



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

Factor Update, January 7, 2018

Market Review

New candidate Factor Moves™ are developing in:

- *EuroSwiss
- *Sugar

Candidate Factor Moves™ are currently ongoing in:

- None

This issue also comments on *global stock index markets (DJIA, Nasdaq, EuroStoxx, FTSE, Singapore Index, AAPL, XOM, Osaka Nikkei), *interest rate markets (Eurodollars, T-Notes, EuroSwiss), *currency markets (EURUSD, USDCAD, Japanese Yen, Australian Dollar, CHFSGD, USDSGD, GBPTHB, USDRUB, USDX, EURJPY), *Eurodollar spread, Crude Oil, Wheat, 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"> • Gold -- monitor • Sugar futures – alert • Crude Oil – alert • EUR/USD – alert • AUD futures – monitor • Mpls Wheat – monitor • Japanese Yen -- monitor 	<p><u>Existing positions</u></p> <ul style="list-style-type: none"> • Eurodollar spread (ED5-ED10) -- exit • EUR/JPY – protective stop and target • EuroSwiss (rates) – target • USD/CAD – protective stop and target • US Dollar Index – protective stop and target • FTSE – protective stop and target • Osaka Nikkei Dow – protective stop and target • ETH – alert and target • SGG (Sugar ETF) – protective stop and target
<p>The Factor Tracking Account is currently leveraged at 1.5X. The margin-to-equity use for futures and forex is 22.1%.</p>	

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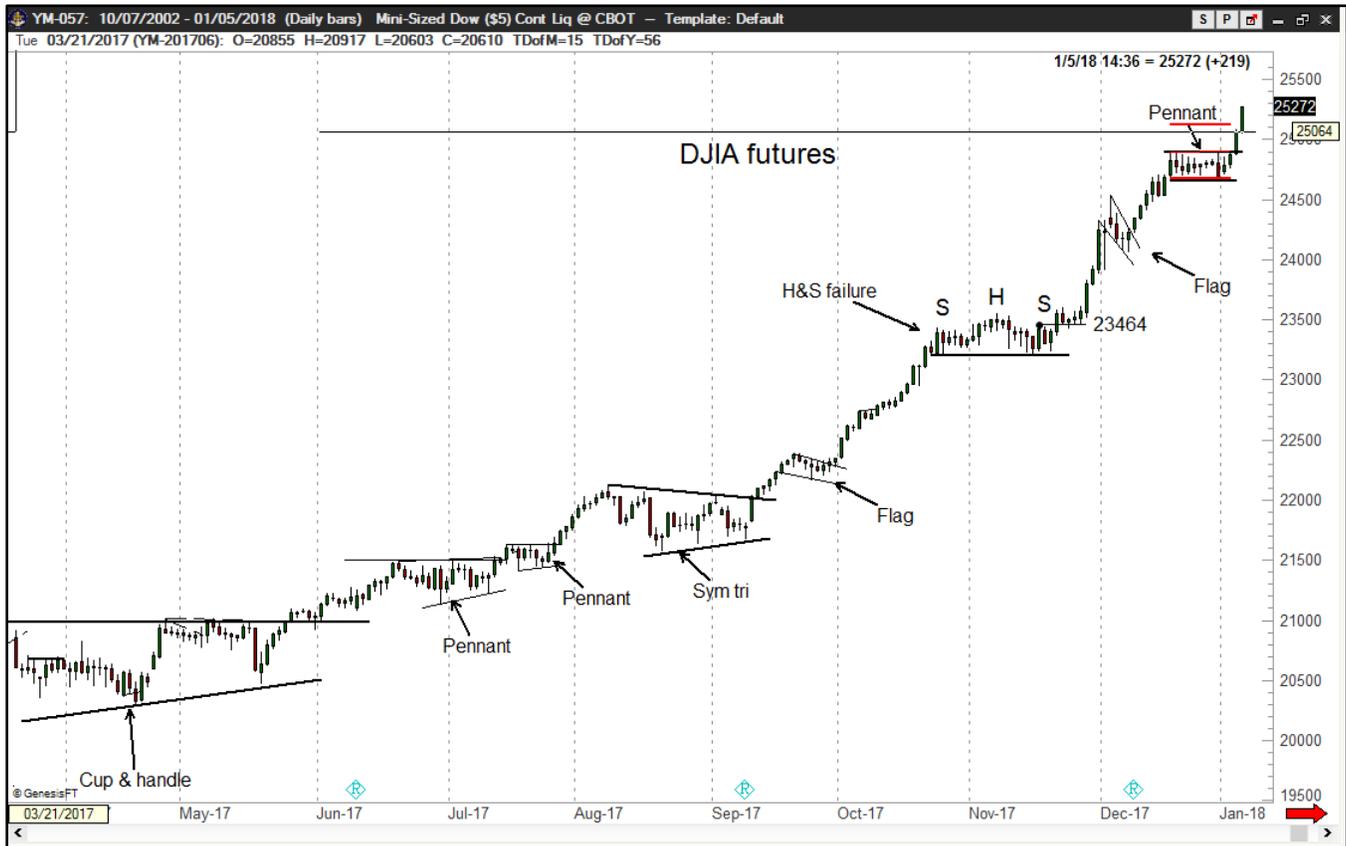
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Global stock markets – bull trend solidly back on track

DJIA

The daily chart of DJIA will go down into the history books as a textbook example of continuation patterns within a major trend. The brief pennant completed on Thursday met its target on Friday. Factor if flat – I have missed many signals in this market. For me this market has been a great example of how hindsight is always 20/20. The challenge for the discretionary chart trader is to recognize and act upon signals in real time. I miss some – I catch some. This is what discretionary trading is all about.



NASDAQ

Every market – even those highly correlated – has its own personality. The bull trend in the NASDAQ has experience much sharper zig-zags than the more steady advance in the DJIA. The advance in NQ has formed more complex continuation patterns. All upside targets from these patterns have been met. The fact a market has met upside targets is NEVER a reason to go short. Factor is flat.



EuroStoxx

I came into this past week short the EuroStoxx futures. I have absolutely no regret about this trade. I would take a chart set up like this one any day of the week. I was stopped out early on Thursday for a break-even trade. Long-time Factor members are quite familiar with Factor's 3-day trailing stop rule (3DTSR). You can read more about it in "Diary," Chapter 3. Basically the rule consists of three elements:

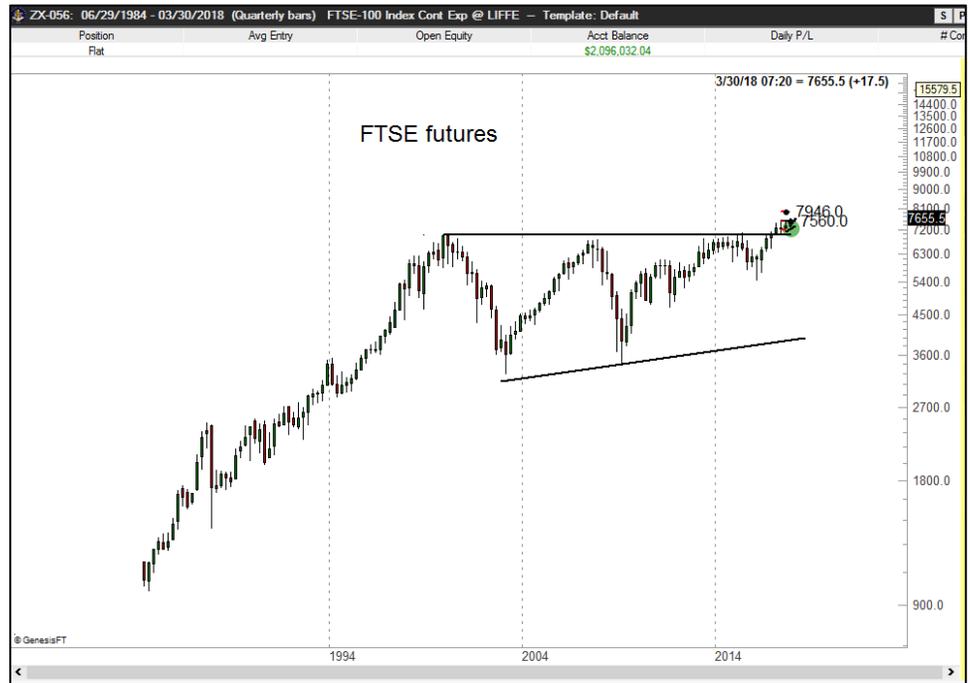
- A. Low day for a move – Jan 2
- B. Close above the high of the low day of the move – Jan 3
- C. Advance above the high of day "B" – Jan 4

I employ this rule under two circumstances: 1.) When a market moved 70% of the distance from the breakout point to the preterdermined price target; or, 2.) If the 3DTSR occurs at the near the original breakout level. The chart shown clearly labels the A...B...C events. Protecting my capital is far more important than my view of a specific market or chart. Factor is flat.

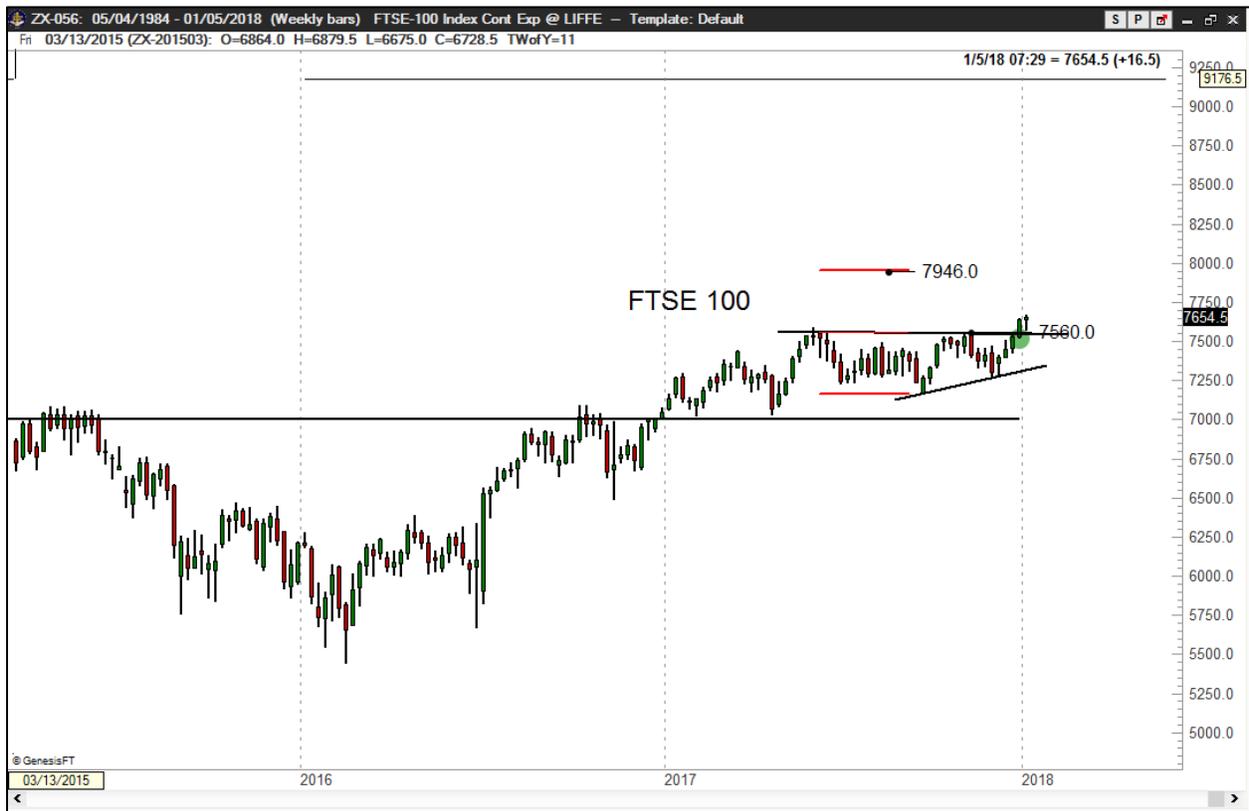


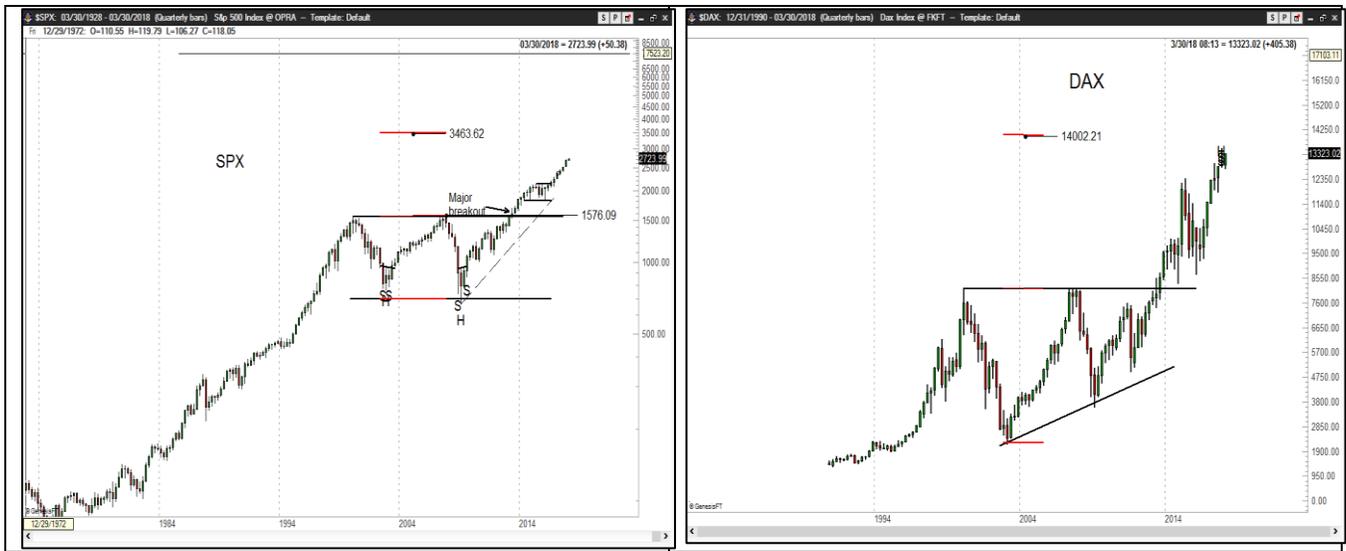
FTSE

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 quarterly graph in the FTSE is very similar the breakout in the S&Ps in Jul 2013 and in the DAX in Aug 2013 (see charts, next page). The DAX is closing in on its arithmetic target of 14,000 while the semi-log target in the SPX at 3,463 is still a stretch away. The longer-term target in the FTSE is 10,529. Factor is long. As a swing trader my target of 7,946 in the FTSE is based on the completion on Dec 28 of a 6-month



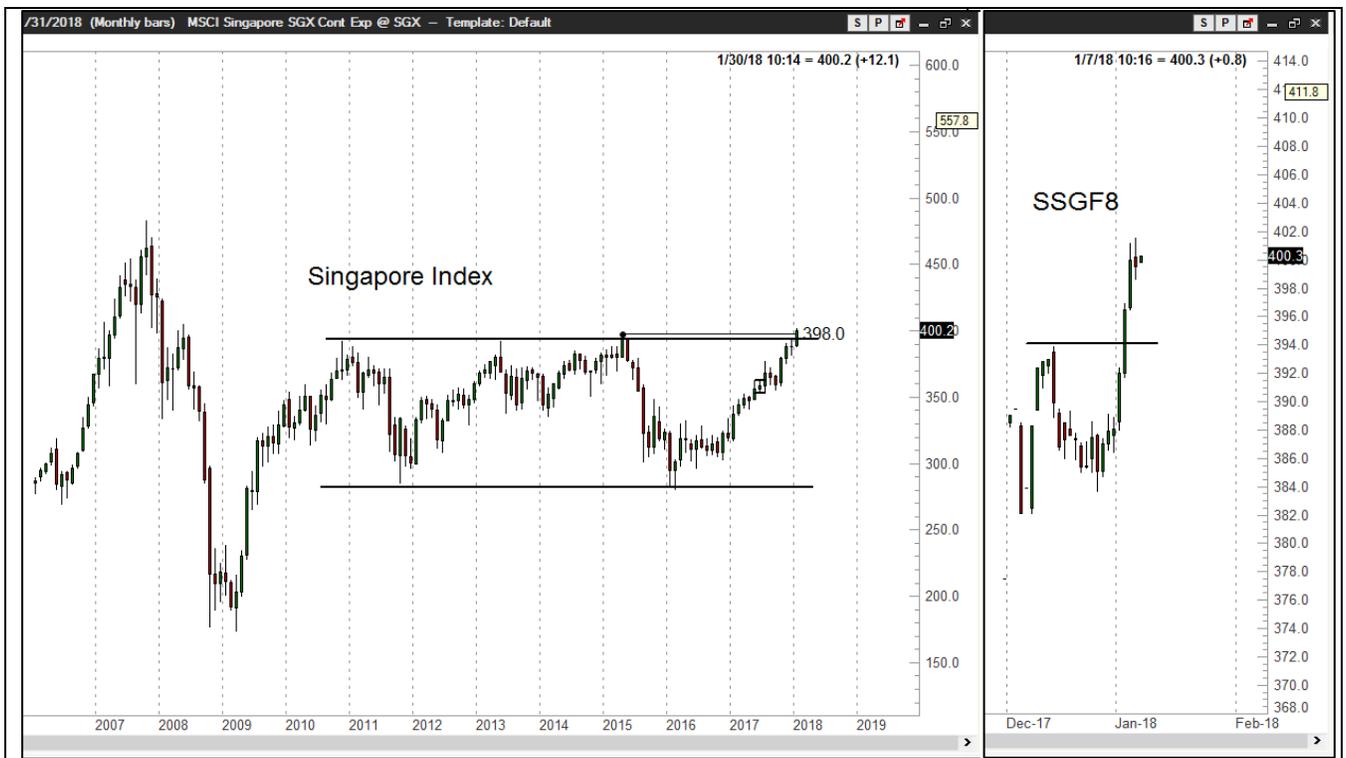
ascending triangle. I may consider over-riding my trading rule of taking profits at targets. Yet, I would want to reduce my leverage at the target. In my prop account I have the flexibility of reducing contract size. For the Factor Tracking Account I may hedge part of the futures position by shorting EWU (the U.S. UK ETF, chart not shown). Stay tuned.





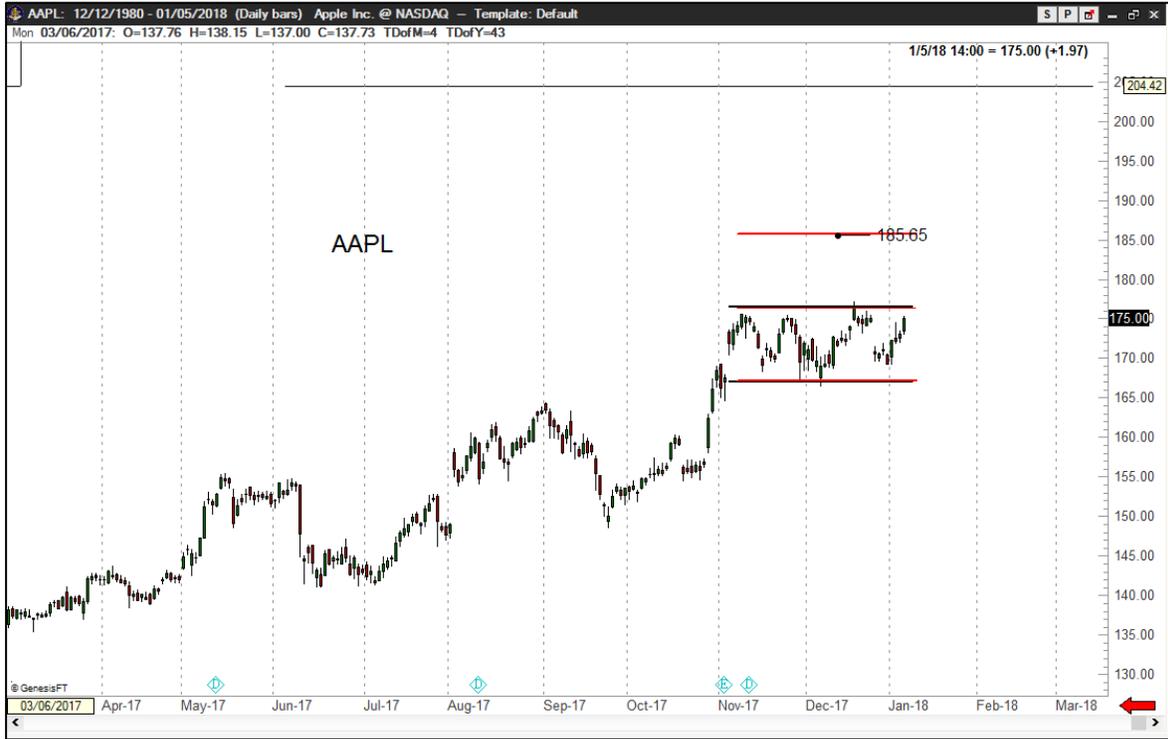
Singapore Index

The Singapore Index (futures) is penetrating the upper boundary of 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. Tactically it is a challenge to buy breakouts of patterns of this duration – it is just impossible to fine-tune entry levels with a measured risk. Nevertheless, I am willing to take a shot at the long side of this market on a retest of 394.1, risking about 75 basis points. Factor is flat.



Apple (AAPL)

The daily chart is forming a 10-week pennant pattern, the completion of which will set the next target at 185.48. Because I primarily trade leveraged instruments, the vast proportion of my proprietary nominal trading capital sits in cash (usually more than 80%). My goal in trading equities is to simply out perform T-Bill yields. I may take a shot at AAPL depending upon how the pennant is completed. Factor is flat.



Exxon Mobil (XOM)

The month chart of XOM displays a possible 3-plus year symmetrical triangle with a target of 117. I will keep my eye on this market for a possible continuation pattern on the daily graph.



Osaka Nikkei

Market

speculation is always filled with “could, would, shoulda” scenarios. My intention was to play the ascending triangle in the Nikkei through Osaka rather than through the CME. The CME contract completed the triangle on Tuesday while Osaka remained closed for the New Year, not opening until

Wednesday. Rather than grabbing the breakout at the CME on Tuesday (chart not shown) I waited until Wednesday and bought the open in Osaka, paying up for the position. Factor is long Osaka Nikkei with a target of 24015.



Minneapolis Wheat – a bright star on a cloudy night

The grain markets are locked in a prolonged bottom process. At present there is no end in sight. The one bright star could be Hard Spring Wheat (Minneapolis). The advance in Jun 2017 completed a bottom pattern on the weekly graph – no other grain market has a recognizable bottom. The decline from the Jul 2017 high is retesting the underlying base area. I will monitor the daily chart for a buying opportunity. Factor is flat.



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). I have a major point of confusion with U.S. rate markets. Conventional wisdom believes that higher rates are in the cards and, indeed, the Fed is jacking rates higher. Yet, the yield curve is flattening substantially and this is inconsistent with expectations of upward pressure on inflation caused by an improving economy.

Eurodollars (interest rate, not forex cross)

Nearby ED futures have been in a strong downtrend while deferred contracts have held steady. The daily chart of the Dec 2021 ED displays a complex H&S top pattern. This H&S pattern is likely to work ONLY if the improved U.S. economy brings forth unexpected inflationary pressures. This Dec 2021 chart reflects a 90-day yield of 2.5%. The nearby spot Eurodollar rate of 98.30 (1.7% yield) suggests that the Fed will raise rates by only 80 basis points during the next 47 months. The flattening of the yield curve indicates that inflationary pressures are not building – might the yield curve actually invert? The quarterly chart shows where the market is now relative to the current pricing of the Dec 2021 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 is flat.



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

It just unbelievable to me that the Swiss National Bank is holding rates at a never-before-maintained negative -75 basis points (100.75). Priced at 100.66, short Sep 2018 EuroSwiss is a bet that the SNB will raise rates by more than 10 basis points during the next nine months. The risk of the trade is CHF250 if the SNB holds at -75 BPs for another nine months. The weekly graph of the Sep 2018 contract displays a massive possible H&S top. Factor is short.



Sugar – bottoming process continues

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. I will monitor the futures contract for a measured-risk breakout of the triangle. The Factor Tracking Account is long SGG.



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

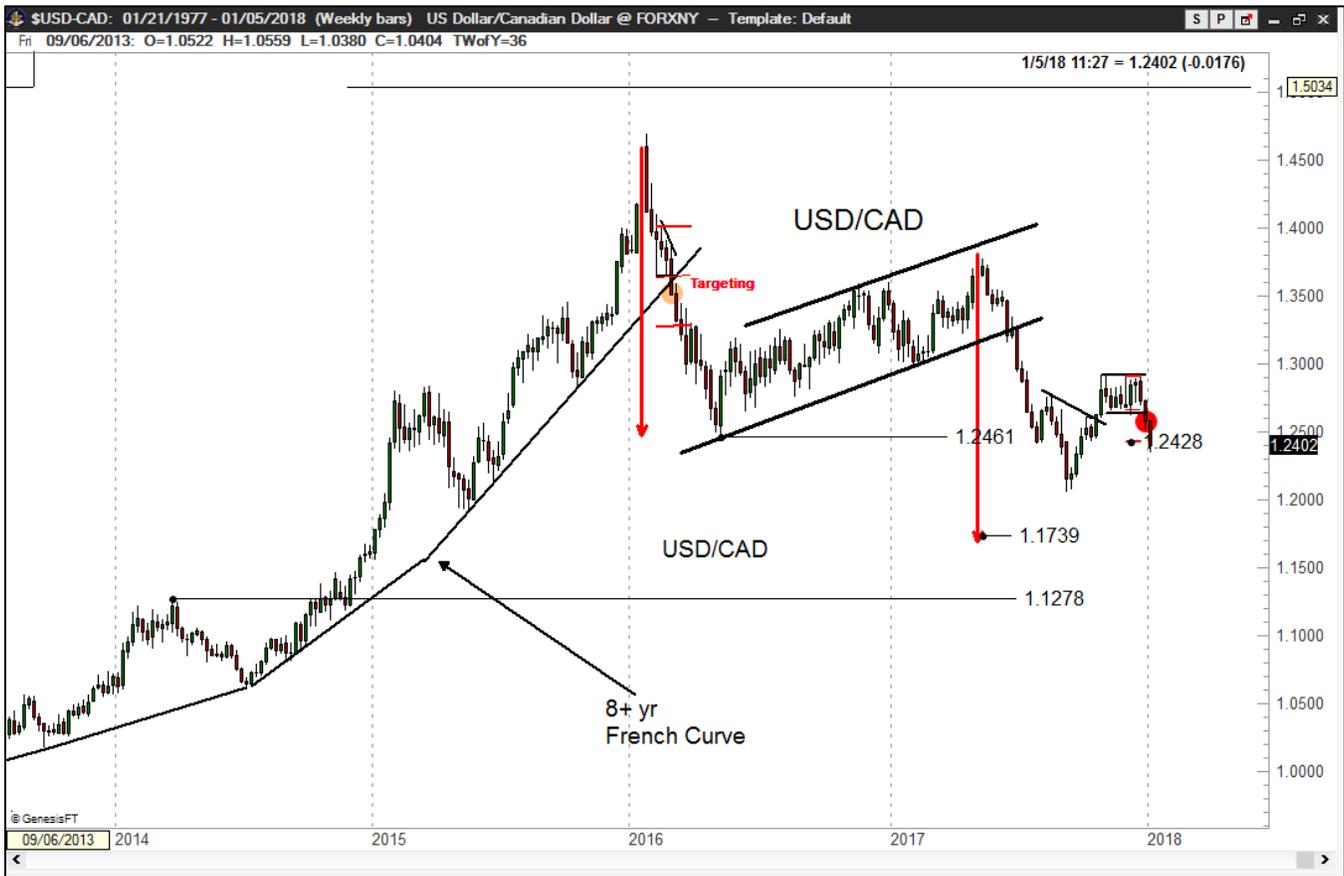
EUR/USD – anticipating January Effect lows

See the Factor Special Report titled “The January EUR/USD Effect” dated Dec 26. I have discussed many technical aspects of EUR/USD and recent months and will not beat a dead horse any more for now. I believe this market will establish a January Effect low in 2018 – and perhaps the Jan 1 low at 1.1912 will be the annual low. I am an eager buyer should the market retest the 1.1965 level which was the last high within the 13-week symmetrical triangle completed on Dec 28. Factor is flat.



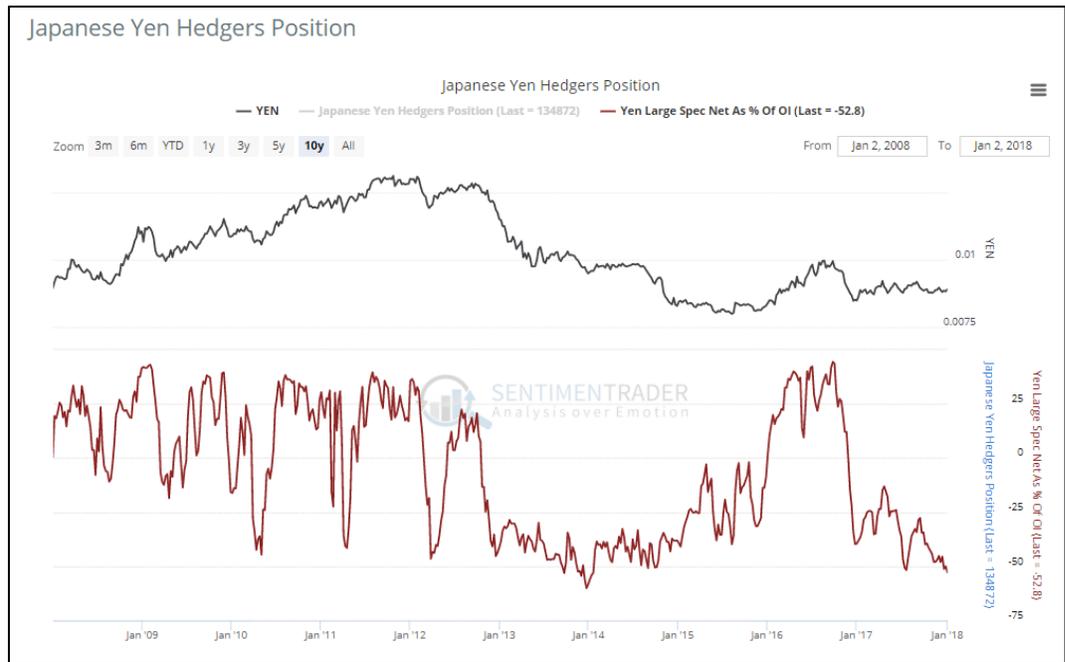
USD/CAD

The decline on Friday reached the initial target of 1.2432 established by the overhead 10-week rectangle on the daily chart. I took profits on half my short position accordingly. The weekly chart presents a more significant swing target. Projecting the distance of the decline from the Jan 2016 low to the May 2016 low downward from the May 2017 high projects a possible profit target of 1.1742. I have revised my target on the second tranche to this level.



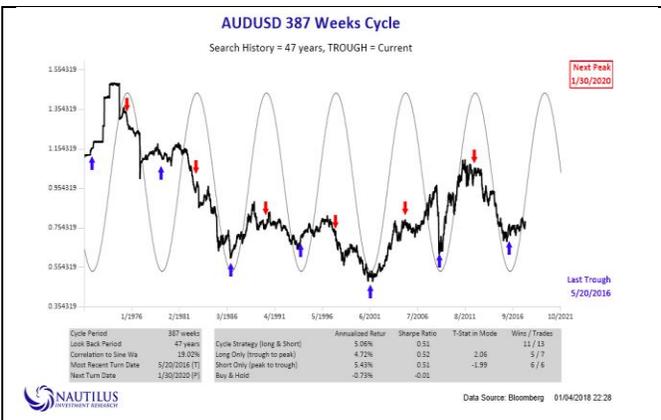
Japanese Yen futures

There is an extremely interesting set up developing in the Yen. Large specs have a near-record short position (perhaps in anticipation of the completion of a H&S top pattern on the weekly chart). It is rare for a record COT profile to occur within a tight congestion zone. No doubt there will be fireworks in the Yen in the not too distant future.



Australian Dollar

There are reasons to believe the Aussie \$ has entered a prolonged bullish trend. The period from the Jan 2016 low to present is analogous to the period from Mar 2001 through Jan 2003. An idealized drawing of this pattern – called a “Horn” by Schabacker – is shown within the box on the top chart. [See Schabacker, Study VII.] The chart shown courtesy of Nautilus Capital exhibits a very strong cyclic pattern in the Aussie \$ -- and the cycles are calling for a low. The daily chart of the Mar futures contract is also shown. Factor is flat. I have no desire to chase this current rally, but will monitor the chart for a measured-risk buying opportunity.



USD/SGD

This cross appears to be completing a 30-month "M" top pattern on the weekly chart. Extended-duration patterns are very difficult to trade from a timing point of view. If this cross stalls at current levels and forms a smaller congestion I might consider a short position. Factor is flat.



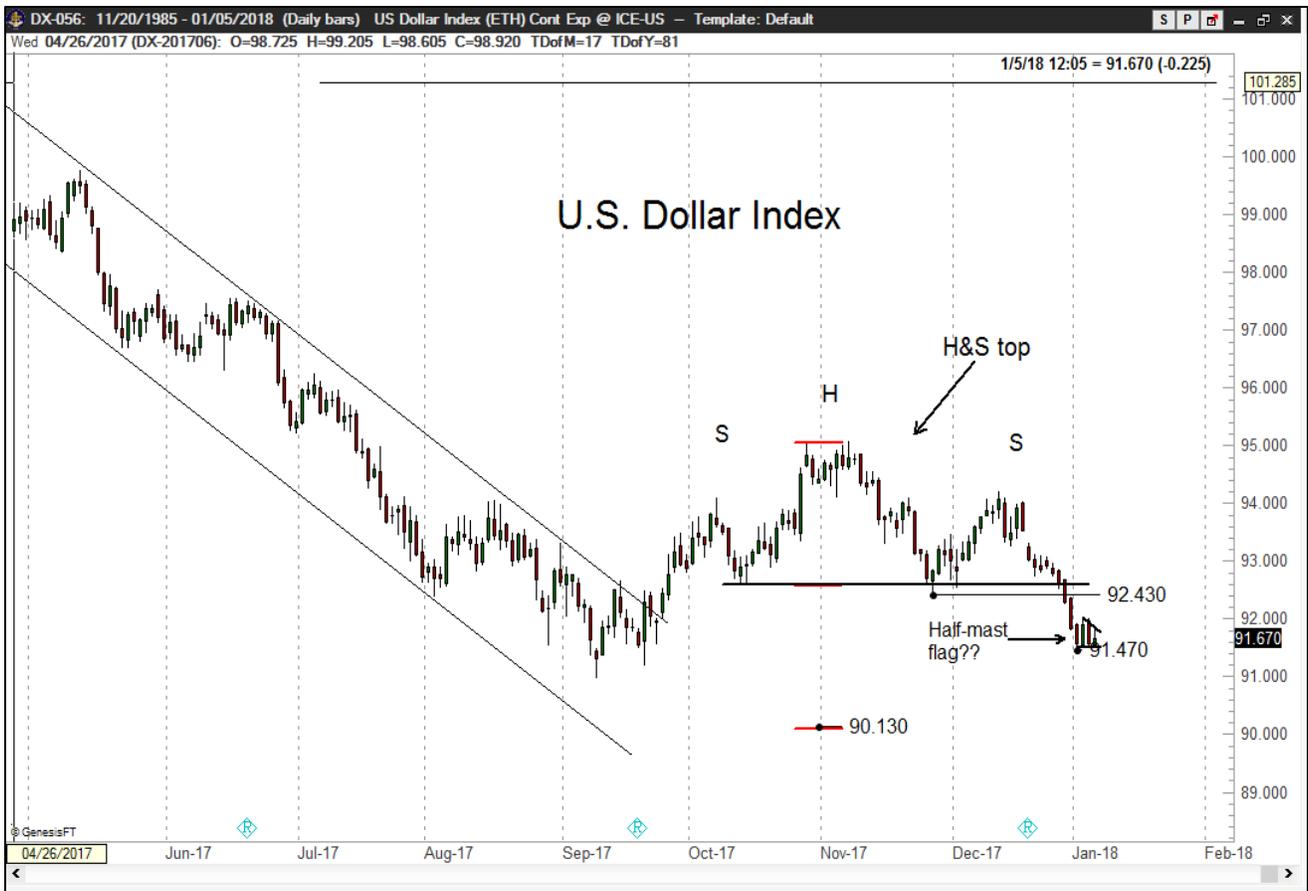
USD/RUB

Dollar/Russian Ruble has a history of orderly and sustained trends – which is actually contrary from the volatility reported by the financial press. The weekly chart is forming a 9-month triangle. I am adding this cross to my list for regular review. 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. The decline on Dec 27 with follow through on Dec 28 completed a continuation H&S pattern in DX. The market could be forming a half-mast flag pattern. An hourly chart better displays this pattern. Factor is short with a target at 90.21. If this flag continues to hold above 91.47 for a few days and breaks out during my daytime hours I will attempt to find a very low risk (20 to 25 ticks) pyramiding opportunity.



EUR/JPY – the uptrend is well established

The target of the 13-week rectangle completed on Dec 20 remains 137.42. The advance has reached the 70% point, so the 3DTSR is now in effect. Factor is long.



Gold – anticipating a strong 2018, but there are some red flags

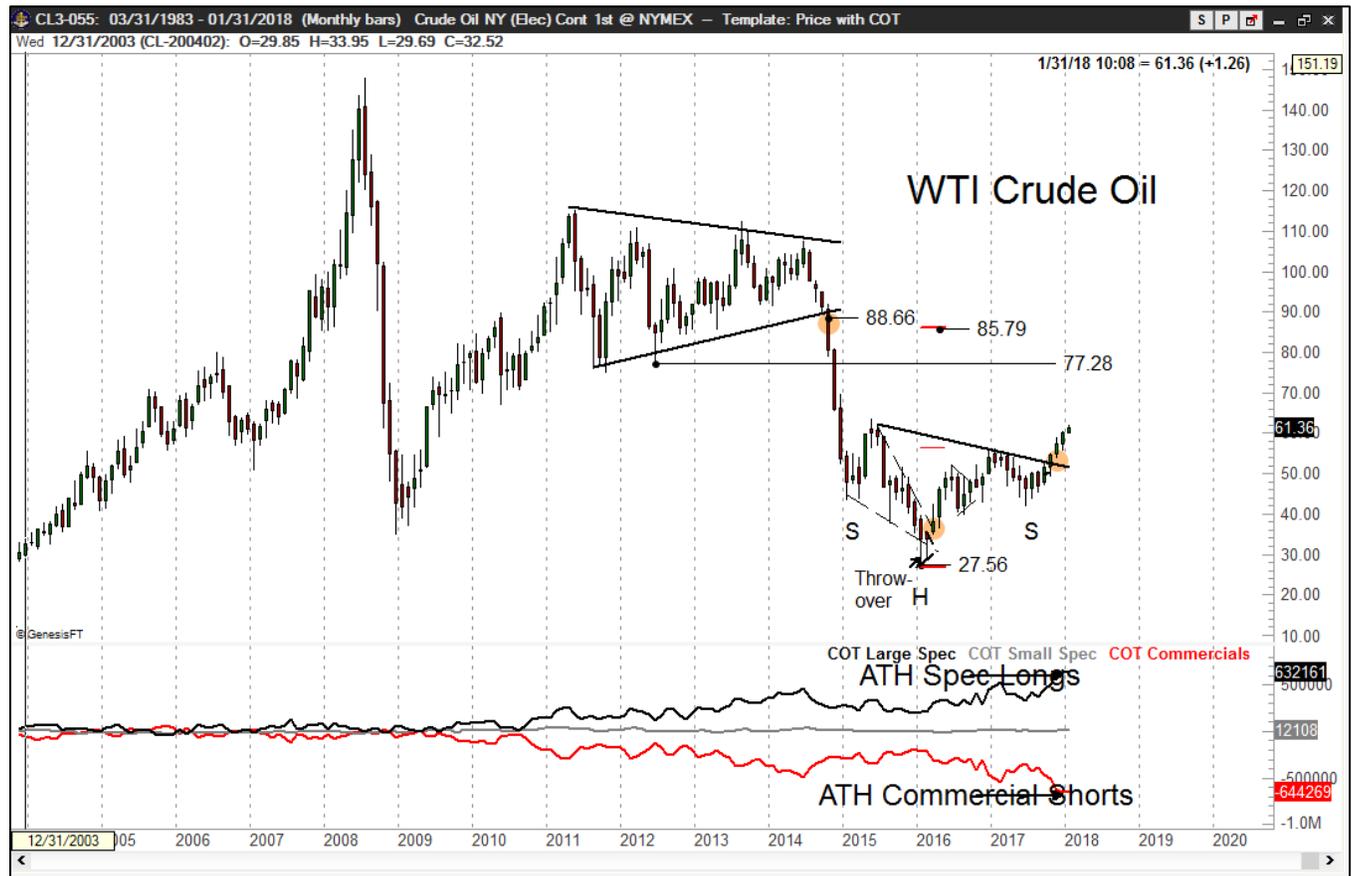
I have staked a claim on the bull case for Gold based both on the historic uptrend (quarterly graph) and a possible multi-year H&S bottom (weekly RealRange chart). For now this is my dominant viewpoint. Yet, there is one aspect of the weekly Gold chart that bothers me more than just a little. I have been on record for many months expecting Gold to bottom in the 1200 to 1225 level during the first quarter 2018. Such a decline would have turned the right shoulder of the H&S bottom into a well-defined 5-contact point symmetrical triangle on the weekly chart. The exact construction of the right shoulder to date concerns me. Nevertheless, a decisive close above 1400 would complete the bottom and establish upside targets of 1731 and 2637. Factor is flat. I have no desire to become a new long in Gold futures above 1400 and there are no classical patterns appearing to offer an early entry. The cleanest long-side entry would be a move above 26.40 on the weekly GDX chart. See additional charts, next page.





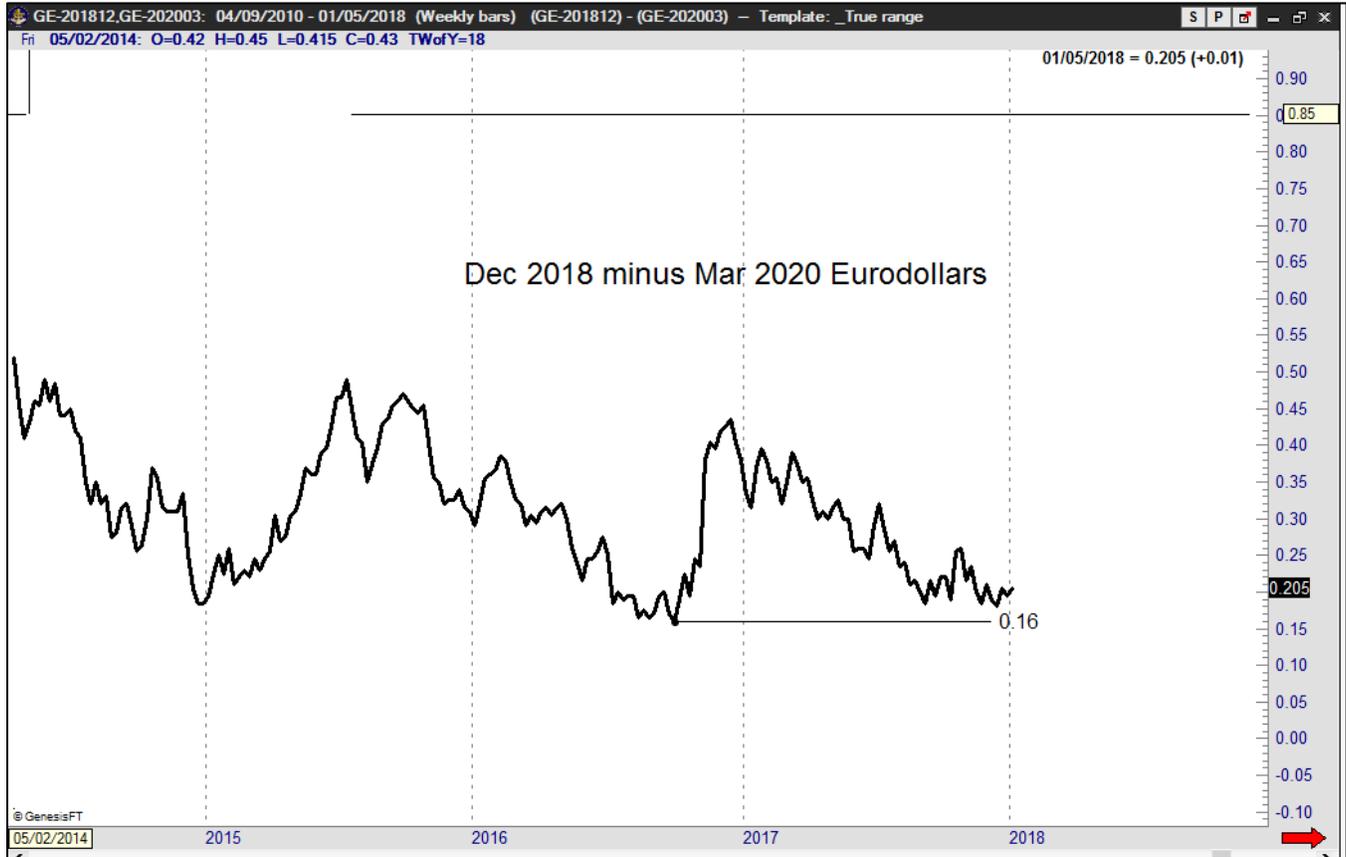
Crude Oil – bull trend continues despite record commercial selling

The H&S bottom completed on the weekly graph in Nov continues to propel prices higher. The target of this H&S is 85.79, but a couple of factors could provide substantial resistance prior to this target. Commercial short positions have reached a record high. This selling represents price hedging by producers who appear increasingly willing to forward-price Crude Oil. Also, the lows of the 3+ year symmetrical triangle top completed in Oct 2014 should provide sizable resistance. Despite the record COT profile I respect the trend and charts in Crude Oil. I would be willing to take a shot at the long side if the Apr contract retests the \$59.xx level. Factor is flat.



Eurodollar Spread (ED5-ED10) – a flattening yield curve is not what this trade needed

See Factor Alert dated Oct 22. Also, see the discussion earlier in this Update on U.S. interest rate markets. The yield curve has not begun steepening as I had expected. Factor is long Dec 2018 and short Mar 2020 Eurodollars. With the yield curve flattening I will bail out of this trade.



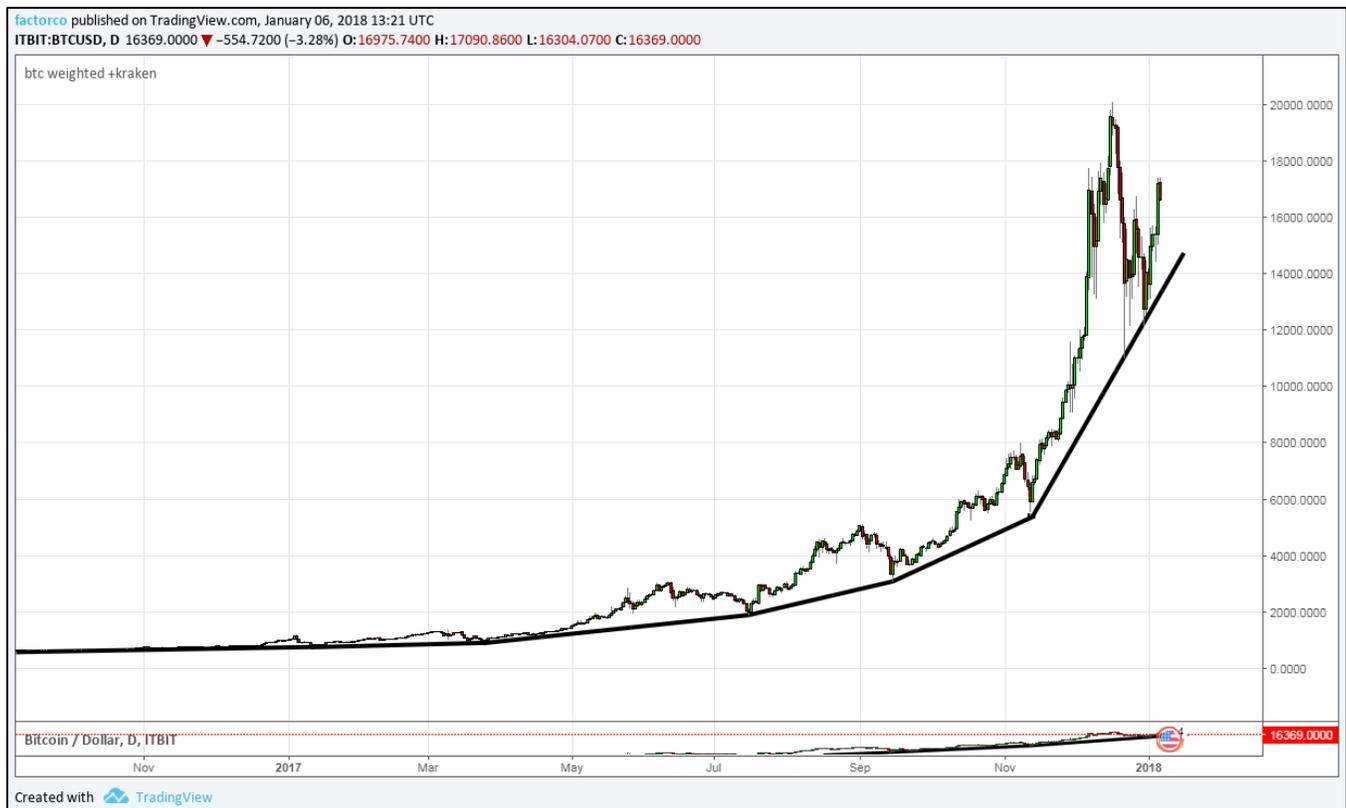
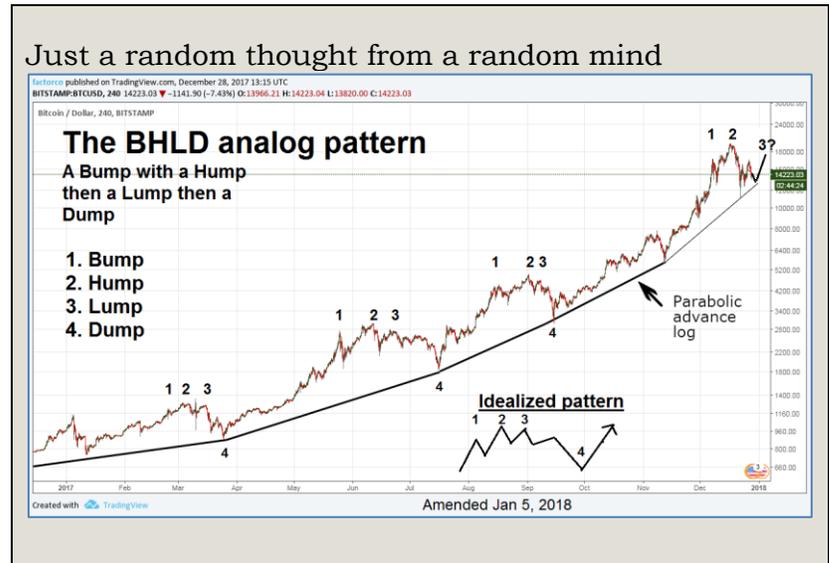
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The Factor Crypto Corner

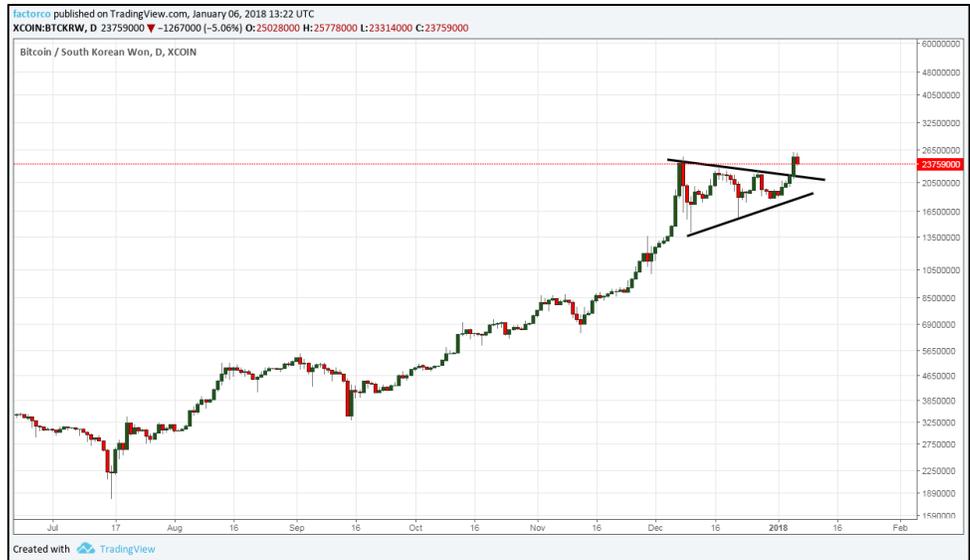
The Factor Crypto Corner – no top in sight for major coins

Bitcoin

The daily chart below is a composite of several major exchanges weighted for volume. I believe this chart is a better representation of BTC than the chart of any individual exchange. This chart shows that the parabolic advance remains alive and well – for now. In my opinion a decisive penetration of 12,000 would do some lasting damage to BTC. The very nature of a parabolic move is that the acceleration must continue to steepen.



The clearest immediate bullish case can be made with the daily Bitfinex graph (below). The thin red line is the dominant parabola path. The advance on Wednesday completed a continuation symmetrical triangle. The next major up-thrust should now unfold if this analysis is correct. The next target area would be 24,500 to 26,000. It is fine if you are a \$1MM BTC bull, but I prefer to take this market one step at a time. A “tell” in BTC has been the BTC/KRW



(Korean Won) cross. Bitcoins priced in Won have tended to lead big moves in BTC/USD. The present advance in BTC/USD was preceded by an upside breakout of a triangle in BTC/KRW. Factor is flat – given the proper correction I am willing to take a shot at the long side of BTC with a risk of 50 BPs.



Ethereum

See the Factor Alert titled “Ethereum begins next leg up,” dated Jan 1. I bought the upside breakout of a small pennant on Jan 1. Generally I avoid such small chart construction, but in the case of ETH there remains an upside target of 1086. I happened to log onto my trading platform on Thursday to reset target orders just as the market challenged the \$1,000 level. I was absolutely fascinated by the multiple blocks of 500 to 1000 lot sell orders that got stacked above \$1,000. On that basis I split my long ETH position into tranches and exited a partial position. I remain long ETH. ETH has reached the 70% point from the Nov 23 breakout to the 1087 target so the 3DTSR is now in effect.



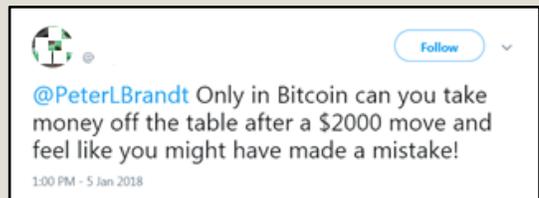
LTC

This coin broke out of a massive base in Mar 2017. I would be curious if any of you Point and Figure fans could generate the P&F target of that base – and also of the symmetrical triangle completed in Nov 2017.



Taking profits too early

The idea of exiting a position early only to have a market continue higher freaks out many novice traders. The new acronym for this human experience is FOMO – fear of missing out. FOMO is not one of my afflictions – although I have many others. I have absolutely no problem taking money off the table when there is a reason to do so. A Tweet from Friday pretty well nailed what I believe most crypto traders feel about exiting too early. The best sports analogy I have for my trading is American-rules Football. I have no desire to run the ball from end zone to end zone. I am very comfortable playing the game between the 20- or 30-yard lines, and that means leaving money on the table for other players.



Factor Tracking Account, January 5, 2018

Table shows only open trades as of January 5, 2018, trades closed in the past week and open trades for which protective stops were changed. Complete listing of Factor Tracking Account for 201 is updated monthly.

Factor LLC																1/5/2018		
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				
Positions open as of 12/30/17																		
GEZ18-																		
GEHO	Euro spread	10/23/17	L	26.0	1	15 close	62	Exit	1/5	88.00	6-yr cycle					\$ 500	NA	
								134.76/3D										
EUR/JPY	EUR/JPY	12/20/17	L	134.624	30k	133.47	30	TSR	1/4	137.24	14-wk rectangle	14-week rectangle				\$ 1,780	\$ 35,592	
ESUB	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	29.46	1/4	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	####	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				\$ 1,500	\$ 30,000	
DXH8	US Dollar	12/28/17	S	92.290	1	92.720	43	92.520	1/5	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	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	7553.00	1/4	7944.0	17-year asc tri	6+mo sym tri				\$ 9,465	\$ 104,086	
Total -- Carry in positions																\$ 474	\$ 26,421	
2018 forex roll charges and FX losses on foreign margin deposits; day trade P/Ls on repositioned trades																\$ (14)		
ETH	Ethereum	1/1/18	L	780.57	4	719.47	24	799.87	1/4	1086.87	Major bull trend	2-wk flag				\$ -	\$ 3,122	\$ 3,122
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	2	22685	72	23075.00	1/5	24015	Major bull trend	10-wk asc tri				\$ -	\$ 1,645	\$ 41,054
Trades as of																\$ 1,094	\$ 31,188	\$ 148,262
Indicates open position value as of																		
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																		
f = 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.																		

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