



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

Factor Update, July 22, 2018

Market Review

New candidate Factor Moves™ are developing in:

- *EuroSwiss
- DJIA

Candidate Factor Moves™ are currently ongoing in:

- Russell

This issue comments on U.S. stock market indexes (Russell, DJIA, S&Ps, NASDAQ, NYA), Currencies (USD/TRY, EUR/USD) interest rate markets (T-Bonds, T-Notes, Eurodollars, *EuroSwiss), Brent Crude Oil, metals (Gold, Silver, Palladium) and *cryptos. *Signifies a position in the Factor \$100,000 Tracking Account

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|---|--|
| <u>Developing signals</u> <ul style="list-style-type: none"> • EuroSwiss – entry order • T-Bonds – alert • EUR/USD – alert • Stock indexes – alerts | <u>Existing positions</u> <ul style="list-style-type: none"> • EuroSwiss – target • Bitcoin – target and protective stop |
| The Factor Tracking Account is currently leveraged at .1X. Capital Utilization is at 7.3%. | |

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| <p><u>The Factor Trading Plan – Simplified Version</u></p> <ul style="list-style-type: none"> • Risk no more than 1% of nominal trading capital on any trade • Identify clearly defined horizontal chart patterns, preferably 10 to 26 weeks in duration <ul style="list-style-type: none"> ○ Rectangles, right-angled triangles, H&S patterns (plus brief flags/pennants in pronounced trends when further targets are suggested) • Enter trades as close to the breakout points as possible • Move protective stops to breakeven as quickly as possible • Take partial profits on multi-tranche trades when a tranche achieves a 100 BP profit • Take profits at price targets |
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Interest rate markets

U.S. interest rates have experienced a generational low. The long-term trend is toward higher rates (lower prices). This does not mean that yields will go straight up (prices straight down).

T-Notes

A rally by the nearby contract to 122^24 would retest the double top on the monthly graph. The COT profile is at all-time record extremes in terms of Commercial long and Spec short positions. The daily graph presents opposing interpretations.

- A 6-month H&S bottom with a neckline at 121^03
- A 4-week H&S top. A close below 119^27 would complete this pattern

Given my longer-term bias I will attempt a short-side trade if the small H&S tops is completed AND I can identify a measured-risk entry point. Factor is flat.

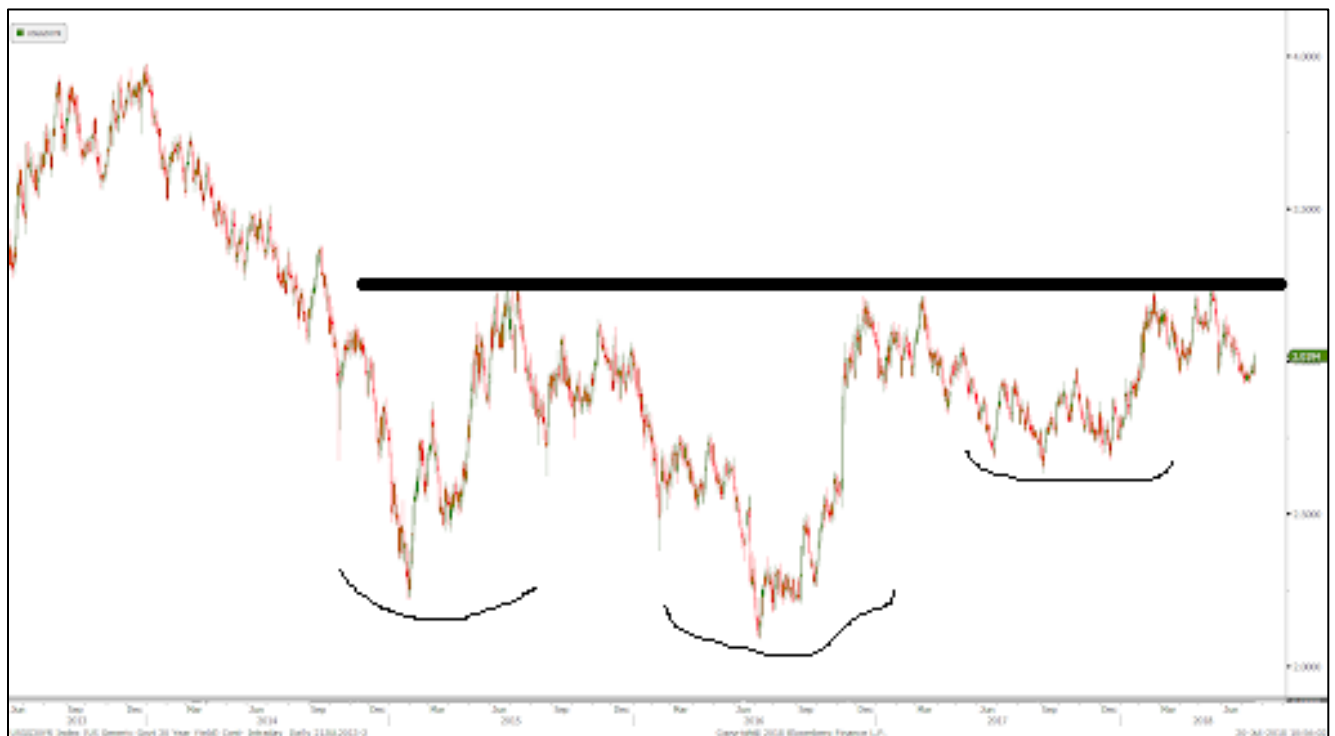
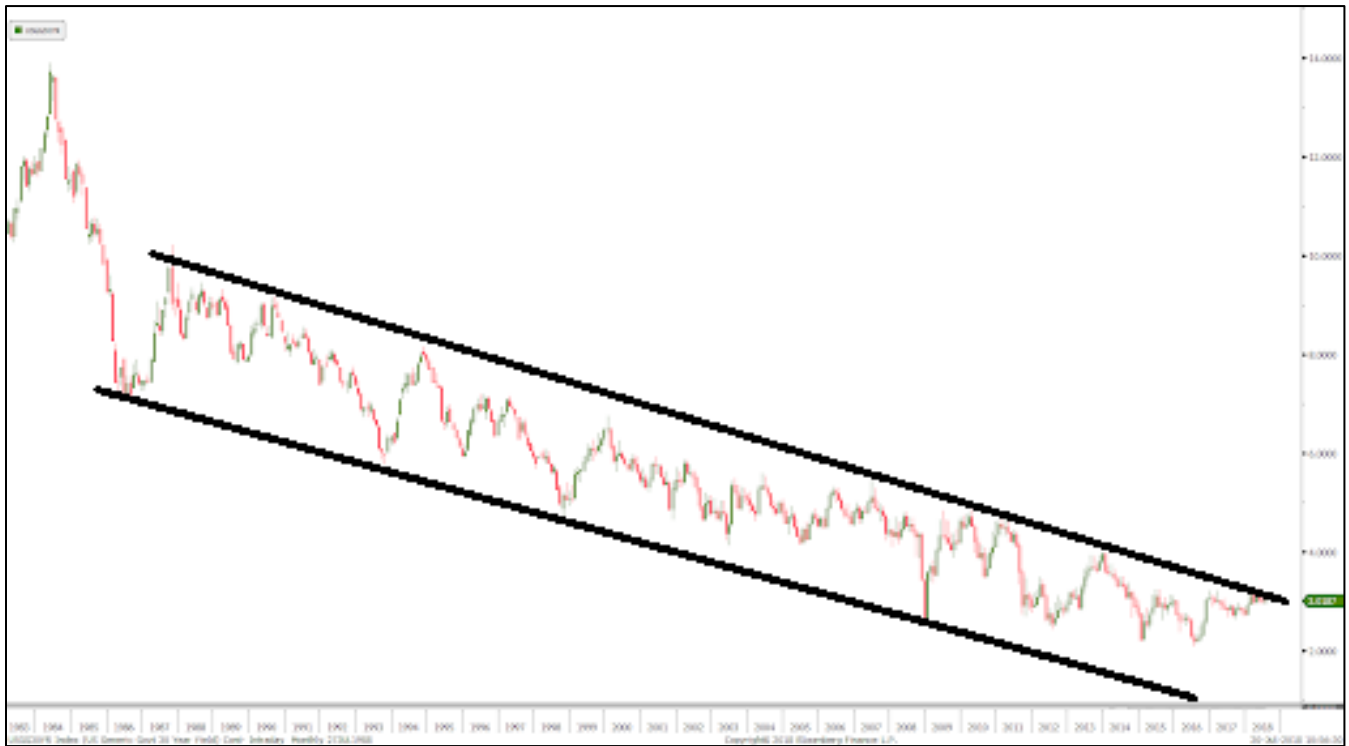


T-Bonds

A rally on the monthly futures graph to 148^00 would be a retest of the overhead H&S pattern. The daily chart displays a possible inverted H&S bottom. This chart would suggest an advance to 152^00 – and that would go a long way to negate the H&S top on the weekly graph. The strong decline on Friday would suggest that resistance at 145^28 is very stiff. Factor is flat. The monthly T-Bond yield chart (next page) shows that the multi-decade channel remains intact. The weekly yield chart displays a massive H&S bottom pattern. Resistance in the 3.25% zone has repelled the advance.

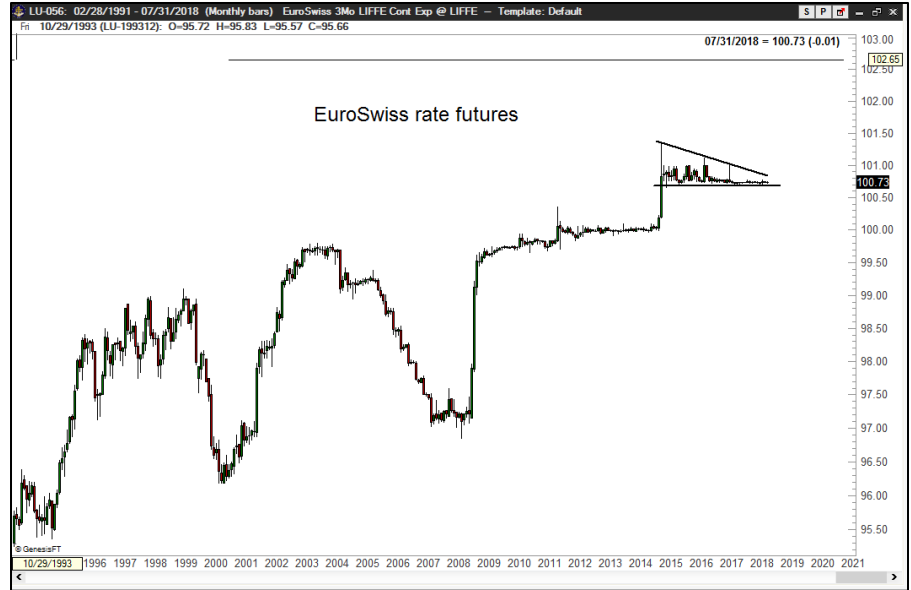


T-Bond Yield Charts



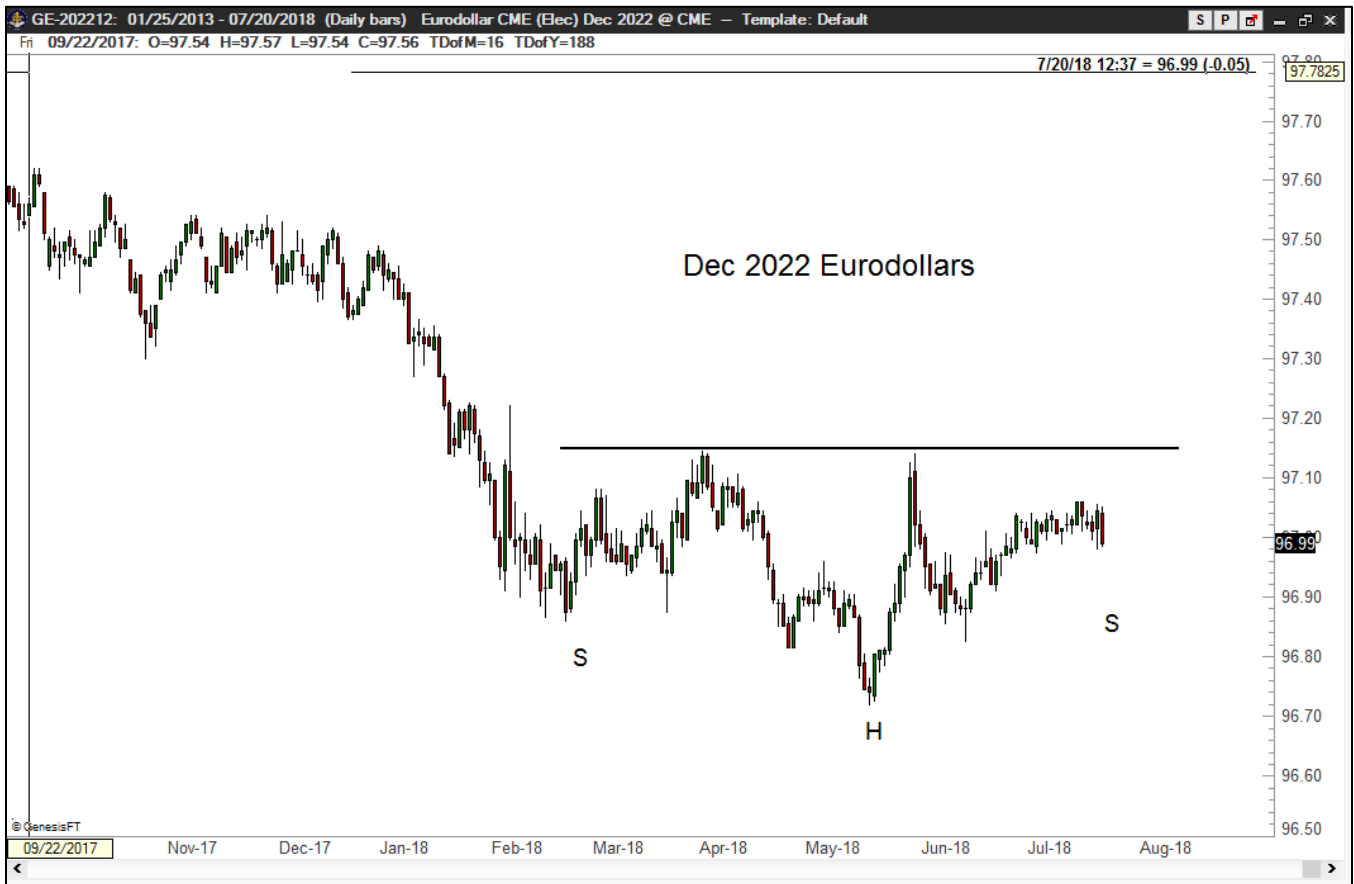
EuroSwiss

Factor is short. The Dec 2018 contract is priced in line with the SNB's benchmark rate.



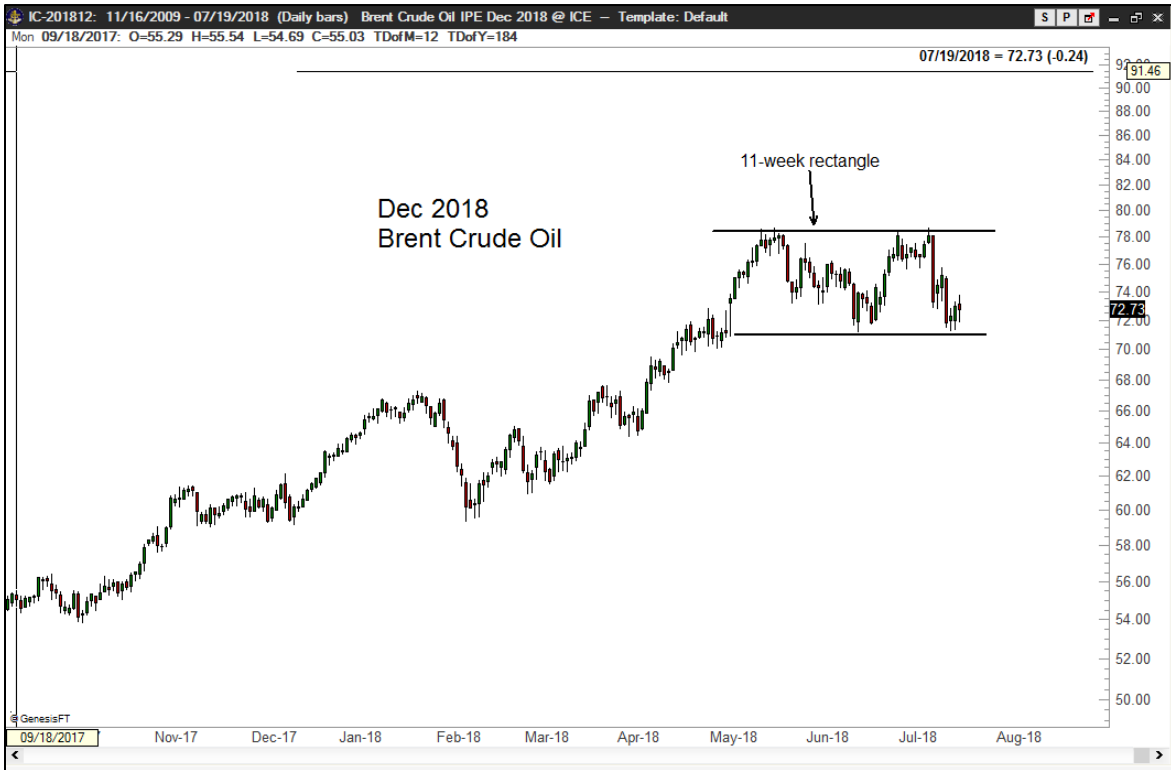
Eurodollars

The Dec 2022 contract displays a possible H&S bottom pattern. Factor is flat.



Brent Crude Oil

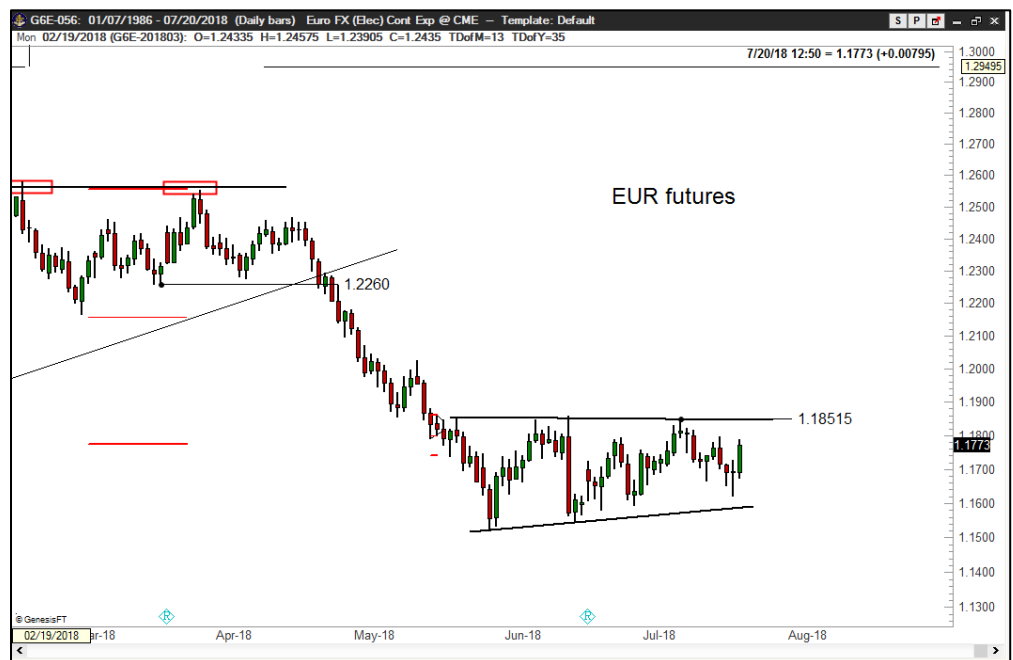
The Dec 2018 contract displays a possible 11-week rectangle. Factor is flat – I will monitor this pattern in the weeks ahead.



Forex

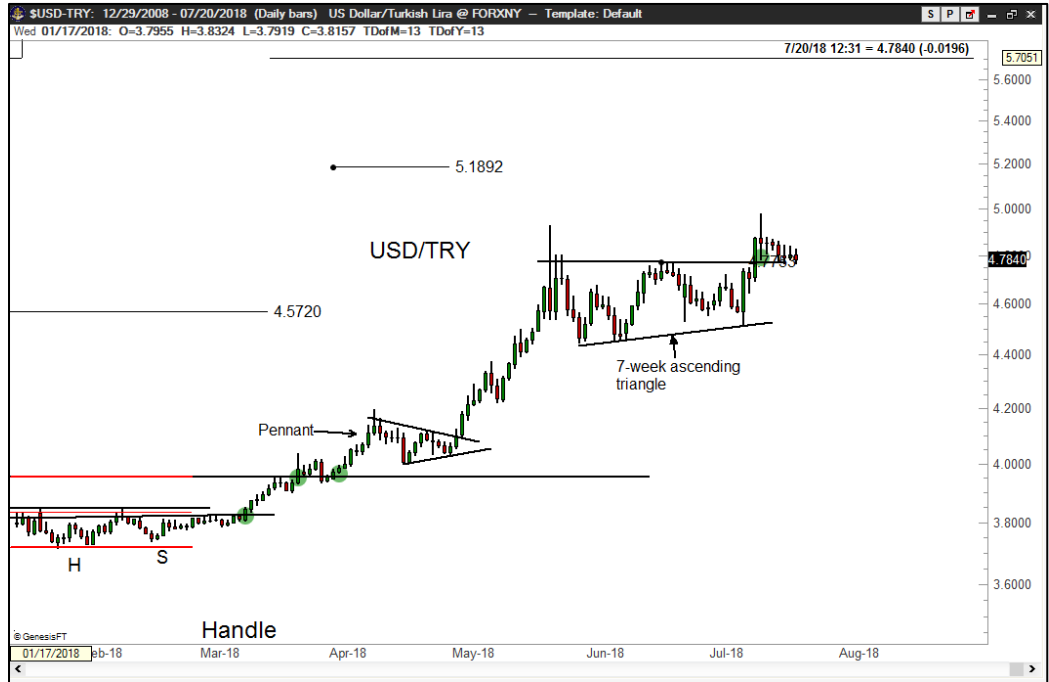
EUR/USD (futures)

The daily chart displays a possible 9-week ascending triangle. I will monitor this pattern for a low risk buying opportunity.



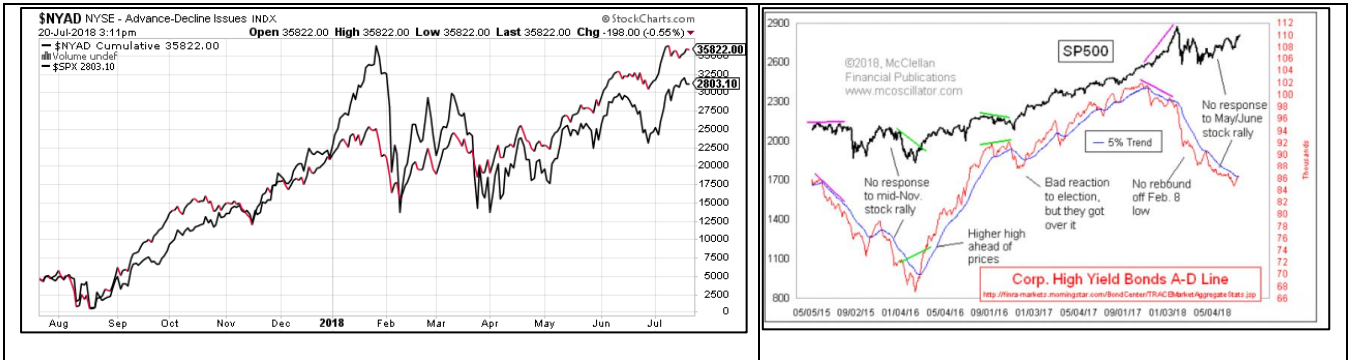
USD/TRY

I came into the week long USD/TRY based on the Jul 11 completion of an ascending wedge (or pennant). I was stopped out on Tuesday when my entry price was challenged. Factor is flat.



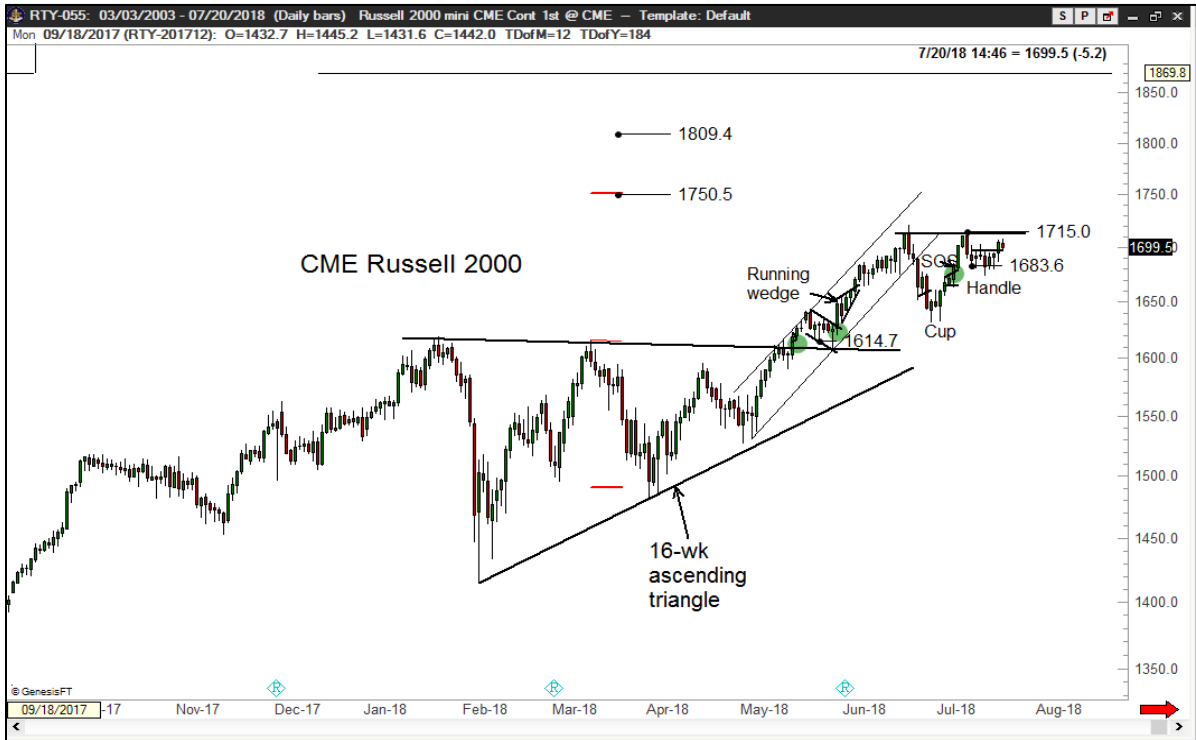
U.S. stock market

I have pressed the point that market breadth is extremely constructive based on the New York Composite Index A/D line, new highs in the NASDAQ and strength in the Russell. I will hold to this opinion until the market proves me wrong. However, Tom McClellan, a market analyst I respect, has made a case that a better indicator of market health might be the A/D line of Corporate High Yield Bonds. If Tom’s analysis is correct, then my reliance on the NYA A/D line is off target. Factor is presently flat all stock index markets.



Russell 2000

I came into the week long the Russell. One of my trading practices is to exist a trade when a 3-day trailing stop pattern (3DTSR) puts my entry at risk. Accordingly, I was stopped out on Monday. I have made three attempts to be long the Russell in the past few months. I will attempt it again. I hate losing money in a market for which I have correctly judged the price direction. Obviously giving my trades more room to wiggle would have benefited me in the Russell. Yet, overall I am sold out to active and aggressive trade management tactics.



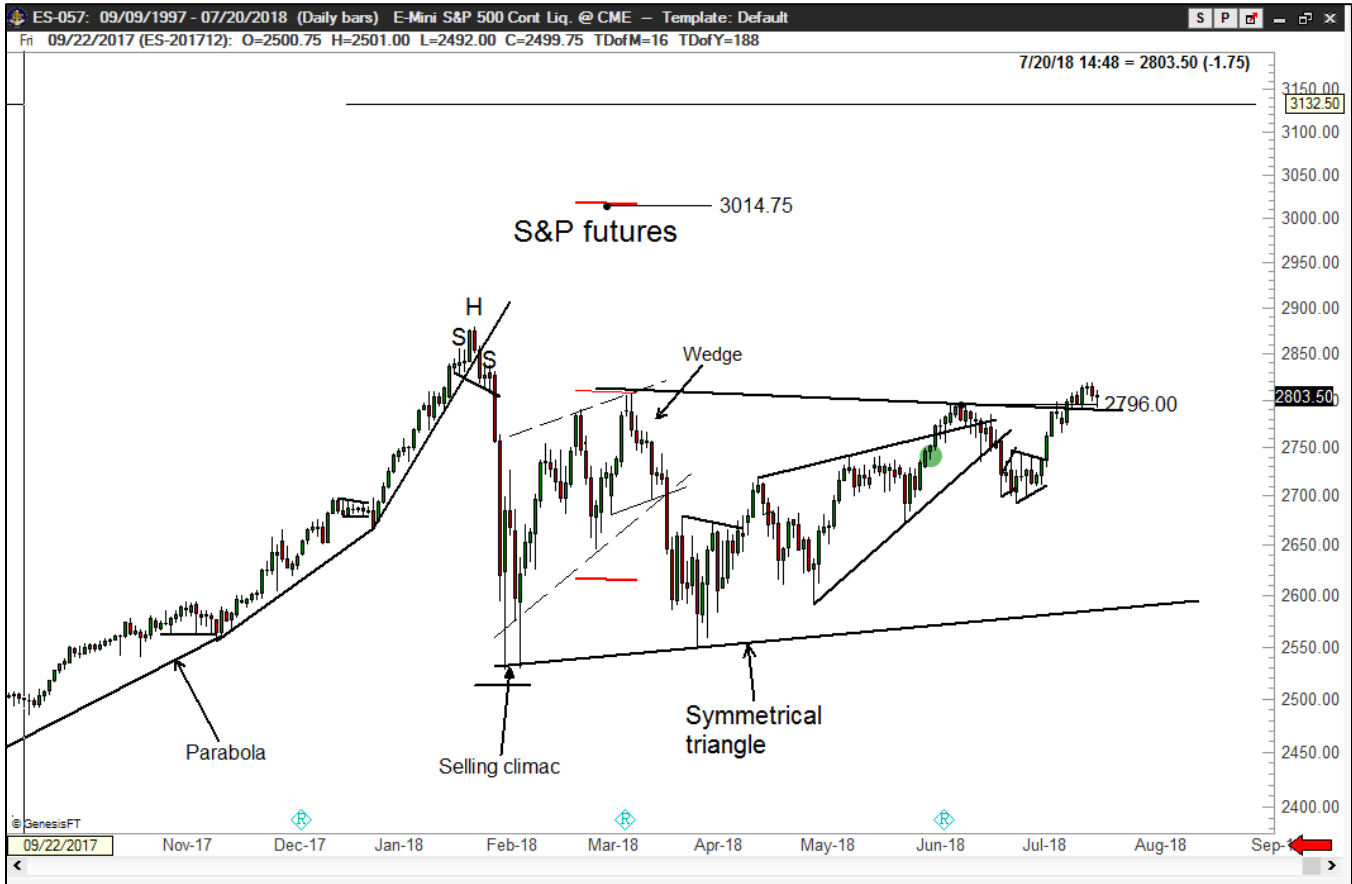
Dow futures

The daily chart of the Dow continues to coil. From a pure chart formation perspective this coil could become a giant continuation (bearish) pattern. However, the Factor RealRange chart (no daily wicks) displays a possible continuation H&S pattern.



S&Ps

Factor is flat. A decline below 2760 would indicate that the current rally is failing.



NASDAQ

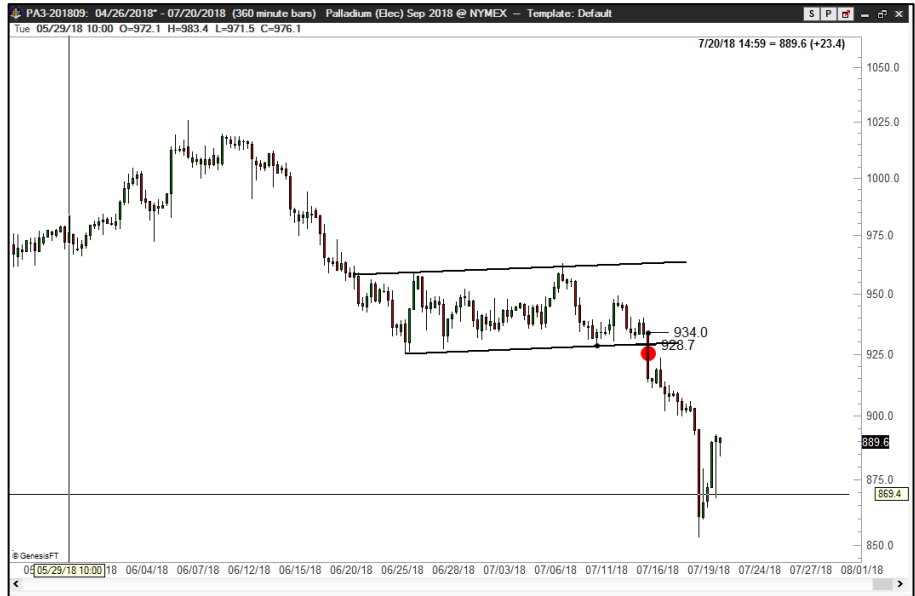
The NASDAQ continues to have a target of 7775.



Metals

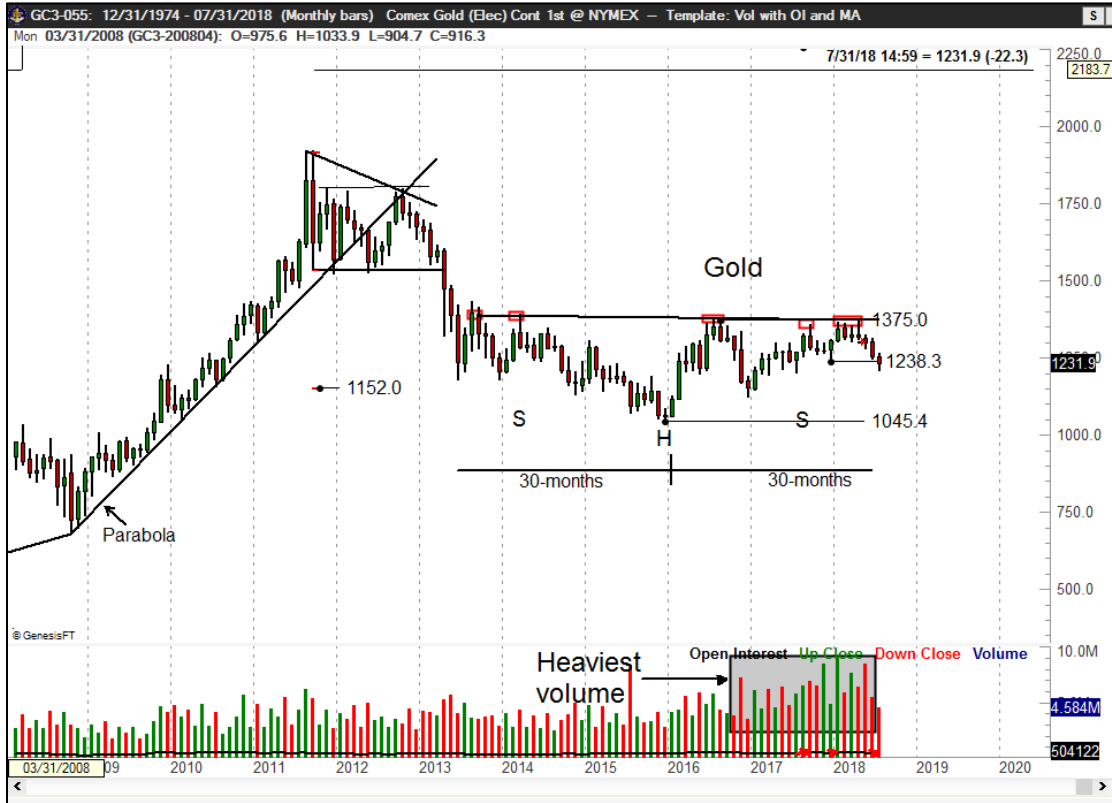
Palladium

Last week's Factor Update featured a possible H&S failure in Palladium. It is always preferable if the completion of a smaller pattern launches the completion of a larger pattern. The decline last Monday completed a 3-week flag to confirm the H&S failure. During Tuesday's webinar with Factor members I spent some time highlighting this market and how the intraday graph (6-hour bars) allowed for the entry of a low risk short-side trade. The decline on Thursday met the minimum target. Factor is flat.



Gold

The dominant chart construction continues to be the possible inverted H&S on the weekly graph. As I commented earlier the volume pattern is not consistent with a genuine H&S because the heaviest volume is during the right shoulder. Factor is flat. I would view a decisive close below 1235 as a negative development.



Silver

The Silver chart is negative, but I have no desire to pursue the short side. Factor is flat.



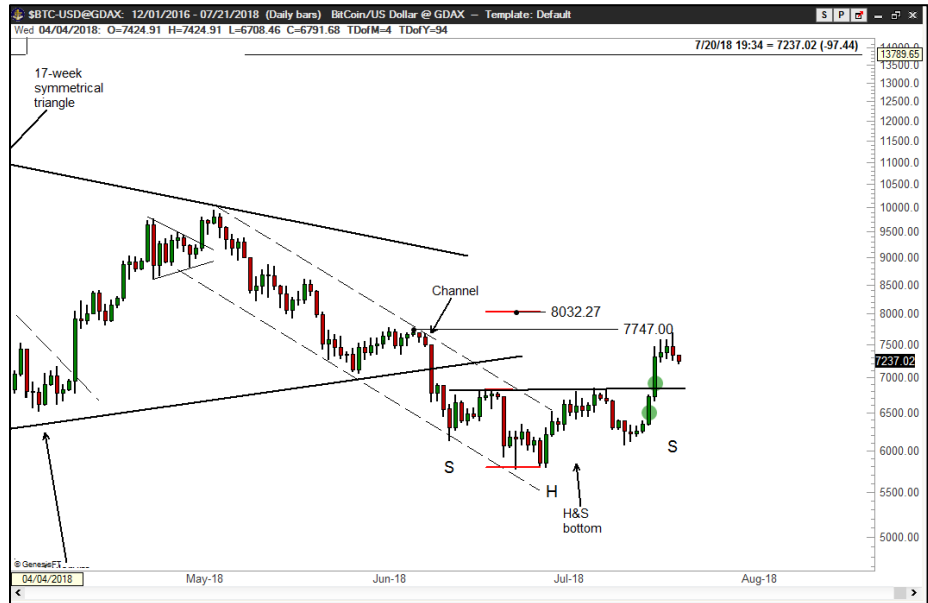
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The Factor Crypto Corner

Cryptos

Bitcoin (GDAX)

See the Factor Alert dated Jul 16 titled, "Buy signal developing in Bitcoin." Monday's SOS day was a strong indication that the H&S bottom would be completed. I used this strength to establish a long position for the Factor Tracking Account. The rally on Tuesday completed the H&S bottom – accordingly I doubled my position. The initial pattern target is 7747 level. I was able to cover the initial tranche on Friday for a 100 BP profit, which is my policy on multi-tranche positions. I will replace this tranche if a retest of 6931 occurs.



ETH/BTC and LTC/BTC

I only trade cryptos against USD. And my primary interest is Bitcoin. If the super bullish narrative on cryptos is correct, BTC will be the king. I am willing to trade the secondary macro caps, but BTC is the only crypto I have an interest to hold (assuming that my buying levels are not seriously challenged).



Factor Tracking Account, July 20, 2018

A complete listing of the Factor Tracking Account for 2018 is updated monthly.

| Factor LLC | | | | | | | | | | | 7/20/2018 | | | | | | | | | | |
|---|--------------|---------|-----|---------|------|--------------|---------|--------------|-----------|---------|-----------|-------------------|--------------------|--------|----------|-------------|------------------------|------------------------|--|--|--|
| Model Tracking Account Trade History and Portfolio | | | | | | | | | | | | | | | | | | | | | |
| Constant nominal capitalization: \$100,000 | | | | | | | | | | | | | | | | | | | | | |
| (See disclaimers and notes below) | | | | | | | | | | | | | | | | | | | | | |
| Market | | Entry | | | | | | | Stop Date | Delta | Pattern | | | Exit | | Net | Capital to carry trade | Value of trade (entry) | | | |
| | | Date | L/S | Price | Size | Initial stop | BP risk | Current Stop | | | Target | Weekly | Daily | Date | Price | | | | | | |
| LUZ8 | EuroSwiss | 3/2/18 | S | 100.66 | 1 | NA | NA | | | 100.21 | | 3-year+ desc tri | | | | | \$ 371 | NA | | | |
| RYTU8 | Russell 2000 | 7/5/18 | L | 1679.1 | 1 | 1662.9 | 85 | 1679.80 | 7/15 | 1748.4 | | 16-wk asc tri | SOS, small pennant | 16-Jul | 1679.7 | \$ 25 | Closed | - | | | |
| USD/TRY | USD/TRY | 7/14/18 | L | 4.7921 | 30k | 4.7398 | 33 | 4.8059 | 7/16 | 5.1888 | | 7-wk pennant | 7-wk pennant | 17-Jul | 4.8057 | \$ 85 | Closed | - | | | |
| BTC/USD | Bitcoin | 7/16/18 | L | 6521.24 | 1 | 6207.08 | 31 | 7159.88 | 7/20 | 7497.47 | | Possible 5-wk H&S | SOS | 20-Jul | 7497.47 | \$ 971 | Closed | - | | | |
| PAU8 | Palladium | 7/16/18 | S | 928.2 | 1 | 934.2 | 60 | | | 863.6 | | 6+ mo H&S failure | 3-wk flag | 19-Jul | 863.6 | \$ 6,455 | Closed | - | | | |
| BTC/USD | Bitcoin | 7/17/18 | L | 6911.12 | 1 | 6669.88 | 24 | | | 8029.29 | | 5-wk H&S bottom | 5-wk H&S bottom | | | | \$ 6,911 | \$ 6,911 | | | |
| Trades as of | | | | | | | | | | | | | | | \$ 7,536 | \$ 7,282 | \$ 6,911 | | | | |
| Indicates open position value as of | | | | | | | | | | | | | | | | Levered at | 0.07 | | | | |
| PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE | | | | | | | | | | | | | | | | Margined at | | | | | |
| <small>r = revised RO = Rollover A = Alert</small> The Factor Service \$100,000 Tracking Account represented herein is a proxy representation of the trading executed by Peter Brandt for the Factor LLC's proprietary trading accounts. There are some major differences between the trading activity conducted in the Factor Service \$100,000 Tracking Account and trading in the Factor LLC's proprietary accounts. Peter's trade sizing and trade management tactics in the proprietary account is sized and managed per \$1MM of proprietary capital. There may be trades Peter believes are not suitable for a \$100,000 block of capital, and these trades are not executed in the Factor Service \$100,000 Tracking Account. Factor LLC's proprietary account trades multiple contract trades wherein Peter layers into and out of a position at different prices and on different dates. The Factor Service \$100,000 Tracking Account most often holds a single futures contract in a trade whereby layering is not possible. Factor LLC's proprietary accounts may also pyramid some trades not pyramided in the Factor Service Tracking Account. Because the Factor Service Tracking Account represents how Peter would trade a \$100,000 block of capital in contrast to the actual trading of Factor LLC's proprietary account, the Factor Tracking Account should be considered as hypothetical. Hypothetical trading performance is subject to the following disclaimer required by the Commodity Futures Trading Commission. | | | | | | | | | | | | | | | | | | | | | |
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