



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

Factor Update, February 11, 2018

Market Review

New candidate Factor Moves™ are developing in:

- *EuroSwiss
- Australian Dollars

Candidate Factor Moves™ are currently ongoing in:

- None

This issue also comments on global stock index markets (DJIA, S&Ps, PSQ), interest rate markets (*Eurodollars, JNK, *T-Notes, T-Bonds, *EuroSwiss), Brent Crude Oil, currency markets (AUD/USD, EUR/GBP, EUR/USD, USD/JPY, EUR/CHF), grain markets (*Corn, *K.C. 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"> • EuroSwiss – entry order • EUR/GBP – monitor 	<p><u>Existing positions</u></p> <ul style="list-style-type: none"> • EuroSwiss (rates) – target • Eurodollars – protective stops and targets • Corn – protective stop and target • T-Notes – protective stop • K.C. Wheat (hedged) – protective stop and target • LTC/USD – protective stop
<p>The Factor Tracking Account is currently leveraged at .5X. Capital Utilization is at 49.2%.</p>	

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The joy of being bored

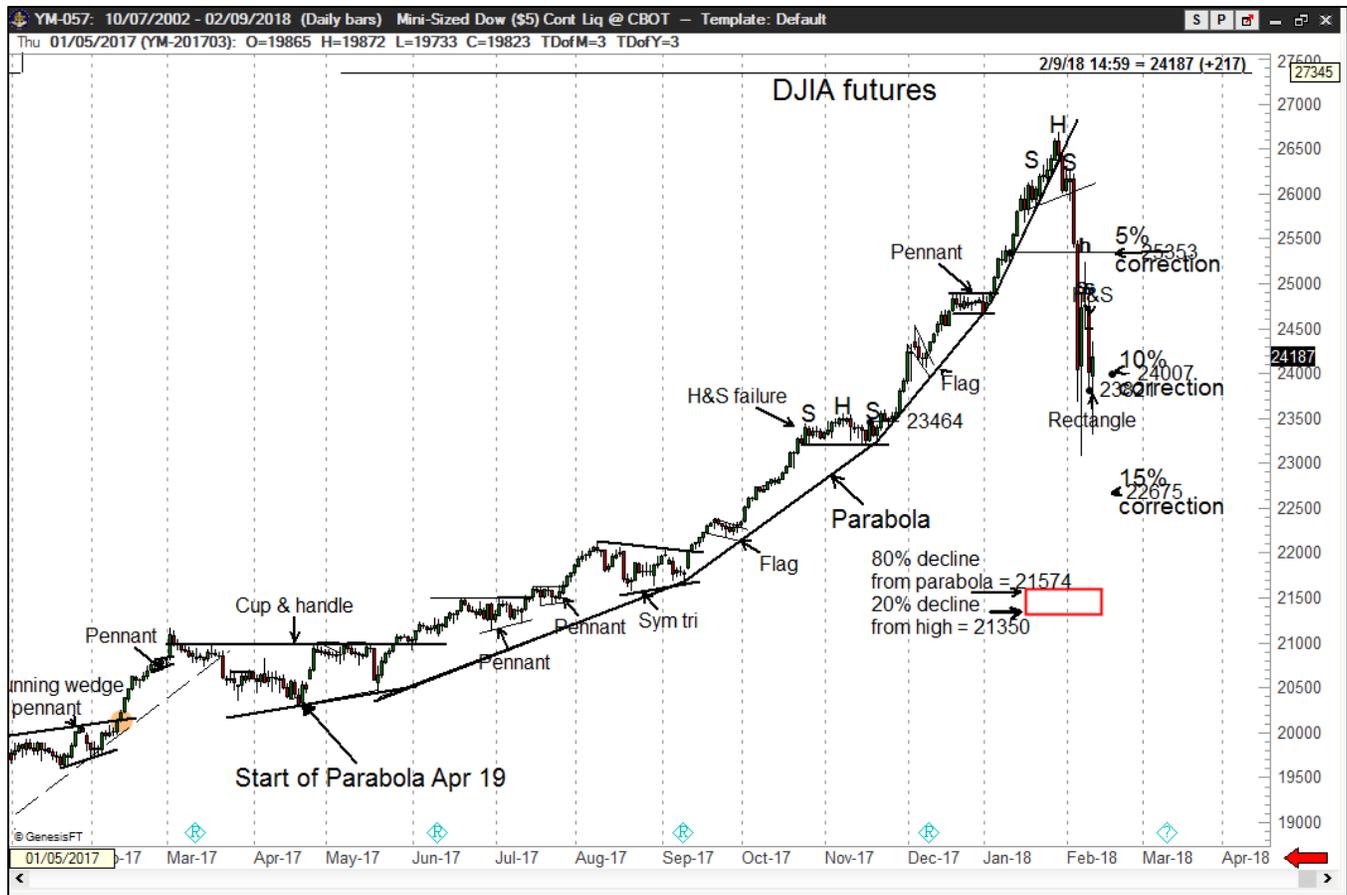
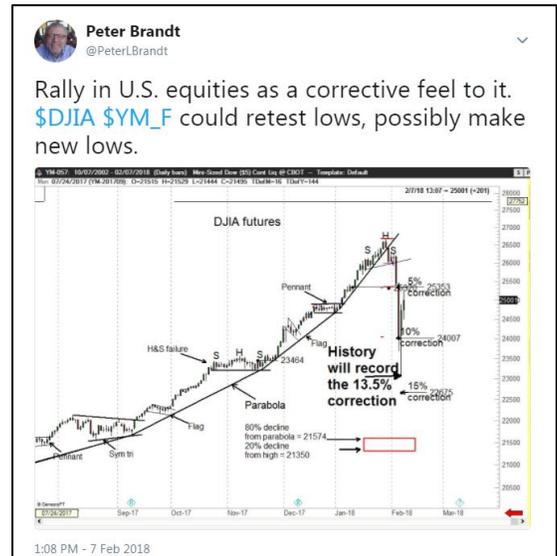
At times I get tired of promoting the importance of capital preservation ... over ... and ... over ... and over again. I came into the week with my lightest positioning in some time – a portfolio leverage of .5X with only 11.3% of my capital being used. I might not have nailed the short side of stock indexes this past week (I did not trade them) – but I am exiting the week with my capital well preserved. This is always my priority. In fact, my only exposure to the U.S. stock market this past week was a long position in PSQ, the inverse Nasdaq ETF. I ended up making money in the U.S. stock market, although not enough to shout about. I hope that a week like this will reinforce Factor members with a sense of how I view market speculation:

- Pick my spots carefully – only enter trades that meet defined criteria
- Run quickly if the trades do not work
- Keep my capital intact
- Keep throwing mud against the wall until something sticks, knowing that my net annual profits will come from only 5 to 10 trades

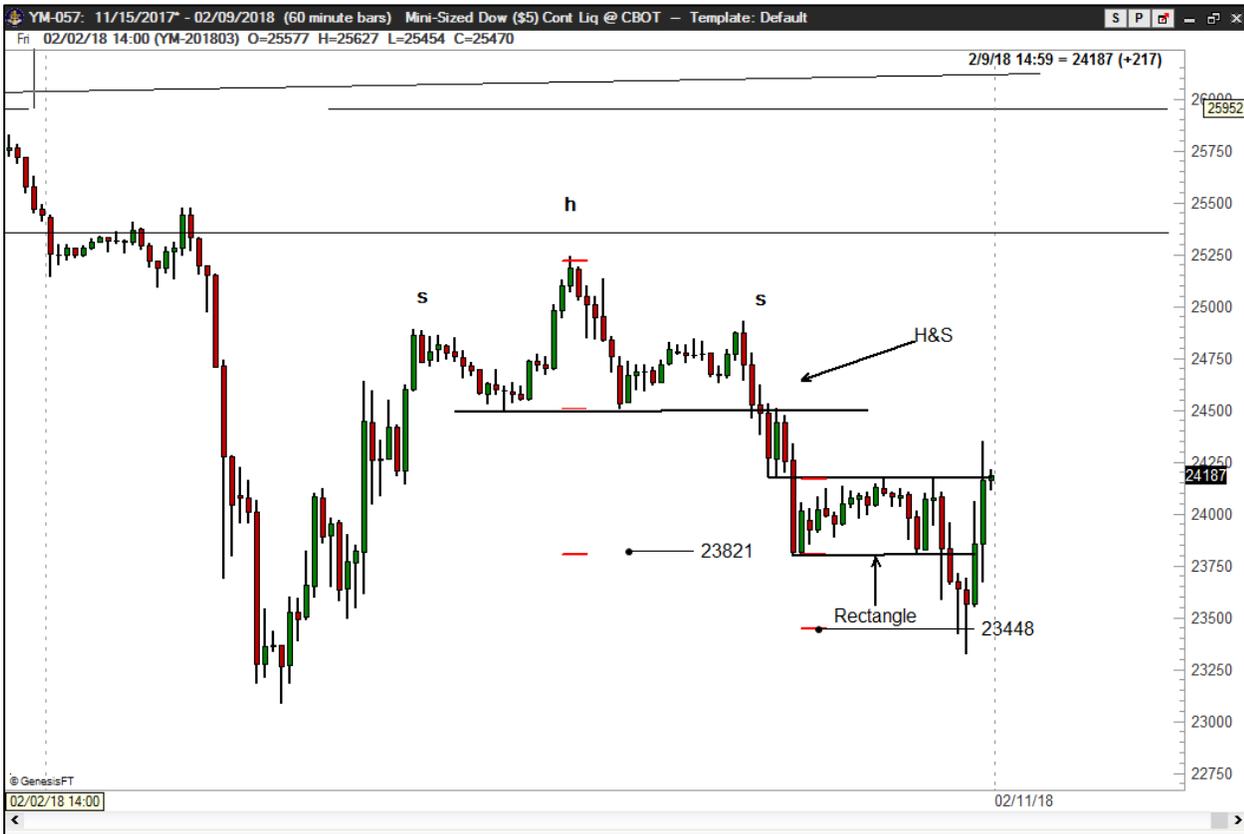
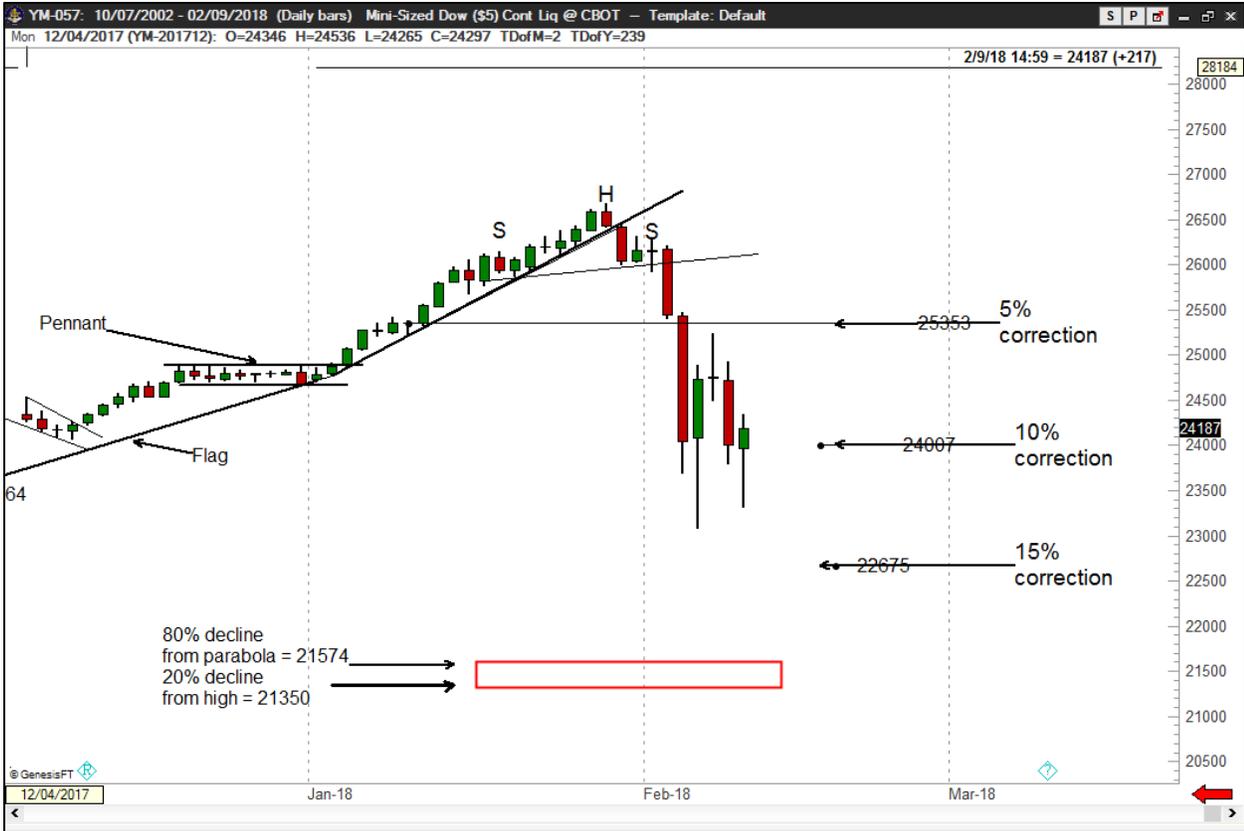
Global stock markets – are we in a correction or has the dominant trend changed?

DJIA – how far will this correction carry

In last week's Update I suggested that a 10% correction in DJIA was possible. The magnitude of the decline on Monday led me to revise the downward possibilities to a 15% correction with the outside possibility of a move into the 21350 to 21574 zone. The 21574 level is significant because it represents an 80% correction of the entire parabolic advance from the Apr low to the Jan high. My bias has been that U.S. equities remain in a bull trend and that this is corrective action. Yet, this decline has been impulsive – suggestive of a dominant bear trend. My only "coulda ...woulda ...shoulda" of the week was not shorting the very clear H&S top pattern on the intraday chart of Dow futures. Yet, my trading policy is to avoid short time-frame patterns when I am in an official drawdown (see Feb 4 Factor Update, page 17). Factor is flat. I have no present desire to be involved in the type of volatility witnessed this past week.



The daily Dow futures chart at the top of page 3 better shows the possible correction levels. Keep in mind that a 20% correction is commonly understood to represent a bear market.



S&Ps

The 6-hour graph is shown. Note the H&S top. The decline on Friday held at Monday's low. This sets up the possibility of a descending triangle – pending a rally back toward the 2650 to 2675 zone next week. Factor is flat.



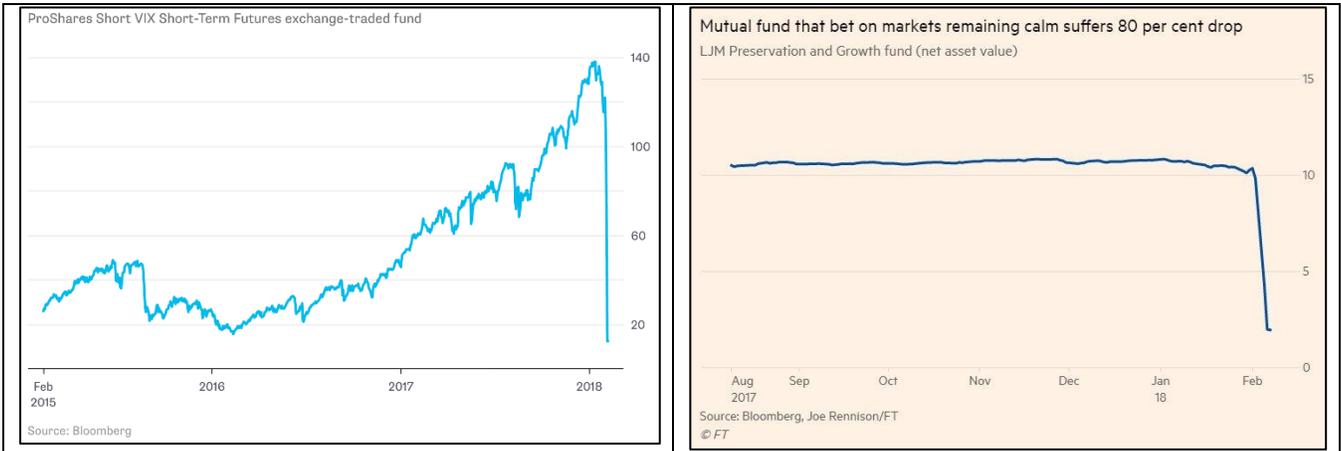
PSQ

The rally on Tuesday met the target of the long position in the Factor Tracking Account. I take profits when targets are hit. Should a more permanent bear trend in U.S. equities develop I would expect the very awkward 9-week H&S bottom to be completed, followed by an advance to 39.32. Factor is flat.



Picking up pennies in front of a steam-roller

Short volatility became one of the biggest bets on Wall Street during 2017. Massive amounts of capital were positioned with the assumption volatility was a thing of the past. I have constantly warned Factor members to avoid short vol programs. I have been through many major cycles throughout my 43 years as a trader. Each major market cycle produces a line-up of short vol all-stars whose careers end poorly. Short vol programs make money week after week, month after month and year after year – until they go broke (and when they go broke, it happens quickly). Shown below are two investment vehicles with major bets that calm would be a permanent part of Wall Street.



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

T-Bonds

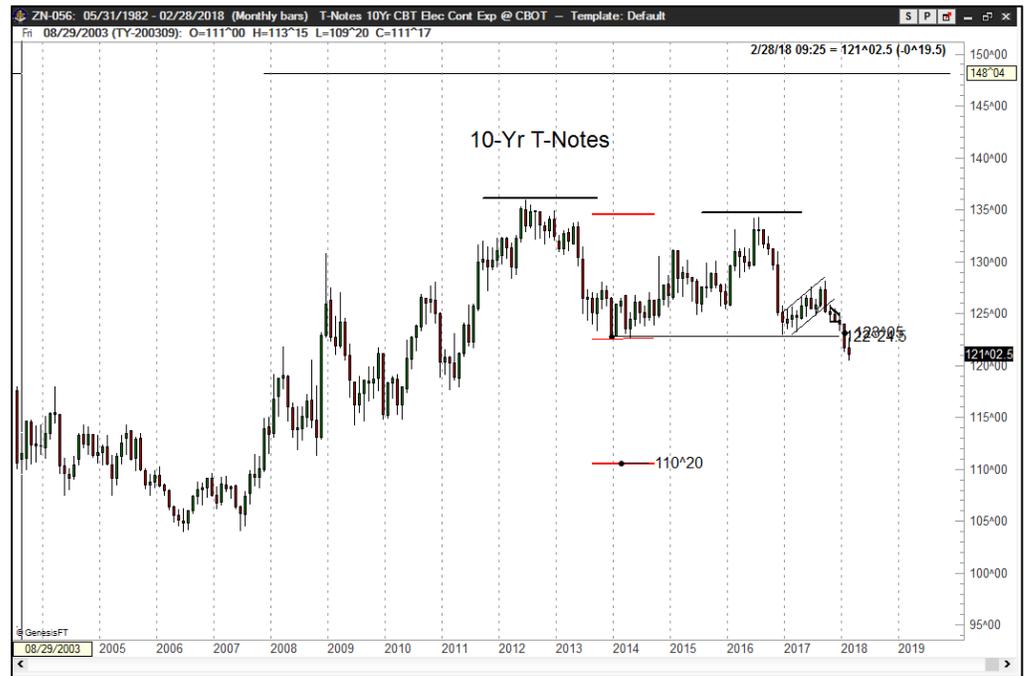
A 3-year H&S top pattern has been completed on the weekly continuation futures graph. The long-term yield graph displays a multi-decade channel. A massive inverted H&S bottom is forming on the yield chart. A yield of 3.5% would complete this pattern. See yield charts, next page. Factor is flat.





U.S. 10-Yr T-Notes

I have commented in recent Factor updates on the completed 6+ year double top on the monthly chart. In last week's Update I scolded myself for not having placed orders to short a retest of this top. I was not going to make the same mistake this week and a resting sell order was filled on Tuesday's rally. Factor is short.



Eurodollars (interest rate, not forex cross)

The weekly chart of the Dec 2021 contract displays a possible 2+ year failure top, requiring a decisive close below 96.95. All targets from the daily chart have been met. I was stopped out of my final two short tranches on Monday's rally. I re-entered a small short position on Wednesday. At the height of my short



Eurodollar trade I held 50 contracts per \$1M of capital (or 5 contracts in the Factor Tracking Account). Factor is lightly short in anticipation that the 2+ year top will be completed - I will expand my leverage if this occurs.



EuroSwiss (rates)

Waiting – will I wait forever for Swiss sanity to return? Factor is short.



Currency markets – entering a period of uncertainty

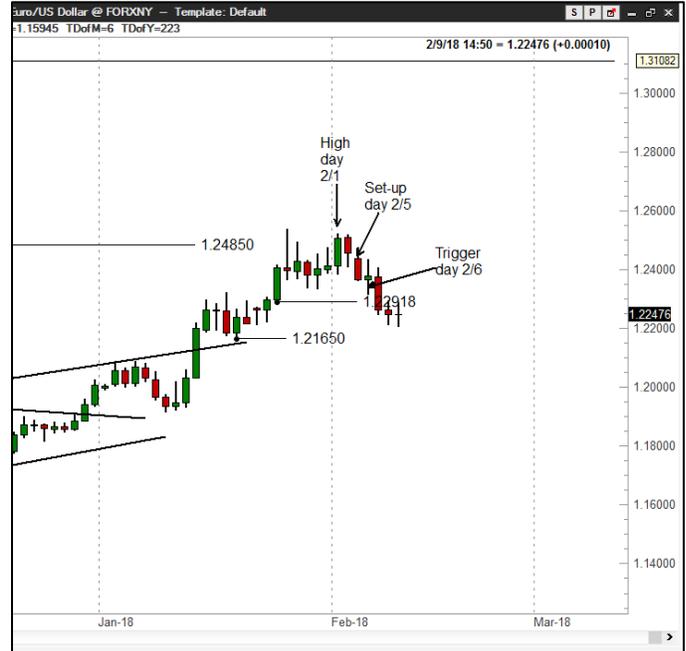
Australian Dollar

The Aussie continues to trace out a horn bottom. My hope is that the decline in the past two weeks will lead to a small recognizable bottoming pattern. Factor is flat – monitoring the market for a buying opportunity.



EUR/USD

The all-time record commercial short and spec long position profile appears to have caught up with this forex cross. The minimum target at 1.2485 of the massive underlying rectangle was met. The Feb 4 Factor Update commented that the 3-day-trailing-stop rule (3DTSR) was in effect for the final long tranche position. In "Diary" I detailed the 3DTSR as a means to prevent a market from "returning to go" once a meaningful move to the target has occurred. Those Factor members familiar with this rule will note that Feb 1 was the high day, Feb 2 was the set-up day and Feb 6 was the trigger day. Factor is flat.



EUR/CHF

This is a forex cross I have featured in recent Factor updates – and a trade I missed. I can easily handle it when I miss patterns that are not absolutely clear, but I hate missing “no-doubt-about-it” patterns such as the rising wedge in this forex cross. The sell signal occurred on the Feb 25 close below 1.1683. Factor is flat (ugh!). My FOCAM (“fear of chasing a market”) outweighs my FOMO (“fear of missing out”), so I have lost interest in this trade.



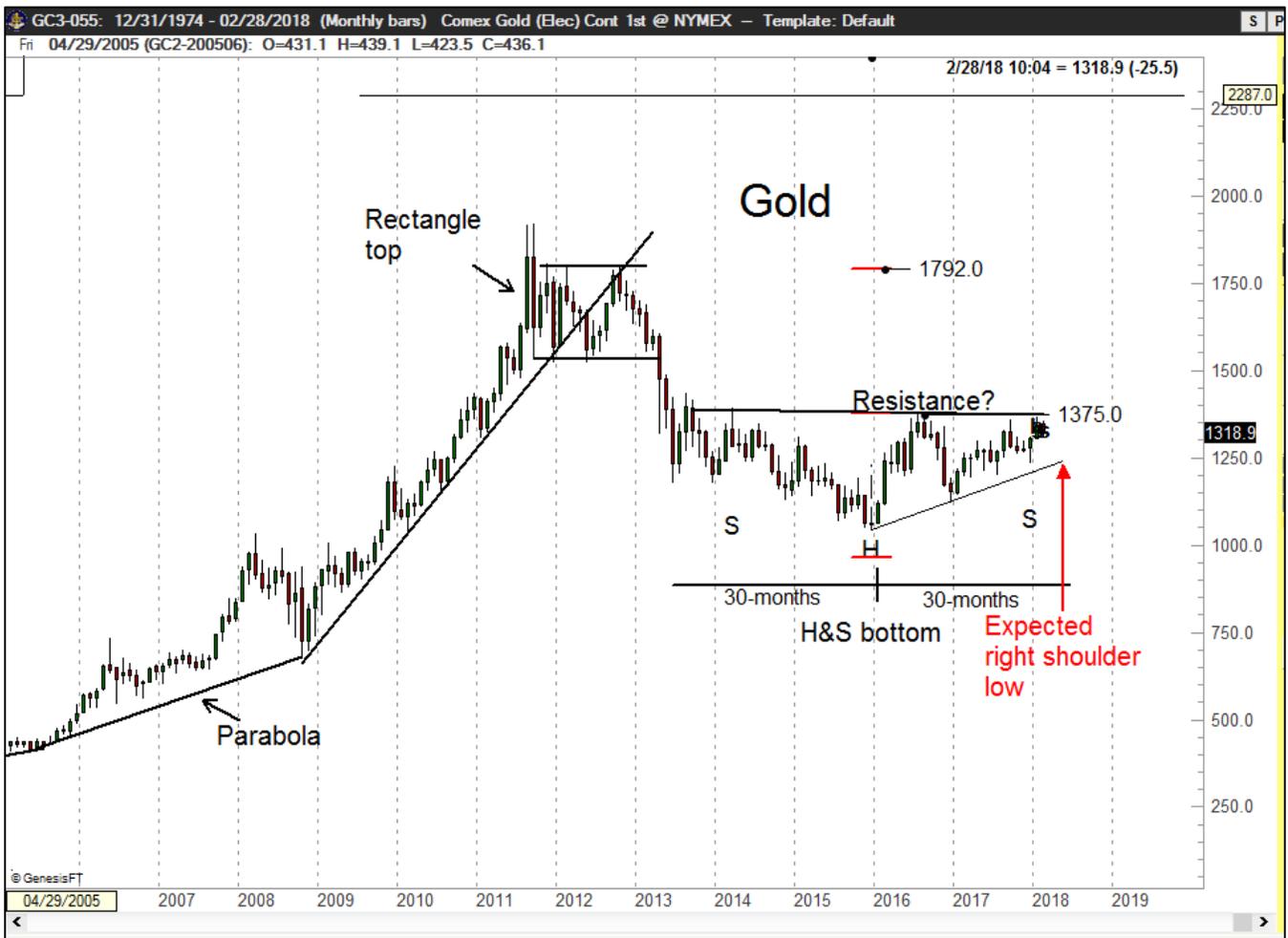
EUR/GBP

In my opinion this forex cross could be one of the more promising trades over the next two years. The weekly chart is forming a 16-month cup and handle pattern. A decisive close above .9307 would complete this pattern and establish a target above 1.02xx – that’s right, EUR could trade at a premium to GBP. Factor is flat. I am hoping the market offers me an opportunity to become prepositioned, but the trading range since late Sep has not formed a recognizable pattern.



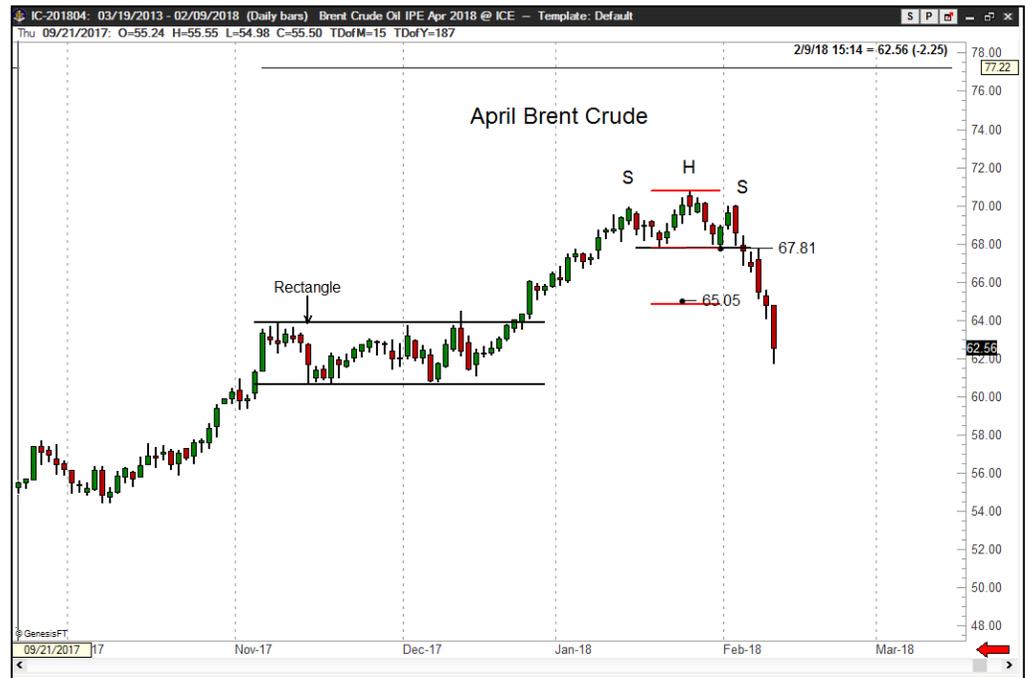
Gold – massive H&S bottom continues to develop, but overhead resistance could be stiff

Gold futures continue to trace out a possible massive inverted H&S bottom on the monthly and weekly graphs. A close above 1400 is required to complete this bottom and launch the next bull trend in Gold. Resistance in the 1350 to 1375 zone appears to be repelling the market. A small H&S top was completed on Tuesday. Factor is flat.



Brent Crude Oil – H&S top was completed, target was met, intermediate trend is now down

The Feb 4 Factor Update commented on the H&S top forming in Brent Crude. This pattern was completed on Monday and prices blew through the implied target of 65.05. Due to the abbreviated nature of the H&S pattern I did not participate in this trade. Factor is flat. The trend on the weekly chart appears to have turned down. A move toward 58.37 is likely. The advance from the Jan 2016 low has taken the form of a channel.



Grain markets – prolonged bottoming process continues

Grain prices are all in areas of historical support – but bottoming in grains can be an agonizingly slow process. Nevertheless, I am committed to a long-term program of buying reasonable daily chart bottom patterns in the grain markets.

I presented a buying strategy for K.C. Wheat in the Feb 4 Factor Update. Accordingly, for the Factor Tracking Account I bought a contract of Jul K.C. Wheat (paying two cents higher than planned) and hedged the position with a sale of two mini Chicago Wheat contracts. I am jamming stops on the K.C. Wheat. A long K.C. Wheat contract by itself represented a larger risk than I was willing to assume. I set up my order flow so that the Chicago Wheat contracts will be liquidated at the market automatically if the K.C. Wheat hits my stop loss level. This is called a contingent order structure whereby one order, when filled, triggers another order.



The daily continuation graph in Corn has arguably completed a 5+ month inverted H&S bottom pattern. I say “arguably” because this pattern is such a micro aspect of a much larger trading range, as seen on the weekly chart. I far prefer when bottoms and tops are “stand-alone” patterns. The daily chart of the Jul contract completed a falling wedge pattern on Jan 24. Understand this: A weather scare will be needed for Corn to have a meaningful advance in 2018. See additional Corn charts, next page.





Post Mortems

Aussie 3-Yr Bond

I had a two-tranche short position in the Aussie 3-Year Bond. I covered the first tranche on Feb 1 based on the 3DTSR. I should have covered the entire position. Trades that do not work immediately generally have losses that grow. I was stopped out of the second tranche on Tuesday.



Singapore Index

There is a BIG lesson to be shared on this trade. I had been waiting for several weeks to buy a retest in the Singapore Index. My order was filled on Monday and stopped out on Tuesday based on the "retest low rule." The lesson is this – more often than not when I finally get the set-back I had wanted it is a position I usually do not want.



A post note to the Factor Alert dated Feb 7, 2018 titled, "*Buying New highs in individual stocks after a general stock market smack-down.*" Documents such as this are never intended to represent trading recommendations unless otherwise noted. The intent of this document was to explore a concept. Further, I differentiate between equities purchased as part of the Factor's proprietary account (including the Factor Tracking Sub Account) and my various IRA/Roth/Keogh retirement accounts. Incidentally – and for full disclosure – of the list of nine stocks included in the Feb 7 Factor Alert, I purchased PRO and HAS as the only stocks that featured a classical chart pattern along with a new high.

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The Factor Crypto Corner

My opinion on the large-cap cryptos can be summarized as follows:

- The weekly trends (log scale) remain solidly higher in LTC and ETH
- The violation of the parabola in BTC remains a “yellow” flag on the weekly and daily charts
- The daily trend (using the 21-day MA as proxy) is down in BTC, ETH and LTC
- There are no classical charting patterns indicating that the bull trends have resumed

My opinions are not necessary reflective of my positions. I am a ruled-based trader – and the rules are mechanical. As a general rule I am only willing to be long when such a position is confirmed by the MA and classical charting principles.

The Factor Crypto Corner – BTC held the 62% retracement on a closing price basis

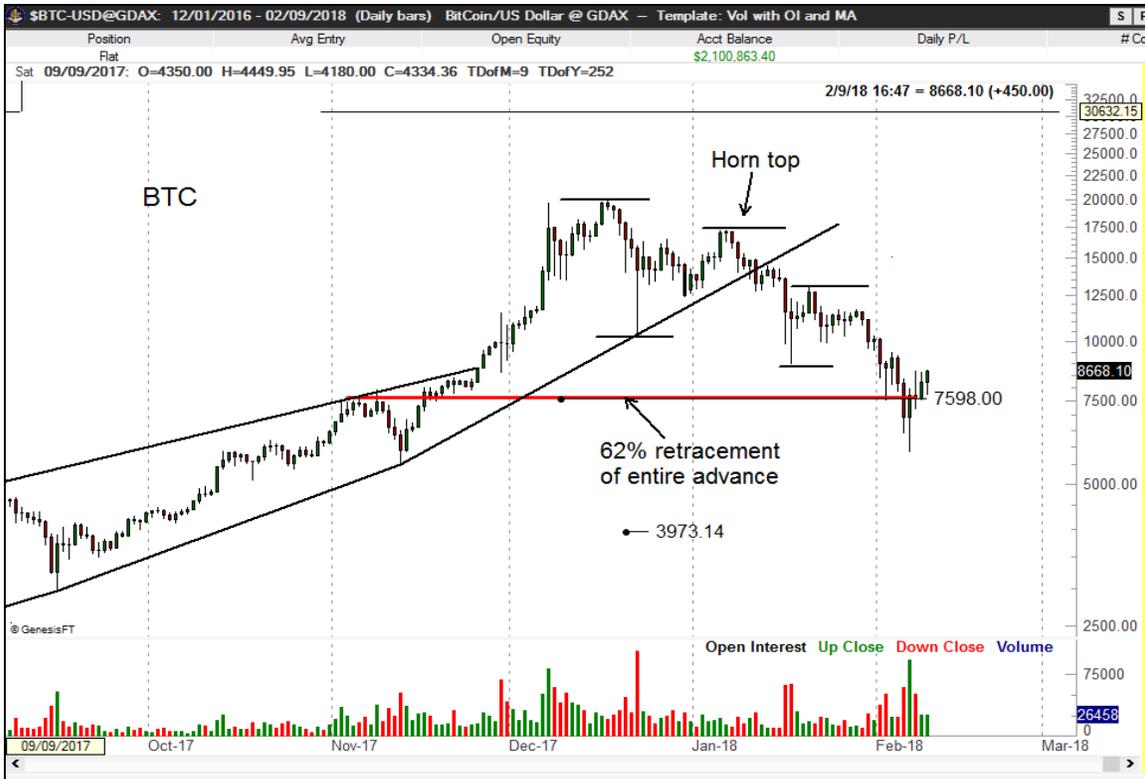
Bitcoin

The decline this past week pushed solidly through the 62% retracement (of the entire bull market from inception to the Dec 2017 high), but managed to move back above this level by the end of the day Friday (U.S. time). It will be interesting to see if this remains true at midnight (UTC) on Sunday.



I retain several conflicting thoughts on BTC as of Friday afternoon.

1. The fact that the dominant parabola advance was violated in early-/mid- January remains a negative hanging over the market. Parabola violations can lead to a complete retracement of the ground gained from the start of the parabola.
2. One interpretation is that the daily chart completed a horn or sloping top. If correct, this pattern has a target in the 4100 to 4350 zone.
3. The market declined below the 62% retracement (a negative) but has climbed back above this level (perhaps an offsetting positive).
4. The volume on Feb 6 was of a climactic blow-off level (positive).
5. A second interpretation is that a bullish wedge dating back to the Dec 22 is forming – and that the decline this past Monday and Tuesday was simply a last-gasp blow off (a positive).
6. The 21-day MA is in a hard down mode.
7. Bollinger Bands tend to work well in cryptos. There has not been a BBand buy signal since early Dec 2017.



For now the jury is out. My opinion might change from day to day, but tactically my rules prevent me from taking a position. Factor is flat.

LTC/USD

This coin flashed an arguable buy signal on Friday based on classical charting principles. The advance on the daily chart (arithmetic scale completed a possible bullish falling wedge pattern. Confirmation by expanded volume would have been nice – but not absolutely necessary. A similar buy signal can be seen against the Eurocurrency. The BBands are squeezing and the MA is turning from flattening. I am buying LTC/USD on an exploratory basis with a tight stop, risking 25 BPs. An advance above 175.00 is needed to begin turning the trend in LTC.



Ethereum

The daily chart exhibits a possible 4-week flag on the scale chart. Factor is flat.



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Factor Tracking Account, February 9, 2018

Table shows only open trades as of February 9, 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																	2/9/2018				
Model Tracking Account Trade History and Portfolio																					
Constant nominal capitalization: \$100,000																					
(See disclaimers and notes below)																					
Market		Date	L/S	Price	Size	Entry				Stop Date	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)			
						Initial stop	BP risk	Current Stop	Δ			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	7619.00	1/22	7944.0	17-year asc tri	6+mo sym tri	24-Jan	7618.5	\$ 466.00	Closed	-				
																Total -- Carry in positions		\$ 2,886	\$ 371		
2018 forex roll charges and FX losses on foreign margin deposits; day trade P/Ls on repositioned trades																					
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	23495.0	1/25	24825 r	Major bull trend	10-wk asc tri	29-Jan	23495	\$ 349	Closed	-				
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	1.22740	1/24	1.2485	January Effect lo	Retest 13-wk sym tri	25-Jan	1.24848	\$ 1,556	Closed	-				
EUR/USD	EUR/USD	1/8/18	L	1.19660	30k	1.18350	40	1.22820	1/31	Open	January Effect lo	Retest 13-wk sym tri	7-Feb	1.22817	\$ 947	Closed	-				
GEZ21	Eurodollars	1/9/18	S	97.44	1	97.53	22	97.165	2/2	Open r	9-mo H&S	9-mo H&S	5-Feb	97.165	\$ 683	Closed	-				
GEZ21	Eurodollars	1/9/18	S	97.44	1	97.53	22	97.240	1/30	97.03 r	9-mo H&S	9-mo H&S	2-Feb	97.03	\$ 1,020	Closed	-				
GEZ21	Eurodollars	1/9/18	S	97.44	1	97.53	22	97.165	1/30	Open r	9-mo H&S	9-mo H&S	5-Feb	97.165	\$ 683	Closed	-				
Possible 2-yr sym tri																					
GLD	Gold ETN	1/12/18	L	126.33	100	123.87	25	126.17	1/30	147.92		Possible 2-yr sym tri	2-Feb	126.17	\$ (21)	Closed	-				
AAAPL	Apple	1/16/18	L	177.51	150	174.19	50	174.97	1/19	185.48	11-wk rectangle	11-wk rectangle	24-Jan	174.96	\$ (388)	Closed	-				
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	-				
GDXJ	Jr. Gold Miner	1/24/18	L	35.69	250	33.79	50	33.88	1/25	48.87	Poss 5-yr H&S	13-mo sym tri	29-Jan	33.87	\$ (450)	Closed	-				
ZCN8	Corn	1/24/18	L	3.7250	1	3.655	37	3.7250	2/5	3.875	5-mo wedge	5-mo wedge			\$ 605	\$ 18,625					
FXI	China Fund ET	1/25/18	L	52.54	150	48.29	63	Mkt	2/2	71.74	10-yr sym tri		2-Feb	51.53	\$ (157)	Closed	-				
YTH8	Aussie 3-yr	1/26/18	S	97.73	1	97.85	27	97.81	1/31	97.35	3-yr H&S top		1-Feb	97.81	\$ (208)	Closed	-				
YTH8	Aussie 3-yr	1/26/18	S	97.73	1	97.85	28			97.35	3-yr H&S top		6-Feb	97.85	\$ (322)	Closed	-				
6+mo sym tri -																					
ZXH8	FTSE 100	1/26/18	L	7617.0	1	7551.0	77	7576.5	1/29	7944.0	17-year asc tri	reentry	30-Jan	7576	\$ (590)	Closed	-				
ETH	Ethereum	1/27/18	L	1110.42	6	1039.82	43	1123.87	1/29	1329.5	Major bull trend	3-wk pennant	29-Jan	1123.86	\$ 76	Closed	-				
GEZ21	Eurodollars	1/29/18	S	97.20	2	97.255	27	97.22	1/31	97.11	9-mo H&S	Pennant	1-Feb	97.11	\$ 440	Closed	-				
PSQ	QQQ ETF	2/2/18	L	33.23	300	32.58	20	32.89	2/2	34.86	Micro H&S	Micro H&S	5-Feb	34.86	\$ 484	Closed	-				
SSGG8	Singapore Ind	2/5/18	L	394.30	1	392.8	25			489.8	7-yr rectangle	Retest	5-Feb	392.7	\$ (242)	Closed	-				
17-wk H&S																					
KW3N8	KC Wheat sprc	2/5/18	L	4.870	1	4.65	110	4.945	2/9	5.46	bottom	Retest gap			\$ 1,045	\$ 24,350					
XW3H8	Mini Chi sprd	2/5/18	S	4.40	2	See above	-40	See above		Hedge	Hedge for KW				\$ 440	\$ 4,400					
ZNH8	T-Notes	2/6/18	S	122^15	1	123^05	69	122^22	2/9	115^06	6+ yr dbl top	Retest			\$ 1,045	NA					
GEZ1	Eurodollars	2/7/18	S	97.12	2	97.23	54	97.15	2/9	96.51	Poss 2-yr fail top	Shake out re-entry			\$ 264	NA					
LTC/USD	Litecoin	2/9/18	L	152.07	12	133.79	25				9-wk wedge	9-wk wedge			\$ 1,825	\$ 1,825					
																Trades as of		\$ 8,746	\$ 5,595	\$ 49,200	
																Indicates open position value as of				Levered at	0.49
																				Margined at	6.0%
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																					
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 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.																					
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