



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

Factor Update, February 4, 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, FTSE, Nifty 50, FXI, Nasdaq, *PSQ, Singapore Index, Osaka Nikkei), interest rate markets (*Eurodollars, *Aussie 3-Yr Bond, T-Notes, T-Bonds, *EuroSwiss), Brent Crude Oil, currency markets (*EUR/USD, USD/JPY, CAD/JPY, EUR/CHF, Australian Dollar), grain markets (*Corn, Wheat), Gold (GC, GLD, GDXJ) and cryptos. *Signifies a position in the Factor \$100,000 Tracking Account

<p><u>Developing signals</u></p> <ul style="list-style-type: none"> • AUD futures – monitor • EuroSwiss – entry order • EUR/CHF – alert • Singapore Index -- alert 	<p><u>Existing positions</u></p> <ul style="list-style-type: none"> • EuroSwiss (rates) – target • EUR/USD – protective stops and targets • Eurodollars – protective stops and targets • Corn – protective stop and target • Aussie 3-Yr. Bond – protective stop and target • PSQ – protective stop and target
<p>The Factor Tracking Account is currently leveraged at .5X. The margin-to-equity use for futures and forex is 3.0%.</p>	

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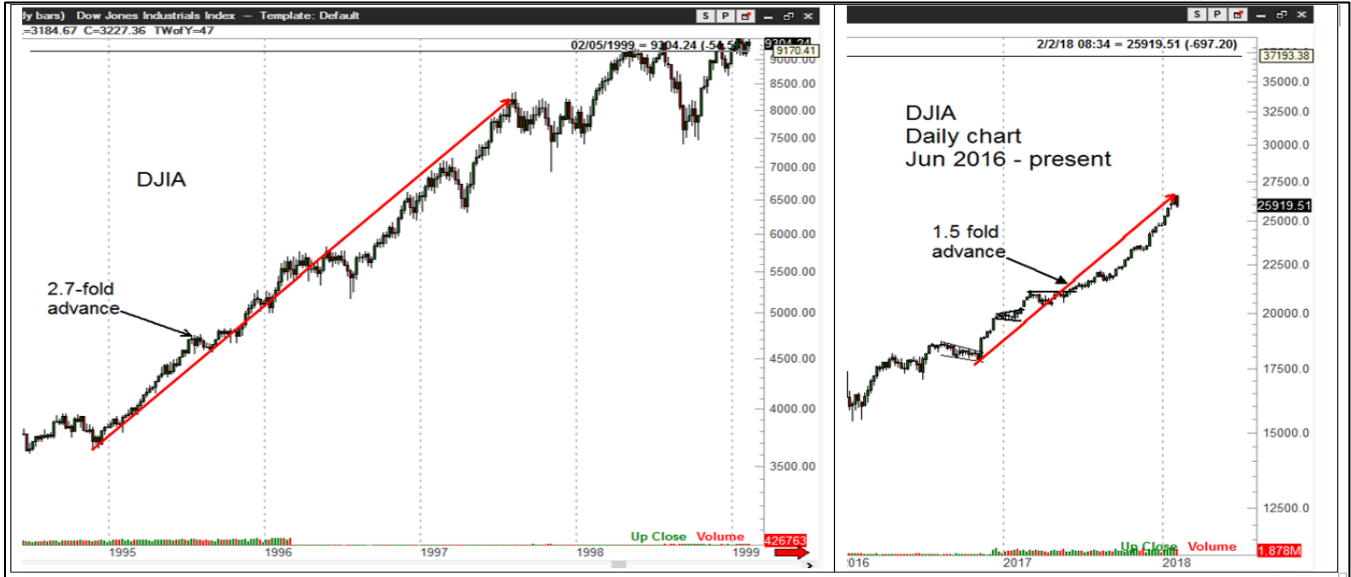
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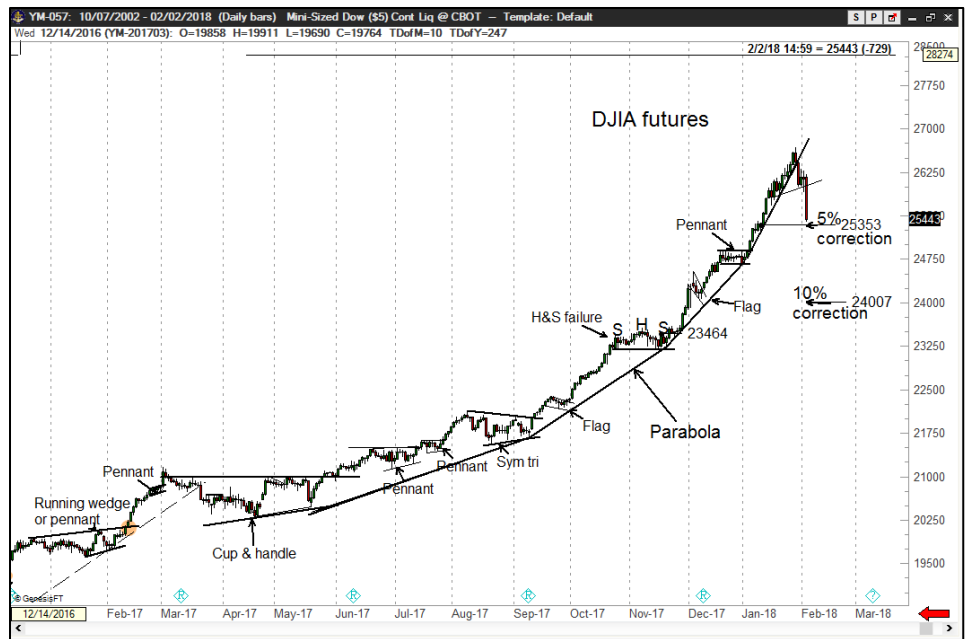
Global stock markets – bull market correction has started

Many market commentators are proclaiming a major U.S. stock market top, citing valuation, sentiment, short-gamma positioning and a parabolic advance they believe cannot be maintained. I disagree despite the convincing weekly chart sweeping reversal decline this past week. I believe the mid-1990s bull advance is a more likely analog period. From late 1994 through mid-1997 the DJIA advanced 2.7-fold with only minor corrections (7.5% in 1996 and 9.9% in 1997, basis closing prices). A 10% correction in this bull trend is certainly possible. I have found a certain strategy to be quite profitable whenever the stock market has a big shake out – buy quality growth stocks that subsequently make new ATHs.



DJIA – correction in progress?

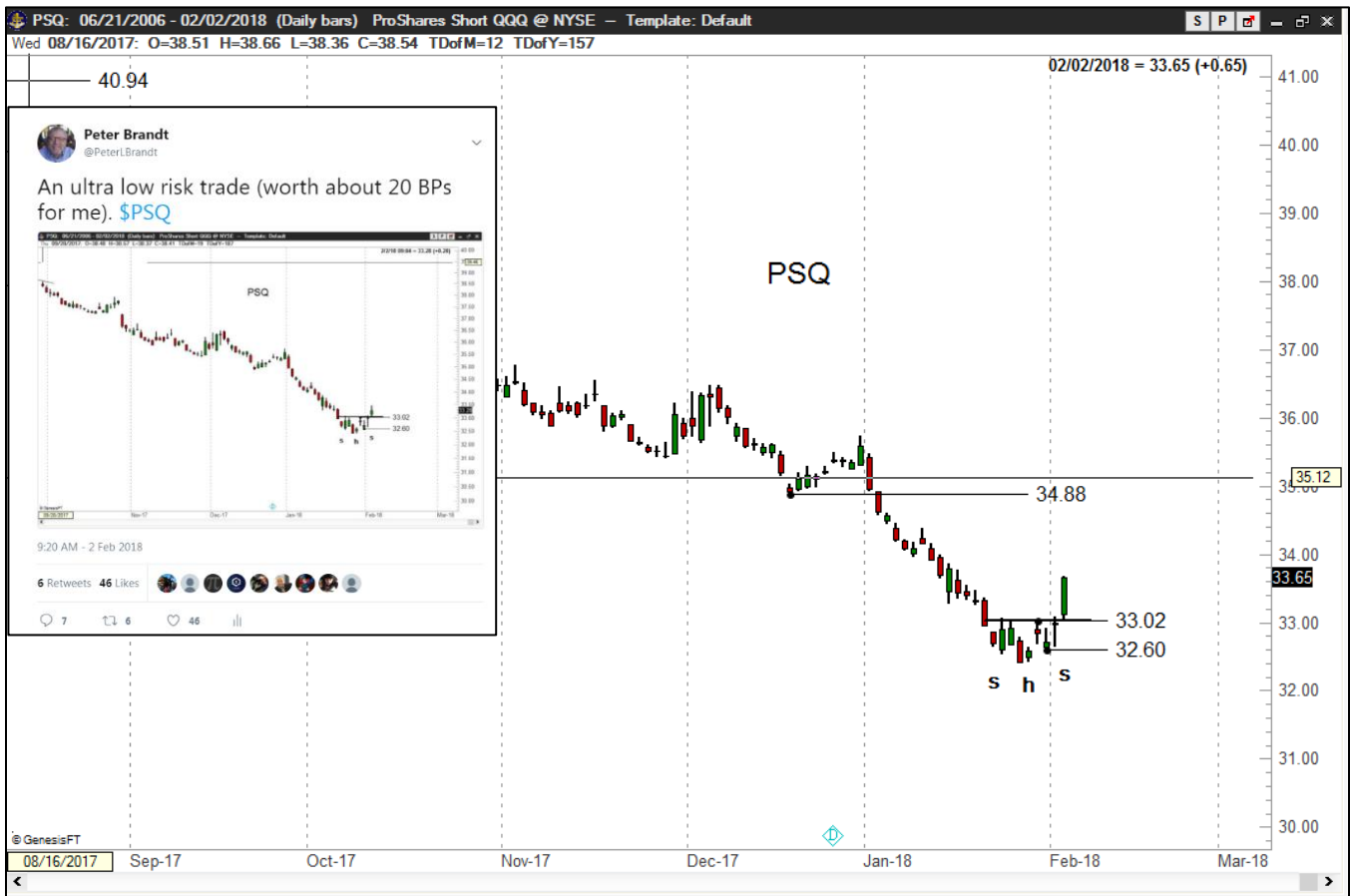
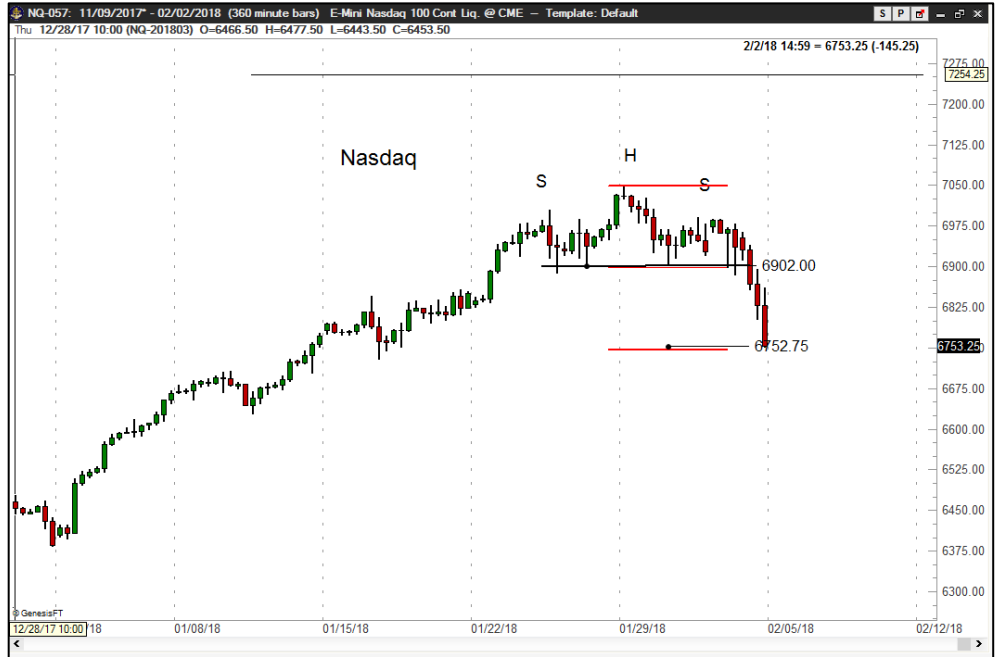
While I think U.S. stocks remain in a bull trend, there are three yellow (perhaps red) flags waiving on the DJIA charts. First, the parabolic advance from the Apr 2017 low has been violated. As I have often mentioned, the violation of a parabola typically leads to a 50% to 80% correction of the distance traveled since the commencement of the parabola. Second, the weekly chart (not shown) experienced a sweeping key reversal – also known in candlestick charting as an engulfing pattern.



Third, it is possible to interpret a small H&S top on the daily chart (chart not shown).

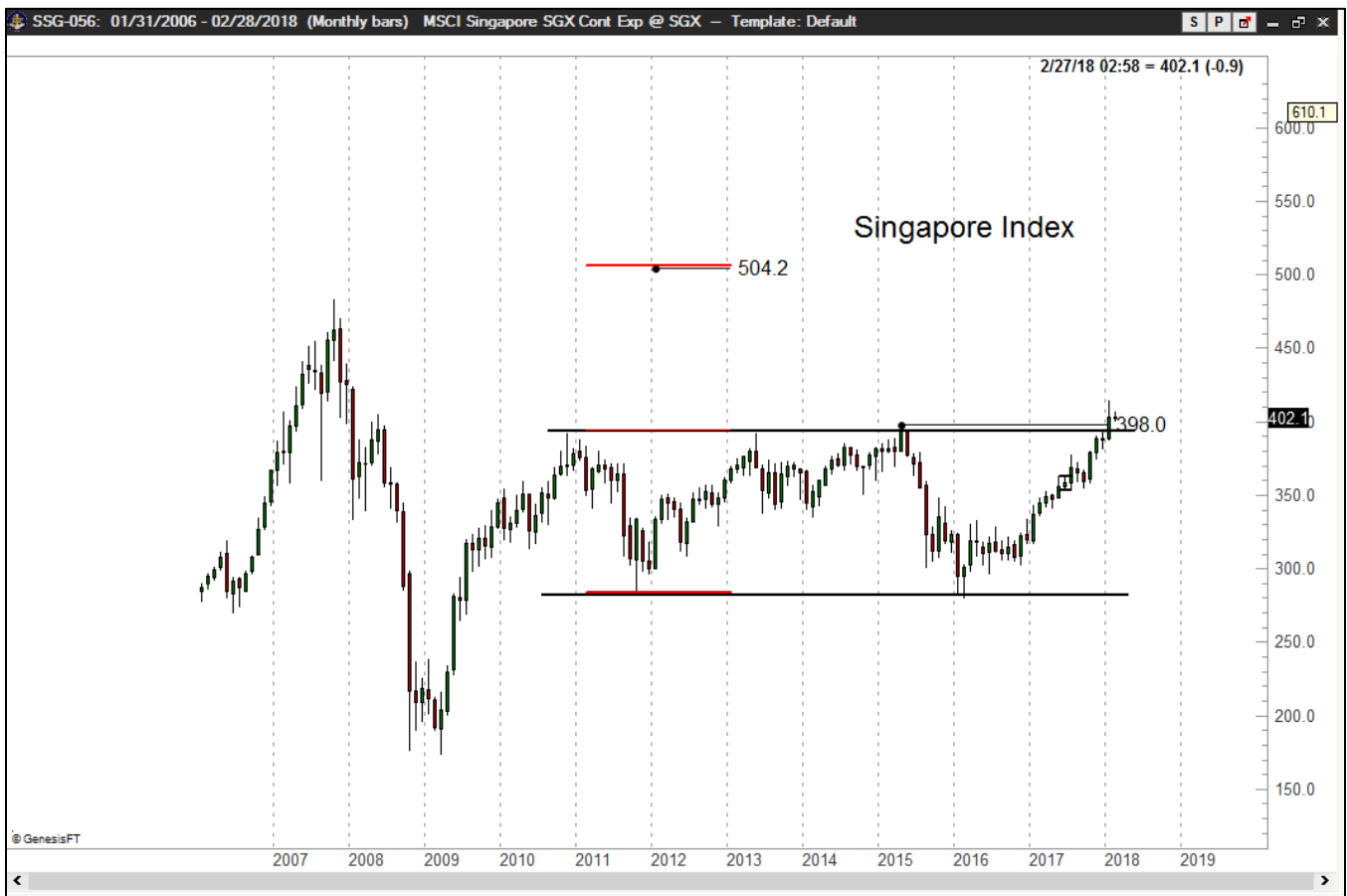
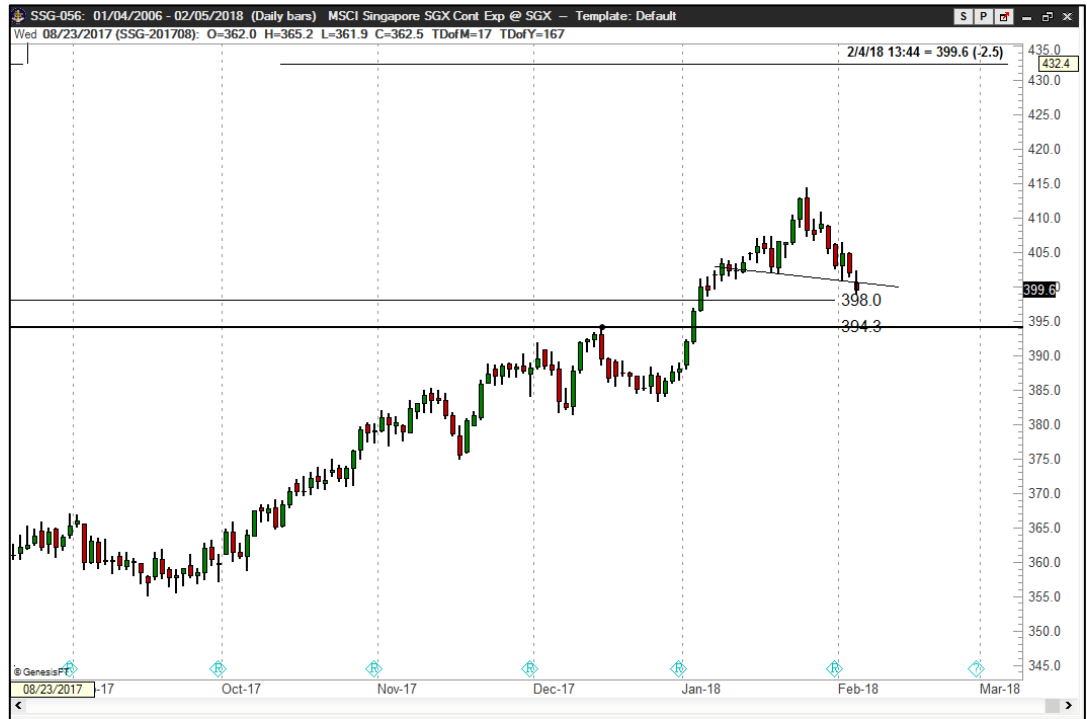
Nasdaq

The H&S top on the intraday chart of NQ is quite clear. The target of 6752 was met almost immediately. A small H&S bottom can be seen on the daily chart of PSQ, the inverse QQQ ETF. I took a shot at the long side of PSQ on Friday in the Factor Tracking Account and my prop account – more as a hedge against a long equity portfolio in IRA/Roth/Keough accounts. I was on the run with medical issues and only had time to send out a quick Tweet on PSQ (my bad). I am risking less than 20 basis points on the trade.



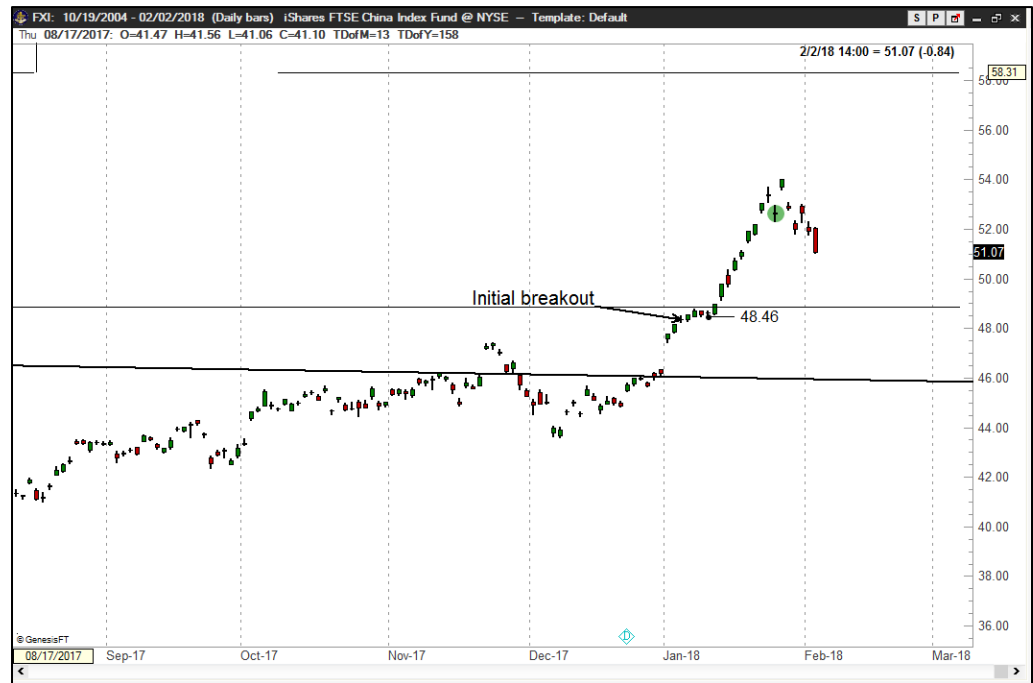
Singapore Index – lowering my ideas for buying a retest

The Singapore Index (futures) has completed a multi-year rectangle on the monthly graph. A small H&S top is visible on the daily graph. Factor is flat. I had orders in place all week to buy a dip. Given the likely unrest in global equities next week I am lowering my buying ideas to the 394 zone.



FXI – the Chinese economic miracle, chapter 2

The iShares China Index Fund has completed a 10-year massive symmetrical triangle on the monthly graph (chart not shown, see previous updates). By clearing the 2015 high this ETF established an upside target of 71.74. I have a trading rule that has served me well over the years – and over-riding this rule has typically cost me money. The rule is to exit any position carrying a loss on Friday. This rule falls into the concept of



placing more priority on capital management than on a market or chart opinion. I want to re-purchase this ETF, but I am not sure where or how to do so. There is a lesson here – I should have bought the initial breakout above 48.00.

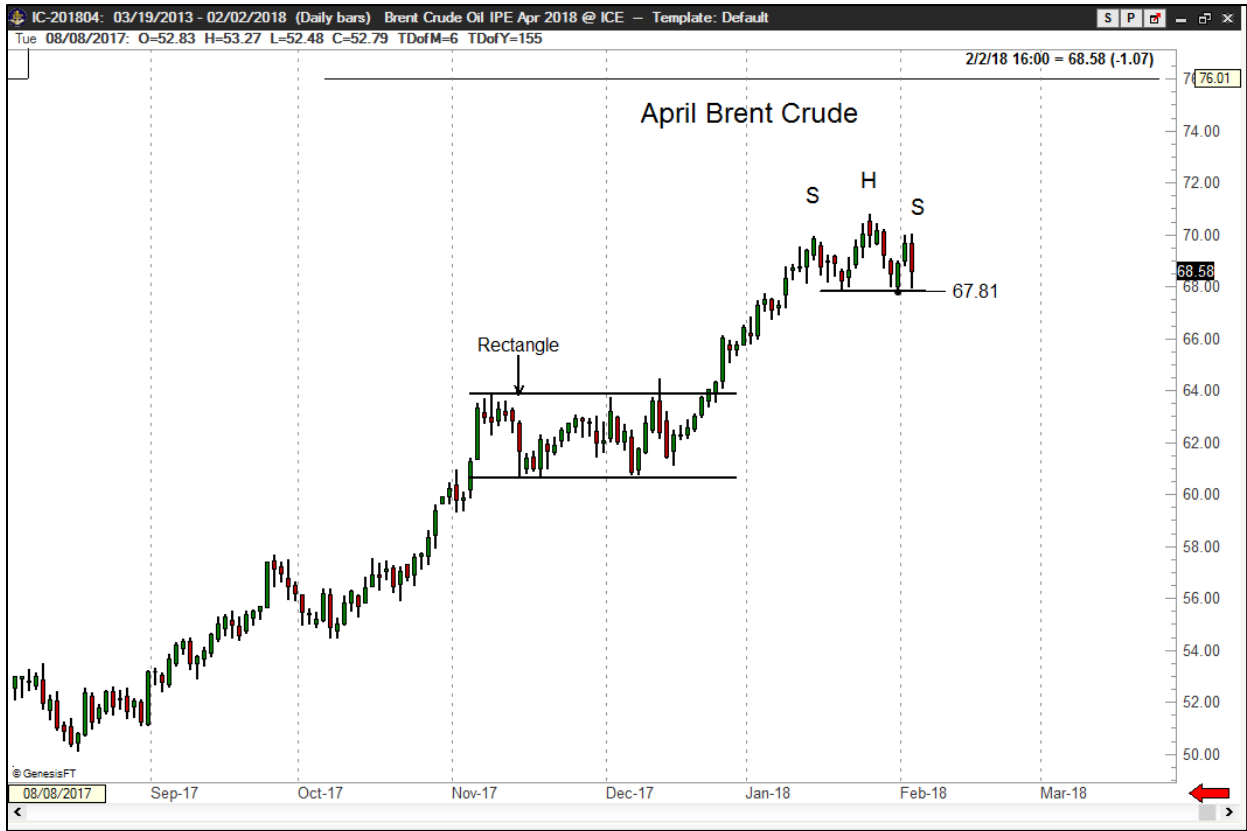
Nifty 50 – sweeping reversal indicates a change in at least the short-term trend

This past week's decline in the Nifty was much stiffer than I would have thought possible. I continue to believe India is in a long-term bull trend, but the sweeping reversal on the weekly chart indicates further correction ahead. Factor is flat.



Brent Crude Oil – small H&S top developing

The small H&S top developing in Brent Crude Oil is almost a carbon copy of the H&S top that was completed on Friday in NASDAQ. Factor is flat.



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

T-Bonds

The 3-year H&S top pattern on the T-Bond weekly graph was decisively completed this past week. I am willing to short a retest rally of the neckline. The longer-term yield chart remains in a 32-year channel. The H&S bottom on the yield chart has not yet been completed. A yield print of 3.3% would indicate a generational bottom in yields. Factor is flat. See next page for yield graphs.



T-Bond yield charts shown below.



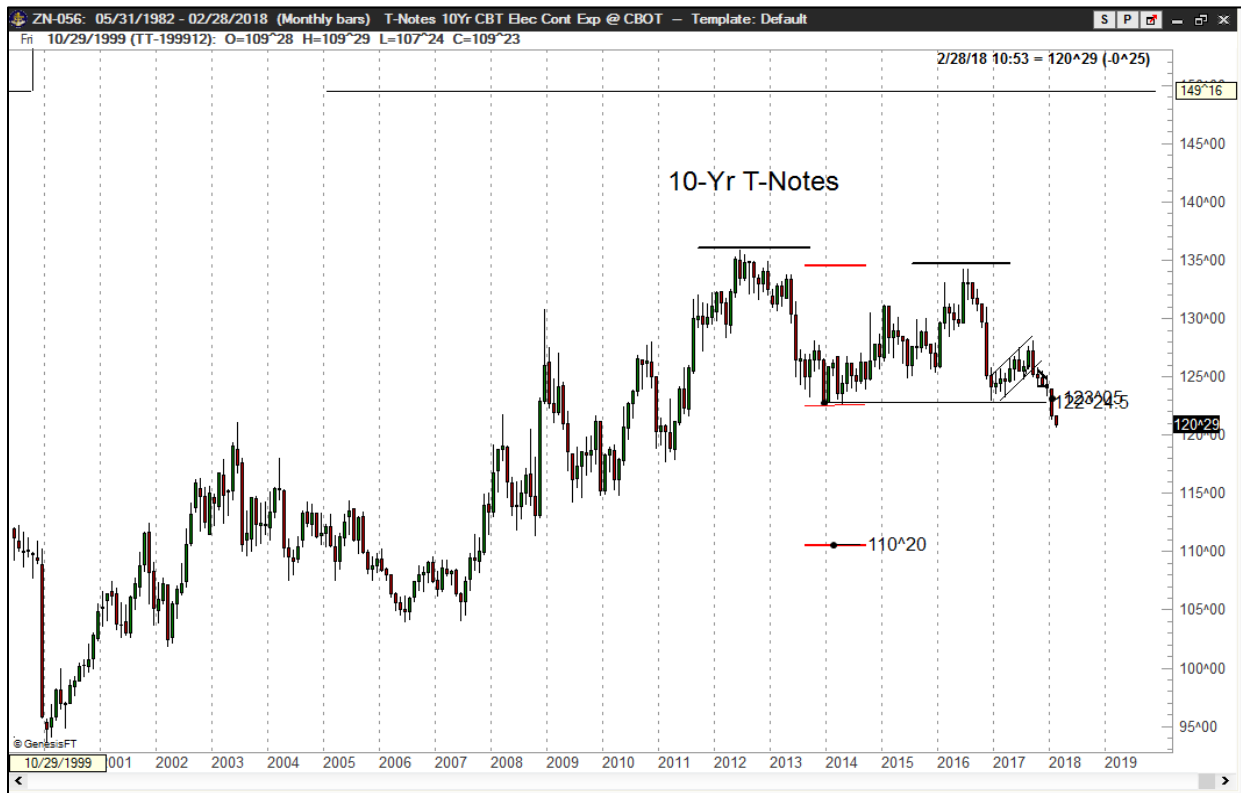
Australian 3-Yr Bonds

See the Factor Alert dated Jan 26, 2018. The market is hesitating at the neckline of the 3-year H&S top pattern. Factor was stopped out of a tranche this past week and remains short a partial position with a tight stop.



U.S. 10-Yr T-Notes

The 6+ year double top on the monthly chart has been decisively completed. This ship has sailed without me onboard. The target is 110^{20} . My hope is that a continuation pattern will form at some point along the path to the target. I feel foolish for missing this trade – I saw it coming from every direction. This was an execution failure. I did not have orders in place. Factor is flat.



Eurodollars (interest rate, not forex cross)

See the Factor Alert dated Jan 9, 2018. The weekly chart of the Dec 2021 contract displays a possible 2+ year failure top, requiring a decisive close below 96.95. The daily chart completed a small pennant on Monday (per last week's Update I added short leverage) and then dropped to meet the target of the massive H&S top. Factor is short – but covered part of its short position on Friday. The weekly chart of the Dec 2021 contract indicates a further possible target at 96.47 (3.53% yield).



EuroSwiss (rates)

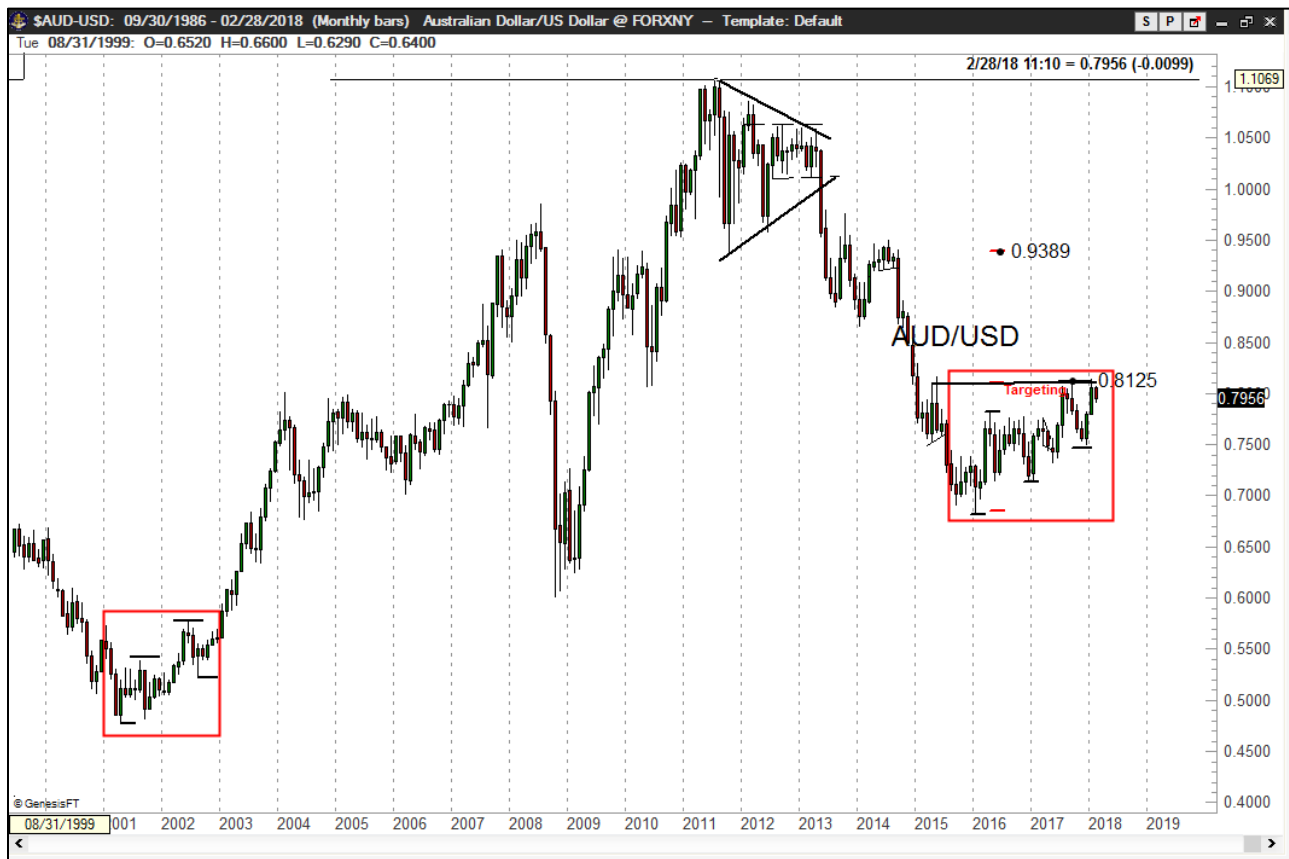
I am simply amazed by the SNB's eagerness to charge its currency holders a negative interest rate. I do believe the 3-year descending triangle will eventually be completed, but this trade is growing a grey beard. Factor is short.



Currency markets – uncertainty could be entering USD-related crossrates

Australian Dollar

The Aussie continues to trace out a horn or sloping bottom – nearly identical to the chart construction at the 2001-2002 bottom. Factor is flat – monitoring the market for a buying opportunity.



EUR/USD

See the Factor Special Report titled "The January EUR/USD Effect" dated Dec 26. The dominant chart construction remains the underlying 2+ year rectangle bottom. The minimum target at 1.2485 of this pattern has been met. The trend remains up. Commercial interests continue to hold an all-time record short position. Factor remains partially long. The 3DTSR is in effect.



CAD/JPY

A 5-month ascending triangle is forming at the neckline of a 21-month H&S bottom. I will be tempted to take this trade if an upside breakout occurs, but non-USD forex cross trades have not treated me kindly during the past two years.



EUR/CHF

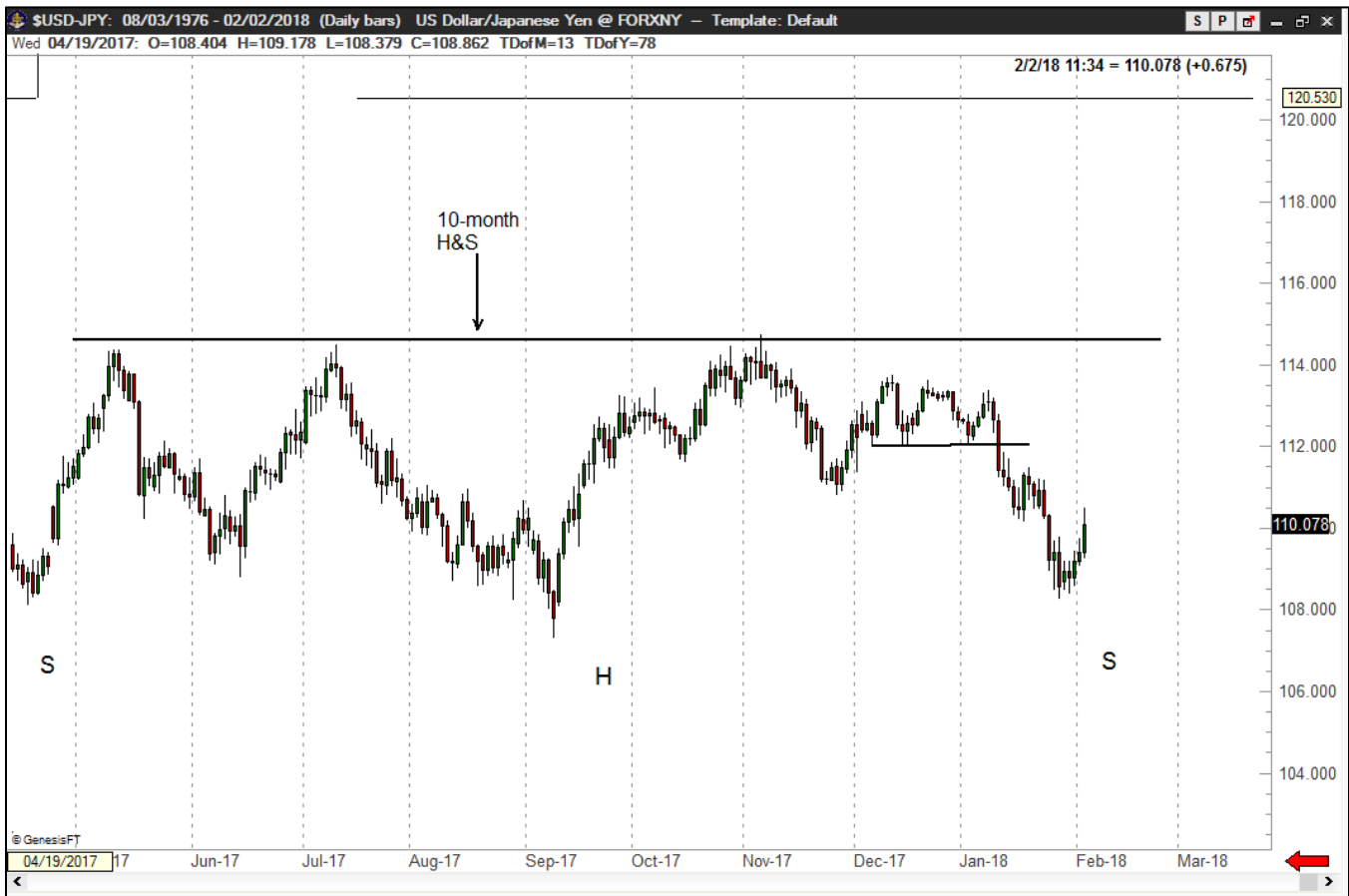
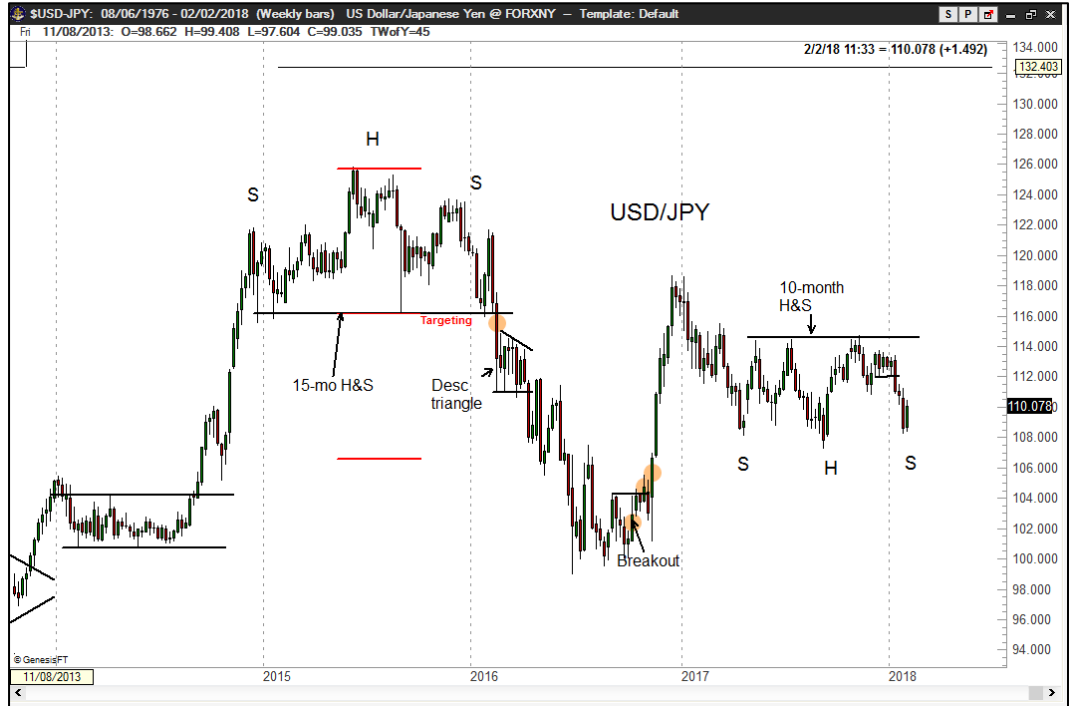
The dominant chart construction in this forex pair is the completed 6-month rising wedge pattern on the daily graph. The market may be forming a brief 6-day pennant. I have found pennants and flags that form in the context of a strong trend launched by a larger



pattern to offer profitable trading turns. Factor is flat. I have an interest to be short this pair – but there are things about this trade that conflict with other trading maneuvers in which I am engaged. I am already long EUR/USD. Shorting EUR/CHF would negate the long side of EUR/USD, in effect putting me short USD/CHF. Further, being short USD/CHF is presently a huge reverse-carry trade based on the interest rate differentials between the U.S. and Switzerland. Nevertheless, my policy is to trade each chart on its own merit – right or wrong. I have found it counter-productive to create global macro scenarios based on price charts.

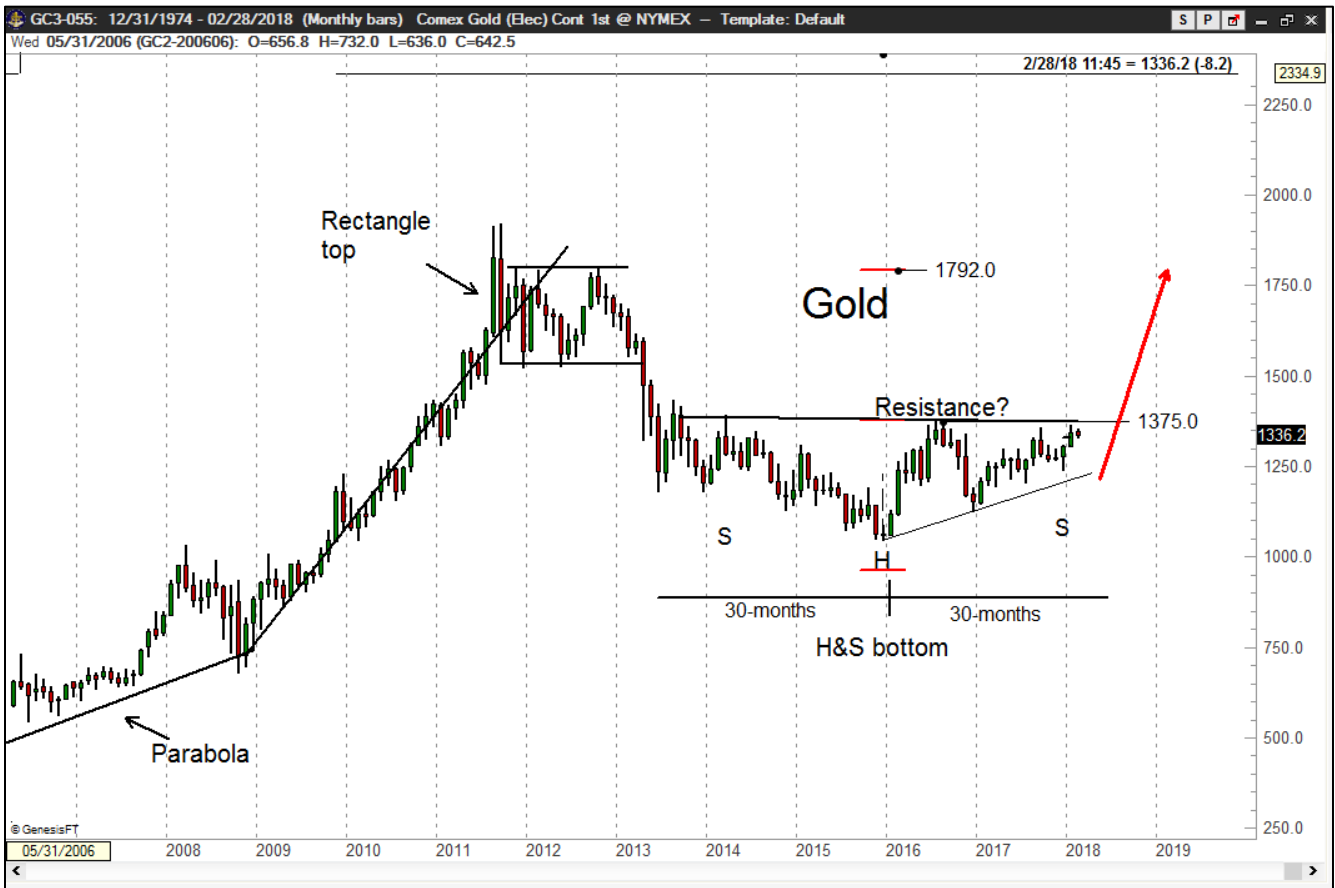
USD/JPY

Put this forex pair on your radar screen. The weekly chart appears to be forming a possible 10-month inverted H&S. The low of the right shoulder could be in place. The best case scenario would be if a small daily chart bottom pattern forms in the area of the right shoulder low. Factor is flat.



Gold – massive H&S bottom continues to develop

Gold futures continue to trace out a possible massive inverted H&S bottom on the monthly and weekly graphs. There are some signs that the current rally is stalling at major resistance in the 1350 to 1375 zone. A close above 1400 is required to complete this bottom and launch the next bull trend in Gold. Factor is flat – having been stopped out of long positions in GLD and GDXJ this past week. The daily charts of GLD and GDXJ show how these ETFs failed at resistance. As a trader I run very quickly from trades that do not work immediately.



Grain markets – prolonged bottoming process continues, but Corn shows signs of life

See the Factor Alert date Jan 24, 2018. The grain markets continue to form long-term bottoming patterns at levels of strong historical support. I am committed to a program of buying reasonable daily chart bottom patterns. The daily continuation graph in Corn has arguably completed a 5+ month inverted H&S bottom pattern. The daily chart of the Jul contract has completed a falling wedge pattern. A number of Factor members asked me why I am trading Jul Corn rather than the nearby Mar contract. There are two reasons. First, the Jul contract actually has more liquidity than the Mar contract. Second, weather-related bull markets in Corn are typically led by the Jul contract. Understand this: A weather scare will be needed for Corn to have a meaningful advance in 2018.



The K.C. Wheat daily continuation graph has completed a 4-month H&S bottom. Tuesday's gap might have been a breakaway gap – but I think it will become an area gap. I am willing to buy Jul K.C. Wheat at 485, hedging part of the position against the mini Chicago Wheat contracts in order to reduce the risk on the trade.



Post Mortems

Osaka Dow

I was stopped out this past week when the market penetrated the mid Jan low.



FTSE

The U.K. stock market turned down hard this past week.



It's official -- I am in a drawdown

Long-time Factor members know that I track my trading performance based on a sequential closed-trade NAV curve. Of course for the purpose of IRS tax filings I mark-to-the-market with open trade profits/losses. But otherwise I pay little attention to open trade equity. Open profits do not belong to me – and focusing attention on open equity is a distraction.

My job as a trader is to keep my closed trade NAV curve within one or two good trades from a new career high. I do this through aggressive trade management – cutting losses very quickly, moving trades to break-even as soon as reasonable and giving profitable trades room to move.

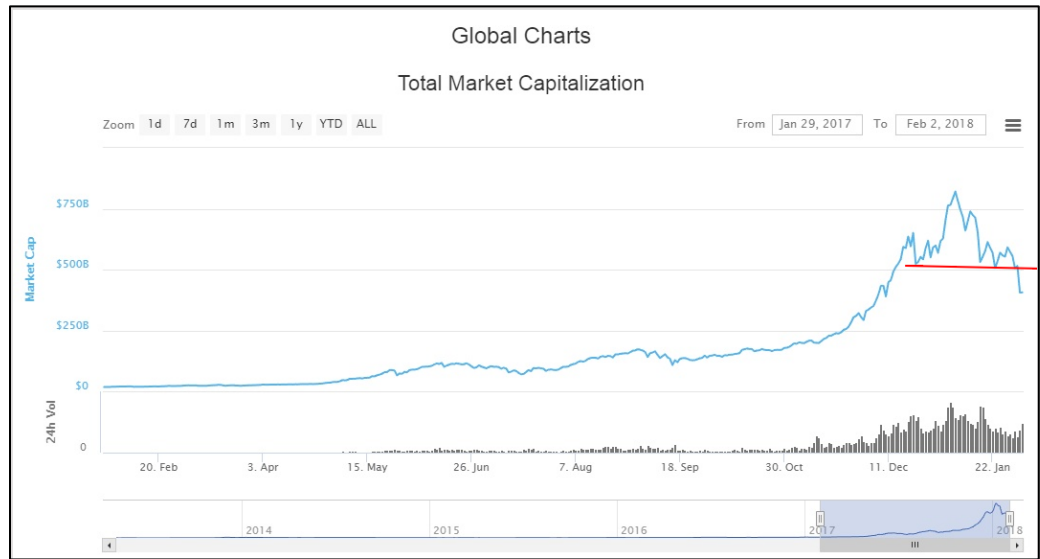
In consider myself to be in an official drawdown when the last three trades I opened AND closed were losses or three of the last four trades I opened AND closed were losses. Accordingly, I am now in a drawdown. In fact, seven of the last nine trades I opened AND closed were losers – representing a sequential closed trade drawdown of 190 basis points (-1.9% of nominal trading capital). It matters little to me that I carry open trades that will completely erase those losses. The risk protocol of my trading program is structured in a way wherein the one standard deviation limit to drawdowns against total nominal capital is -8%.

I have some general guidelines for cutting back trades size based on where I am in a drawdown or equity mark up. My average risk on the last three trades I entered was 30 basis points. I will continue with reduced leverage until I emerge from a drawdown (determined roughly by a reverse in the sequence of winners and losers of the most recent trades opened AND closed).

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The Factor Crypto Corner

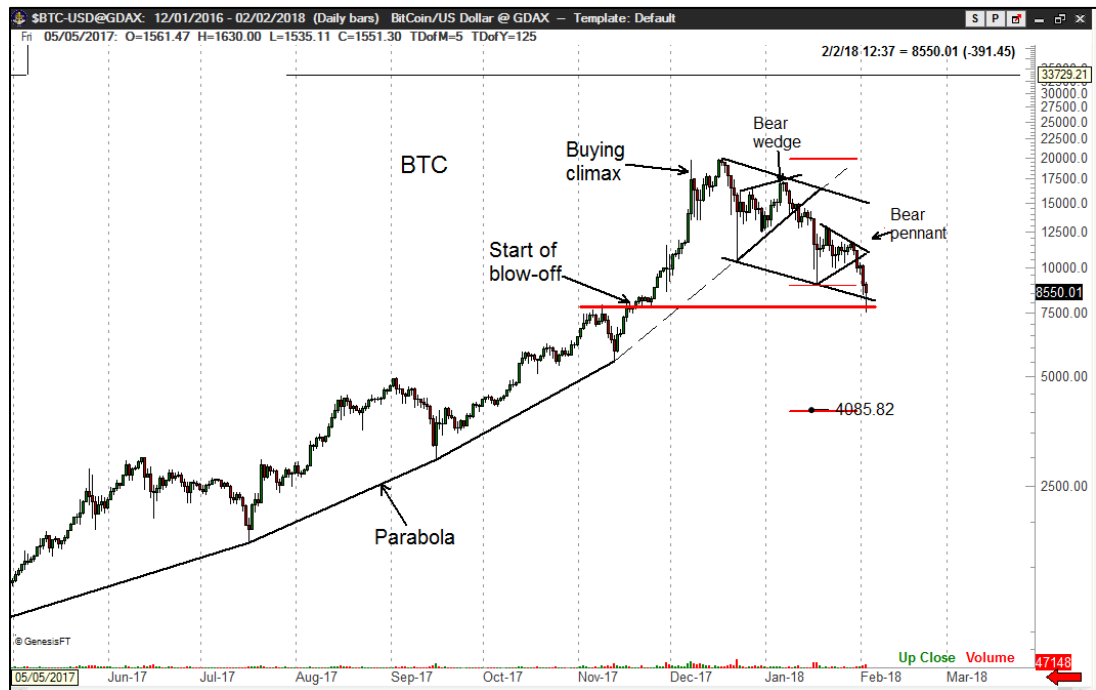
The huge decline this past week created a H&S top on the total crypto market cap chart. Chart patterns can apply to anything for which data points exist – thus I view the H&S top with the same seriousness as I would view a H&S top on a future contract, an individual crypto or a particular stock. Total market cap topped on Jan 7 at around \$835B. At the low on Friday the total market cap declined to about \$366B. H&S neckline resistance should come in at the \$470B to \$490B zone.



The Factor Crypto Corner – BTCs correct 62% of the entire gain since inception

Bitcoin

The decline on Friday corrected 62% of the entire bull market from inception to the Dec 2017 high. The market bounced hard from the 62% level (\$7540 basis GDAX). Support at the \$7500 level made sense for another reason. This was the level from which the final blow-off began in mid-Nov (see thick red line).



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

1. Social media streams (Twitter and others) continued to display a level of arrogance among cryptocultists throughout the sharp decline on Thursday and Friday. I remember similar sentiments from Silver bulls during the early stages of the bear market that began in 2011. Markets have a tendency to punish arrogance – and this could imply that further price damage lies ahead of us.
2. One interpretation of the daily chart is that a 7-week channel or bull flag is developing. This interpretation supports the idea that the 62% retracement level will hold – and that BTC should soon regain its historic bull trend.
3. A second interpretation is that the daily chart displays a completed horn or sloping top. If correct, this pattern has a target in the 4100 to 4350 zone.

For now the jury is out. I am slightly biased toward the idea the 62% retracement will hold to be soon followed by a rally to 12000, but I am open to any possibility. Factor is flat.



Ethereum

The trend remains up in ETH, but the level of volatility is such that I have no interest to trade this market. Factor is flat ETH.



Updated Member Document Library


All the existing documents are now organized by the four pillars of the Factor Service. Once in the category you've selected, you'll see the document title, a short snippet of what the document is about, and a PDF to view the entire document. We will be adding more content over the next few months.

The screenshot displays the Factor Service website interface. At the top, the logo for "FACTOR RESEARCH - TRADING SERVICES" is on the left, and navigation links for "Become Factor Member", "Public Blog", "About Peter L. Brandt", "Factor Members", and "Support" are on the right. The "Factor Members" link is circled in red. Below the navigation is a main content area with four columns: "Reports", "Multi-Media Room", "Document Library - Four Pillars", and "Knowledge Center". The "Document Library - Four Pillars" column is circled in red and lists: "Classical Charting", "Risk Management", "Process of Trading", "Human Element", and "Miscellaneous Documents". The "Knowledge Center" column lists: "Random Rambling Ruminations of a Relic", "Q&A From Factor Member's", "Gold Report - The Ultimate Charting Market", and "Trading Commodity Futures with Classical Chart Patterns - by Peter Brandt".

Risk Management

Three Most Important Ways to Measure Performance
October 1, 2017 / by Peter Brandt

Human beings exist day-to-day in a world preoccupied by statistical measures, ranging from numerous personal health metrics, to standard weights & measures, to determinants of economic well-being, to statistical definitions of every area of our lives. Modern society could not exist without measuring nearly every conceivable thing. Yet, many traders make no attempt to convert their trading performance into meaningful metrics. This is unfortunate because meaningful metrics are not simply interesting statistics — rather they can serve important functions.


Three Most Important Ways to Measure Performance (Oct 2017)

Archived Reports and Content – 2014-2017

- Best Dressed Reports
- Classical Charting
- Factor Member's – Q&A
- Human Element
- Miscellaneous Documents
- Process of Trading
- Random Rambling Ruminations of a Relic

Risk Management

The Four Key Pillars of Factor – Document Library

Factor Tracking Account, February 2, 2018

Table shows only open trades as of February 2, 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																	2/2/2018		
Model Tracking Account Trade History and Portfolio																			
Constant nominal capitalization: \$100,000																			
(See disclaimers and notes below)																			
Market		Date	L/S	Price	Entry				Current Stop	Stop Date	Δ	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)	
					Size	Initial stop	BP risk	Exit				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		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	-	
ESUS	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	-	
EXUB	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			\$ 1,000	\$ 20,000		
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			\$ 160	NA		
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			\$ 160	NA		
Possible 2-yr sym																			
GLD	Gold ETN	1/12/18	L	126.33	100	123.87	25	126.17	1/30	147.92		tri	Possible 2-yr sym tri	2-Feb	126.17	\$ (21)	Closed	-	
AAPL	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	3.6875	1/30	3.875		5-mo wedge	5-mo wedge			\$ 605	\$ 18,625		
FXI	China Fund ETI	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				\$ 672	NA		
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	\$ (440)	
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			\$ 8,308	\$ 9,969		
Trades as of																\$ 6,559	\$ 11,276	\$ 48,154	
Indicates open position value as of																\$ 460	Levered at	0.5	
Margined at																		3.0%	
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.																			
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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