



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

Factor Update, December 24, 2017

Market Review

New candidate Factor Moves™ are developing in:

- *EuroSwiss

Candidate Factor Moves™ are currently ongoing in:

- None

This issue also comments on global stock index markets, Sugar, *interest rate markets, *currency markets, *Eurodollar spread, Gold and cryptos. *Signifies a position in the Factor \$100,000 Tracking Account

<u>Developing signals</u>	<u>Existing positions</u>
<ul style="list-style-type: none"> • USD/CAD – entry order and protective stop • Nikkei Dow – entry order and protective stop • Sugar – entry order and protective stop • FTSE – entry order and protective stop • USD/SEK -- alert 	<ul style="list-style-type: none"> • Eurodollar spread (ED5-ED10) -- alert • EUR/JPY – protective stop and target • U.S. 10-Yr Note – protective stop and target • EuroSwiss (rates) -- target
<p>The Factor Tracking Account is currently leveraged at .4X. The margin-to-equity use for futures and forex is 3.8%.</p>	

Contents

Introducing the Factor Crypto Corner 1

Global stock markets – no end in sight to the advance 2

Global interest rate markets – the next big move in interest rate futures will be down (rates up) 6

Sugar – preparing for the next bull market 10

Currency markets – there are a few interesting set ups in forex 12

Gold – right shoulder of massive H&S is under development 16

The Factor Crypto Corner – a possible blow-off top has been seen in Bitcoin 17

Introducing the Factor Crypto Corner

The main focus of Factor LLC as a proprietary trading firm has and always will be my first love - traditional futures and forex markets. As a full-time trader on the exit ramp toward retirement, it's been exciting to experience a new market – especially one with such an historic and powerful sustained trend. Cryptos were extremely kind to me in 2017, but I fully expect prices to start swinging in both directions in the year to come. Because Cryptos are thinly traded, volatile and evolving as they find an important role in the world of global finance/commerce, I fully expect a two-directional trading environment to be decidedly different and more difficult than the easy lay-up of 2017. I will include Cryptos in an appendix section each week (Crypto Corner), devoting the main body of the Factor Update to my traditional markets and the four foundational pillars of the Factor Service.

- Risk management
- Managing human emotions
- Classical charting principles
- The process of market speculation

Prepare for the January 1 three-day weekend

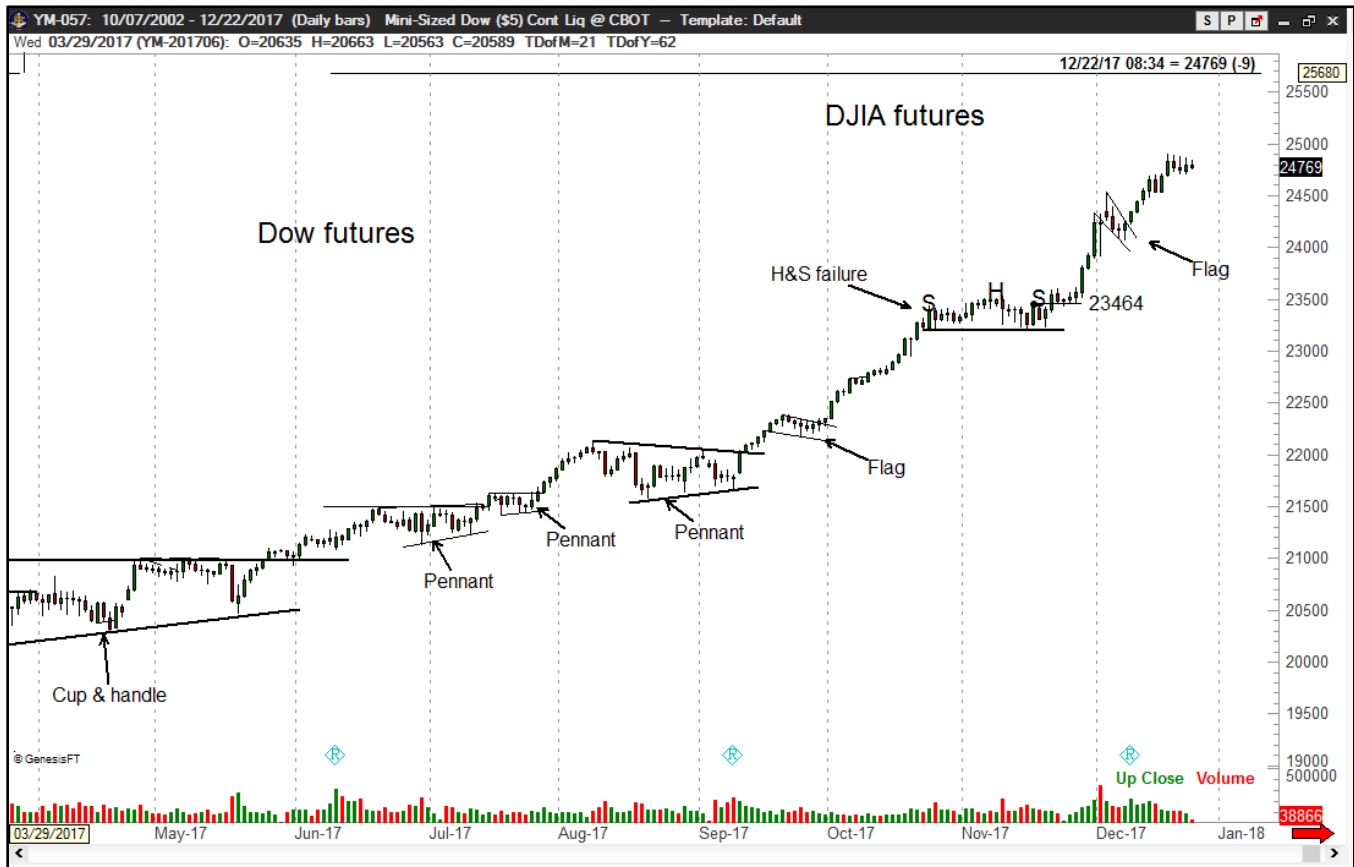
January 1, 2018 will be a Monday. This is not an unimportant fact. Most traders will be enjoying the three-day weekend. Go back into history and you will find that many significant trends were launched on the Sunday of a three day weekend. Traders who take the full three days off can return on Tuesday only to find that a ship left the pier without them aboard. Thus, the launch of a trend on Sunday can catch traders unprepared and incorrectly positioned. Futures and Forex markets will be open in the U.S. both on Sunday afternoon, Dec 31 and on Monday, Jan 1. So, be alert.

Global stock markets – no end in sight to the advance

The historic bull trend in global equities continues with no signs of a price top.

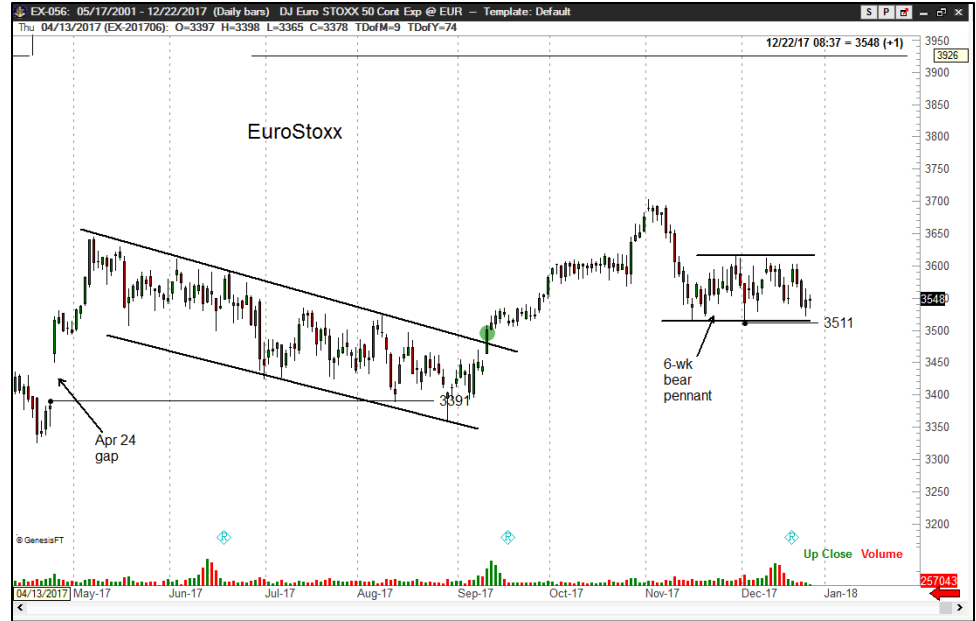
DJIA

The bull trend has contained many brief continuation patterns. I must admit I have completely blown this move. There has been money laying in the street waiting to be picked up, but my hands have been in my pockets. Had I been alert and bold in Dow futures this past year my performance in 2017 would have gone from a below average to an outstanding year. The Dow has formed many classic continuation patterns during the advance, as shown on the daily graph. Factor is flat.



EuroStoxx

The daily EuroStoxx graph displays a possible 6-week bear pennant. If the R/r (reward to risk profile) set up is favorable I might be tempted to trade this pennant in either direction. Factor is flat.



Freeport-McMoran

I had been watching this chart for months, but took it off my weekly review list in Sep. Mistake! In addition to the H&S bottom the market has now completed a 10-month symmetrical triangle. The target is 24.50. The only red flag is that volume has not expanded during this advance. Factor is flat.



FTSE

The advance in early 2017 completed a multi-decade ascending triangle on the log graph. **Equities in the UK are in a major bull trend.** The daily chart has completed a large symmetrical triangle pattern. Factor is flat. I have placed an order to buy a retest of this triangle.



Osaka Nikkei

I am interested in the long side of the Nikkei. The quarterly graph (not shown) has completed a massive "W" pattern. The daily chart exhibits a continuation ascending triangle or pennant. Factor is flat – I have set an alert to be notified in case the market thrusts through the upper boundary of the pennant. The Osaka Nikkei is Yen-denominated.



Alibaba

This stock appears to be forming a possible rounding top pattern. Factor is flat. Depending upon how the top develops I could be interested in a short side trade.



Global interest rate markets – the next big move in interest rate futures will be down (rates up)

Global interest rate markets appear to be in the process of bulding major tops in price (bottoms in yield).

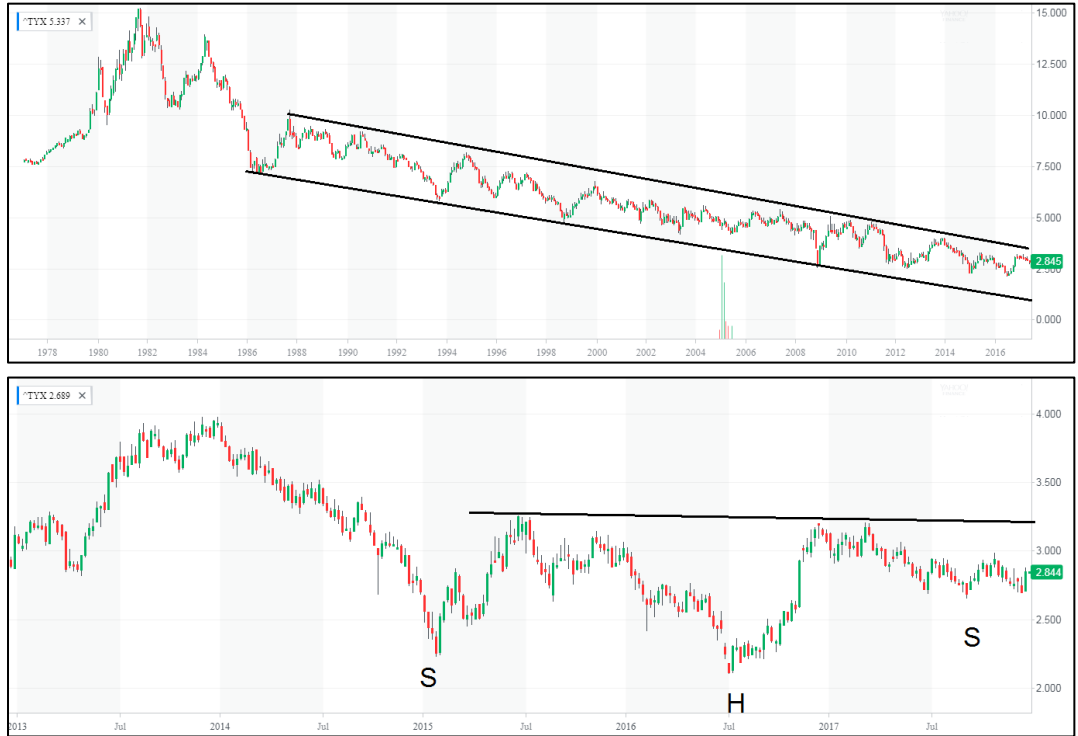
Australian 3-Yr Bonds

The weekly chart of Australian Bonds appears to be forming a H&S top pattern. I will consider a close below 97.74 to constitute a completed top. Each .1 tick is equal to AUD30.77. Thus, a short at 97.78 risked to 97.94 would represent approximately AUD492 or USD380. Factor is flat.

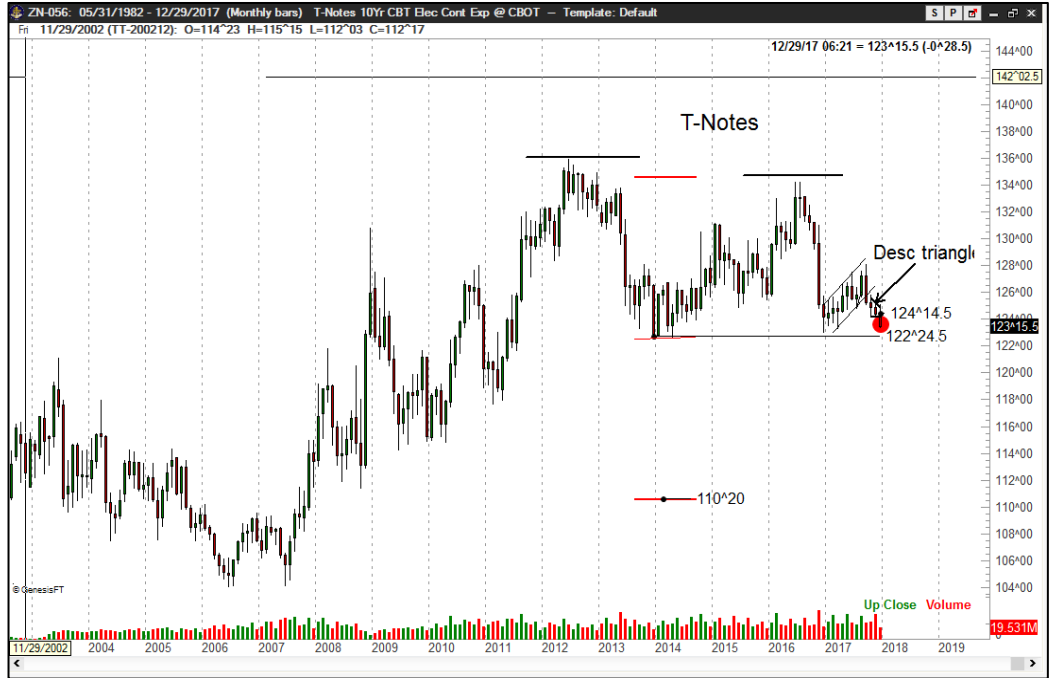


U.S. T-Bonds

Yields on 30-Yr T-Bonds have trended lower since the early 1980s within the boundaries of a trading channel. The yield chart displays a 3+ year H&S bottom pattern, reflected as a H&S top on the weekly graph of the nearby futures contract.

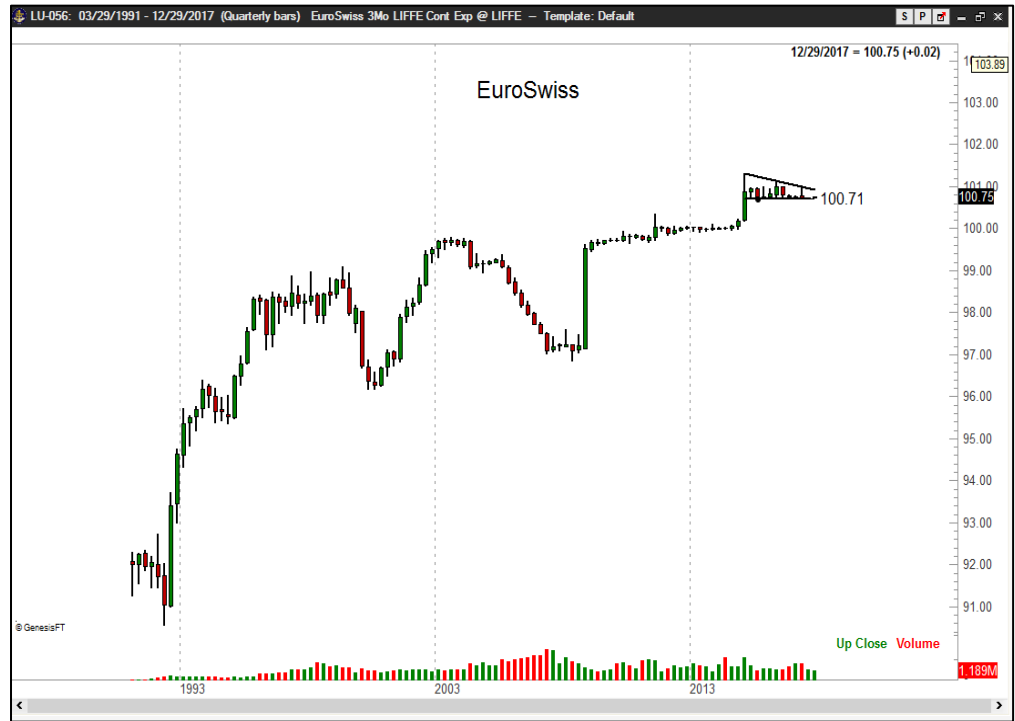


U.S. 10-Yr T-Notes
 See the Factor Alert dated Dec 19, 2017. The monthly chart of the 10-Yr T-Note futures displays a possible massive double top. The decline on Tuesday completed a descending triangle on the daily graph. Factor shorted a small rally on Wednesday in the Mar futures with a target of 122^27.



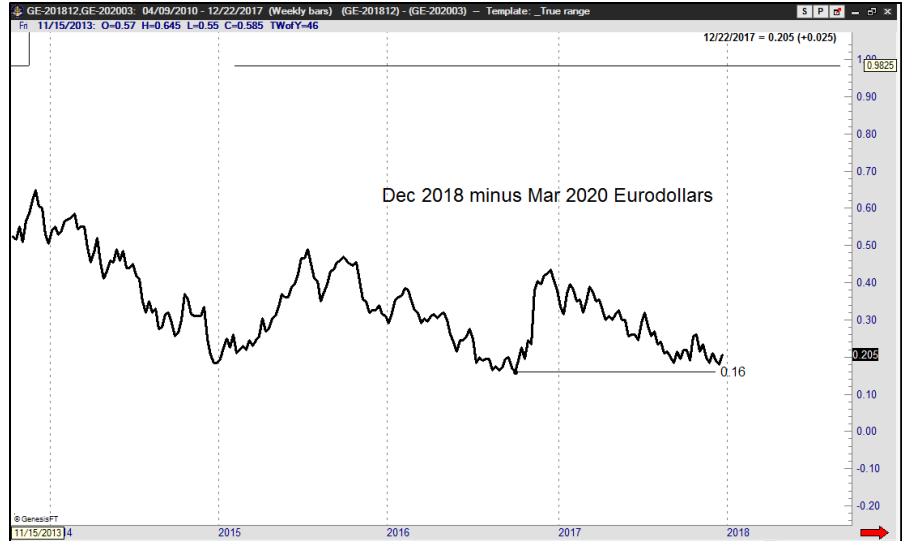
EuroSwiss (rates) – there is very little risk in being short at current levels

On Friday I decided to pull the trigger on this trade – selling the Sep 2018 contract at 100.66. With the Swiss National Bank holding rates at negative -75 basis points (100.75), this trade is a bet that SNB will raise rates by more than 10 BP in the next 9 months. It is inconceivable to me that SNB will go further into the red on rates, so the risk of the trade is CHF250. The quarterly graph places the current NIRP into perspective. The weekly graph displays a massive possible 3-year descending triangle top. Factor is short.



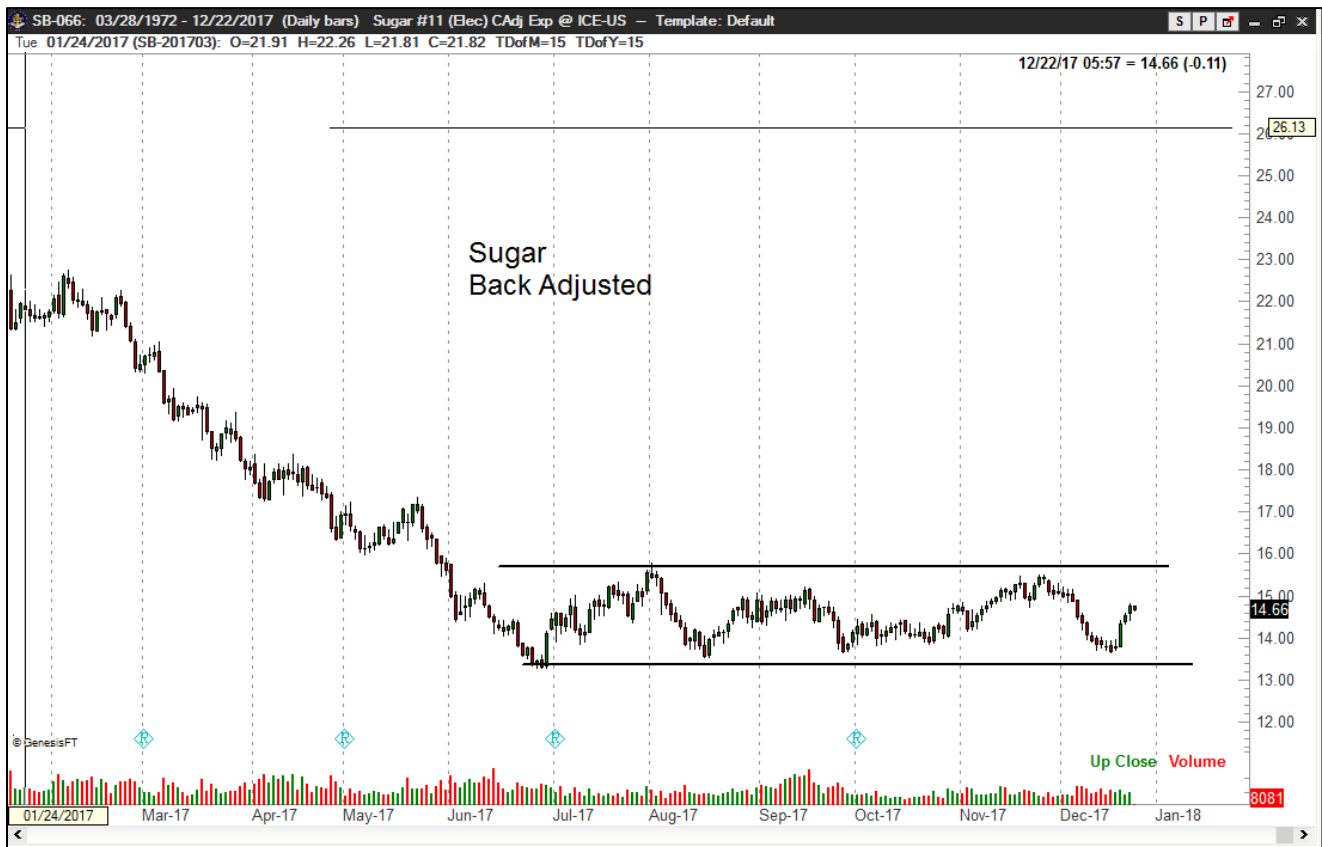
Eurodollar Spread (ED5-ED10)
 – in the time window for a cyclic low

See Factor Alert dated Oct 22. The yield curve has not begun steepening as I had expected. Factor is long Dec 2018 and short Mar 2020 futures (now that the Dec 2017 contract is in expiration the current trade is technically ED4-ED9).



Sugar – preparing for the next bull market

See the Factor Alert dated Dec 19, 2017. I seldom show back-adjusted price charts. [For background on back-adjusted charting, see <https://goo.gl/QU4pG6> .] The daily back-adjusted graph best shows the bottoming process this market is undergoing. The daily chart of the Mar contract displays a possible end-run. The daily chart of the Sugar ETN is also shown. I have an order to buy a dip in this market, but I ended up “fishing behind the net.” See additional charts, next page.





What is a Factor Move™?

I have a distinction between an ordinary run-of-the-mill trade and a Factor Move™. A Factor Move™ is characterized by the following:

- A clearly defined horizontal pattern, preferably between 13 weeks and 52 weeks in duration
- A decisive breakout with a minimum of retesting
- A sustained trend to the pre-determined target
- A profit target of 300-plus basis points
- The chart set up and subsequent move that qualifies the trade for the annual Factor Best Dressed List (released each Jan)

Currency markets – there are a few interesting set ups in forex

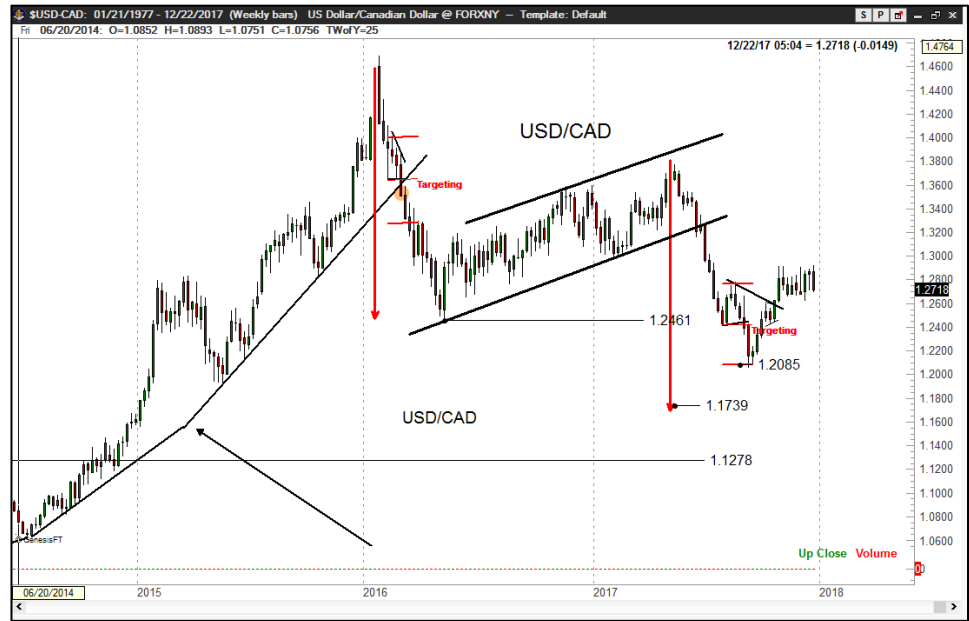
USD/SEK – the bell for round 2 might be rung

Only once have I detailed a specific trade via Twitter. It was in USD/SEK. Of course I also discussed and entered this trade as part of the Factor Service. USD/SEK appears to be setting up for another trade (not to be shared via Twitter). The daily graph displays a possible 5-week ascending triangle. I will monitor this chart for a buying opportunity – however, my instincts tell me this forex cross is headed lower.



USD/CAD – it’s a toss-up between the weekly chart and daily chart

Recent Factor updates have featured the Canadian Dollar futures contract (expressed as CAD/USD). The charts and discussion herein address USD/CAD which trades at a reciprocal price to the futures contract. I can argue this market from either side. The dominant trend on the weekly graph is down with a target of 1.1739. However, the daily chart presents the case for being long USD/CAD. A

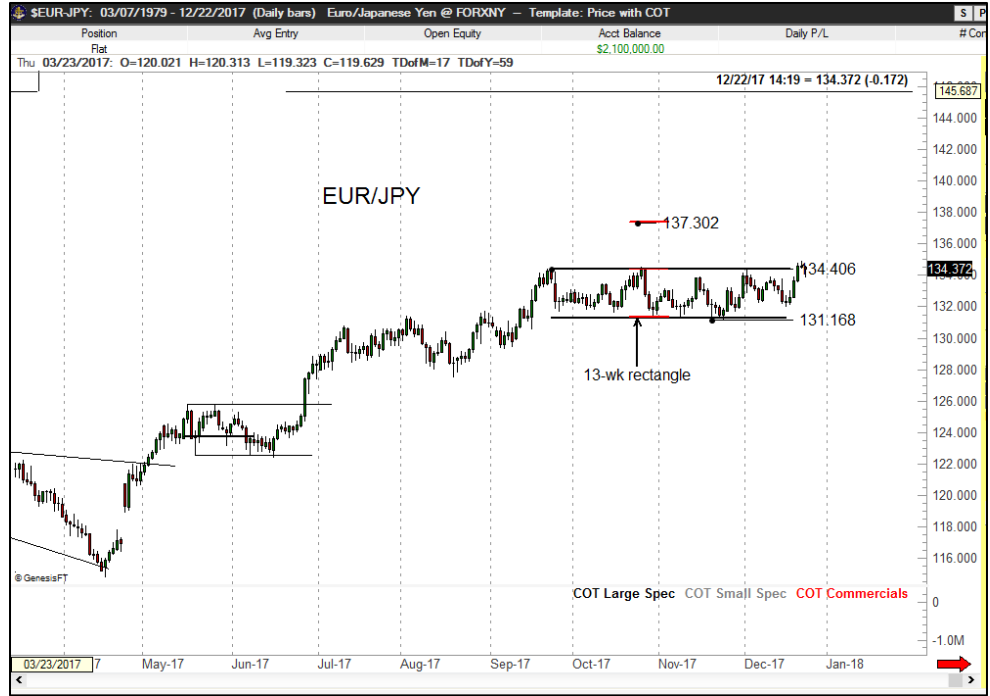


H&S bottom was completed in Oct and the market is now forming a possible continuation rectangle pattern. Commercials hold a near record short position in CAD futures (equating to a near record long position in USD/CAD). This fact is supportive of a long USD/CAD trade. I am willing to trade this market from either side should a low risk breakout occur. Factor is flat.



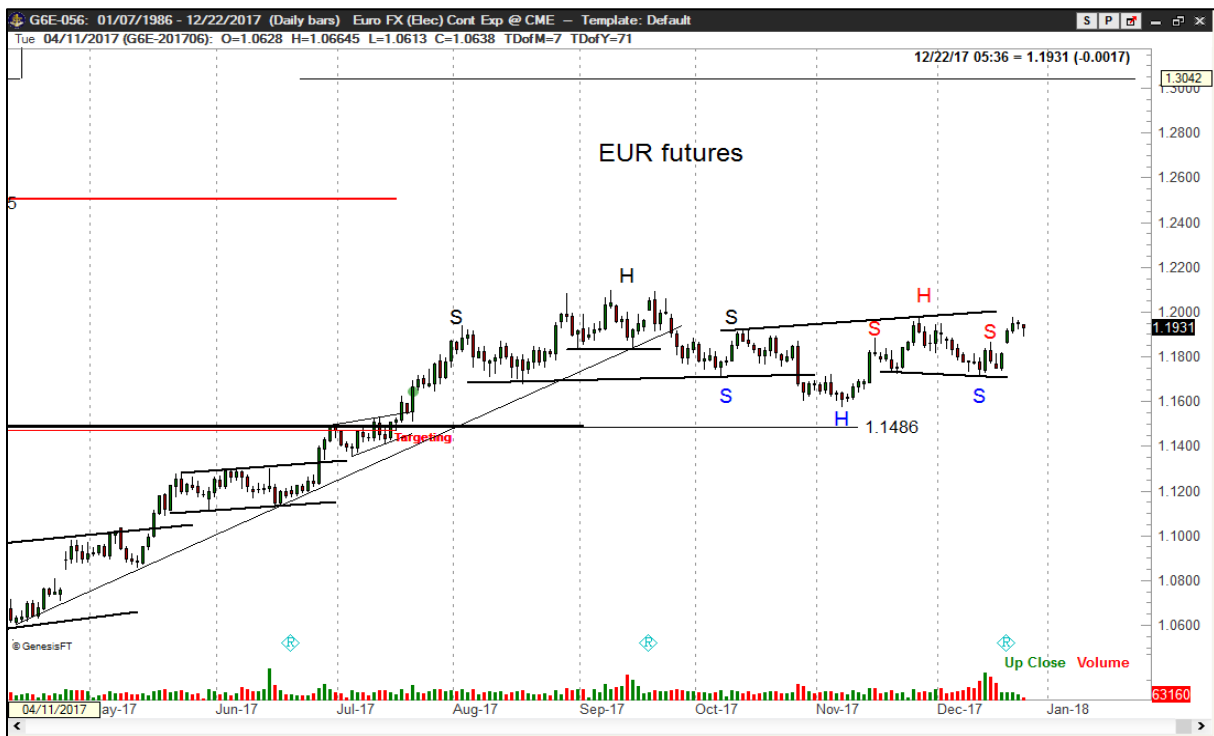
EUR/JPY – aah, my favorite pattern was completed, but appears to be faltering

See the Factor Alert dated Dec 19, 2017. I have found non-USD forex crossrates to be very difficult to trade for almost two years. I am a net loser during this period in non-USD crossrate trades. The narrow rectangle pattern in this pair broke out (barely) on Wednesday, but failed to follow through. I am entering the weekend long this pair – violating my rule to exit all losing trades on a Friday.



EUR/USD – Where’s Waldo?

The daily chart is an absolute mess. I am only presenting this market as background to a special report forthcoming titled “EUR/USD – the January Effect.” Long-standing Factor members are very familiar with the seasonal tendency for EUR/USD to put in its annual top or bottom during the month of Jan. Factor is flat.



U.S. Dollar Index

The daily graph of the US Dollar Index displays a possible continuation H&S pattern. I am interested in this chart as an indicator for other forex crosses. If this top is completed I will be on the lookout for the chart best displaying a short USD play. If USDX blows through the top of the right shoulder I will be on the outlook for the chart best displaying a long USD play. Factor is flat.



Chinese Yuan – symmetrical triangle has now been completed by a decline

I have been monitoring USD/CNH for a buying opportunity, believing the symmetrical triangle on the daily graph would breakout to the upside. The chart has broken out to the downside. Factor is flat.



Gold – right shoulder of massive H&S is under development

The weekly chart displays a possible massive inverted H&S pattern. The right shoulder should bottom sometime in the first quarter if the pattern is to achieve perfect symmetry. I will be monitoring this market for an early entry. Factor is flat, having been stopped out of a stall short position on Wednesday. I really believe Gold will rock and roll.



Post Mortems

SILJ. I moved my stop after the close on Monday to just above the Nov 22 high, considering it the "Retest Failure Rule" [see "Diary," Chapter 3).



The Factor Crypto Corner – a possible blow-off top has been seen in Bitcoin

BTC

For many months I have labeled the BTC charts (both arithmetic and log) as a classic parabolic advance. I have also pointed out that parabolic moves generally do not end well – and most often, when violated, represent the absolute top of a bull market.

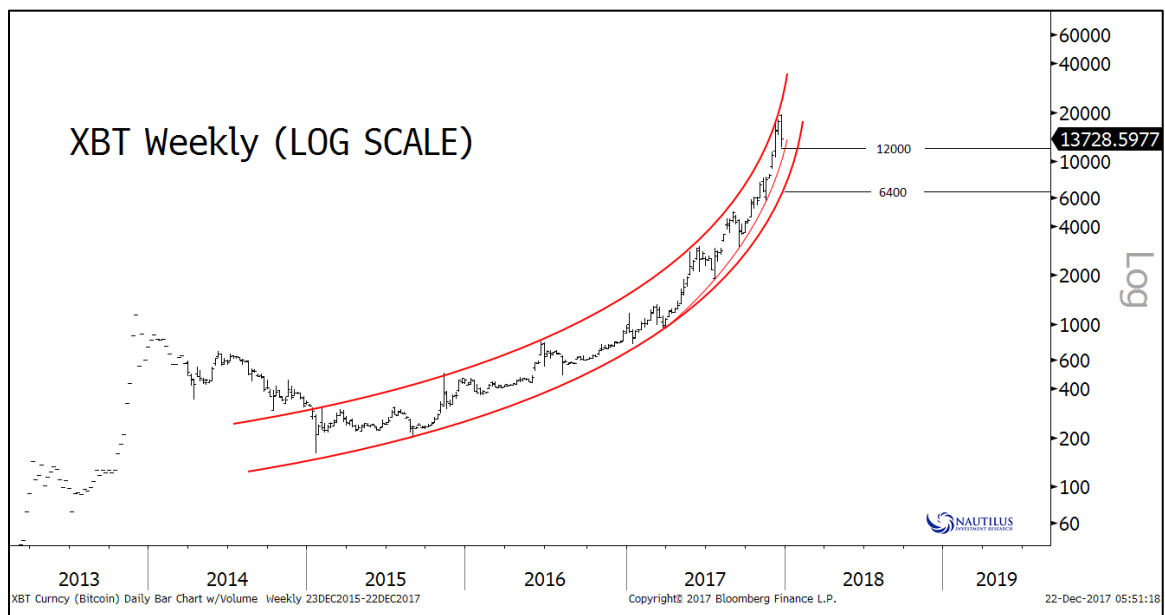
Charting is an imperfect science – I actually consider outstanding chartists to be craftsmen (and women), not scientists. The challenge in the case of the parabola in BTC is that the lower boundary can be drawn with different slopes. The parabolic move represented by the Bloomberg graph (courtesy of Nautilus Capital) has plenty of downside room to go without violating the parabola. On this chart the parabola remains intact.

Cryptos and the use of intraday charts
I normally avoid using intraday charts except if they can provide a fine-tuned entry on a trade founded on a daily graph. I believe intraday charts are much more pertinent to Cryptos because of the pace of price action. Crypto have done in less than a decade what it takes normal markets 30 years to do. So, I will continue to use intraday (4-hour) charts to both analyze and trade Cryptos.

The parabola has been violated on my log chart of BTC, as shown on the two TradingView graphs (daily and 3-hour). Also note that the intraday graph formed a clearly defined H&S top pattern. Some of the most powerful moves occur when a chart pattern is completed simultaneously with another chart feature (in this case the parabolic fan line).

So, is the entire bull trend in BTC done? I am not sure – and as a BTC agnostic I really don't care. It could be that the parabola on the Nautilus chart proves to be correct. For now I am flat and will stay that way until I get a new bearing on this market.

It also could be that the analog cases for the BTC market are NASDAQ (2000-2010) and Gold (1980-2005). If these prove to be correct, analogs, then cryptos have much further to go in the bull market.



It took 10 years for NASDAQ to shake off the 2000 collapse and commence an even larger bull trend. After Gold's top in 1980 it took 25 years to begin its next bull phase. The crypto markets are transpiring at such a flash speed that the next huge bull wave could be only a year or so (or even a month or so) from starting. Factor is flat BTC, having blown out on Dec 19.

factorco published on TradingView.com, December 22, 2017 14:13 UTC

BITSTAMP:BTCUSD, D 11800.00 ▼ -3800.01 (-24.36%) O:15600.00 H:15795.61 L:11765.00 C:11800.00



Created with TradingView

factorco published on TradingView.com, December 23, 2017 15:35 UTC

BITSTAMP:BTCUSD, 60 15201.00 ▲ +1191.21 (+8.5%) O:15570.00 H:15756.22 L:15140.00 C:15201.00



Created with TradingView

Ethereum

The further target at 1087 might still be reached, but I blew out of my final ETH position on Thursday.



Final comments on Cyrtos and money management

The perma-bulls on BTC may be right – maybe it goes to \$100k or even \$1MM. But my opinion on a market or analysis of a chart will always take second fiddle to risk management and protecting my capital. The idea that I would ride a market through a 30%, 40% or even greater correction is inconceivable to me, even if such a correction would not challenge my initial entry levels. Unfortunately, holding a long position in cryptos has become a religion to many – going far beyond being a trade or an investment. Social media (Twitter) is overloaded with people who have transitioned from being BTC bulls, to cryptomaniacs and now cryptocultists. I have a basic operating principle when it comes to markets such as BTC and it is this:

"I can always get back in – and if I do not get back in there will always be another good trade around the corner if I remain disciplined and patient."

I think it is an easy prediction that the most avid cryptomaniacs who insist on "hodling" no matter what will end up losing most of their profits. As they sit through major correction after major correction their sense of confidence that each correction will product new ATHs will strengthen. And the higher prices go, the more bullish they will become. If the top is not currently in place, it will be some day. They will refuse to believe the bubble has burst – when it does burst – and they will ride their position all the way down. This cycle happens in every major bull market. And NO – this time it is not going to be different. Even if BTC should go to the \$1 million cryptomaniacs predict, they will be too wildly bullish to take the profits they will eventually lose.

Factor Tracking Account, December 22, 2017

Table shows only open trades as of December 22, 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														12/22/2017				
Model Tracking Account Trade History and Portfolio																		
Constant nominal capitalization: \$100,000																		
(See disclaimers and notes below)																		
Market		Entry									Stop Date	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)
		Date	L/S	Price	Size	Initial stop	BP risk	Current Stop	Target	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
SILJ	Jr. Miners	11/10/17	S	10.70	300	11.91	36	11.06	12/18	6.41		14-mo desc tri	14-mo desc tri	19-Dec	11.06	\$ (113)	Closed	-
ETH/USD	Ethereum	11/23/17	L	421.15	5	354.88	32	754.88	12/19	1087.00		5+ mo asc triangle	5+ mo asc triangle	21-Dec	754.62	\$ 1,622	Closed	-
YGG8	Gold mini (32.15)	12/6/17	S	1266.20	1	1279.40	40	1267.6	12/14	1225.2 r		9-wk desc tri	9-wk desc tri	20-Dec	1267.70	\$ (53)	Closed	-
ETH/USD	Ethereum	12/11/17	L	511.18	4	458.88	16	754.88	12/21	1087.00		5+ mo asc triangle	4-wk rectangle	21-Dec	754.62	\$ 954	Closed	-
BTC/USD	Bitcoin	12/13/17	L	16043.57	0.3	15048.87	30	17597.87	12/19	20367.00		Major bull trend	4-day half mast flag	19-Dec	17558.42	\$ 449	Closed	-
ZNH8	T-Notes	12/20/17	S	123^26	1	124^09	47			122^27		Poss 6+ yr dbl top	9-wk desc tri				\$ 1,155	NA
EUR/JPY	EUR/JPY	12/20/17	L	134.624	30k	133.47	30	133.83	12/22	137.24		14-wk rectangle	14-week rectangle				\$ 1,780	\$ 35,592
ESU8	EuroSwiss	12/21/17	S	100.65	1.0	NA	NA			100.28		3-yr desc tri					\$ 371	NA
Trades as of																\$ 2,859	\$ 3,806	\$ 35,592
Indicates open position value as of																	Levered at	0.4
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																	Margined at	
<small>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 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. CFTC RULE 4.41 - HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER-OR-OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN.</small>																		

plb
###