



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

Factor Update, December 31, 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, Crude Oil, Gold and cryptos. *Signifies a position in the Factor \$100,000 Tracking Account

<p><u>Developing signals</u></p> <ul style="list-style-type: none"> • Nikkei Dow – entry order and protective stop • Gold • Sugar -- alert 	<p><u>Existing positions</u></p> <ul style="list-style-type: none"> • Eurodollar spread (ED5-ED10) -- alert • EUR/JPY – protective stop and target • EuroSwiss (rates) – target • SSG (Sugar ETF) – protective stop and target • USD/CAD – protective stop and target • US Dollar Index – protective stop and target • EuroStoxx – protective stop and target • FTSE – protective stop and target
<p>The Factor Tracking Account is currently leveraged at 3.7 X. The margin-to-equity use for futures and forex is 24.1%.</p>	

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Reminder of upcoming New Year’s three-day weekend

January 1, 2018 will be a Monday. Many substantial trends have begun during the course of my trading career on Sunday and Monday during a three-day New Year’s weekend (when the Monday was a holiday). Most traders will be enjoying the 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. Be alert.

Developing the January Jitters

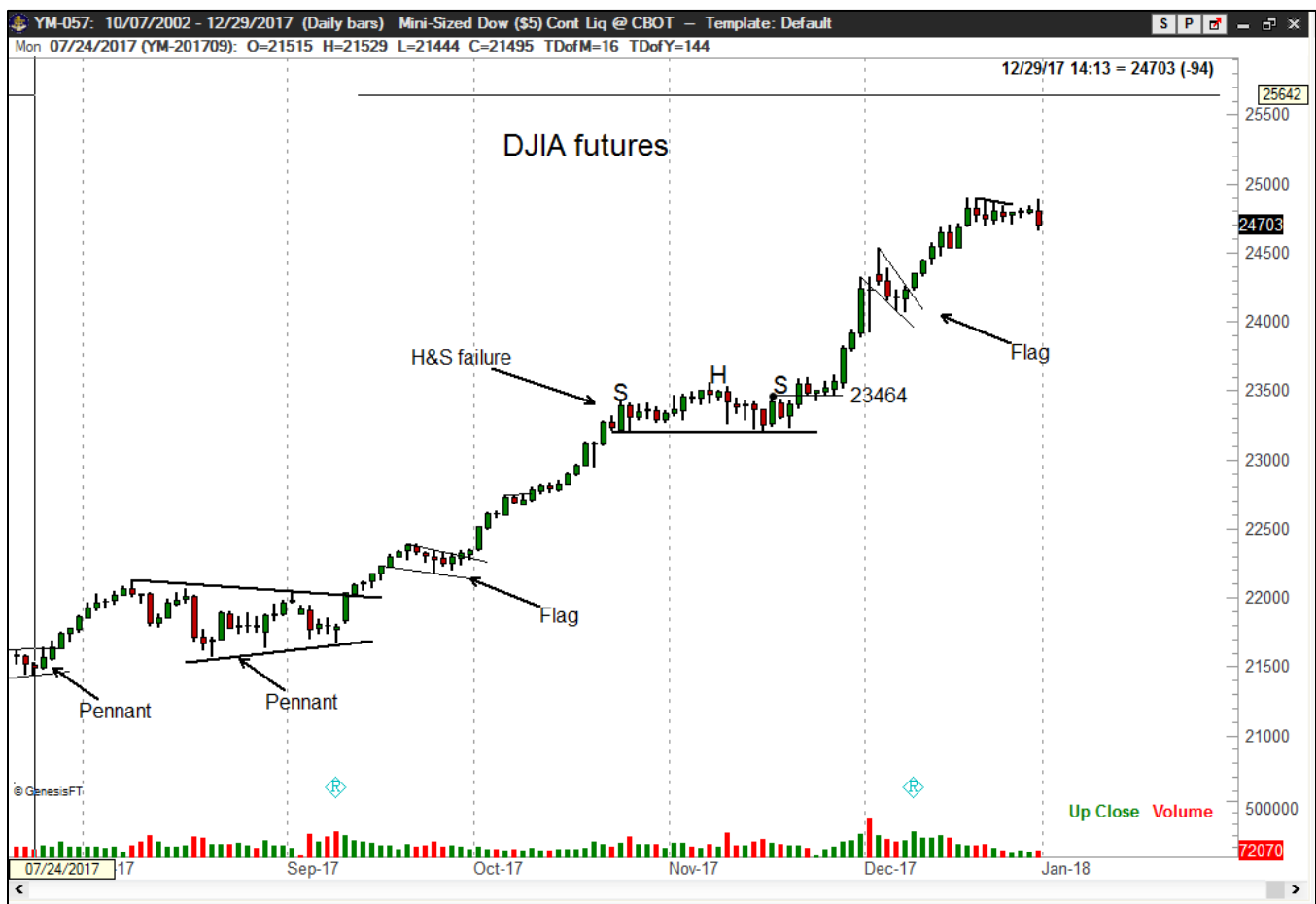
I established 257 basis points of risk this past week and moved from .4X leverage on Dec 22 to 3.7X leverage as of the close on Dec 29. While I like all the chart patterns underlying these new initial positions (NIPs), quite frankly putting on that much risk into a New Year makes me nervous. I would much rather have had these signals occur this coming Sunday and Monday (see comments regarding three-day New Year weekends on page 1). As always, my goal will be to clamp down on initial risk as quickly as feasible. Hopefully I squeeze the risk of these positions down to 150 basis points (or less) by the end of next week.

Global stock markets – some short-term signs of weakness have appeared

Some short-term signs of weakness came into global equities this past week.

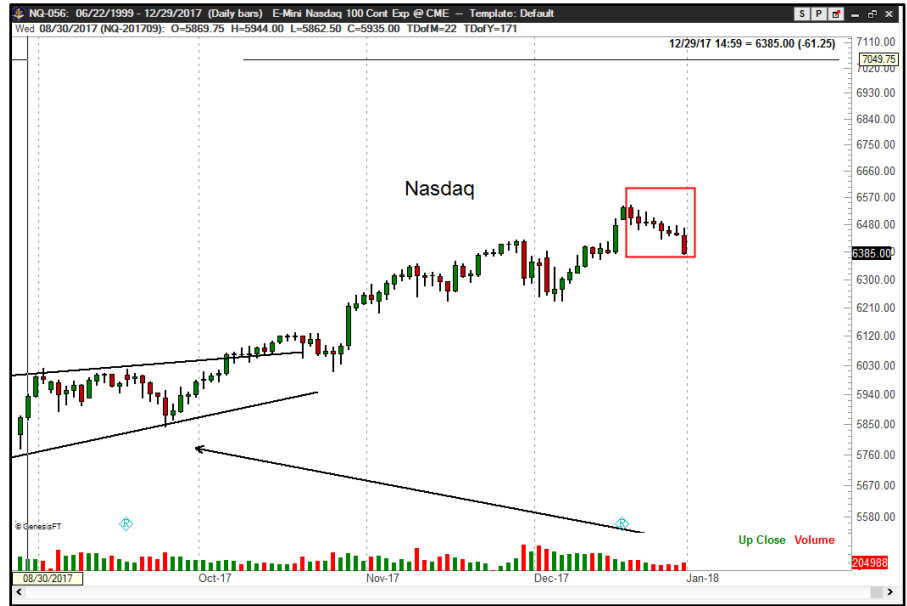
DJIA

The bull trend in the Dow since the Nov 2016 U.S. elections has been classic – I have missed a number of wonderful continuation patterns with no fault but my own. Friday's candlestick bar was negative, although negative one-day price bars have come and gone for the past 13 months with minimum impact. Factor is flat.



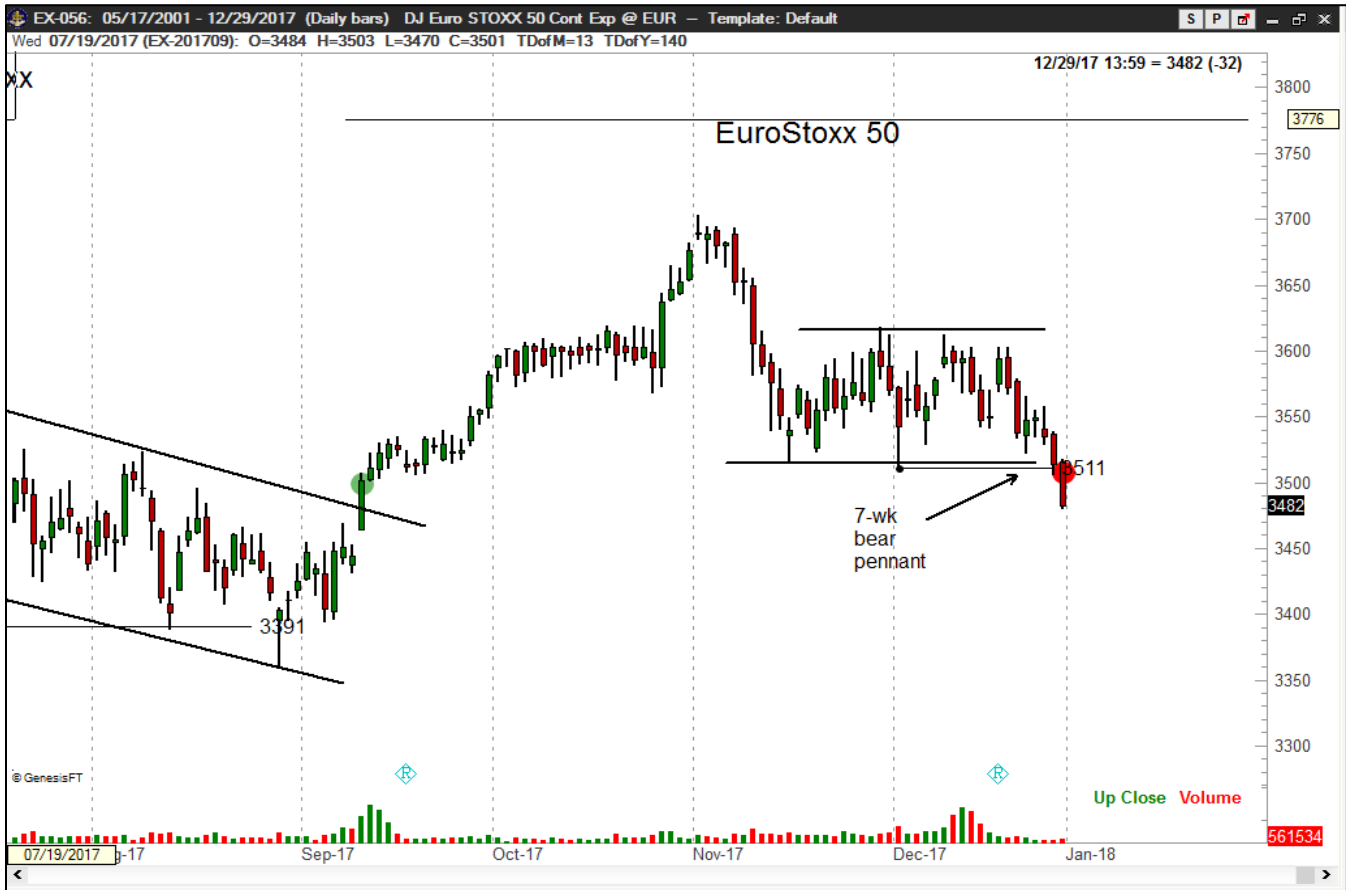
NASDAQ

The price action on the daily NASDAQ chart is striking. A series of consecutive days in the same direction always grabs my attention. In this case the market has experienced eight straight lower closes. Factor is flat.



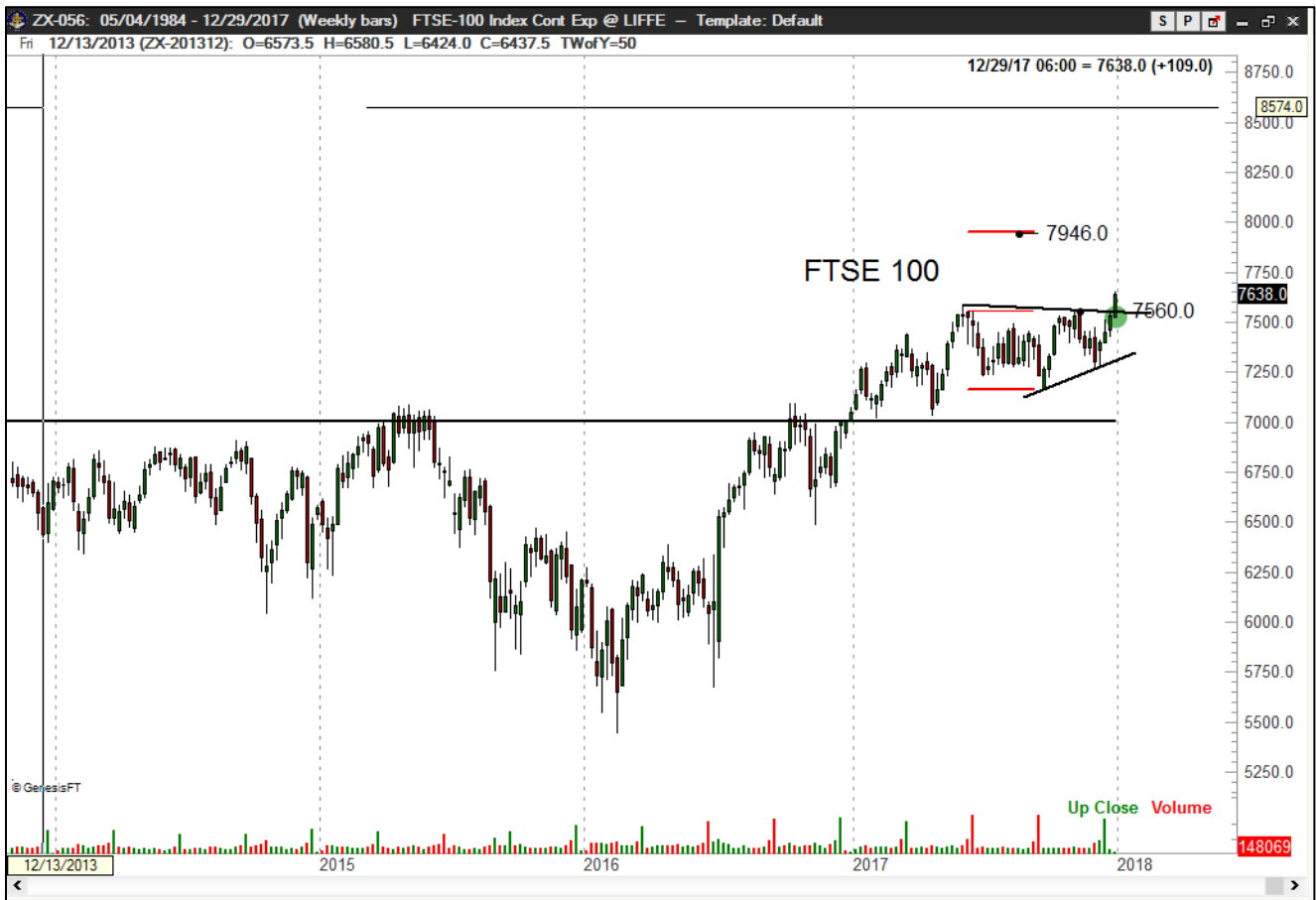
EuroStoxx

The decline on Thursday completed a 7-week bear pennant on the daily EuroStoxx graph. I have pointed out this pattern in recent weeks. With a favorable R/r profile Factor shorted the EX on Friday.



FTSE

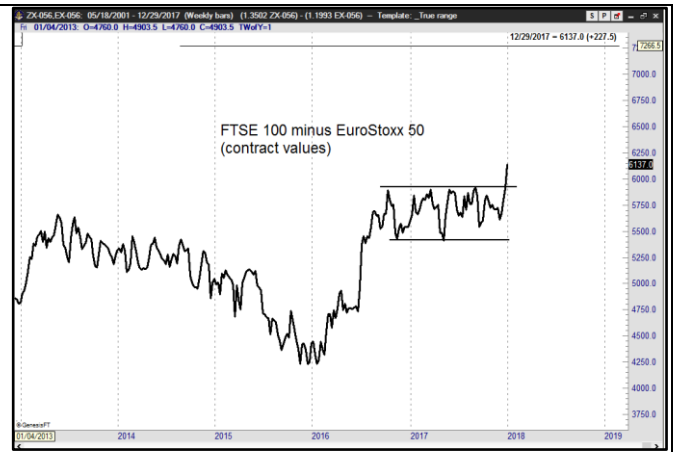
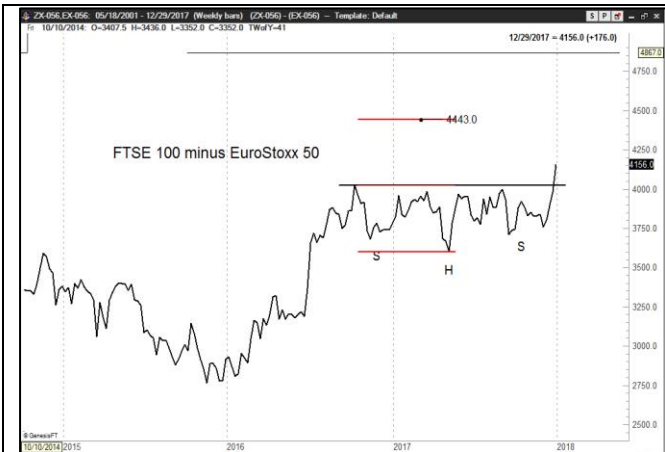
The advance in early 2017 completed a multi-decade ascending triangle on the log graph. **Equities in the UK are in a major bull trend.** I entered the week wanting to purchase a pull-back in FTSE, but redrawing the charts I realized that the close on Thursday with follow through on Friday completed a 7-month symmetrical triangle on the weekly and daily charts. Factor is long, having bought the Mar futures on Friday. See daily graph, next page.





FTSE 100 – EuroStoxx 50 spread

Factor bought the FTSE and shorted the Eurostoxx on the merits of each individual chart construction. While these are individual positions, the spread charts supports the concept of being long UK and short mainland Europe. The two spread charts shown are for the price differential of the indexes (continuation inverted H&S) and the differential of the value of the two futures contracts (rectangle).



Alibaba

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



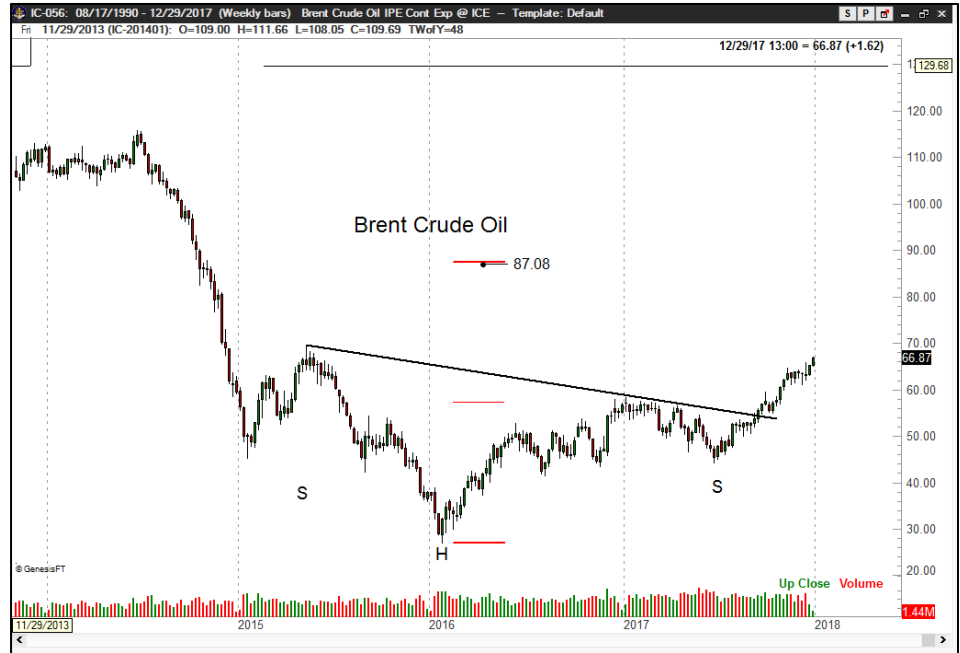
Osaka Nikkei

I remain 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. I find that the Osaka Nikkei is a quantum-times more liquid than the CME contract. With only a fractional margin requirement needed to carry the futures trade in Osaka the currency risk (USD/JPY) is negligible.

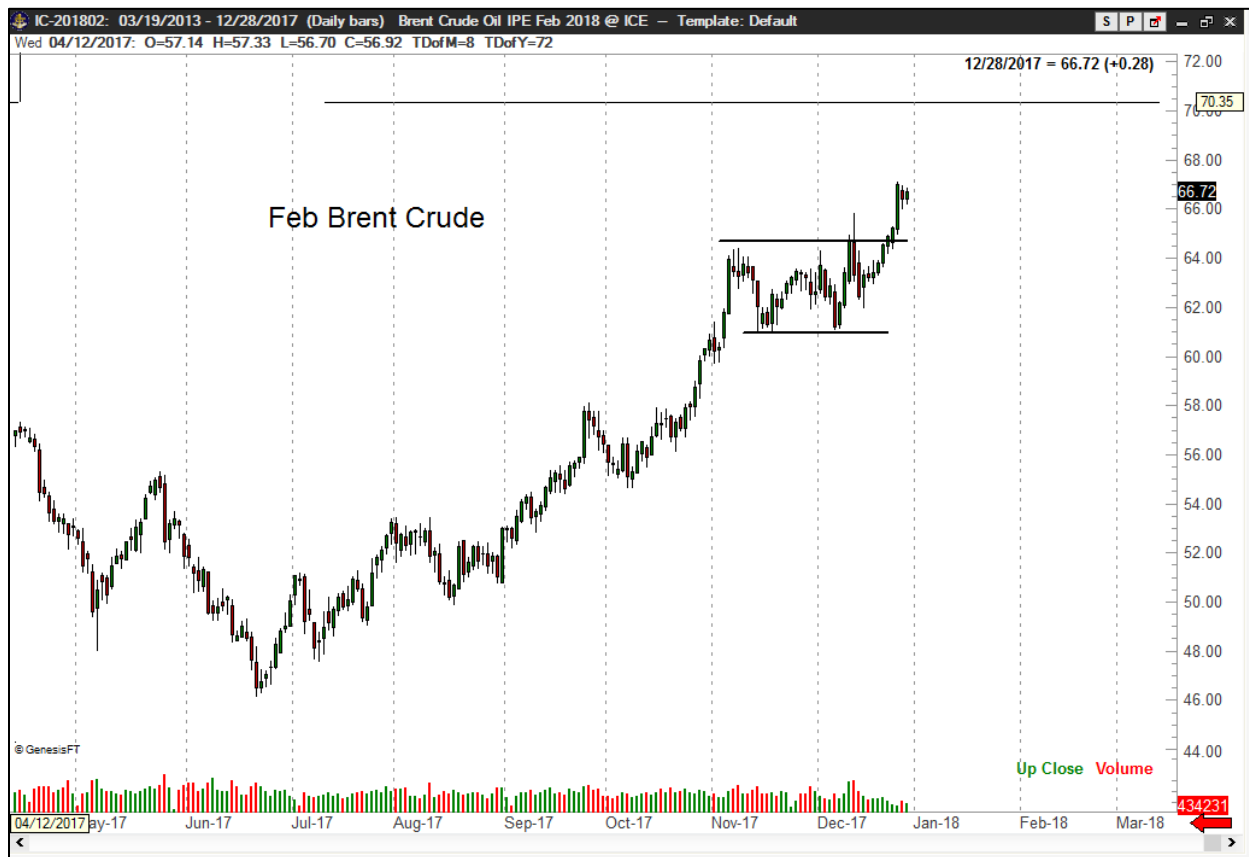


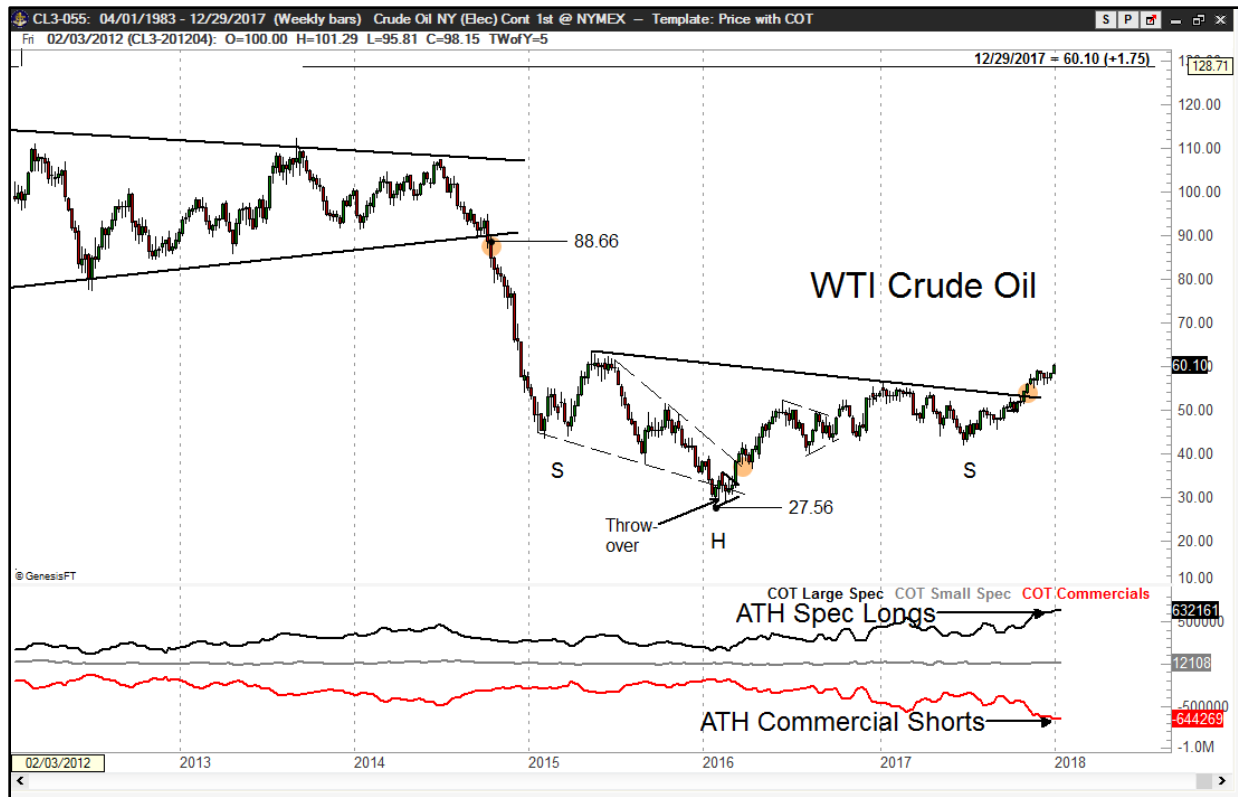
Crude Oil – bull market is now well entrenched (without me)

The Brent Crude weekly chart has clearly completed a massive H&S bottom pattern. The breakout of this pattern was such that an asymmetrical reward to risk (R/r) profile did not develop. The close on Tuesday completed a pennant on the daily graph. I will count this as a missed trade. The weekly chart of WTI has also completed a H&S bottom, but leadership is coming from the Brent contract.



Factor is flat. The charts of WTI Crude are shown on the next page. It should be noted that the COT Commercial Short profile is now at new ATHs, exceeding the level from the 2014 price peak.





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

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

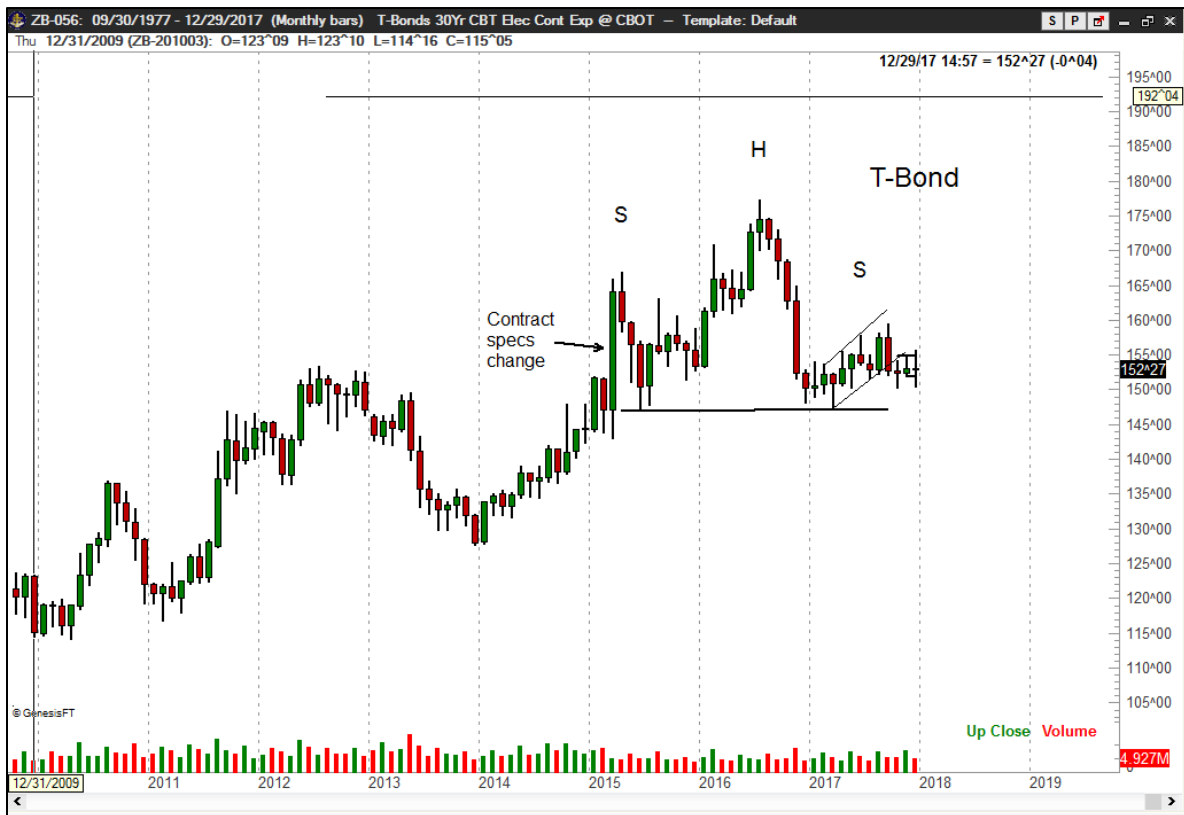
Australian 3-Yr Bonds

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 \approx AUD30.77. Thus, a short at 97.78 risked to 97.94 would represent \approx AUD492 or USD380. Factor is flat.



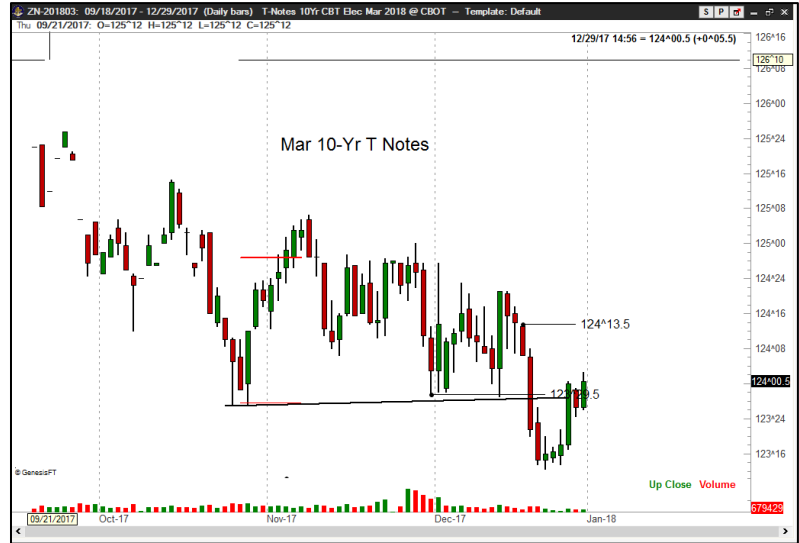
U.S. T-Bonds

Yields on 30-Yr T-Bonds have trended lower since the early 1980s within the boundaries of a trading channel. The yield chart (not shown) displays a 3+ year H&S bottom pattern, reflected as a H&S top on the weekly graph of the nearby futures contract. Factor is flat.



U.S. 10-Yr T-Notes

The monthly chart (not shown) of the 10-Yr T-Note futures displays a possible massive double top. Factor came into the week short the 10-Yr futures. The rally on Wednesday blew me out of the position. Factor is flat.



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

The Swiss National Bank is holding rates at an unbelievable, mind-boggling, never-before-maintained negative -75 basis points (100.75). That's right – holders of Swiss Francs lose 3/4s of 1% per year to remain in cash. Priced at 100.66, short Sep 2018 EuroSwiss is a bet that the SNB will raise rates more than 10 basis points during the next nine months. The risk of the trade is CHF250. The quarterly graph places the current NIRP into perspective. The weekly graph of the Sep 2018 contract displays a massive possible H&S top. Factor is short.



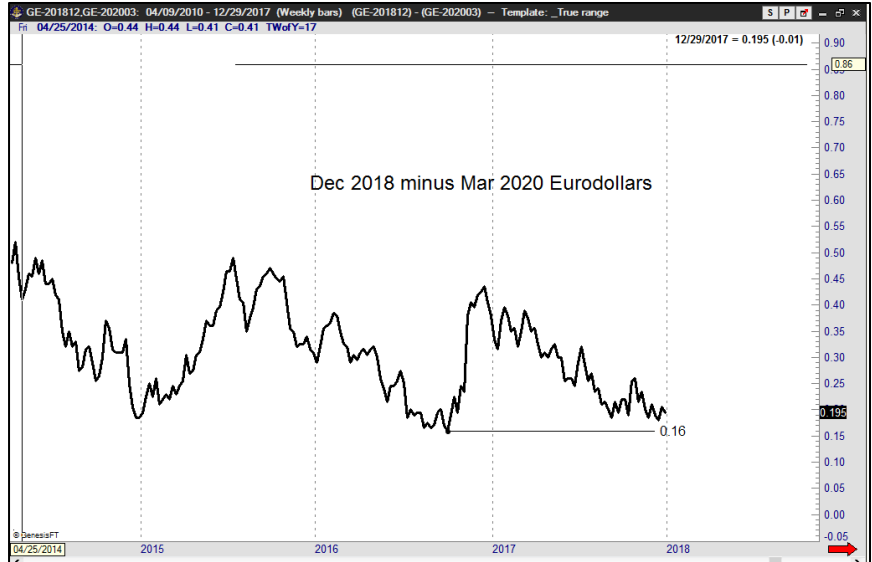
Sugar – preparing for the next bull market

See the Factor Alert dated Dec 19, 2017. The daily chart of the Mar contract displays a possible end-run. The daily chart of SGG (the Sugar ETN) is also shown. Not expecting a meaningful dip in the Mar contract I bought SGG. I will monitor the futures contract for a breakout of the triangle. The Factor Tracking Account is long SGG.



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).



Currency markets – anxiously anticipating the January Effect in EUR/USD

USD/CAD

The decline on Wednesday completed the 10-week rectangle on the weekly chart. Friday's candlestick bar is slightly problematic for short positions. Accordingly I have broken my trade into two tranches with a very tight protective stop on half of the position.



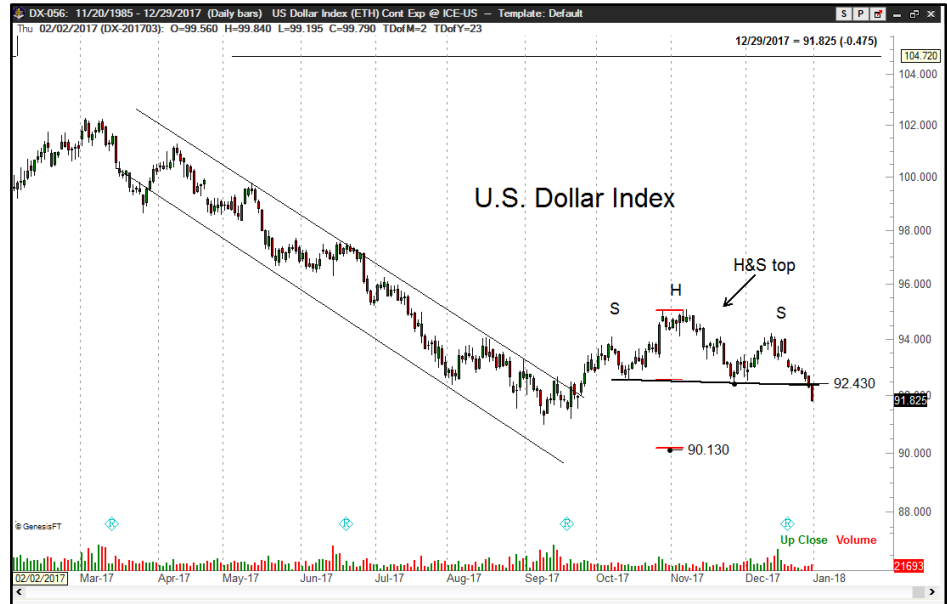
EUR/USD – anticipating January Effect lows

See the Factor Special Report titled “The January EUR/USD Effect” dated Dec 26. Shown herein is another graph that supports the presupposition of a Jan low in this forex cross – a cycle chart courtesy of our friends at Nautilus Capital. EUR/USD has established a 193-month cycle for major lows. We are currently in the window for that low. The daily chart completed a very questionable symmetrical triangle on Thursday. I am not a real fan of such diagonal patterns. Factor is flat.



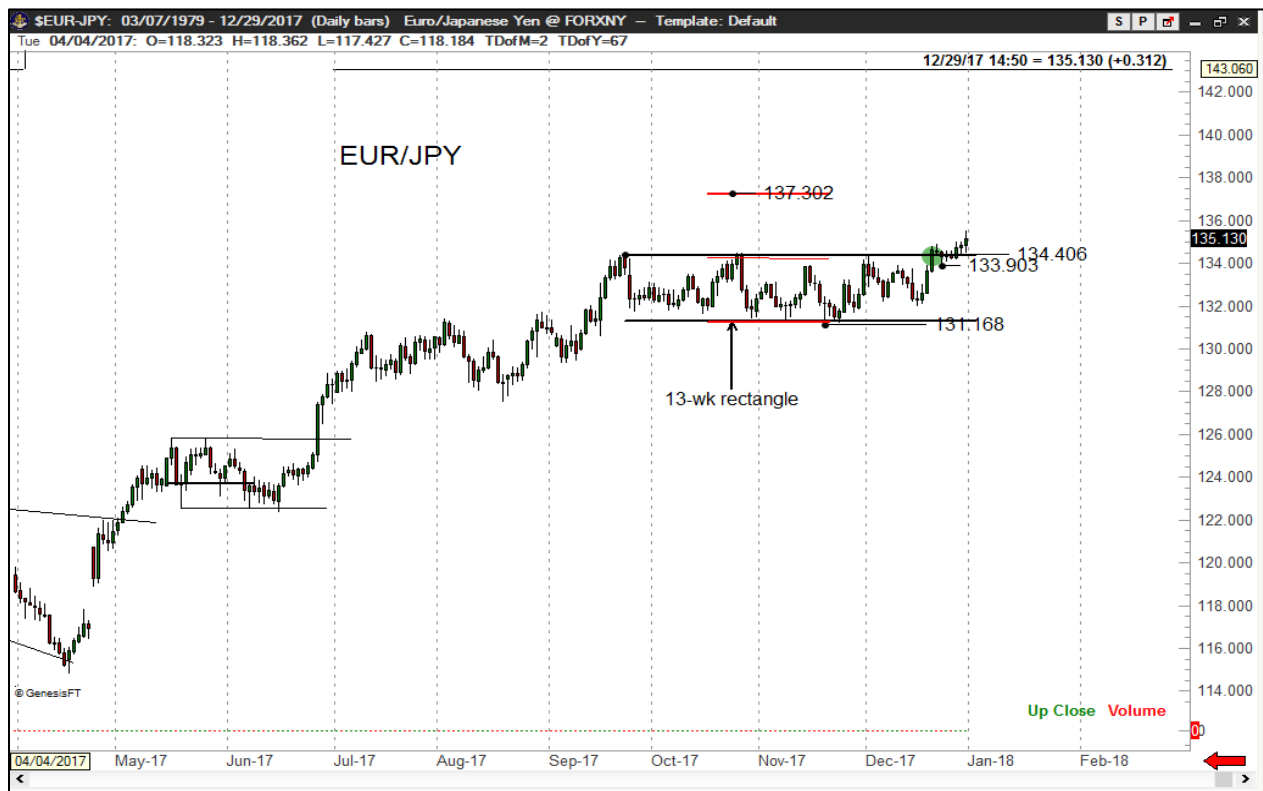
U.S. Dollar Index

The Factor Special Report titled "The January EUR/USD Effect" dated Dec 26 pointed out my preference to be short USDX over being long EUR/USD. While the daily chart of EUR/USD is a mess, the daily graph of the US Dollar Index completed a rather precise H&S top pattern on Thursday. Accordingly, Factor is short U.S. Dollar Index futures. I cannot help but notice that if USDX holds at the Sep low a possible double bottom will come into play.



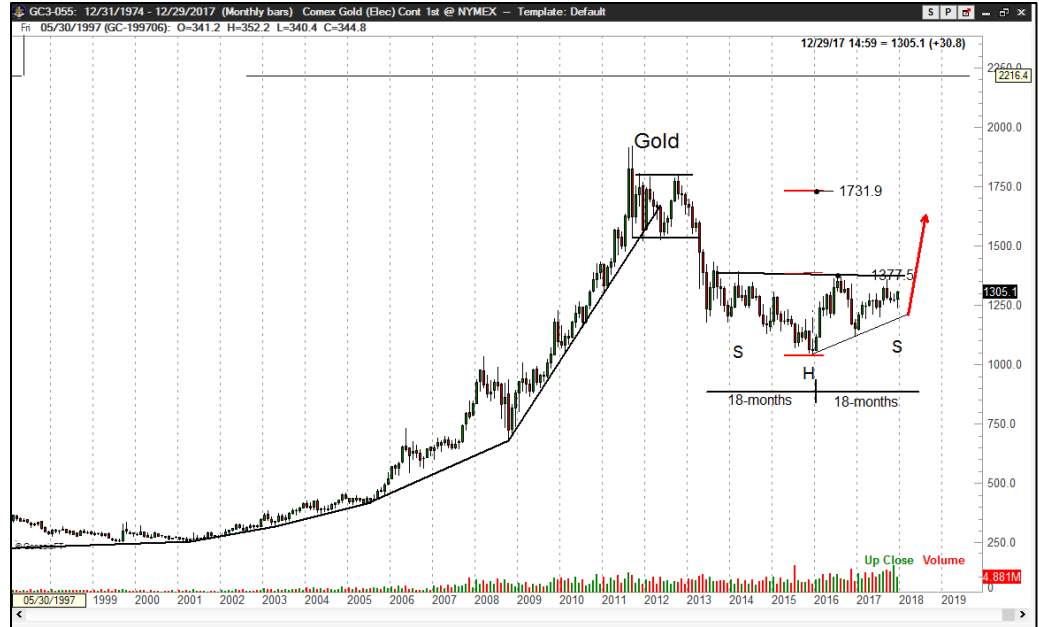
EUR/JPY – the narrow 13-week rectangle appears to have been resolved

Last week's Factor Update mentioned that I over-rode my mechanical rules to take a long position into the Christmas weekend. Sometimes it pays to trump a trading rule – more often than not doing so is a bad bet. The rally on Wednesday and follow through on Friday appear to have resolved the Dec 20 breakout of the 13-week rectangle. Factor is long.

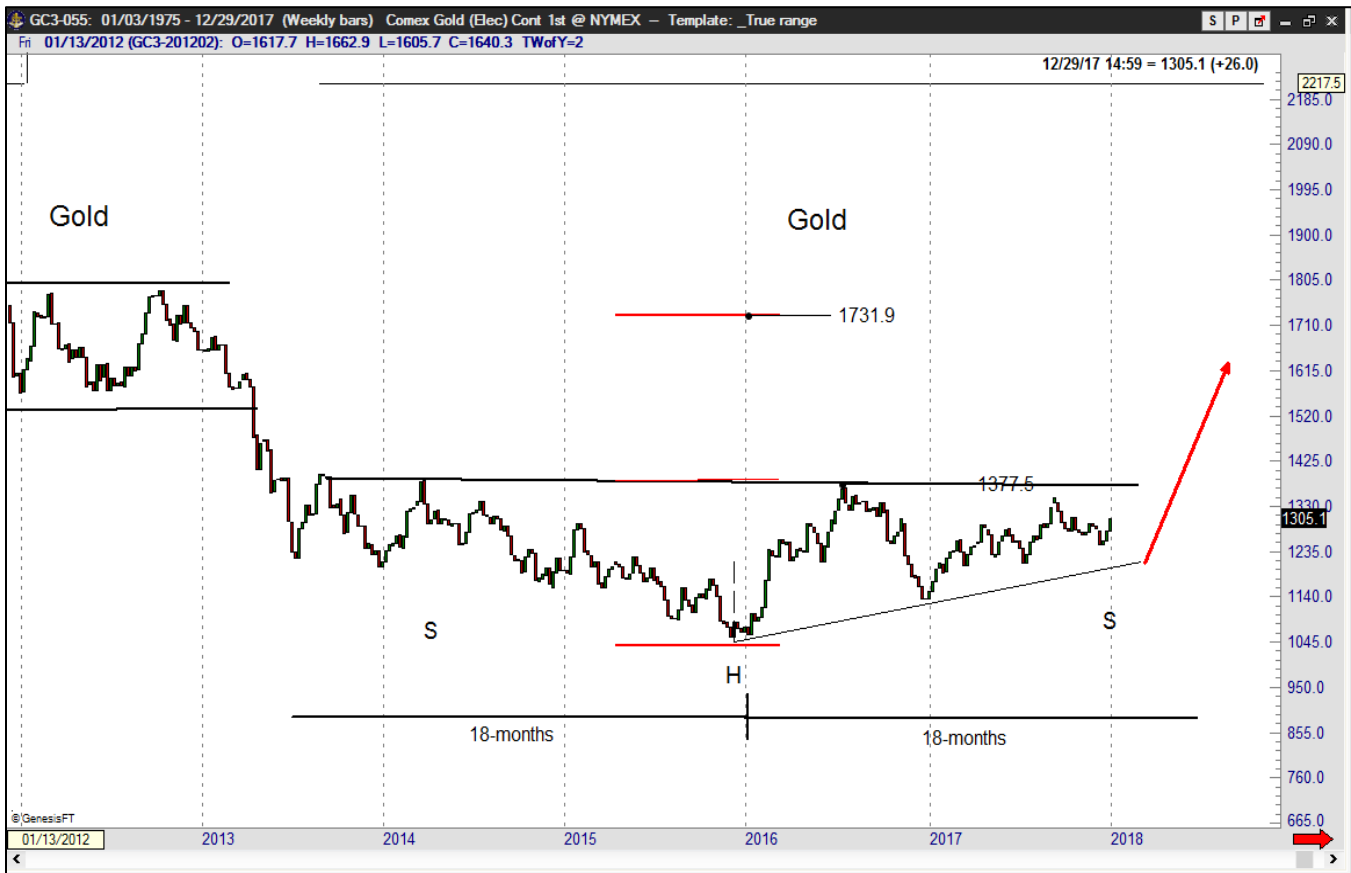


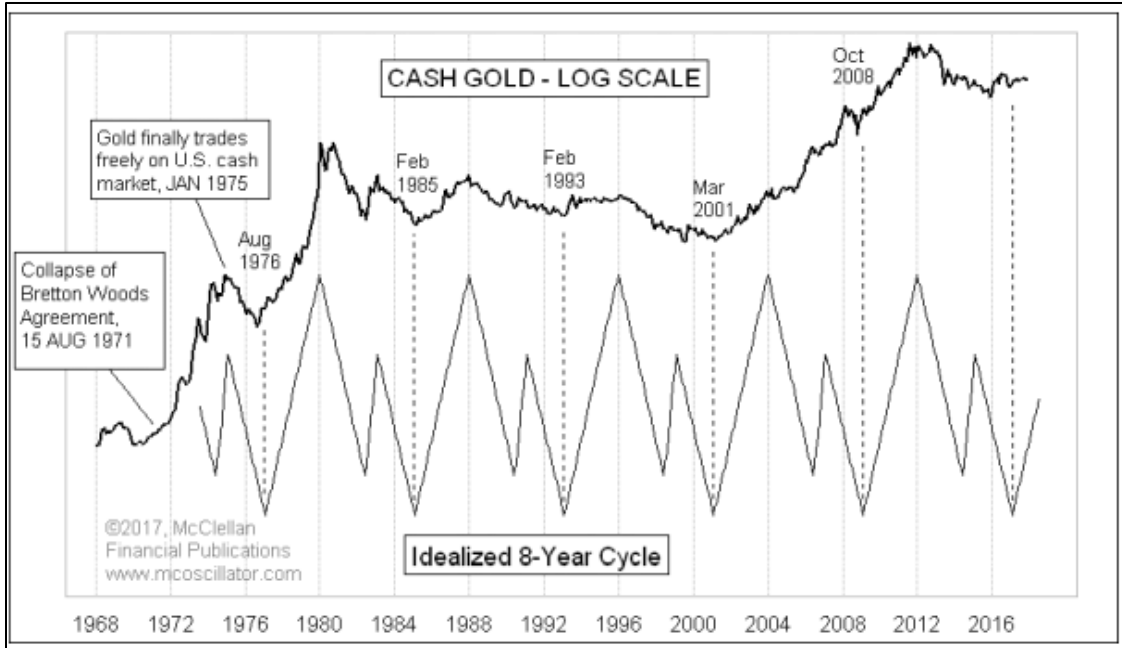
Gold – anticipating a strong 2018

I believe there is a good chance that the precious metals will be an outstanding asset class in 2018 – Gold could outperform Bitcoin in the year ahead. The monthly Gold chart is shown to provide some historic perspective. Notice that the market is still finding its footing after the 2012 violation of its parabolic advance.

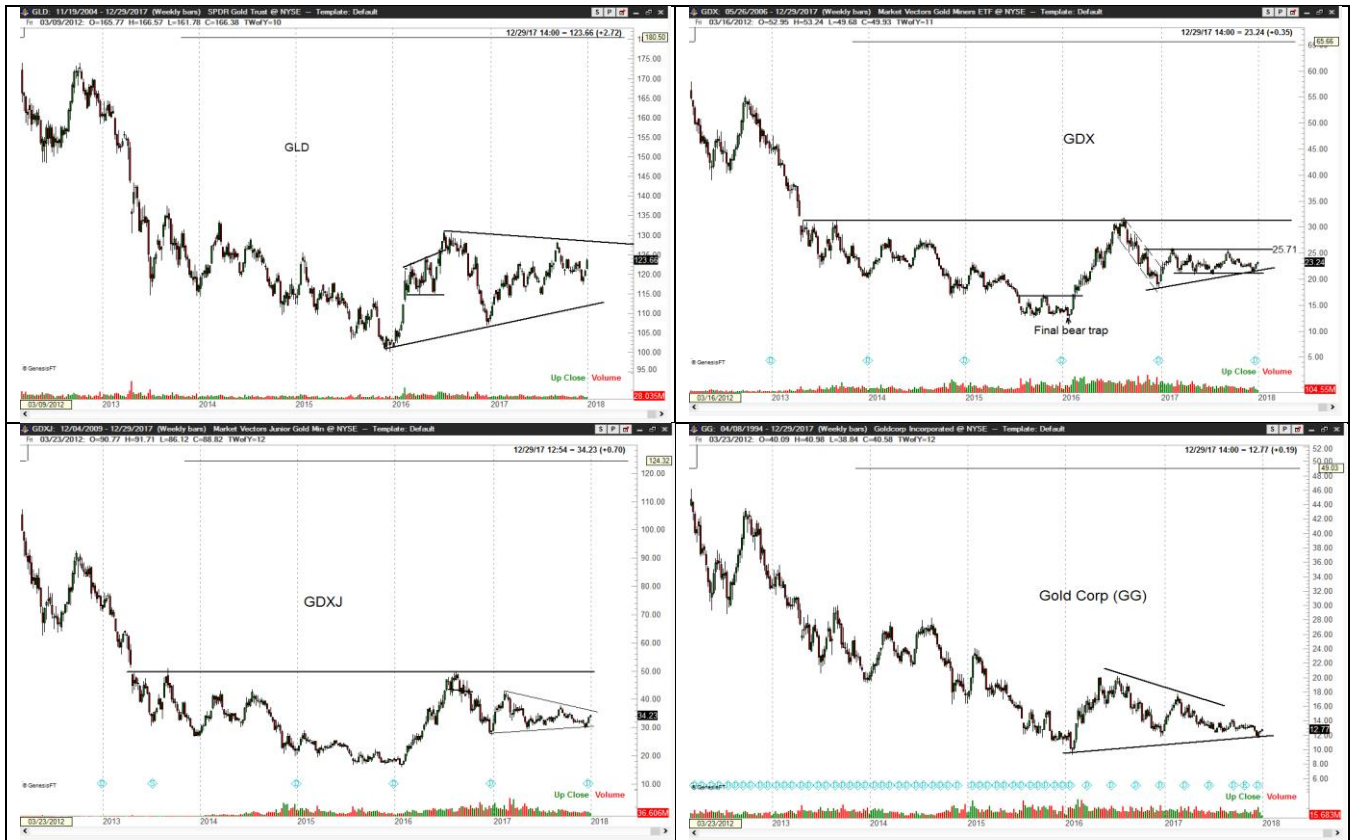


The weekly chart (RealRange) displays a possible massive inverted H&S pattern. A chart courtesy of McClellan Financial indicates that Gold is advancing from 8-year cycle lows. Also shown are a number of graphs for Gold-related ETFs and gold mining companies. I am keenly interested in the long side of Gold futures. Factor is presently flat.





http://www.mcoscillator.com/learning_center/weekly_chart/golds_8-year_cycle/





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The Factor Crypto Corner

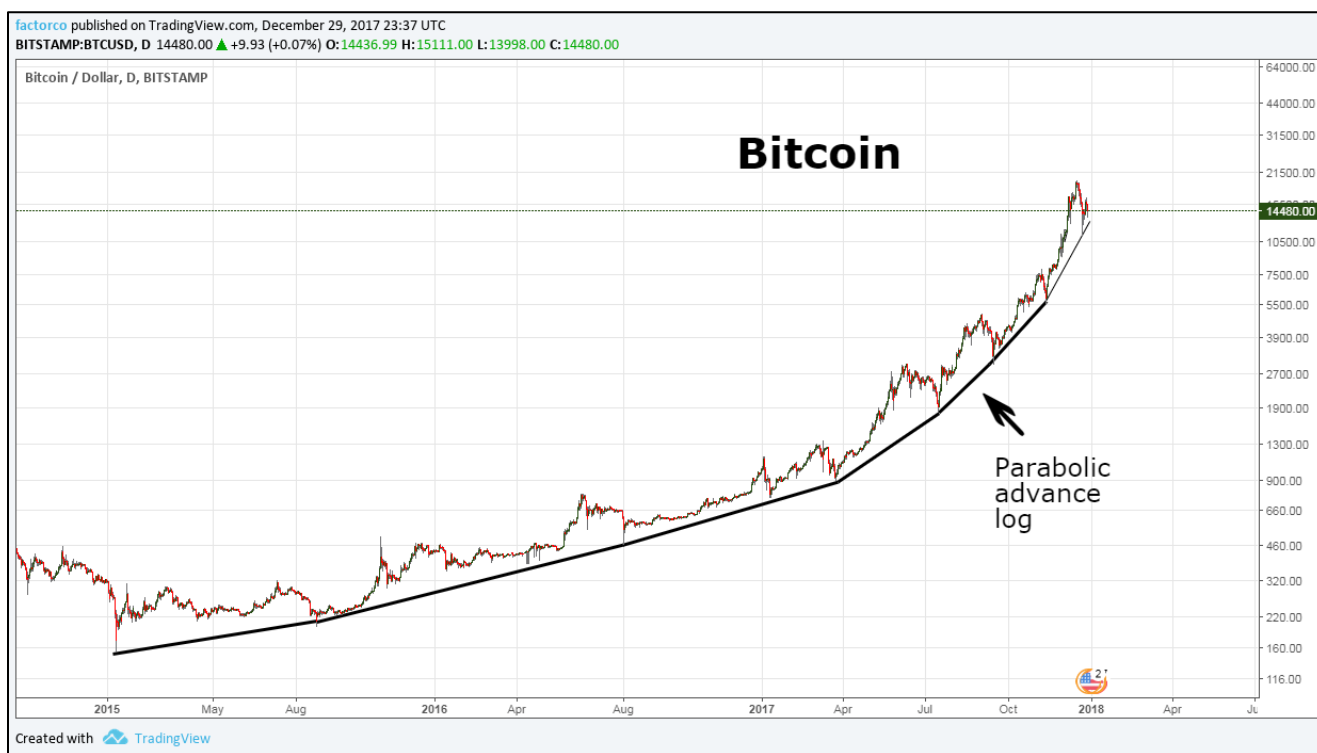
The Factor Crypto Corner – large cap coins have entered trading ranges

BTC

My best guess is that BTC remains in its parabolic advance, albeit with a slightly lower angle of attack than I earlier thought reasonable. But under this interpretation the chart is reaching a critical juncture whereby prices must begin to accelerate dramatically lest the parabola be violated. I fully realize that the cryptomaniacs among you remain skeptical of price charts – that “parabola-be-damned” when it comes to the best invention since fresh water or foie gras.

I am crypto-agnostic. To me the cryptos are just another trading category (like Gold, fiat currencies, grains, Crude Oil and dead fish!). Perhaps BTC and other coins will take captive the financial world as we know it. Perhaps not. In the meanwhile my job it to remain objective in recognizing possibilities based on charts. I find it very unfortunate that some cryptocultists consider me a “hater” when I have any other message than “to the moon.”

A close below the Dec 22 low on the Bitfinex would do harm to the parabola interpretation. The 4-hour RealRange chart of BTC exhibits a possible H&S top pattern. The completion of this pattern would establish a target of \$7,500 on the arithmetic scale (assumes the parabola is also violated). Having traded BTC, ETH and LTC in the past year (only from the long side – I do not short cryptos) I am presently completely flat.





Ethereum

The further target at 1087 might still be reached. A close below the late Dec low would force me to alter my analysis of the daily graph.



Ripple

I am showing this chart as an example of classical charting principles at their best.



Two pertinent points about Crypto charts

1. Intraday charts are much more applicable to Cryptos than traditional futures and forex markets 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.
2. The variations from one exchange to the next for the same crypto presents a significant challenge to chart traders such as myself. The differences in chart structure are real and often contradictory (at least on the intraday graphs). The CME really blew it with its contract specs on Bitcoin. Had the CME's contract been 24/7 with an actual delivery mechanism (weekly or twice monthly) the price differences among the exchanges would be neutralized through aggressive arbitrage operations.

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Factor Tracking Account, December 29, 2017

Table shows only open trades as of December 29, 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											12/30/2017	06:37 MST					
Model Tracking Account Trade History and Portfolio																	
Constant nominal capitalization: \$100,000																	
(See disclaimers and notes below)																	
Market		Entry							Stop	Pattern			Exit		Net	Capital to carry trade	Value of trade (entry)
		Date	L/S	Price	Size	Initial stop	BP risk	Current Stop	Date	Target	Weekly	Daily	Date	Price			
GEZ18-GEH0	Euro spread	10/23/17	L	26.0	1	15 close	62	15.50	12/27	88.00	6-yr cycle					\$ 500	NA
ZNH8	T-Notes	12/20/17	S	123^26	1	124^09	47	123^275	12/26	122^27	Poss 6+ yr dbl top	9-wk desc tri	27-Dec	123^275	\$ (52)	Closed	-
EUR/JPY	EUR/JPY	12/20/17	L	134.624	30k	133.47	30	134.13	12/28	137.24	14-wk rectangle	14-week rectangle				\$ 1,780	\$ 35,592
ESU8	EuroSwiss	12/21/17	S	100.65	1	NA	NA			100.28	3-year desc tri					\$ 371	NA
SGG	Sugar ETN	12/27/17	L	30.35	300	28.97	41			37.34	6-mo sym tri	6-mo sym tri				\$ 9,105	\$ 9,105
USD/CAD	USD/CAD	12/28/17	S	1.26340	30k	1.27370	24	1.2703	12/29	1.2432	10-wk rectangle	10-wk rectangle				\$ 1,500	\$ 30,000
USD/CAD	USD/CAD	12/28/17	S	1.26340	30k	1.27030	11	1.2602	12/29	1.2432	10-wk rectangle	10-wk rectangle				\$ 1,500	\$ 30,000
DXH8	US Dollar	12/28/17	S	92.290	1	92.720	43	92.725	12/29	90.210	14-wk H&S	14-wk H&S				\$ 3,700	\$ 92,290
EXU8	EuroStoxx 50	12/29/17	S	3513	1	3541	34	3531	12/29	3436	8-wk rectangle	8-wk rectangle				\$ 5,300	\$ 70,245
ZXH8	FTSE 100	12/29/17	L	7585.0	1	7517.0	94			7944.0	17-year asc tri	6+mo sym tri				\$ 9,465	\$ 104,086
Trades as of															\$ (52)	\$ 33,221	\$ 371,318
Indicates open position value as of																Levered at	3.7
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																Margined at	24.1%
<small>r = revised RO = Rollover</small> 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.																	