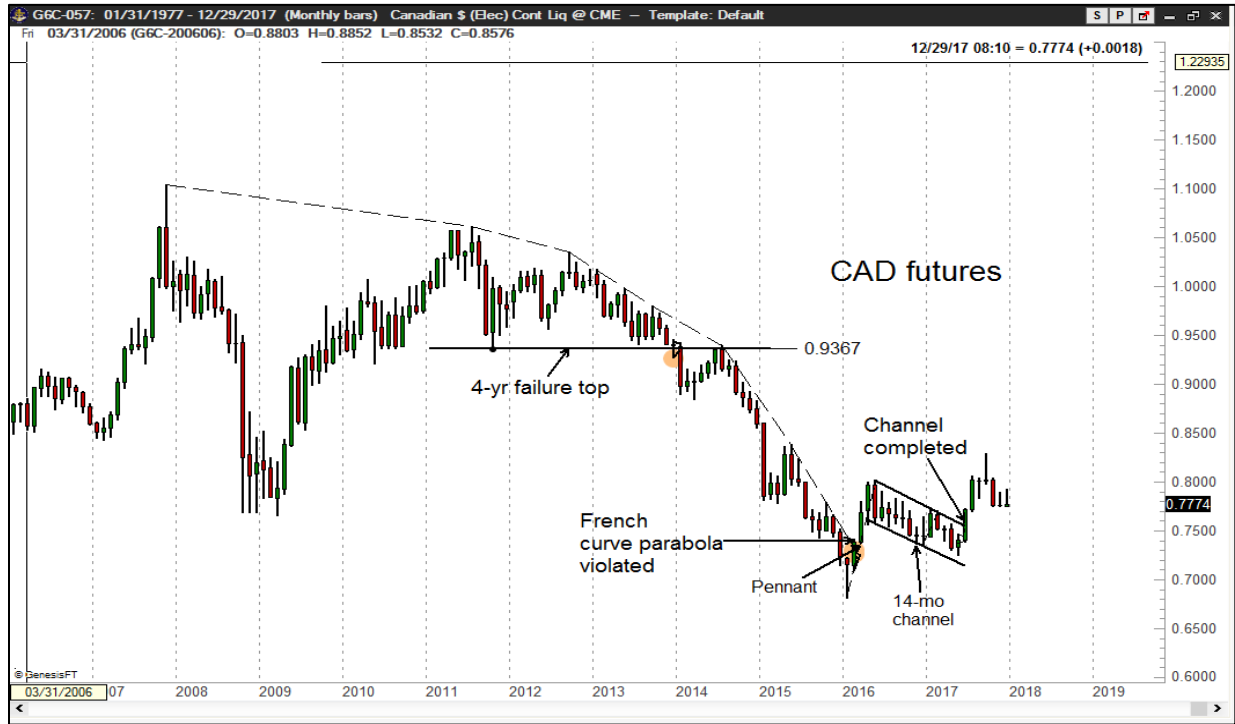
Eurodollar Spread (ED5-ED10) - in the time zone for a cyclic low

See Factor Alert dated Oct 22. This spread position anticipates a steepening of the yield curve as expressed by the Eurodollar market. Cycle lows are due at anytime as shown by the rolling ED5 minus ED10 graph. For the purpose of money management I will blow out of this trade if the spread closes below +9 (ED5 premium over ED10). I will roll the spread the first week in Mar, if not stopped out, to become long the Jun 2019 and short the Sep 2020 contracts.



Canadian Dollar – it's a toss-up between the weekly chart and daily chart

Chartists get much grief on social media sites (StockTwits, Twitter) when they express the idea that a market could go either way and that they would consider a long or short position. I have absolutely no problem with maintaining this level of flexibility. I believe the trend of CAD futures on the long-term graphs has turned up. Yet, the 6-week pennant on the daily chart could be of the continuation variety. Factor is flat.

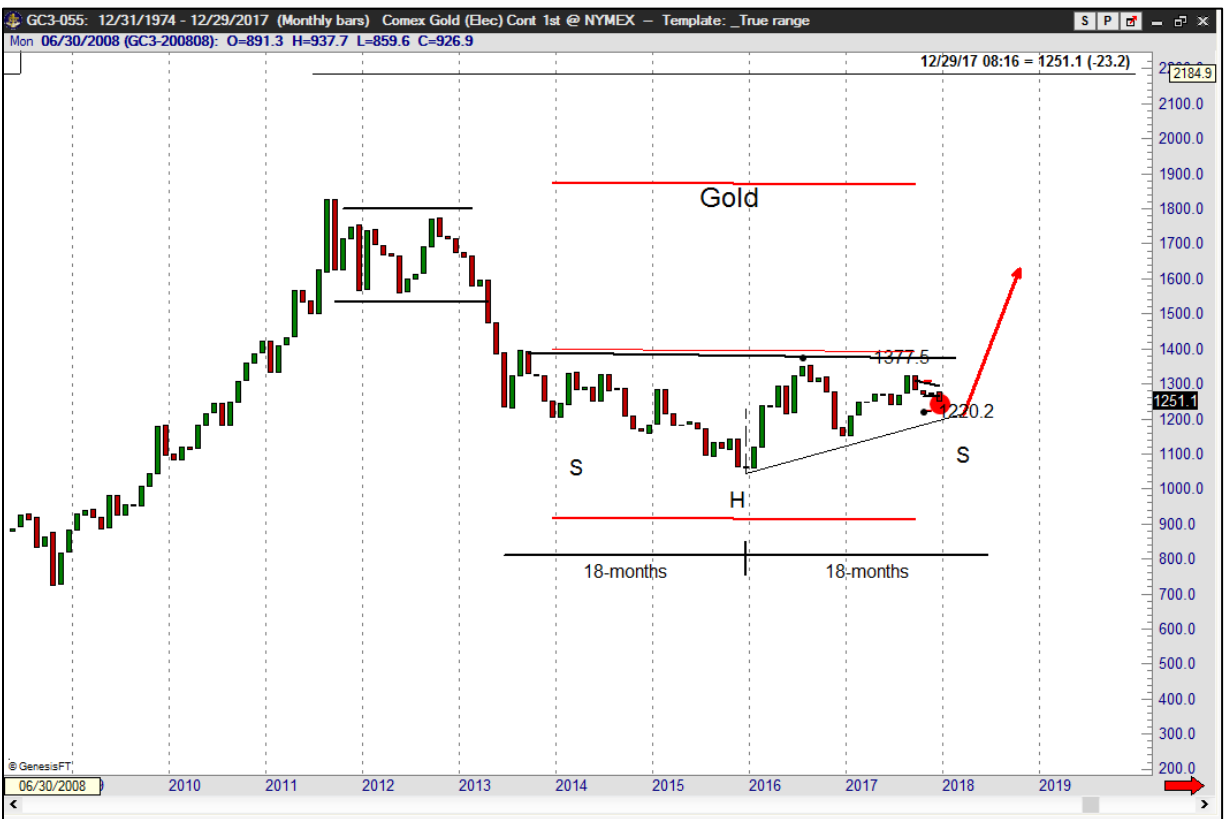


Gold – descending triangle completed, market now trending toward right shoulder low

The decline and close on Dec 6 completed a 9-week descending triangle on the daily graph with a target of 1220 to 1225. This is a decline I have been hoping for because it fits perfectly with the possibility of a massive inverted H&S bottom on the weekly graph (RealRange). There is tendency (not a requirement) for most desirable H&S patterns to have symmetry in time and height. A bottoming of the right shoulder late in the Q1-2018 in the area of 1220 followed by a completion of the H&S in mid-summer



2018 would provide near-perfect symmetry for a H&S bottom. Keep in mind that markets always throw a curve ball, so I am not married to this interpretation. Factor is short the Feb futures (the Dec futures daily chart is shown because it shows more price history).



Cryptos – historic advance in BTC continues

See special report, *The History of Bitcoin Charts*, dated Dec 2. Also see the Factor Alert on Ethereum dated Dec 8.

[Note: While the BTC log chart from Nautilus Capital indicates that the upper boundary of the parabola horn has not been penetrated, my own charting suggests that the upper boundary has been breached. This distinction has minimum importance in the overall appraisal of BTC.]

BTC

Bitcoin continues to thrust higher in an historic parabolic advance. My target of 18,800 was reached on some exchanges, but not on all. The major unanswered question for me



is whether a new parabolic fan line should be drawn, as indicated by the grey slope marked "A." I think the market is over-cooked at present levels and that a pause, if not a sizable correction, will occur during the duration of 2017 and into early 2018. I have no idea what impact the CME futures contract will have on the market – time will tell. I banked profits on about half of my BTC position on Thursday. I will hold (or "hodl" if you're a millennial) tight on the remainder of my position with the desire to buy a sharp correction. It is important to understand the significance of a parabolic advance. A **severe** decline is possible if/when the lower boundary of the parabola is violated. **Severe** could be a decline back to 3,000 or lower. But I do not want to get too far ahead of myself in this market, preferring to let things play out day by day. The Factor Tracking Account is flat in BTC.



Ethereum

The dominant chart construction in this market is the Nov 23 completion of a 5-month symmetrical triangle. Since completing this triangle the market has been forming a 2-week pennant. An upside completion of this pennant should bring forth the next strong thrust. However, a close below the lower boundary of this pennant might spell some intermediate-term trouble.



SILJ – Jr. Silver Miner ETF chart now in down trend

The weekly chart of PureFunds ISE Junior Miners (SILJ) displays a completed 14-month descending triangle. See the Factor Alert dated Oct 27. Factor is short with a target at 6.41.

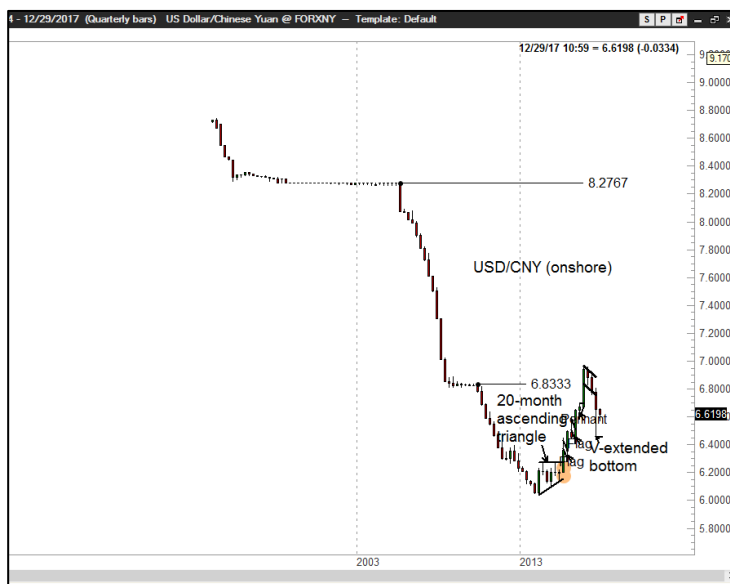


Log charts vs. arithmetic charts

As a swing trader I seldom use log graphs. Log scaling has not been pertinent to my desired price targets or holding periods. However, I do find some value in log graphs in the crypto markets because of the magnitude of price moves over such a short period of time.

USD/CNH (Chinese Yuan) – long-term uptrend ready to be re-established

I believe the decline during 2017 is simply a correction in a dominant bull trend that began in 2014, as shown on the quarterly graph of onshore \$/Yuan. The daily graph is forming a possible continuation symmetrical triangle. Factor is flat (I misreported in the last Update that I was short) – I am monitoring this forex cross for a buy signal.



Grain markets – nine years into a bear market, no sign of a bottom

Most grains topped in 2008 – grains have been in a near-10 year bear trend. A number of analysts have prematurely become bulls on the grain market. My message has been simple – bottoms in the grains is a laborious process requiring more time than most think necessary. The chart of the grain ETF is shown. There is no sign of a bottom in grains. In fact, just this week new life-of-contract lows were made in Chicago and KC Wheat – and

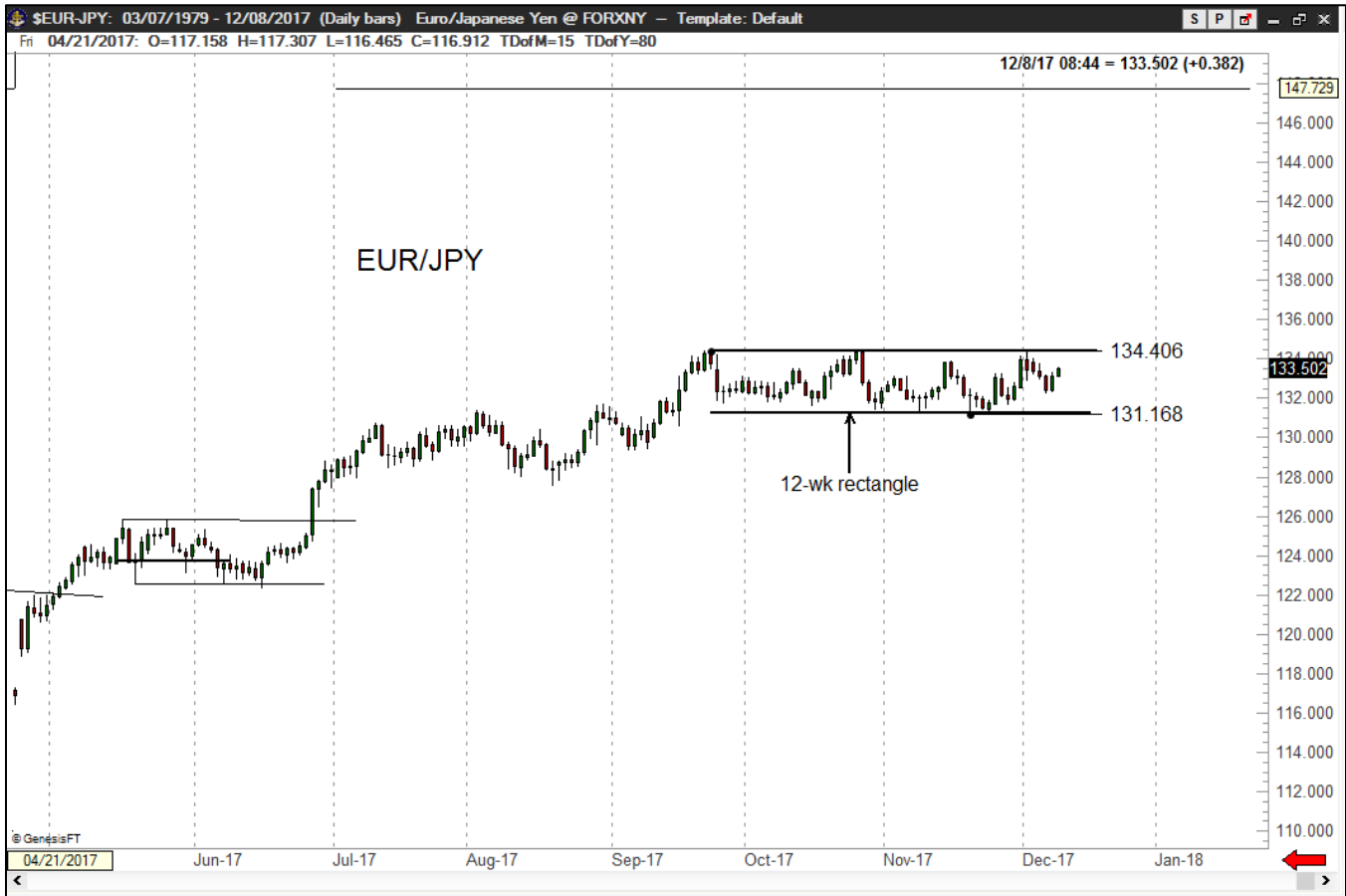


Corn is within striking distance of contract lows. Grains have entered a prolonged bottoming process and I will keep my eye open for credible buy signals.



EUR/JPY – aah, my favorite pattern is forming

There are certain patterns I despise – such as trendlines, multi-year wedges and huge symmetrical triangles. I favor horizontal patterns (H&S, rectangles, right-angled triangles) with a duration of 10 to 26 weeks. My favorite pattern is a rectangle with prices constrained to a very narrow range. The 12-week rectangle in EUR/JPY has a range of 2.5% of the value of the cross. Factor is flat – my strong bias is toward the long side.



Member Q&A

Question:

What cryptocurrency exchanges do you recommend?

– Many Factor members

Answer:

The crypto market is in its infancy – in fact, it is the Wild West. There are some serious structural problems in the cryptocurrency world. I strongly believe that the vast majority of cryptos will become worthless and more than one major exchange will end up bankrupt with investors holding an empty wallet. Substantial changes will occur in the months and years ahead as cryptocurrency trading matures.

My legal counsel has warned me of liability I might face by recommending specific exchanges. All I can do is inform you of the exchanges I use. Initially I used Coinbase for LTC and ETH. I am in the process of closing that account and moving all non-Bitcoin trading to Gemini (this is NOT a recommendation). I have always used itBit Trust Co. for holding and trading Bitcoin and am very pleased with the firm (this is as close as I can come to a recommendation).

Question:

How should a cryptocurrency trader protect his/her account against hacking?

--Many Factor members

Answer:

All crypto traders should be very aware that sophisticated hackers are alive and well in their attempts to steal your capital. Some of these hackers possess the same capabilities of those operations who have hacked the U.S. Defense Dept., credit card companies and other high-security entities.

Trading BTC futures at the CME will be very secure, with the CME Clearing Corp. as the counterparty to all transactions. However, the CME contract is for five Bitcoins, a sizing hurdle that will eliminate many traders.

To be protected, traders using crypto exchanges should use a hard wallet, such as Ledger Nano S (which I own) or Trezor. However, using a hard wallet – in my opinion – is the digital equivalent of burying Gold in your backyard. Further, while coins can be stored safely (and inconveniently) in hard wallets, cash deposits at exchanges can still be vulnerable.

A slightly lesser protocol of protection than hard wallets involves a five step process:

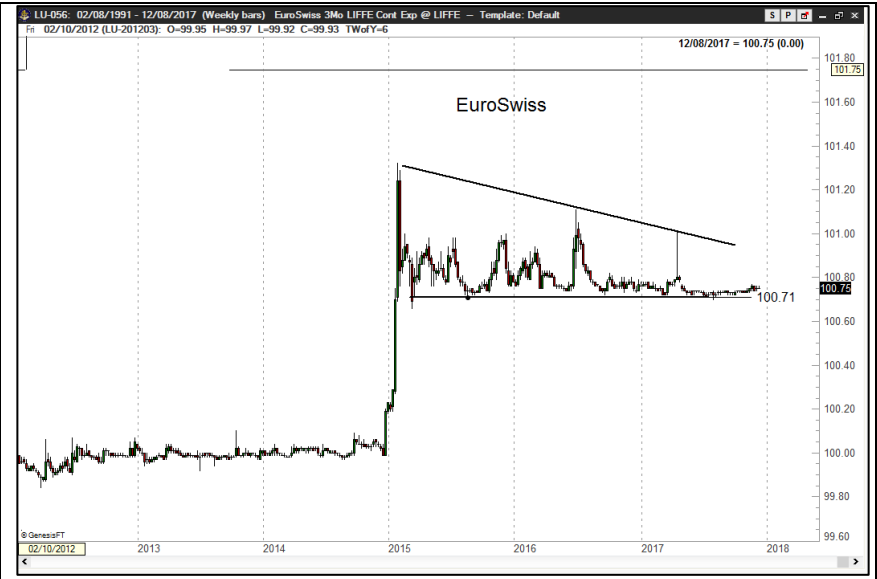
1. Use an exchange that is sound and subject to transparent governance and regulatory oversight. Exchanges that offers margin trading should be avoided.
2. Install VPN on all of devices used to access your crypto accounts (computer, tablets, smart phones)
3. Choose a unique user name and change your password monthly
4. Use second-level encryption provided by the exchange – this would involve an authenticator or a unique passcode sent to your mobile device
5. Never log into your account using a table or smart in a public place

Remember, hackers are out to steal your money. It is impossible to track stolen cryptocurrencies transferred from your account into the blockchain.

The Back-Burner – I’m interested, but some pending signals are like watching grass grow

EuroSwiss

This market continues to form a possible 37-month descending triangle. Yet, the Swiss National Bank is holding firm on its NIRP. I will continue to monitor this market for signs that SNB will tighten rates. Short EuroSwiss is potentially my favorite candidate trade for 2018.



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Factor Tracking Account, December 1, 2017

Table shows only open trades as of December 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															12/8/2017				
Model Tracking Account Trade History and Portfolio																			
Constant 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				
GEZ18-GEH0	Euro spread	10/23/17	L	26.0	1	15 close	62	9.00	11/3	88.00		6-yr cycle					\$ 500	NA	
SBH7	Sugar	10/27/17	L	14.46	1	13.97	55	14.82	12/5	17.49 r		Poss 4-mo sym tri	4-wk sym tri	6-Dec	14.82	\$ 398	Closed	-	
SILJ	Jr. Miners	11/10/17	S	10.70	300	11.91	36	11.06	12/8	6.41		14-mo desc tri	14-mo desc tri				\$ 3,210	\$ 3,210	
EUR/USD	EUR/USD	11/14/17	L	1.1711	40k	1.1629	34	1.1784	11/30	1.2344 r		3-mo H&S failure	3-mo H&S failure	7-Dec	1.17838	\$ 291	Closed	-	
SBH8	Sugar	11/22/17	L	15.25	1	14.83	47	14.87	11/30	17.49		4-mo asc tri	Secondary completion	4-Dec	14.87	\$ (431)	Closed	-	
ETH/USD	Ethereum	11/23/17	L	421.15	5	354.88	32	389.74	11/30	639.00		5+ mo asc triangle	5+ mo asc triangle				\$ 2,106	\$ 2,106	
ETH/USD	Ethereum	11/23/17	L	421.15	5	354.88	32	389.74	11/30	1087.00		5+ mo asc triangle	5+ mo asc triangle				\$ 2,106	\$ 2,106	
YGG8	Gold mini (32.15)	12/6/17	S	1266.20	1	1279.40	40			1225.2 r		9-wk desc tri	9-wk desc tri				\$ 1,800	\$ 40,708	
YGG8	Gold mini (32.15)	12/6/17	S	1266.20	1	1270.60	15	1255.70	12/8	1238.70		9-wk desc tri	9-wk desc tri				\$ 1,800	\$ 40,708	
															Trades as of		\$ 258	\$ 11,522	\$ 88,838
															Indicates open position value as of		Levered at		0.9
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																	Margined at		
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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