

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

Factor Update, January 21, 2018

Market Review

New candidate Factor Moves™ are developing in:

- \*EuroSwiss

Candidate Factor Moves™ are currently ongoing in:

- \*Gold
- EUR/GBP

This issue also comments on global stock index markets (DJIA, AMZN, \*FTSE, Nifty 50, FXI, Singapore Index, \*AAPL, \*Osaka Nikkei), interest rate markets (\*Eurodollars, T-Notes, T-Bonds, \*EuroSwiss), currency markets (\*EUR/USD, EUR/GBP, USD/ISK, Australian Dollar, U.S. Dollar Index), Feeder Cattle, grain markets, Gold (GC, \*GLD, GDJ, GDJ) and cryptos. \*Signifies a position in the Factor \$100,000 Tracking Account

Developing signals	Existing positions
<ul style="list-style-type: none"> <li>• AUD futures – monitor</li> <li>• GDJ/GDJ – alerts</li> <li>• Gold – monitor</li> <li>• EUR/GBP</li> <li>• FXI – entry order &amp; protective stop</li> <li>• EuroSwiss – entry order</li> <li>• 10-Yr Notes – entry order &amp; protective stop</li> </ul>	<ul style="list-style-type: none"> <li>• EuroSwiss (rates) – target</li> <li>• FTSE – protective stop and target</li> <li>• Osaka Nikkei Dow – protective stop and target</li> <li>• EUR/USD – protective stops and targets</li> <li>• Eurodollars – protective stops and targets</li> <li>• GLD (Gold ETN) – protective stop</li> <li>• AAPL – protective stop and target</li> </ul>
<p>The Factor Tracking Account is currently leveraged at 2.2X. The margin-to-equity use for futures and forex is 14.1%.</p>	

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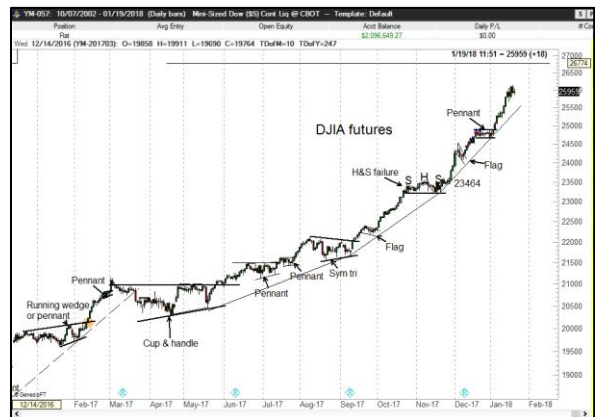
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Global stock markets – bull trend continues

DJIA

The advance on the daily chart has taken the form of a parabola (thin fan lines shown). The current advance is accelerating. 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 advance on Dec 28 completed a 6-month ascending triangle on the daily chart with a target of 7,946. I believe the 21 DMA should provide support for the correction that began this past week. Factor is long FTSE futures – but I am not willing to allow the trade to turn into a loss.



## Singapore Index

The Singapore Index (futures) has completed a multi-year rectangle on the monthly graph. I consider this to be a significant bull signal supported by fundamentals. The Shiller CASE Index suggests that Singapore is one of the most undervalued markets globally. I am willing to take a shot at the long side of this market on a retest of 398.1, risking about 75 basis points. Factor is flat.



### Apple (AAPL)

The advance on this past week completed an 11-week rectangle pattern on the daily graph with a target of 185.48. Factor is long. Wednesday's low is a logical place to protect my position.



### Osaka Nikkei

The target of 24,010 from the underlying 10-week ascending triangle has been met. Factor remains long a tranche with a revised target of 24,830, having taken profits on a tranche.



# AMZN

The monthly arithmetic graph displays a 20-year parabolic advance in AMZN. Prices have thrust through the upper boundary of a 2-year channel on the weekly graph. Such chart construction often happens during the blow-off phase of a bull trend.



FXI

The iShares China Index Fund has completed a 10-year massive symmetrical triangle on the monthly graph. By clearing the 2015 high this ETF has an upside target of 71.74. I will buy any slight reaction in this ETF, risking to 44.77.



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 building major tops in price (bottoms in yield).

T-Bonds

The monthly T-Bond futures chart displays a possible 3-year H&S top pattern. Commercials are carrying a near-record short position – exceeded only by the short positions at the Jul 2016 and Jun 2012 tops. The 38-year yield chart displays a channel dating back to 1986. The yield chart is forming a 3-year H&S bottom. Note that the right shoulder itself is taking the form of an inverted H&S. I am very interested in shorting T-Bond futures (perhaps outright or as a spread against T-Notes). A climb by the 30-Yr. bond above 3.0% would be my timing trigger. See yield charts, next page.

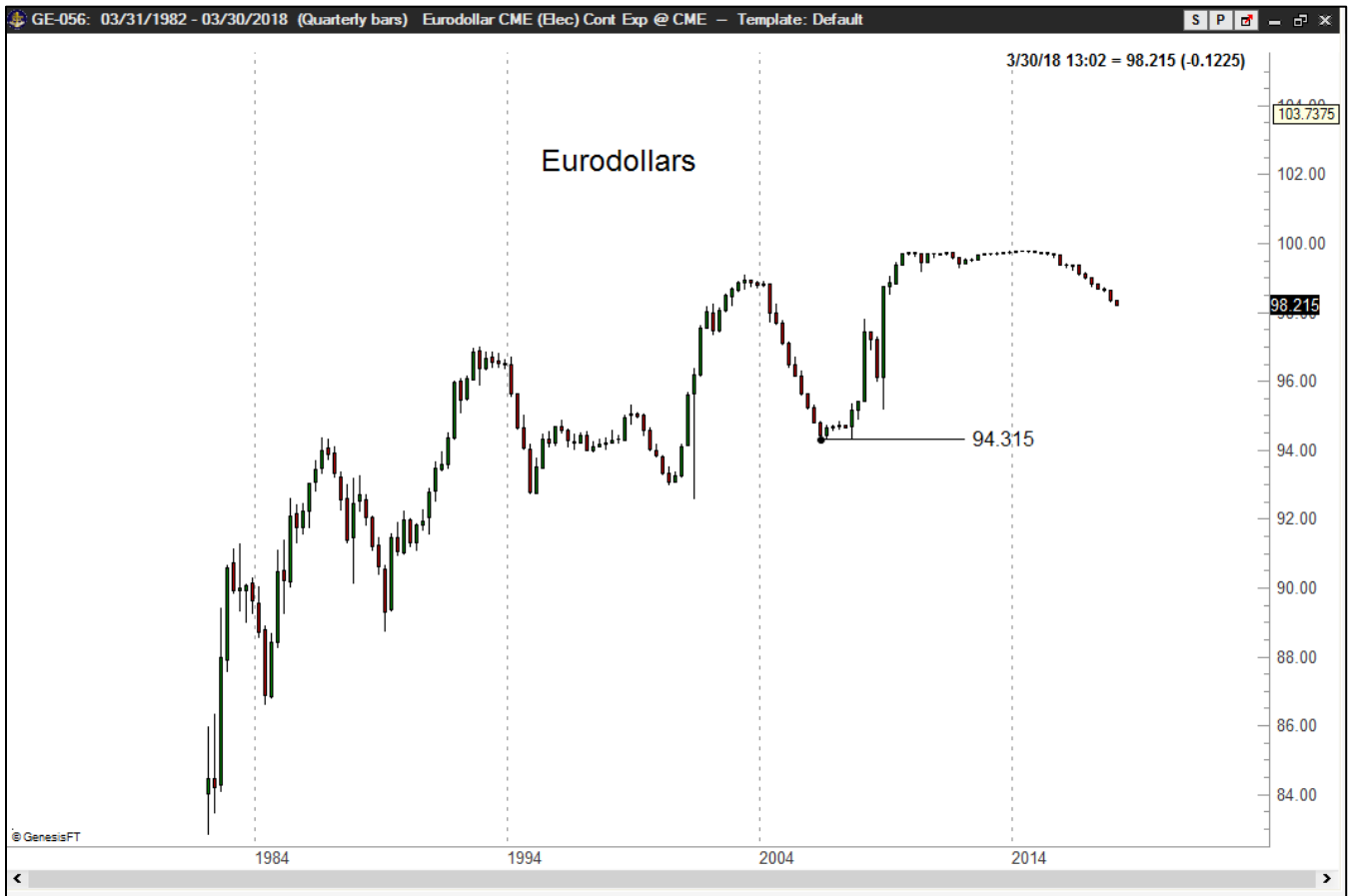


T-Bond yield charts shown below



Eurodollars (interest rate, not forex cross)

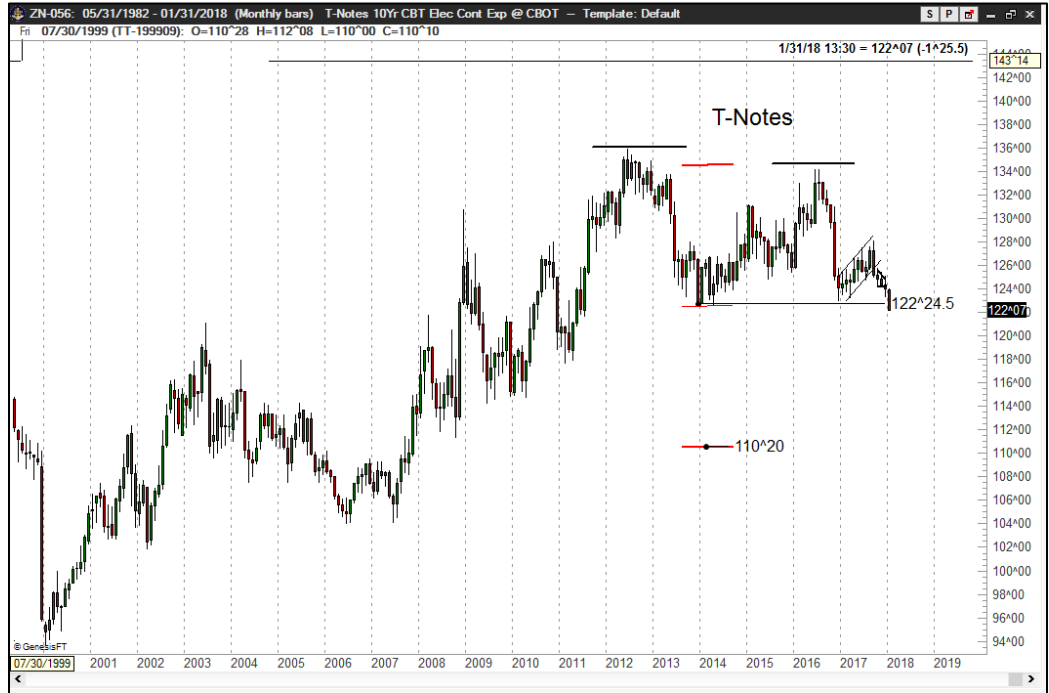
See the Factor Alert dated Jan 9, 2018. The quarterly chart of Eurodollar futures is again shown. The trend has turned down – a logical target is a retest of the 2006 low at 94.32 (5.68% yield). The daily chart of the Dec 2021 contract has completed a 9-month H&S top pattern with a target of 97.02 (2.98% yield). Factor is short. I will now split the Factor Tracking Account position into three tranches for more flexible trade management. The weekly chart of the Dec 2021 contract indicates a further possible target at 96.47 (3.53% yield).





## U.S. 10-Yr T-Notes

The decline this past week has arguably completed a 6+ year double top on the monthly chart. I would be willing to short a rally back to  $122^{*}24$  (the iceline of the double top) with a risk to  $123^{*}07$ .



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

The Swiss National Bank continues to hold rates at minus 73 basis points. The weekly chart of the nearby futures contract displays a 3-year descending triangle. The weekly chart of the Sep 2018 futures contract displays a possible 26-month H&S top pattern. Factor is short.



Currency markets – uncertainty could be entering USD-related crossrates

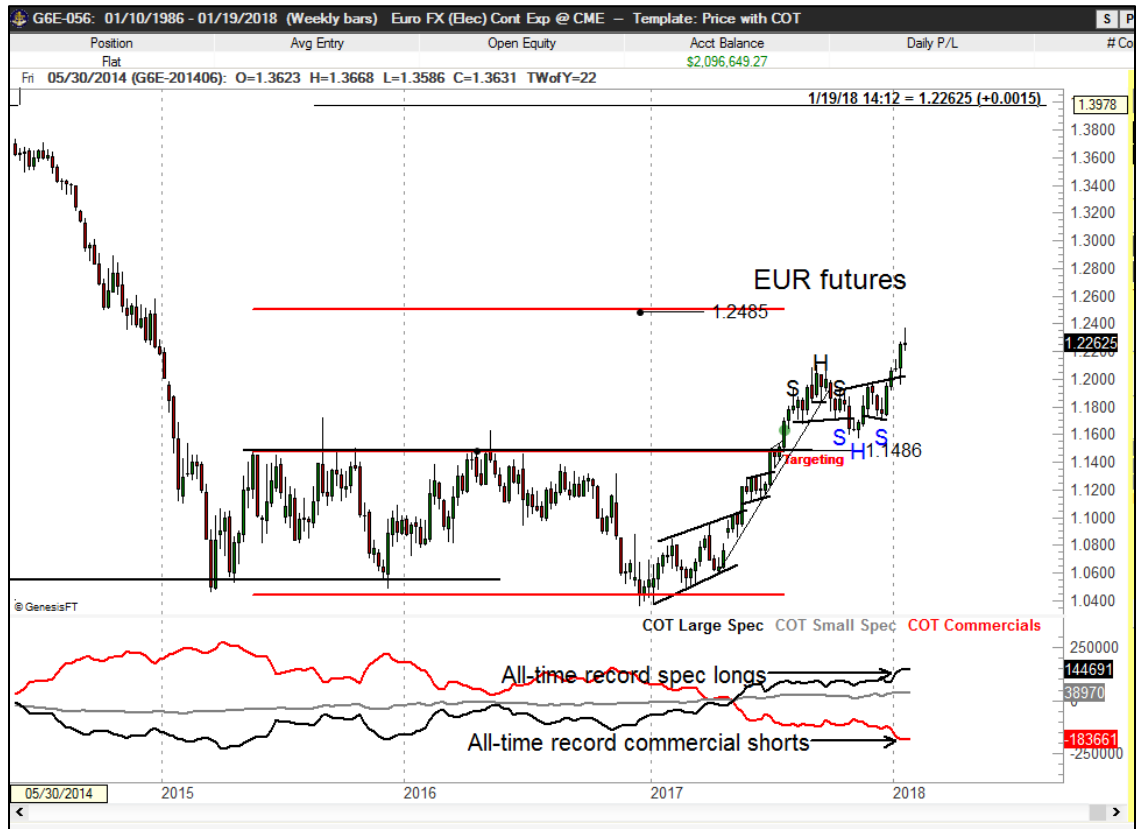
**Australian Dollar**

The monthly chart is forming a 28-month horn or sloping bottom pattern (see Schabacker, Study VII). This pattern is almost identical to the bottom completed in Jan 2003, as shown. A decisive close above .8151 would complete this pattern and establish a target of .9389. Hopefully the daily chart will form a continuation pattern to allow a measured-risk entry. Factor is flat.

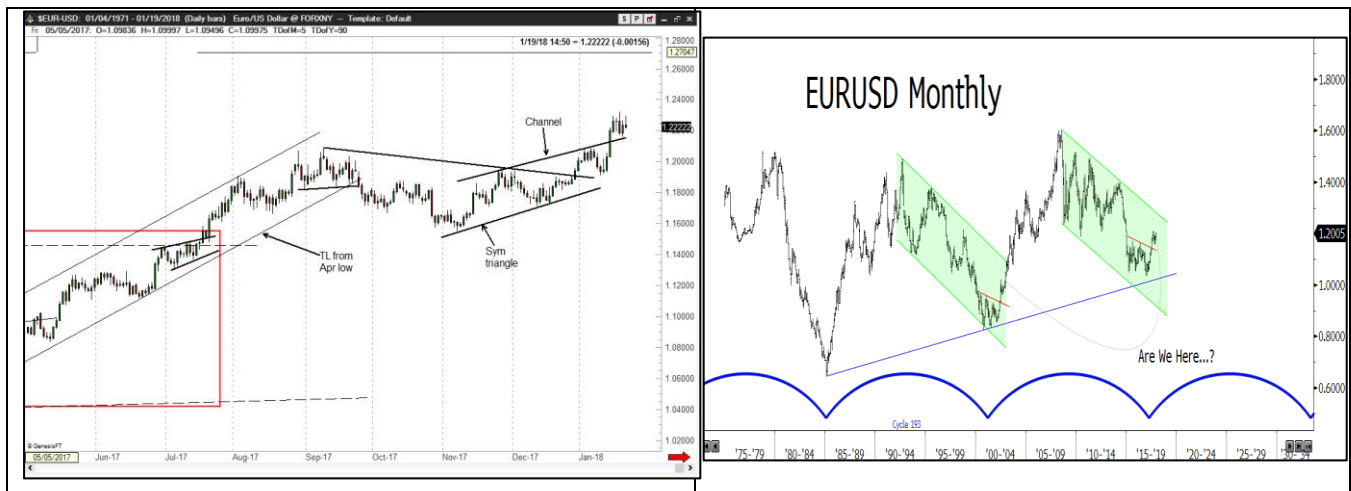


EUR/USD

See the Factor Special Report titled "The January EUR/USD Effect" dated Dec 26. A couple of factors slant my bias in favor of a continued bull trend in EUR/USD. One factor is the possibility of a January Effect Low (see Dec 26 report). A second factor is massive rectangle bottom completed in Jul 2017.



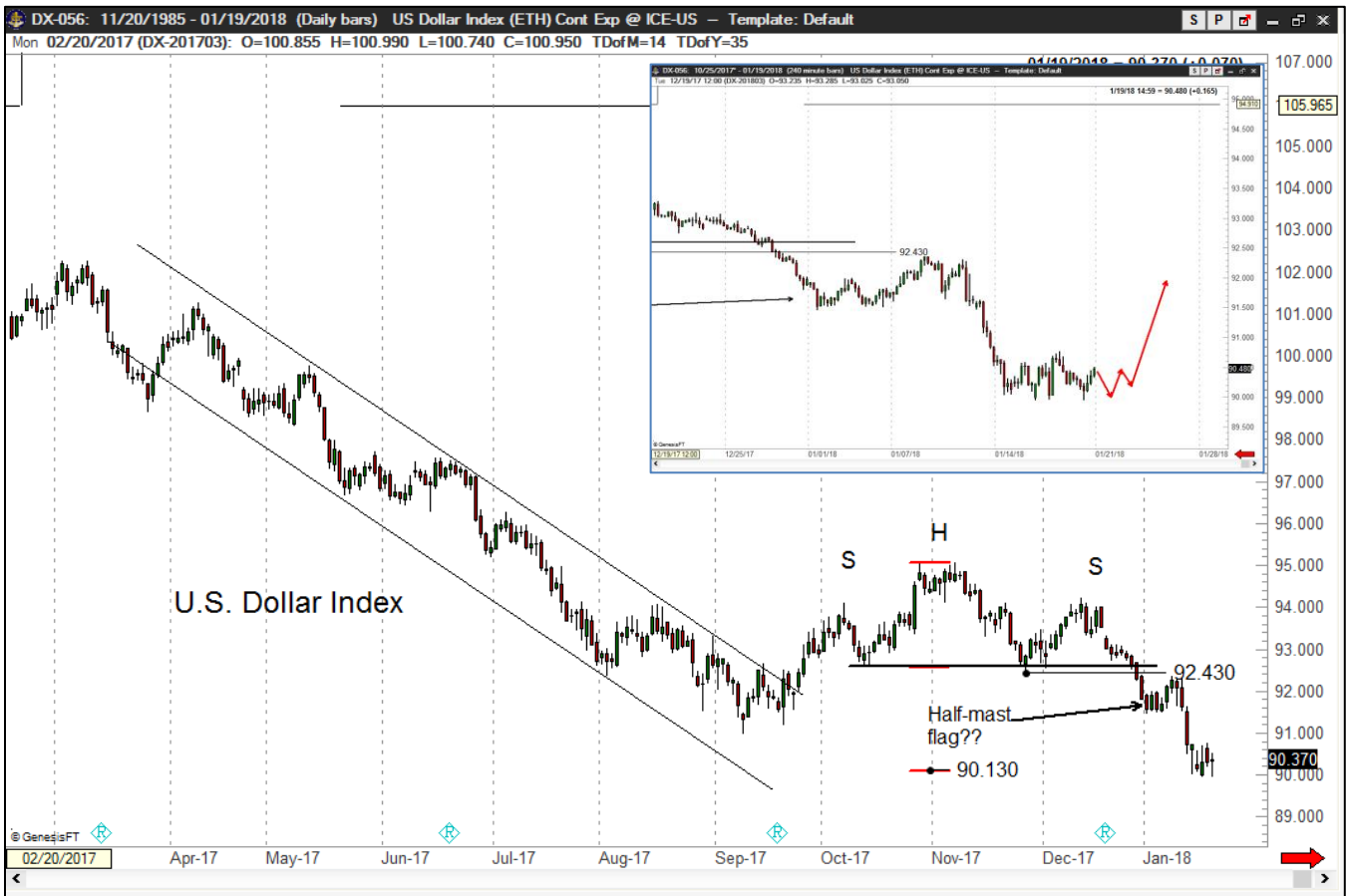
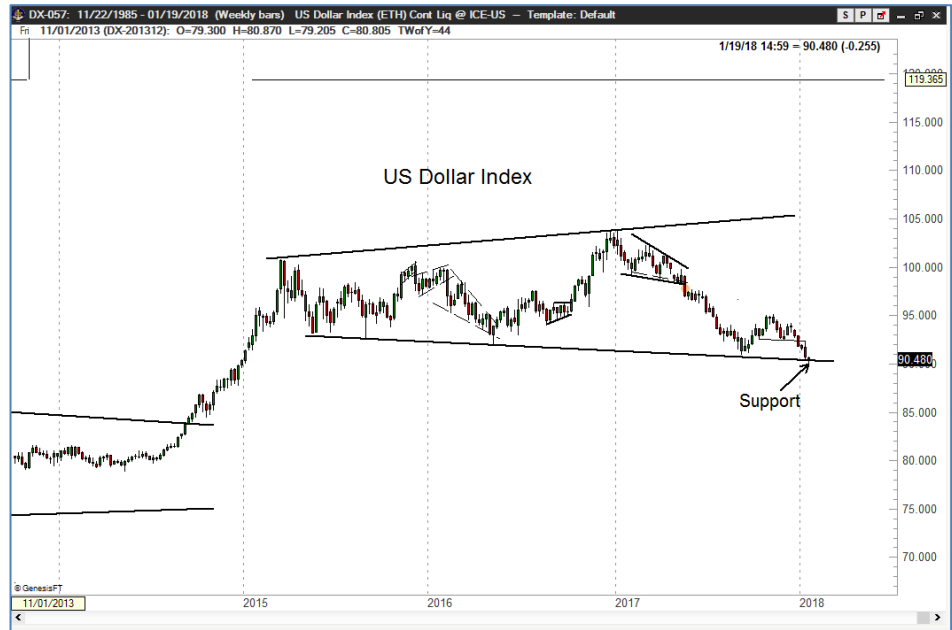
Congestion patterns such as this far exceed minimum expected targets. A final factor is the cyclic nature of EUR/USD. We are currently in a window for a major cycle low – my thought is that the cyclic low is already in place. Yet, on the negative side of the equation is the record commercial short and spec long COT profile. A second negative factor comes from the weekly candlestick structure this past week. An excellent trader I know refers to this candlestick pattern as a "head shot." The key to this pattern will be downside follow through. The daily chart has reached the 70% mark to the 1.2585 target – the Factor 3-day-trailing-stop rule (3DTSR) is now in effect. Factor is long – but in a defensive posture.



## U.S. Dollar Index

The target of the 3-month H&S top was met this past week – and I covered my short position accordingly. The weekly graph displays a possible megaphone pattern. Under this interpretation USDX could expect strong support at current levels. Factor is now flat. I might consider going long USDX if the intraday chart provides an extremely low risk set-up. The 4-hour chart is shown. A successful retest of the 90.00 level might result in the construction of a compound fulcrum bottom. Often “cutesy” trades such as this do not work, but from time to time they can provide very asymmetrical R/r opportunities.

The red lines on the intraday graph show what this set up might look like (inset).



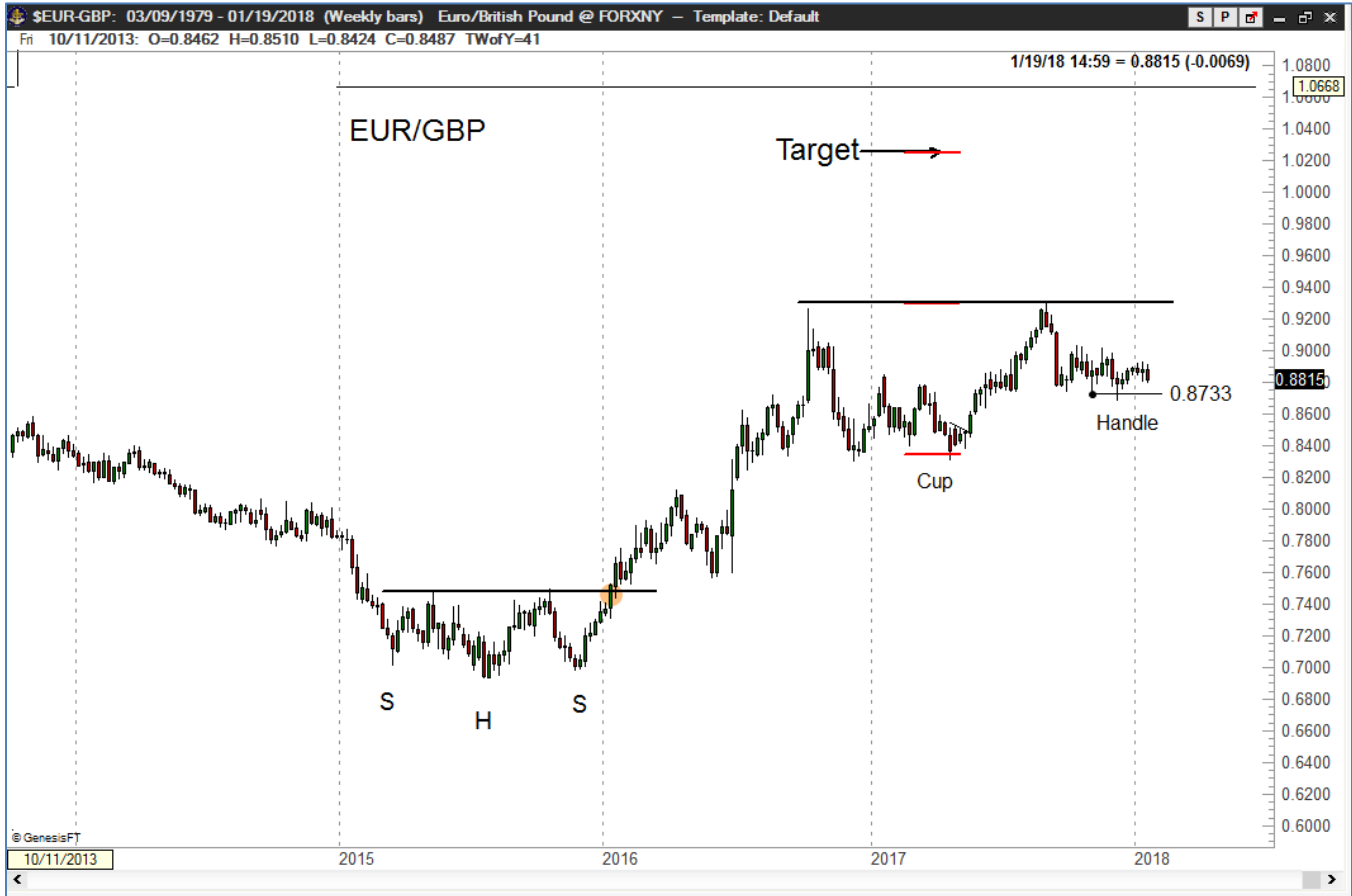
## USD/ISK

For whatever reason (perhaps an in-country Factor Member can tell me) the Iceland Krona has gained substantially against the USD for almost three years. Perhaps it has to do with the growing popularity of exotic vodka in the U.S. :-). The weekly and daily charts exhibit a possible continuation H&S pattern. This is an EXTREMELY thin forex cross – I may include this pair in future updates for educational value.



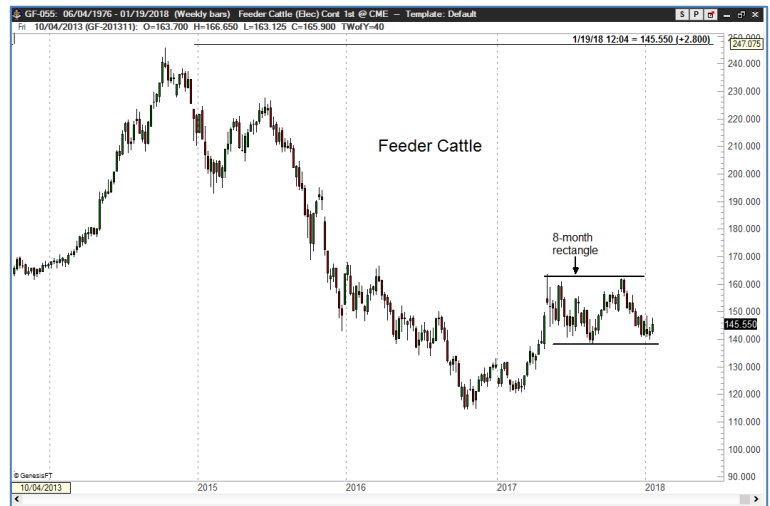
## EUR/GBP

The weekly chart displays a possible Cup and Handle pattern dating back to Oct 2016, wherein the market is currently forming the Handle. This pattern indicates that the Eurocurrency could trade at a premium to the British Pound – a move that would greatly surprise conventional wisdom. I am interested in the long side of this forex pair but have no definite tactical plan in mind.



## Feeder Cattle – poised for a strong advance

Every couple of years I may trade the livestock markets -- the Factor Tracking Account had a nice trade in Live Cattle back in 2015. But generally livestock markets are not compatible with classical charting principles. The weekly continuation chart of Feeder Cattle is forming an 8-month rectangle pattern. I will monitor the charts of the individual contracts to determine if a low-risk trade might develop. At present the charts of the tradeable delivery contracts do not resemble the continuation chart. Factor is flat.



Gold – massive H&S bottom continues to develop

The weekly chart of Gold futures is forming a 4-1/2 year inverted H&S bottom pattern, best seen on the RealRange chart. I believe this pattern will remain under construction for several more months. A close above 1400 is required to flash a major buy signal.

The various Gold ETFs are also setting up as possible buy signals. Factor is long GLD in anticipation of completing a 2-year symmetrical triangle on the weekly graph, but prices are failing against resistance – and I will not give this trade much rope before bailing out.

The daily chart is inset in the upper left corner of the weekly chart. The monthly graphs of GDXJ and GDX mirror the H&S bottom in Gold futures. The right shoulder on the GDXJ weekly chart exhibits a symmetrical triangle – I will be a buyer above this past week’s high. The right shoulder on the weekly GDX graph displays a rectangle pattern requiring a decisive move above 25.71. See charts on GDX and GDXJ, next page.







Repeat from Jan 14 Factor Update -- Caveat to the bull case in Gold

I had fully expected the right shoulder of the H&S in Gold to test the 1200 to 1225 level before turning up. This did not happen – and it means one of two things.

1. The market is stronger than I thought and Gold price should thrust strongly in a sustained manner from current levels.
2. This current rally is a bull trap worthy of the textbooks. Should Gold falter and turn down then 1225 will not contain the decline – and a test of the late 2015 low at 1050 could occur.

Grain markets – prolonged bottom process continues without any signs of ending

I am aware that other noted chartists are calling for a bull market in grains. No doubt a bull trend will come – all grain markets are in areas of historical support. Yet, as the charts included show, no bottom patterns are yet visible. In fact, KC Wheat and Chicago Wheat are within striking distance of contract lows. I am extremely interested in the long side of grains, but I think it is too early to be involved. The main problem with attempting to pick a bottom in any market is that a trader can get chopped up and then miss the big move when the time is right.



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# The Factor Crypto Corner

## The Factor Crypto Corner – BTC and ETH continue to congest

### Bitcoin

Last week's Factor Update presented three possible interpretations of the BTC charts.

1. A parabola interpretation is no longer valid and a complex correction is underway
2. The parabolic advance has been broken and a bear trend has begun
3. The parabolic advance continues without an expected acceleration

For now the jury is out on these three alternatives and I have no desire to trade BTC. Using a variety of exchanges and scales (log vs. arithmetic) all three alternatives are shown. No doubt my lack of precision and specificity on BTC drives some of you bonkers. I do not apologize. I don't believe in the "fixed-probability" approach to charting – but rather have adopted a Bayesian approach. Instead of using charts for fixed predictions I prefer to react when the odds unfold to favor a certain viewpoint.



Yet, you may wonder, "Which of the three alternatives do I personally favor?" My answer has two parts: 1) It does not matter, and 2) it might change from day to day depending upon price action. Opinions and positions are different concepts for me. I will not assume a position until the odds of one of the three (or an added alternatives) offers a clear entry, defined risk and asymmetrical reward-to-risk profile. Only then will my opinion and position merge.





## Ethereum

From a chart standpoint ETH is in better health than is BTC. The dominant trend is up., but a yet-undefined congestion is forming. Factor is flat. I took a small day trade loss on Tuesday.



### A commentary on trading vs. “Hodling”

I receive endless grief on social media from trolls opposed to the idea of trading cryptos. To them the idea of ever selling BTC (or others) is a heresy to their cult. They have staked a declaration to “hodl” BTC to \$1MM even if numerous 50% or more corrections accompany the ride. Even if they “hodl” BTC until \$1MM or higher they will end up losing the overwhelming portion of their profits. While distributed-ledger blockchains represents revolutionary technology, human nature/emotions never change. Throughout history the most ardent supporters of every massive bull market has ended up being forced out in an eventual price collapse. Happens every time – and will happen to “hodlers.”

But there is a reason I trade and do not hold positions “forever.” From inception of Factor Trading Co., Inc. in 1981 I have paid staff, business expenses and all living expenses from trading profits. I trade to live (but did not live to trade). Of course over the years I have been fortunate enough to set aside some wealth from trading profits, but I have never looked at any given market (especially cryptos) as the family jewels never to be liquidated. To me, a trade is a trade is a trade is a trade. And the career of trading has been rewarding. According an auditor’s review of Factor’s trading from 1981 through 2010, each \$1,000 of starting capital produced profits of \$320,000. Had these profits been “hedled” in positions, my family and I would have worn rags and eaten at soup kitchens.

### Factor Tracking Account, January 19, 2018

Table shows only open trades as of January 19, 2018, trades closed in the past week and open trades for which protective stops were changed. Complete listing of Factor Tracking Account for 2018 is updated monthly.

Factor LLC															1/16/2018				
Model Tracking Account Trade History and Portfolio																			
Constant nominal capitalization: \$100,000																			
(See disclaimers and notes below)																			
Market		Date	L/S	Entry					Stop Date	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)		
				Price	Size	Initial stop	BP risk	Current Stop			Weekly	Daily	Date	Price					
Positions open as of 12/30/17																			
GEZ18-																			
GEH0	Euro spread	10/23/17	L	26.0	1	15 close	62	Exit	1/5	88.00	6-yr cycle		8-Jan	20.0	\$ (155.00)	Closed	-		
EUR/JPY	EUR/JPY	12/20/17	L	134.624	30k	133.47	30	134.76	1/4	137.24	14-wk rectangle	14-week rectangle	9-Jan	134.758	\$ 35.00	Closed	-		
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	29.97	1/7	37.34	6-mo sym tri	6-mo sym tri	8-Jan	29.81	\$ (167.00)	Closed	-		
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	5-Jan	1.2432	\$ 488.00	Closed	-		
USD/CAD	USD/CAD	12/28/17	S	1.26340	30k	1.27030	11	1.2568	1/5	1.1739 r	10-wk rectangle	10-wk rectangle	10-Jan	1.25678	\$ 158.00	Closed	-		
								92.14/3DT											
DXH8	US Dollar	12/28/17	S	92.290	1	92.720	43	SR	1/12	90.210	14-wk H&S	14-wk H&S	15-Jan	90.210	\$ 2,075.00	Closed	-		
EXU8	EuroStoxx 50	12/29/17	S	3513	1	3541	34	3512	1/3	3436	8-wk rectangle	8-wk rectangle	4-Jan	3513	\$ (14.00)	Closed	-		
ZXH8	FTSE 100	12/29/17	L	7585.0	1	7517.0	94	7579.00	1/19	7944.0	17-year asc tri	6+mo sym tri				\$ 9,465	\$ 104,086		
Total -- Carry in positions															\$ 2,420	\$ 9,836			
2018 forex roll charges and FX losses on foreign margin deposits; day trade P/Ls on repositioned trades															\$ (104)				
ETH	Ethereum	1/1/18	L	780.57	4	719.47	24	799.87	1/4	1086.87	Major bull trend	2-wk flag	7-Jan	1086.87	\$ 1,205	Closed	-		
ETH	Ethereum	1/1/18	L	780.57	3	719.47	18	Mkt	1/4	1086.87	Major bull trend	2-wk flag	4-Jan	996.84	\$ 634	Closed	-		
N225MH8	Osaka Nikkei	1/4/18	L	23105	1	22685	72	23075.0	1/5	24825 r	Major bull trend	10-wk asc tri			\$ -	\$ 823	\$ 20,527		
N225MH8	Osaka Nikkei	1/4/18	L	23105	1	22685	72	23730.0	1/9	24015	Major bull trend	10-wk asc tri	10-Jan	23725	\$ 547	Closed	-		
EUR/USD	EUR/USD	1/8/18	L	1.19660	30k	1.18350	40	1.21480	1/19	1.2485	January Effect lo	Retest 13-wk sym tri			\$ -	\$ 1,500	\$ 30,000		
EUR/USD	EUR/USD	1/8/18	L	1.19660	30k	1.18350	40	1.20180	1/12	Open	January Effect lo	Retest 13-wk sym tri			\$ -	\$ 1,500	\$ 30,000		
GEZ21	Eurodollars	1/9/18	S	97.44	1	97.53	22	97.42	1/19	97.11	9-mo H&S	9-mo H&S			\$ -	\$ 160	NA		
GEZ21	Eurodollars	1/9/18	S	97.44	1	97.53	22	97.36	1/19	97.03 r	9-mo H&S	9-mo H&S			\$ -	\$ 160	NA		
GEZ21	Eurodollars	1/9/18	S	97.44	1	97.53	22			Open r	9-mo H&S	9-mo H&S			\$ -	\$ 160	NA		
GLD	Gold ETN	1/12/18	L	126.33	100	123.87	25	125.62	1/19	147.92	Possible 2-yr sym tri	Possible 2-yr sym tri			\$ -	\$ 12,633	\$ 12,633		
AAPL	Apple	1/16/18	L	177.51	150	174.19	50	174.97	1/19	185.48	11-wk rectangle	11-wk rectangle			\$ 26,627	\$ 26,627			
ETH	Ethereum	1/16/18	L	1061.23	3	942.97 A	36	1019.84 A	1/16	TBD	Major bull trend	Retest trendline	16-Jan	1019.79	\$ (139)	Closed	-		
Trades as of															\$ 4,563	\$ 53,399	\$ 223,873		
Indicates open position value as of																		Levered at	2.2
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																		Margined at	14.1%
r = revised RO = Rollover A = Alert																			
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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