



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

Note: Next week's Update may be abbreviated due to travel (Minnesota – go Gophers)

Factor Update, August 18, 2018

Market Review

New candidate Factor Moves™ are developing in:

- *EuroSwiss
- *Treasuries

Candidate Factor Moves™ are currently ongoing in:

- Russell

This issue comments on U.S. stock market indexes (NYA, Russell, S&Ps, *SPY, Dow, Nikkei Down, ITA, *VYM), Currencies (*NZD/USD, USD/SGD, *EUR/USD, *USD/DKK) interest rate markets (*T-Bonds, *T-Notes, *EuroSwiss, Eurodollars), energy (RB Gas, Brent), Gold, grains 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 • Russell 2000 – alert • T-Bonds – alert • T-Notes – alert • Soybeans – alert • ITA (ETF) – entry order 	<p><u>Existing positions</u></p> <ul style="list-style-type: none"> • EuroSwiss – target • SPY – target and protective stop • T-Notes – target and protective stop • NZD/USD – target and protective stop • USD/DKK – target and protective stop • EUR/USD – target and protective stop • T-Bonds – target and protective stop • VYM – target and protective stop
<p>The Factor Tracking Account is currently leveraged at 1.7X. This is down considerably from last Friday. Capital Utilization is at 50.5%. This means that about 50% of the Factor Tracking Account is sitting idle in cash.</p>	

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Interest rate markets

The interest rate markets continue to represent the most asymmetrical Reward-to-Risk (R/r) trading opportunity I have seen in a year or more – if my analysis is correct and price action unfolds in a way consistent with building a relatively large position. This opinion is based on a combination of the COT profile, market sentiment and possible chart bottoms. A well-known global macro analyst/trader took aim at my COT interpretation in a special report this past week, labeling a bullish opinion of the COT profile as less than insightful and lacking "Second-Level Thinking." The analyst/trader might be right – time will tell. I will not be offended if I am wrong – in my opinion there is a huge difference between being right and making money. My pursuit is to be profitable,

not to sound smart. My current Bond and Note trades are structured (with present stops) so that only an adverse gap would produce a net loss. I cannot ask for anything more from a trade.

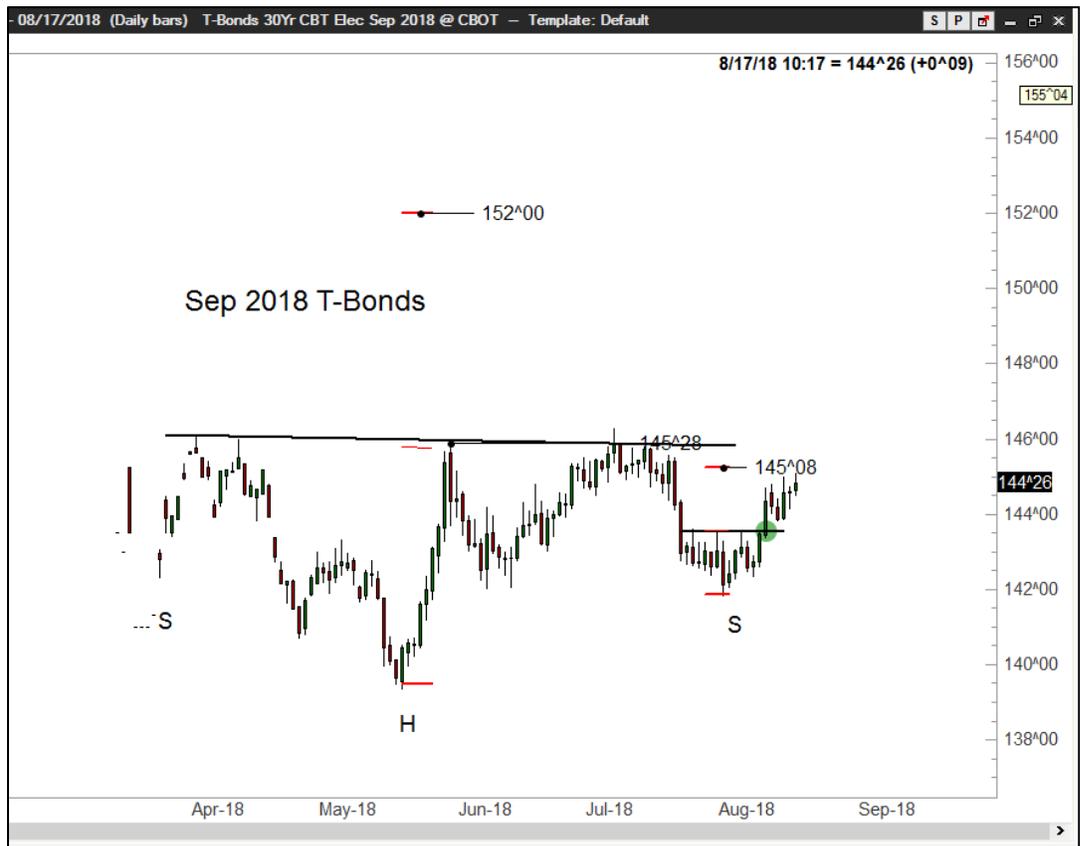
T-Bond Yield chart

The overarching chart construction in Bonds is the 4+ year H&S bottom on the yield chart. A yield print of 3.35% would complete this pattern and establish an initial target of 4.43%. The completion of the H&S bottom would also penetrate the upper boundary of a multi-decade channel. There is no doubt in my mind that the completion of the H&S would establish a major bottom in yields (top in futures). Yet, for reasons explained herein I think there is money to be made by betting that the neckline of the H&S (and upper boundary of the multi-decade channel) might provide the resistance to turn yields lower (higher futures prices) in the intermediate term.



T-Bond futures

The daily continuation chart (not shown) and chart of the Sep futures contract display possible 6-month H&S patterns. A smaller 3-week H&S bottom at the right shoulder low was completed by a WBB on Aug 10. This pattern has a target of 145^08. Factor is long. A decisive close above 145^28 would completed the larger H&S pattern with a potential profit target of 152^00.

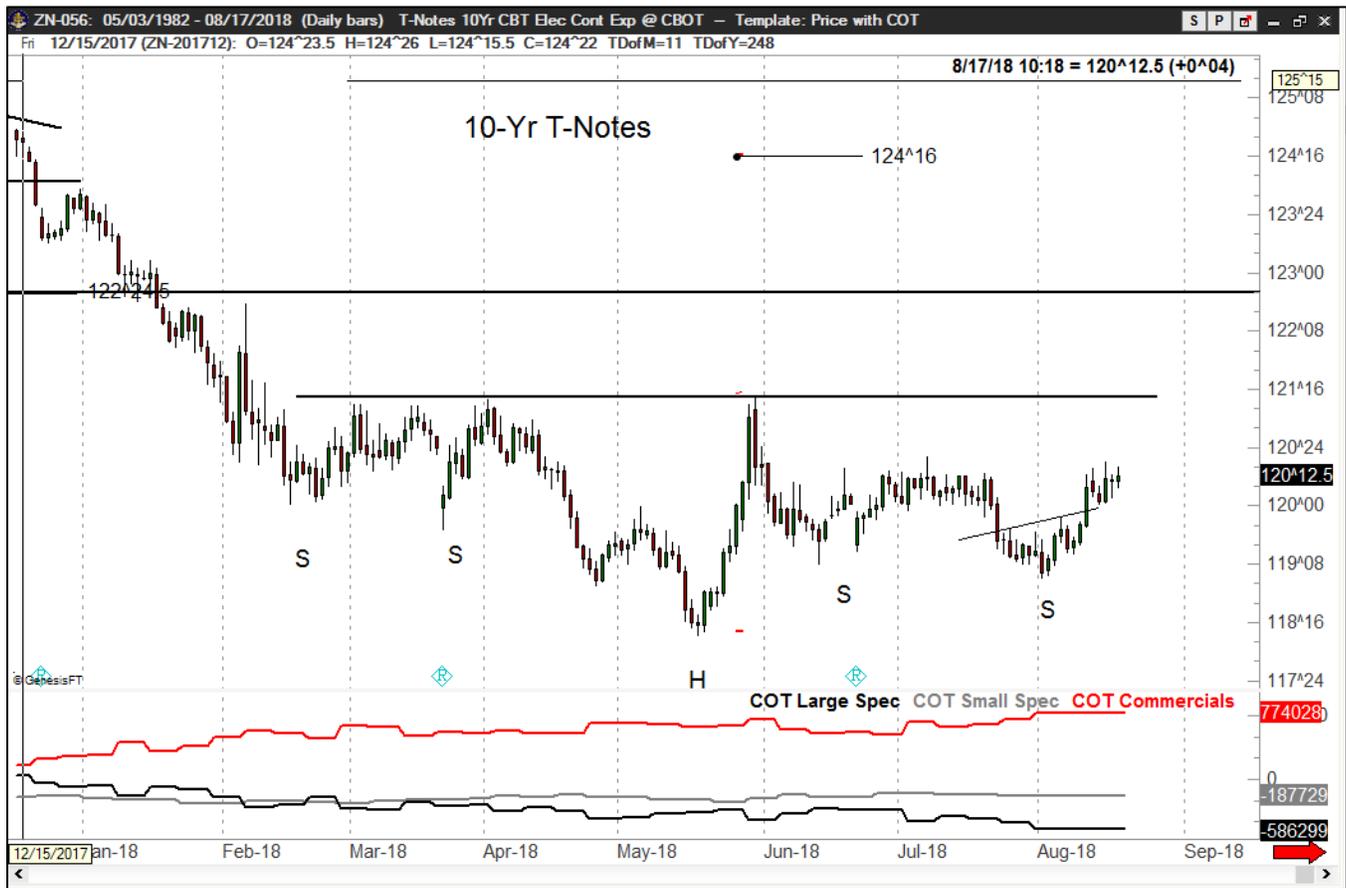
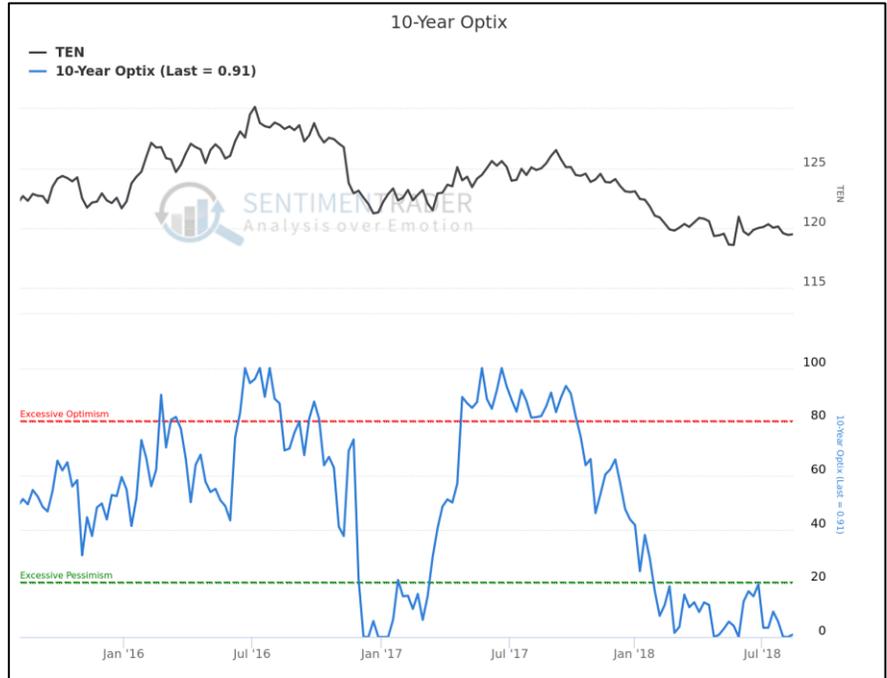


T-Notes

Several technical developments remain worthy of note.

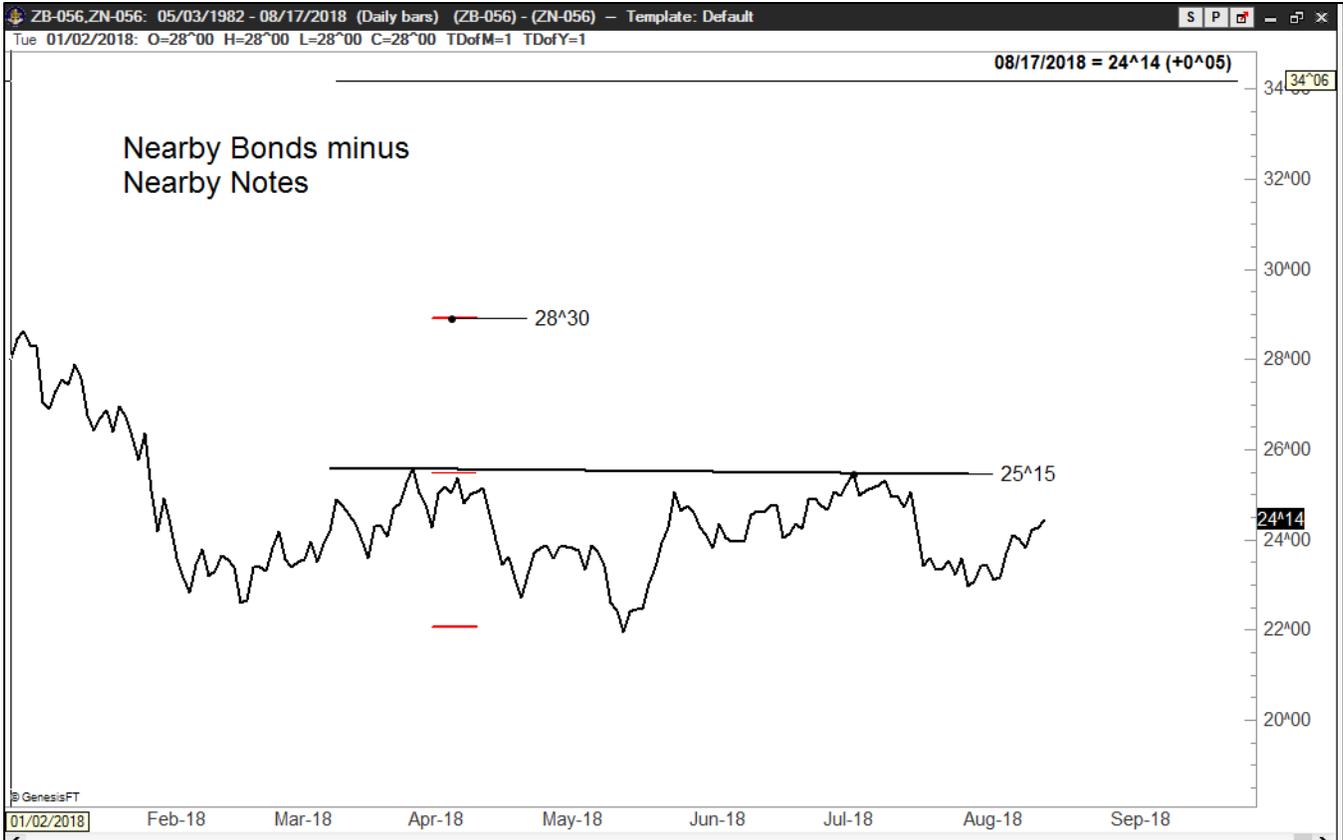
1. The daily continuation chart displays a possible complex (double right and left shoulders) 6-month H&S bottom
2. The COT profile is at an all-time record level of Commercial long and Large Spec short positions
3. A small 6-week H&S bottom has been completed at the right shoulder low
4. Bullish sentiment for 10-Yr Notes continues to scrape the bottom (Sentimentrader.com).

Factor is long T-Notes.



30-Yr T-Bond/10-Yr Note spread

The daily continuation chart displays a 6-month H&S bottom. Long Bonds and short Notes could be a lesser risky way to play the theme described herein if the H&S bottom is completed. Factor is flat.



Eurodollars

The daily chart of the Dec 2021 Eurodollar futures displays a possible 6-month H&S bottom. Factor is flat. I would prefer to trade the longer end of the yield curve.



EuroSwiss
Factor is short.



Energy

RB Gas

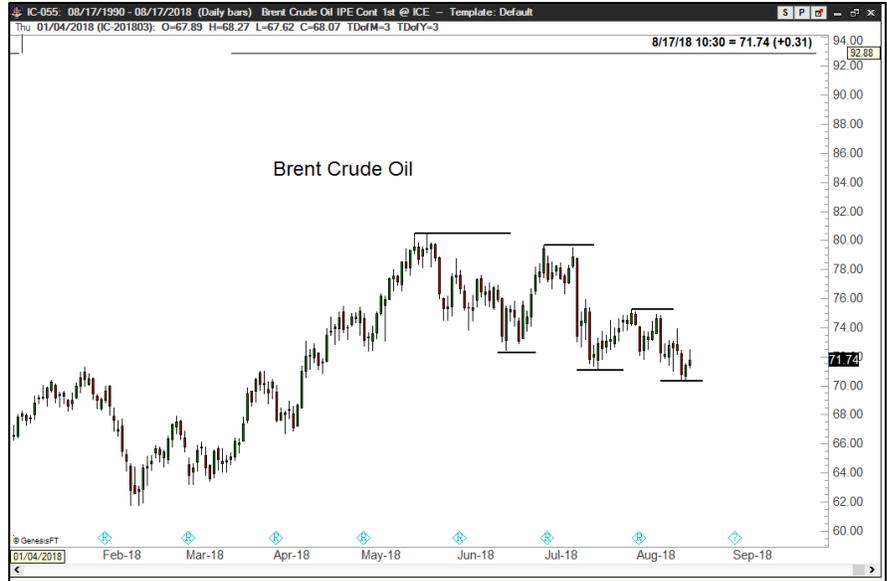
The daily chart of the Oct contract displays a possible descending triangle.



Brent Crude Oil

I could be possibly interested in the short side of Brent Oil (and not WTI) for three reasons.

1. The daily continuation chart has been making lower lows. I always prefer being short a market when the continuation chart is weaker than the individual contract months.
2. The Dec 2018 daily chart displays a possible rectangle – I always prefer horizontal patterns to diagonal patterns.



3. A possible Hikkake could be forming (Aug 16 and 17 price action). The completion of this Hikkake would simultaneously complete the rectangle (at least intraday).

Factor is flat, but is interested in the short side. A problem exists for the Factor Tracking Account because the Brent contract would carry too much risk. If I short Brent for the Factor prop account I will look for a corresponding possibility of shorting the mini WTI contract for the Tracking Account.



Forex

I have a sense that the bullish run in the USD has been exhausted. I exited a portion of my long USD portfolio this past week – and will likely get stopped out of the remaining position next week.

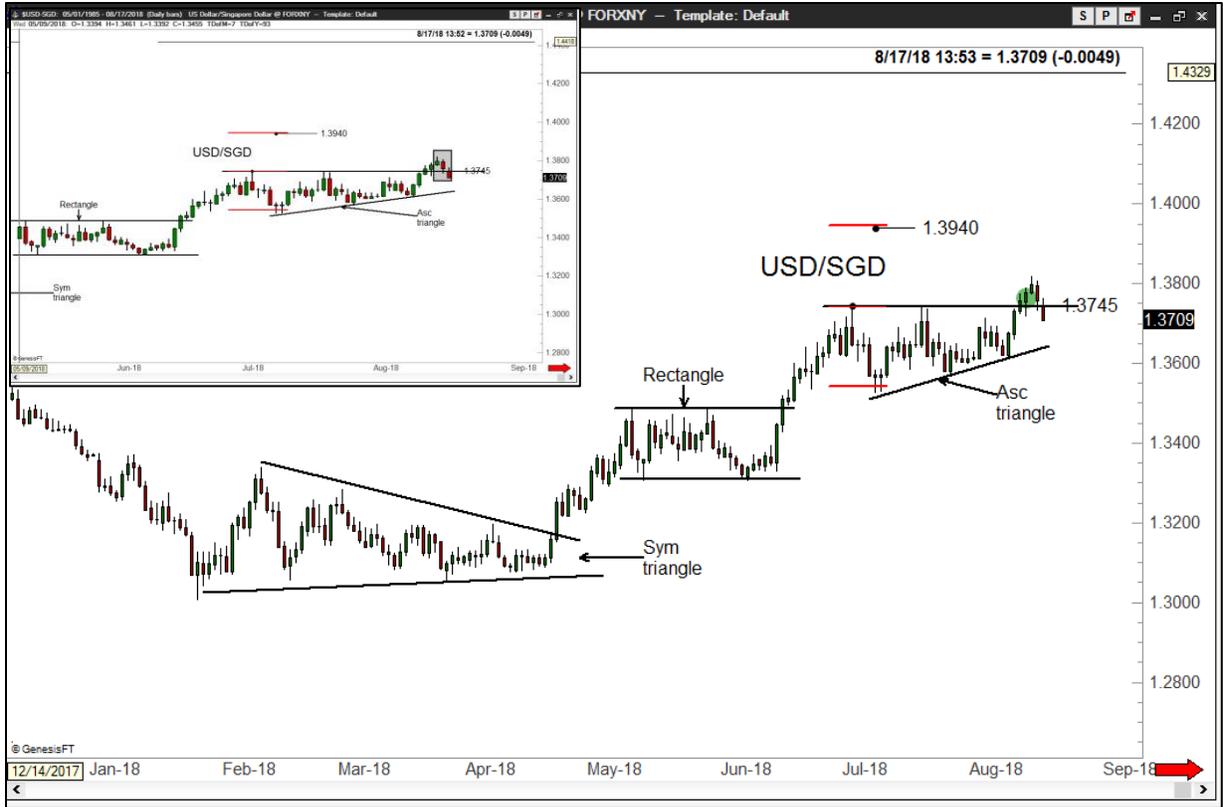
NZD/USD

The Factor is short based on the completion of a 26-month H&S top pattern, launched by a 7-week bearish pennant. I split the trade into two tranches and was stopped out of a tranche on Friday.



USD/SGD

Factor bought this pair on Monday only to be stopped out on Friday. Note that the price action from Wed through Friday met the criteria of Factor's 3-day trailing stop rule (see inset). It was on this basis that I exited the trade.



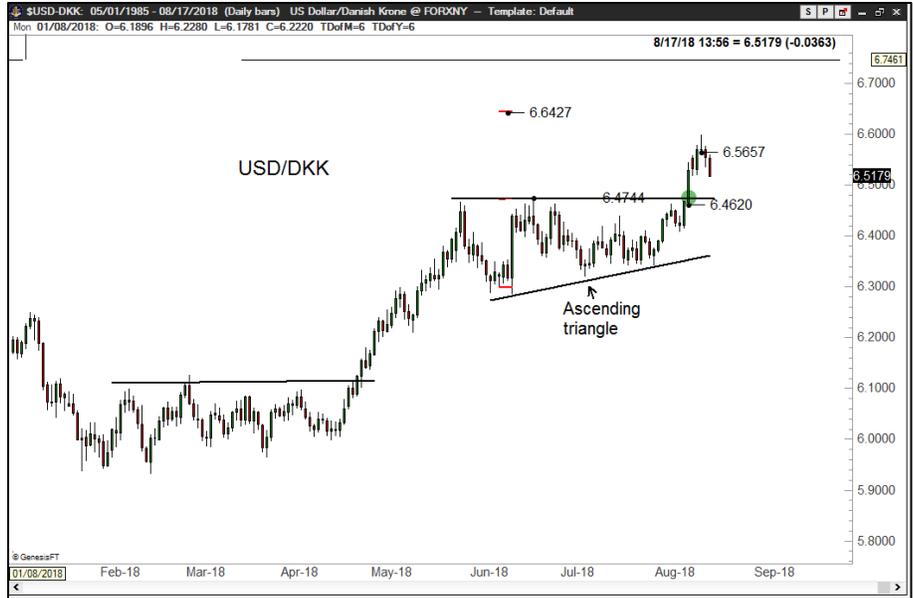
EUR/USD

Factor is short based on the Aug 10 completion of a 10-week pennant or descending triangle on the daily graph. I split the trade into two tranches. The decline on Aug 15 exceeded 70% of the distance to a revised target of 1.1291. I jammed a stop and exited a tranche on Thursday.



USD/DKK

Factor is long based on the Aug 10 completion of an ascending triangle. I split the trade into twp tranches and exited a tranche on Thursday.



Grains

Wheat

I can make the case that the continuation chart in Chicago Wheat remains constructive and that prices only retested the early Aug breakout. However, the daily contract charts are unclear so I will remain flat.



Soybeans

The daily chart of the Nov contract displays an arguable H&S bottom pattern. I use the word "arguable" because the shoulder structure is quite awkward. I will monitor this pattern.



U.S. stock market

New highs were made in the NYSE Composite A/D line on Friday and highs are just around the corner in the S&P A/D. These charts indicate a strong underlying demand for shares despite the doomsday warnings related to traditional valuation measures and U.S. debt loads.



S&Ps

Factor is long SPY (the S&P etf). There is no clear measured-risk spot to be long the futures contract. I will continue to advance stops as appropriate.



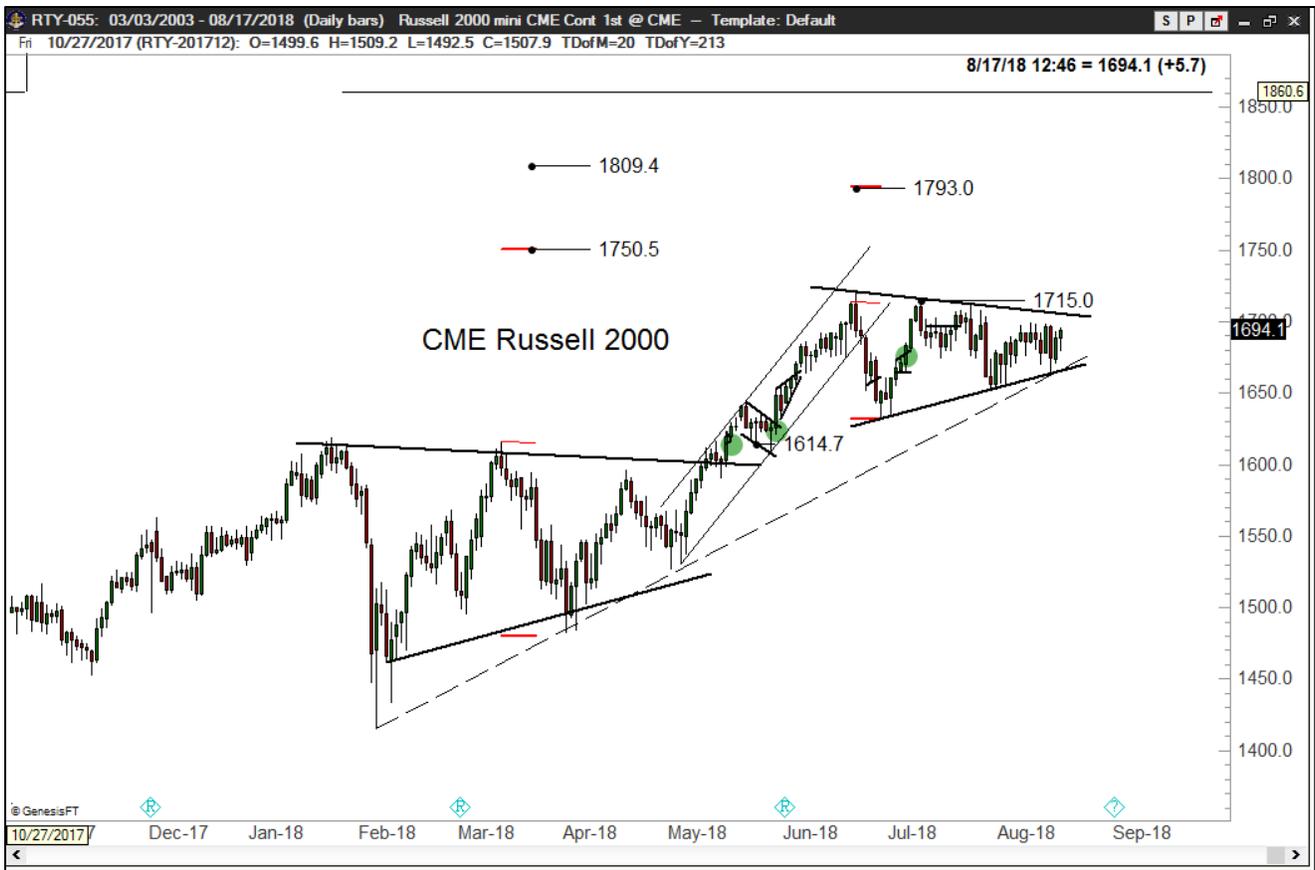
VYM (ETF)

I do not have the leverage I would like in the U.S. stock market given my overall opinion and the lack of clear set ups in the index futures. I went long this ETF Friday, viewing the daily chart as an inverted 6-month H&S pattern followed by two retests and now a recovery high.



Russell 2000

The Russell is forming a possible 9-week symmetrical triangle. Factor is flat. A close above 1715 would be a buy signal with a cluster of upside targets.



DJIA

The daily Dow chart is very similar in appearance to VYM. However, the risk of a DJIA futures contract for Factor Tracking Account is too large. The Factor Tracking Account is flat.



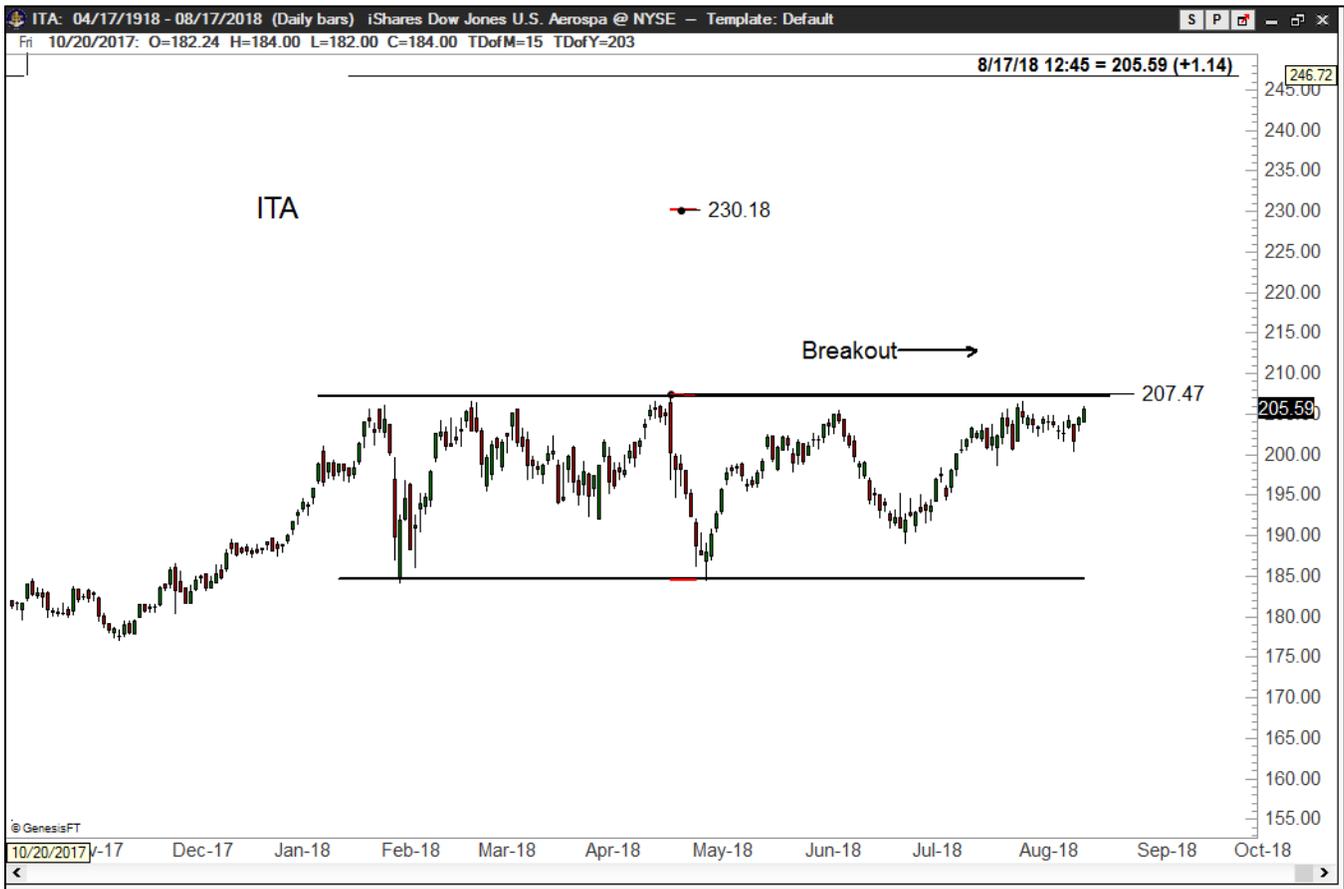
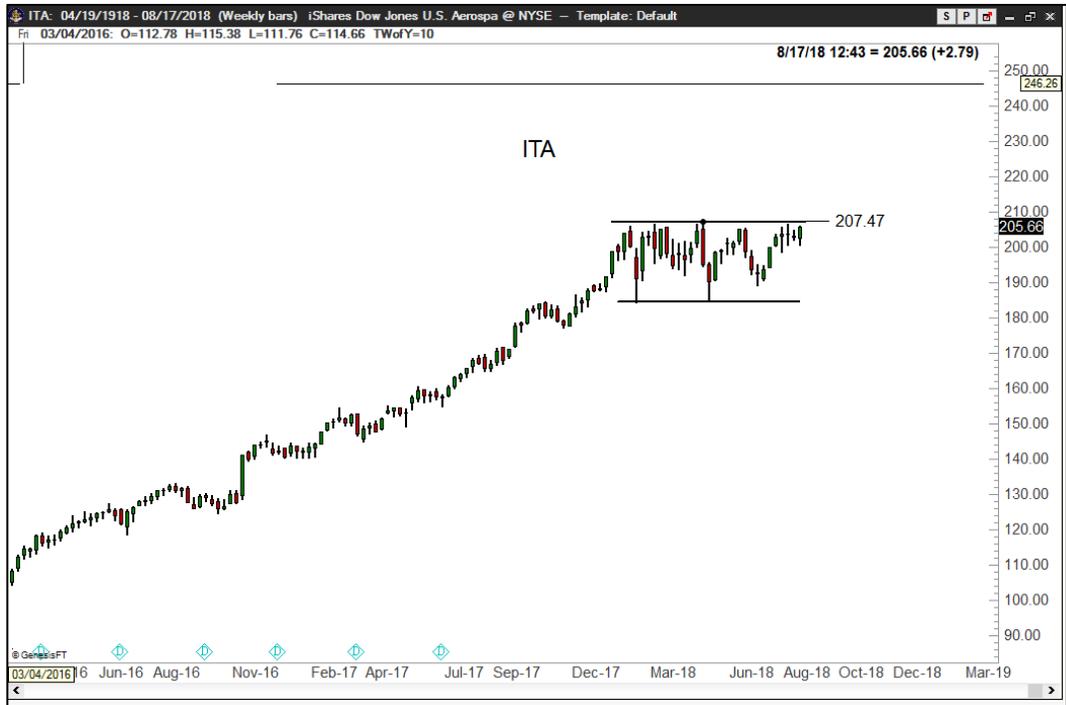
Nikkei Dow

Two charts are presented. Both the CME USD-denominated graph and the Osaka Yen-denominated graph display possible 3-month continuation H&S patterns. I will monitor these charts.



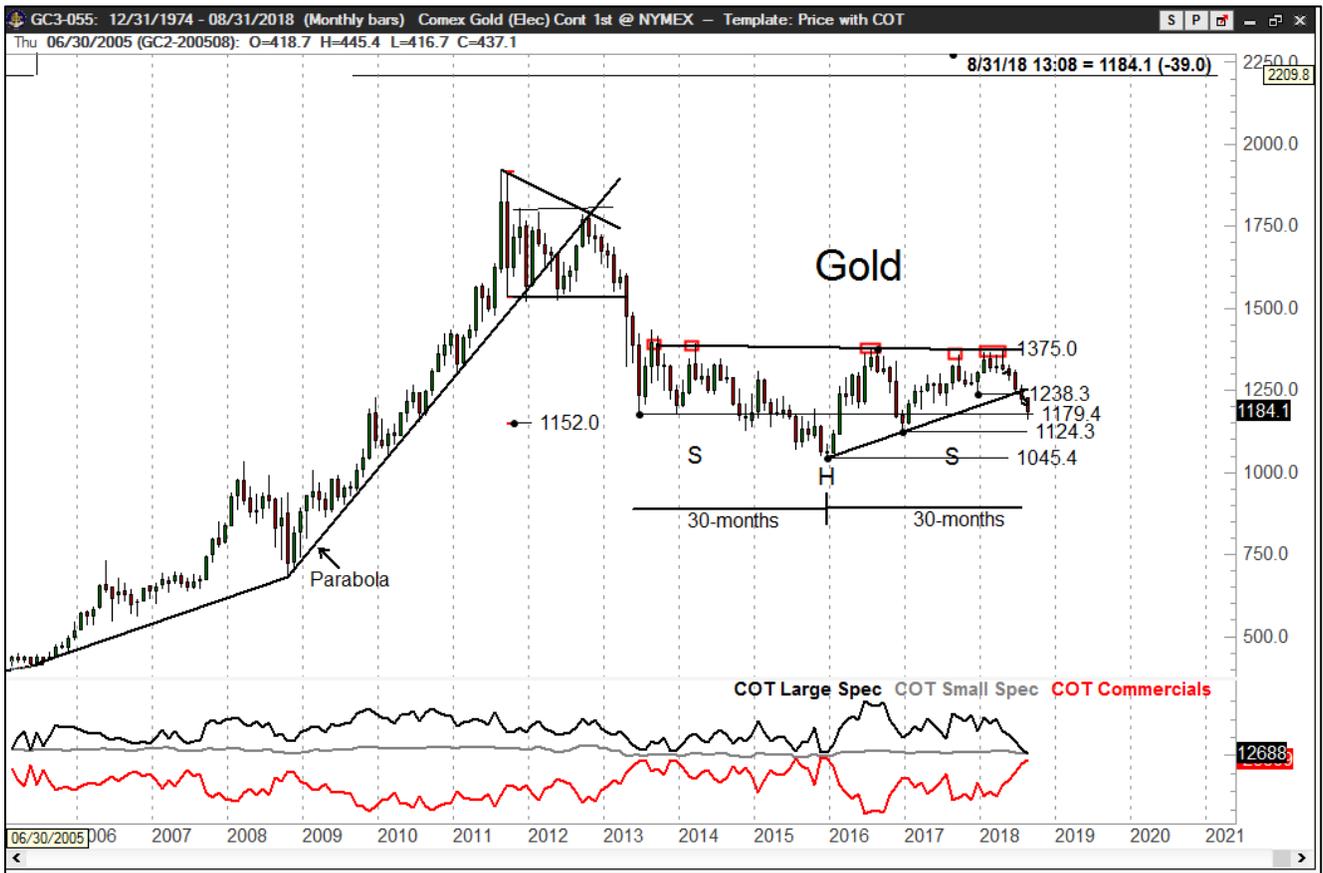
ITA

Thanks to Aksel Kibar of @TechCharts for alerting me to this ETF. For chartists interested in global equity markets there is no better service than TechCharts. ITA is forming a 29-week rectangle on the weekly and daily charts. I will consider 213 to be the breakout although may attempt to sneak in a little earlier if the breakout is clean.



Gold

There is still an outside possibility of the massive inverted H&S bottom pattern on the weekly and monthly graphs. Under this interpretation it was important for the current price decline to hold above 1179, the bottom of the left shoulder. Prices slipped through that level this past week but closed above it. The COT profile displays extreme Large Spec and Commercial positioning – nearly equal to those last experienced at the Dec 2015 low. If the 1179 level gives way then expect Gold to decline to 1124 and possibly to 1045. However, Gold is overdone to the downside and I expect a bounce to the 1238 to 1250 zone.



The Factor Crypto Corner

Cryptos

Bitcoin (GDAX)

The decline in cryptos, particularly in the altcoins, has been vicious. I am fully expecting a bounce. There are unfilled gaps on the CME chart at 6825 and 7270.



Longer term, there are currently two interpretations possible.

One interpretation is that a descending triangle is forming, dating back to the Feb 6 low. This pattern would have bearish implications, with a target as low as 2823 on the log chart. Even if this is the correct interpretation, BTC is quite stretched to the downside – I cannot envision the lower boundary of the triangle being severely breached anytime soon.



The second interpretation is based on a fractal of the 2015 correction. Under this interpretation the market has realized its #9 peak and is declining toward the #10 low.



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Factor Tracking Account, August 17, 2018

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

Factor LLC		8/17/2018																
Model Tracking Account Trade History and Portfolio																		
Constant nominal capitalization: \$100,000																		
(See disclaimers and notes below)																		
Market		Entry								Stop Date	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)
		Date	L/S	Price	Size	Initial stop	BP risk	Current Stop	Weekly			Daily	Date	Price				
LUZ8	EuroSwiss	3/2/18	S	100.66	1	NA	NA	100.78	8/10	100.21	3-year+ desc tri					\$ 371	NA	
SPY	S&P etf	8/1/18	L	281.29	40	276.39	20	279.87	8/15	294.48	5-mo asc tri	Retest				\$ 11,252	\$ 11,252	
SPY	S&P etf	8/1/18	L	281.29	40	272.48	35	278.88	8/15	294.48	5-mo asc tri	Retest				\$ 11,252	\$ 11,252	
ZNUS	T-Notes	8/7/18	L	119*14	1	118*29	52	119*285	8/15	120*24	Poss 6-mo H&S	3-wk H&S				\$ 1,155	NA	
NZD/USD	NZD/USD	8/9/18	S	0.6709	50k	0.6763	27	0.6628	8/16	.6511 r	26-mo H&S top	7-wk pennant	17-Aug	0.6629	\$ 399	Closed	-	
NZD/USD	NZD/USD	8/9/18	S	0.6709	50k	0.6763	27	0.6716	8/10	0.6221	26-mo H&S top	7-wk pennant				\$ 1,677	\$ 33,545	
EUR/USD	EUR/USD	8/10/18	S	1.14881	50k	1.15427	27	1.1457	8/17	1.1166	10-wk desc tri	10-wk desc tri				\$ 2,872	\$ 57,441	
EUR/USD	EUR/USD	8/10/18	S	1.14881	40k	1.15427	22	1.13610	8/15	1.1291	10-wk desc tri	10-wk desc tri	16-Aug	1.13612	\$ 508	Closed	-	
ZBUS	T-Bonds	8/10/18	L	143*22	1	143*09	41	143*24	8/15	146*08	Poss 6+ mo H&S	Poss 6+ mo H&S				\$ 2,530	NA	
USD/DKK	USD/DKK	8/10/18	L	6.4826	40k	6.4578	15	6.5594	8/15	6.6427	10-wk asc tri	10-wk ask tri	16-Aug	6.5593	\$ 468	Closed	-	
USD/DKK	USD/DKK	8/10/18	L	6.4826	40k	6.4578	15	6.5124	8/17	6.6427	10-wk asc tri	10-wk ask tri				\$ 2,000	\$ 40,000	
USD/SGD	USD/SGD	8/13/18	L	1.3752	50k	1.3709	16	1.3728	8/16	1.3938	Strong trend	6-wk pennant	17-Aug	1.3727	\$ (92)	Closed	-	
USD/SGD	USD/SGD	8/13/18	L	1.3752	50k	1.3709	16	1.3728	8/16	1.3938	Strong trend	6-wk pennant	17-Aug	1.3727	\$ (92)	Closed	-	
VYM	Hi Yield ETF	8/17/18	L	87.180	200	84.990	42			92.370	6-mo cont H&S	Recovery high				\$ 17,436	\$ 17,436	
Trades as of																\$ 1,191	\$ 50,544	\$ 170,925
Indicates open position value as of																		
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																		
= 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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