



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

Factor Update, September 8, 2018

Market Review

New candidate Factor Moves™ are developing in:

- \*EuroSwiss
- Treasuries

Candidate Factor Moves™ are currently ongoing in:

- Russell

This issue comments on global stock markets (DAX, China A50, BABA, TSX300, NYA, Russell, \*SPY, Nikkei Dow, \*ITA, \*VYM), GBP/NZD, interest rate markets (Euribor, T-Bonds, T-Notes, Eurodollars, T-Bond/T-Note spread, \*EuroSwiss), Gold, energy markets (Brent Crude, WTI Crude), Soybean Oil and cryptos. \*Signifies a position in the Factor \$100,000 Tracking Account.

<p><u>Developing signals</u></p> <ul style="list-style-type: none"> <li>• EuroSwiss – entry order</li> <li>• T-Bond/T-Note spread -- alerts</li> <li>• SGX China A50 -- alert</li> </ul>	<p><u>Existing positions</u></p> <ul style="list-style-type: none"> <li>• EuroSwiss – target</li> <li>• SPY – target and protective stop</li> <li>• VYM – target and protective stop</li> <li>• ITA – target and protective stop</li> </ul>
<p>The Factor Tracking Account is currently leveraged at .6X. Capital Utilization is at 61.3%. This means that about 39% of the Factor Tracking Account is sitting idle in cash.</p>	

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General trading commentary

There are times when my approach to trading is very much in synch with market behavior. There are also times when the markets play little respect to my approach. I always attempt to appraise the trading environment relative to my trading plan. Presently I believe that market behavior is challenging. During times like this I make two modifications to trading.

- Become more selective about the patterns I am willing to trade
- Decrease trading size

## Interest rate markets

The interest rate markets are caught between a rock and a hard place, as clearly seen in the T-Bond yield charts of different duration. I can create both a bearish and bullish narrative for Treasury futures.

### T-Bond Yield chart

The weekly chart displays a possible H&S bottom pattern dating back to Sep 2014. 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 (not shown). 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, an examination of the daily chart reveals that the last 7 months of the right shoulder of the massive H&S bottom has taken the form of a H&S top – indicating the possibility of lower yields. Remember that price and yield for Treasuries trade reciprocally. Higher yields = lower futures prices and lower yields = higher futures prices. The 7-month H&S top on the T-Bond yield graph is reflected by a 7-month bottom in T-Bond futures (chart is on next page). A decisive close above  $146^{23}$  on the continuation graph would complete this H&S bottom and establish a target of  $152^{26}$ . Yet, a decisive close below the right shoulder low of  $141^{27}$  would complete a H&S failure pattern. Factor is flat.



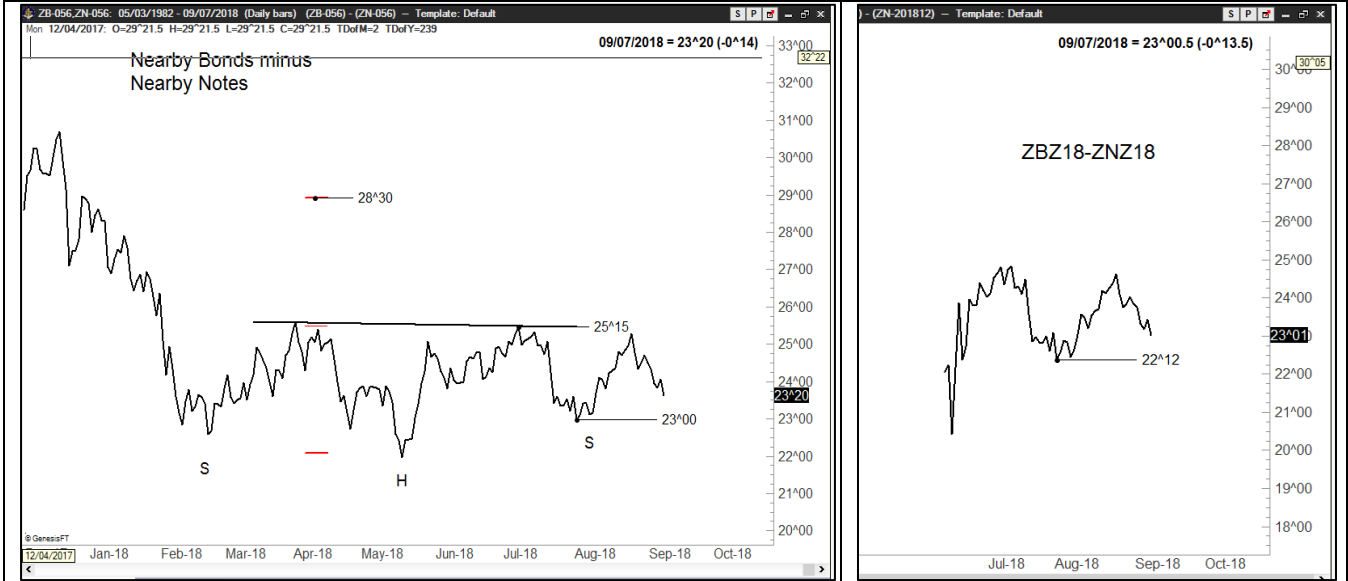
**T-Notes**

I continue to note the near historic record COT profile of Large Spec short positions and Commercial long positions. Similar COT profiles have historically resulted in a strong market advance across markets in all categories. Yet, as shown by the monthly graph, the trend in T-Note future is down. Factor is flat.



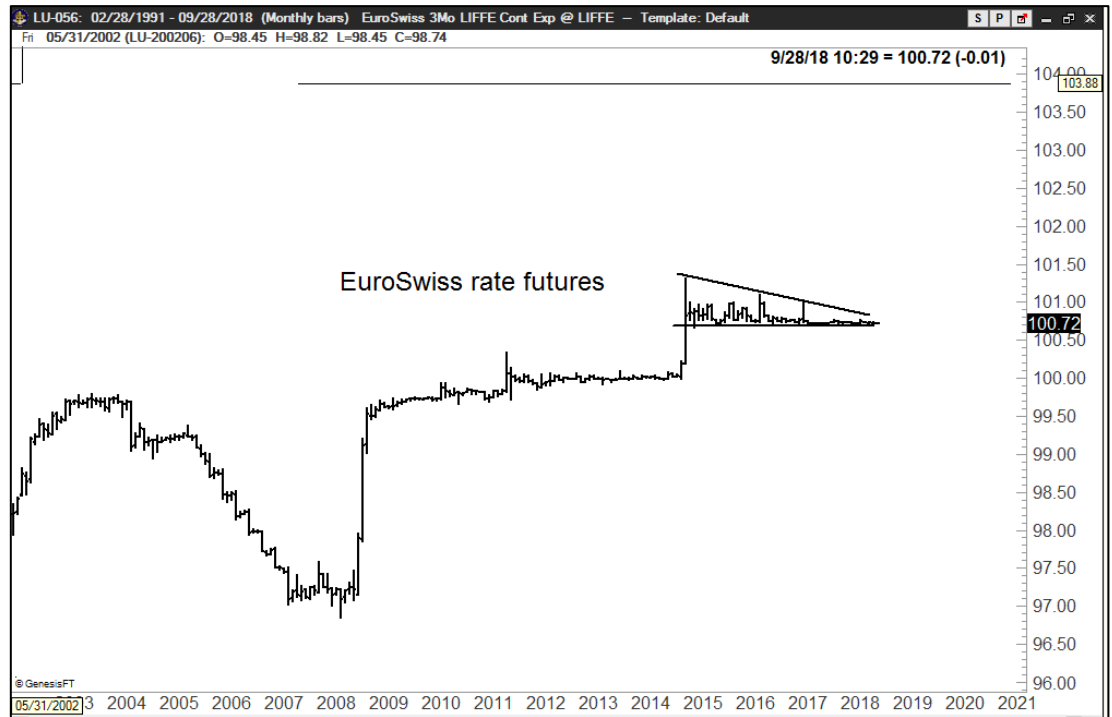
30-Yr T-Bond/10-Yr Note spread

My main focus in Treasuries is the spread between the 30-Yr Bond and the 10-Yr Note. The daily chart of this spread exhibits a possible H&S bottom that could become a H&S failure. I am willing to trade either direction in this spread. The daily continuation spread chart and daily spread chart for the Dec contracts are shown. Factor is flat.



EuroSwiss

Factor is short. It remains to be seen if the Swiss National Bank will alter its NIRP before the Dec 2018 contract expires. I am seriously considering rolling the position to the Jun 2019 contract which is trading at only a 2 BPs discount to the Dec 2018 contract.

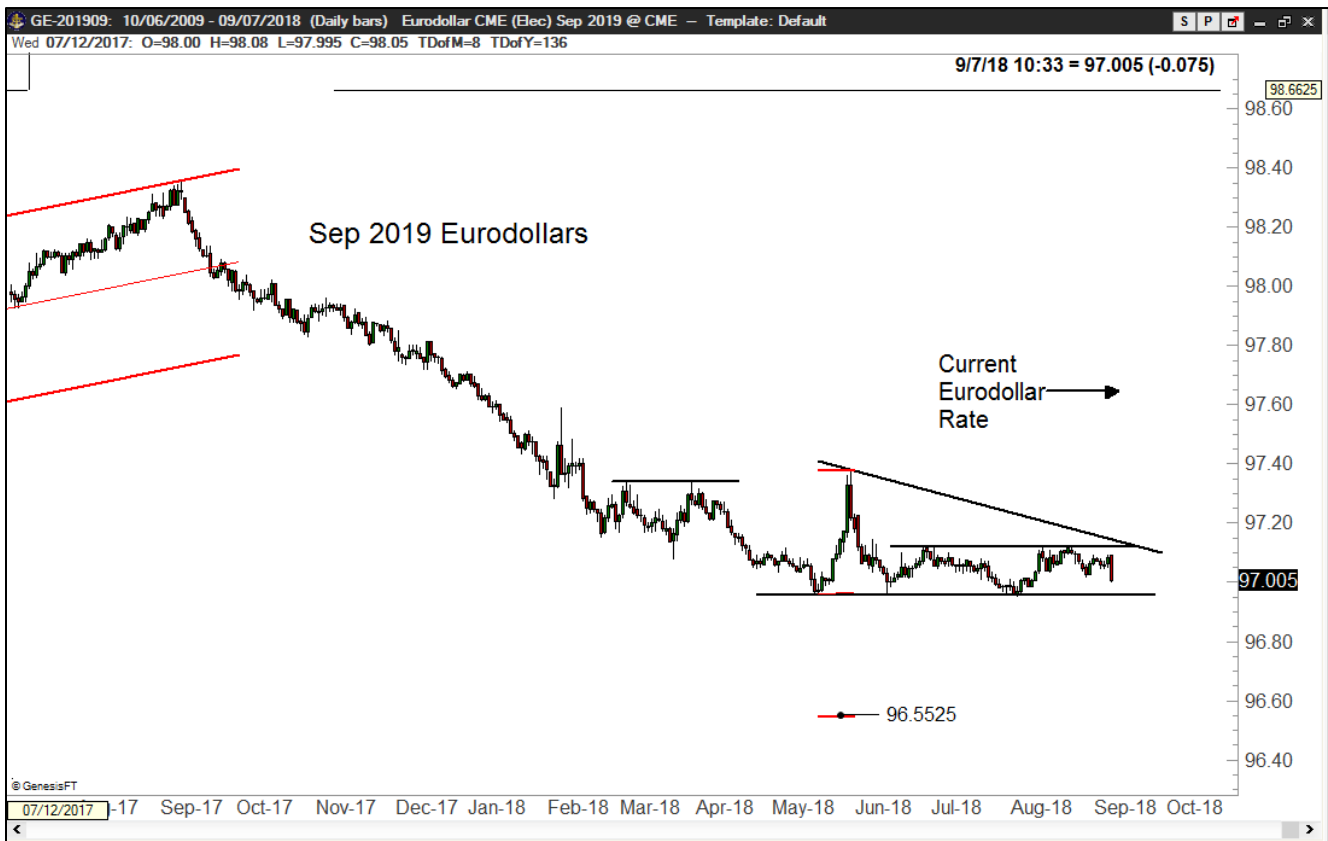
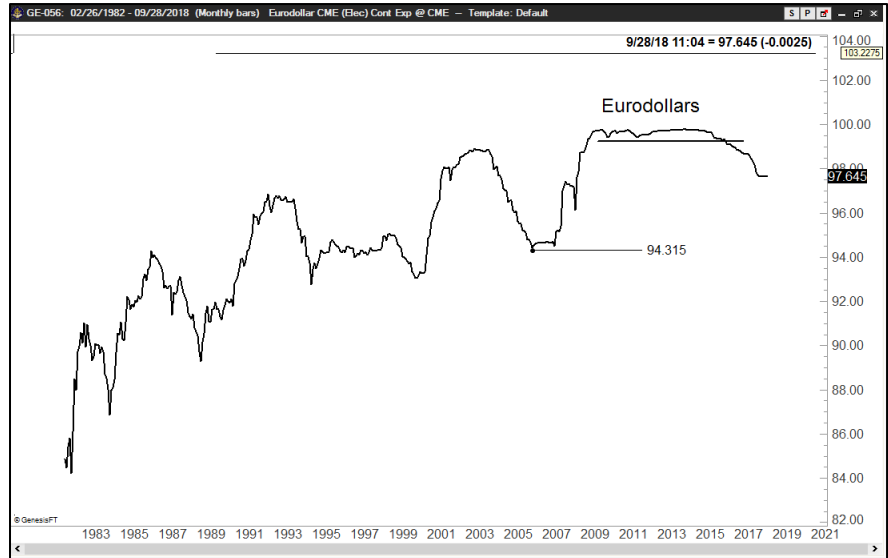


## Eurodollars

It is always difficult to find a trade that is a sure thing from a technical perspective. Nearly every trade I enter – at least when the dominant pattern is developing – that lends itself to alternative possibilities. Such is the case presently with Eurodollar rate futures. This market reflects the interest rate paid to holders of USD outside the U.S. – in a way Eurodollar rates can be considered as “offshore T-Bills.” Supporting the idea of a short-side trade are two factors:

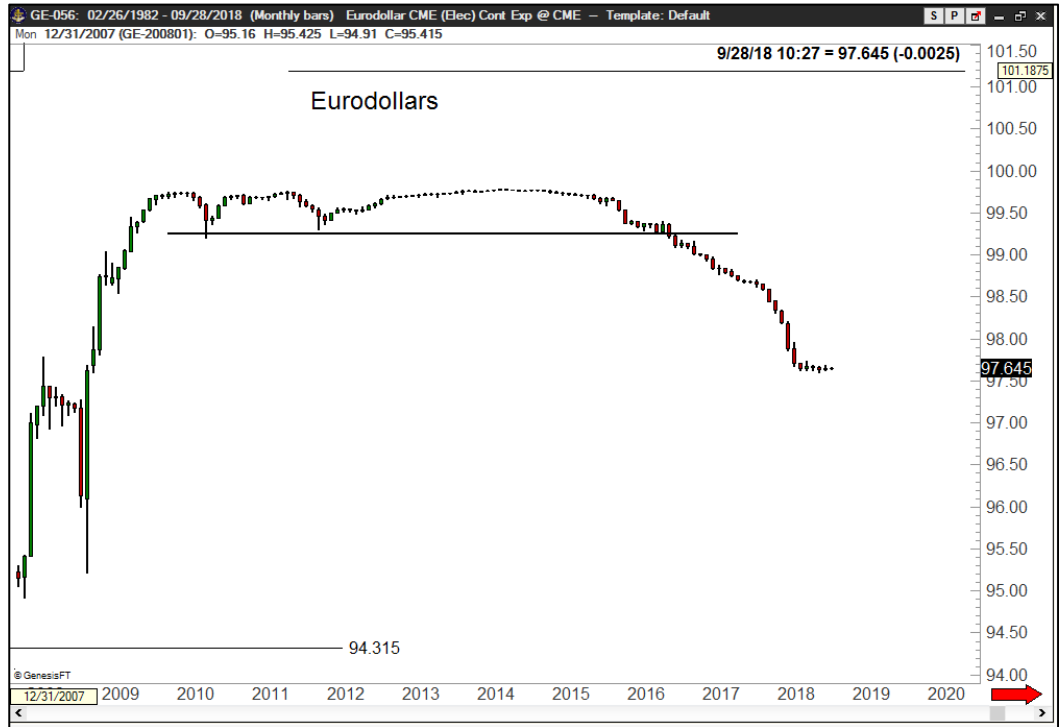
1. Eurodollars are one of the best trending of all futures or forex markets. The monthly closing price chart exhibits this characteristic of the market.
2. The daily chart of the Sep 2019 contract displays a possible 4-month descending triangle wherein the last three months exhibits a rectangle. The target of this pattern is 96.55 (3.45% yield).

Here comes the catch to the above analysis. The current Eurodollar price is 97.65 (2.36% yield). If spot Eurodollar rates remain at the same level a short position in this contract is guaranteed a 65 point loss. I will monitor this market for a measured risk trading opportunity.



## Euribor

The Euribor market is forming a possible 26-month rounding top on the weekly graph. This chart strongly reminds me of the rounding top in the Eurodollar market completed in Aug 2016.



## GBP/NZD

The weekly chart exhibits a possible 9-month ascending triangle. I will consider an advance above 1.99 to be a tradeable breakout. Factor is flat.



## Soybean Oil

Soybean Oil has been in a sustained down trend and the daily chart displays a 7-week pennant. Factor is flat.



## Energy markets

### Brent Crude Oil

The daily chart of Dec Brent Crude Oil displays a 16-week rectangle. The market poked its head above upper boundary this past week in what is either a bull trap or a premature breakout. Factor is flat. My instincts tell me that Crude Oil (Brent and WTI) have not completed their respective bull trends.



### WTI Crude Oil

The continuation chart in WTI displays a possible H&S top on the weekly graph whereby this week's price action was a sweeping reversal (higher highs, higher low and higher close than last week).





## U.S. stock market

The NYSE Composite A/D line fell hard this past week, while the S&P A/D line held up reasonably well. I must readily admit my frustration with the U.S. stock market. I have generally been an equities bull for some time although I have little to show for it – since the Apr low I have generated approximately only 600 BPs of profits in U.S. equities and stock indexes despite the sustained (although irregular) advance.



S&Ps

Factor is long SPY (the S&P etf). I have continued to advance protective stop levels.



VYM (ETF)

Factor is long. The daily chart is forming a small H&S top pattern.



### ITA (Aerospace ETF)

The advance on Thursday completed a 7-month rectangle on the weekly and daily charts. A prolonged rectangle representing less than 15% of the value of a market (from the low to the high of the rectangle) is my favorite pattern. Factor is long – time will tell if this pattern will work.



### Russell 2000

Factor came into this week long the Sep Russell futures. I was stopped out on Wednesday based on the 3DTSR. The market has now retested the underlying symmetrical triangle. Factor is flat. I am in no hurry to pursue this trade again. I have been frustrated again and again by the Russell in 2018.



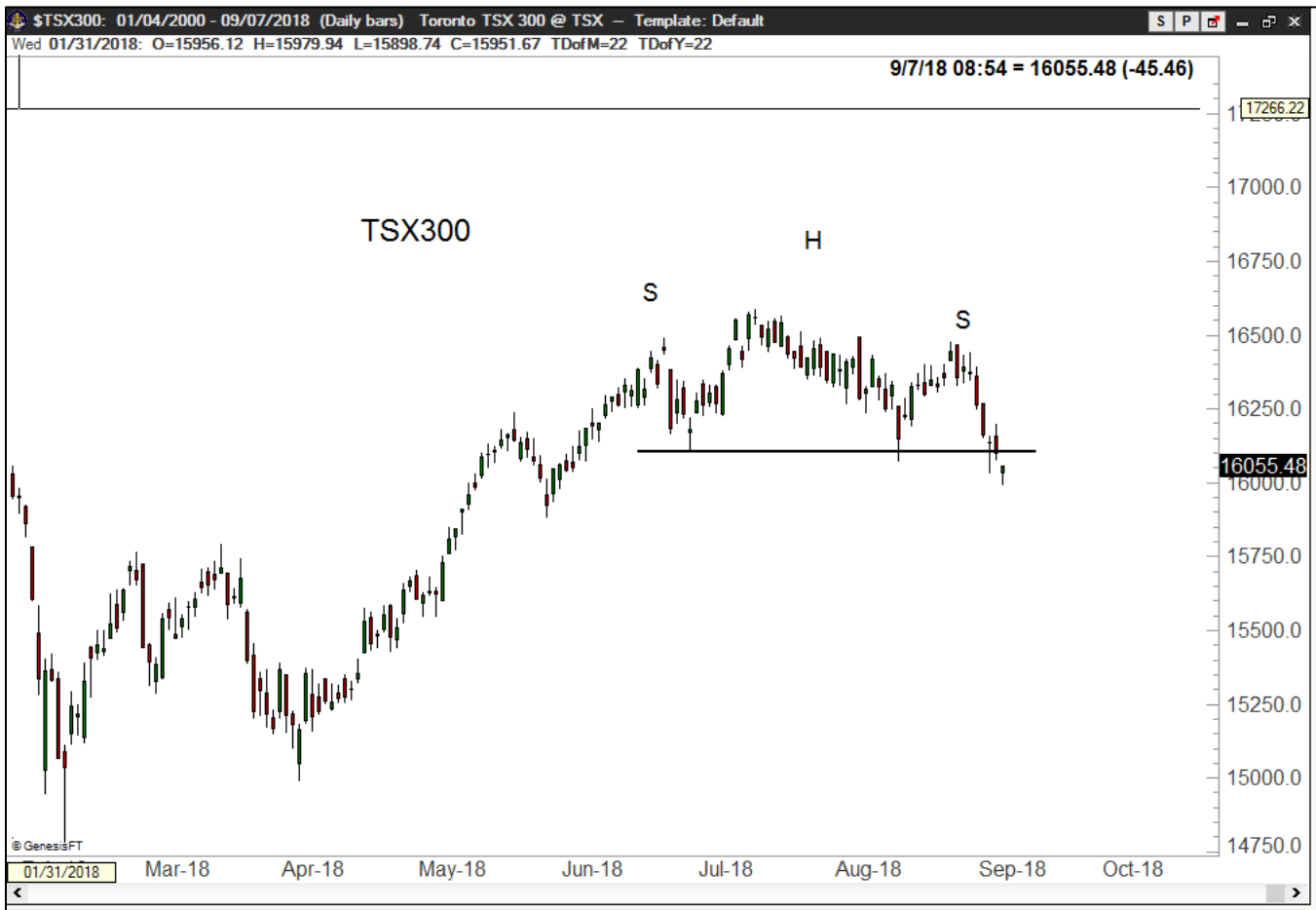
### BABA

This stock appears to be completing a 12-month right-angled broadening triangle top pattern on the weekly chart. I am not tempted to trade this stock. Factor is short.



### TSX300

The Toronto TSX 300 has now completed a 13-week H&S top pattern. There is not an acceptable futures market reflecting this index.



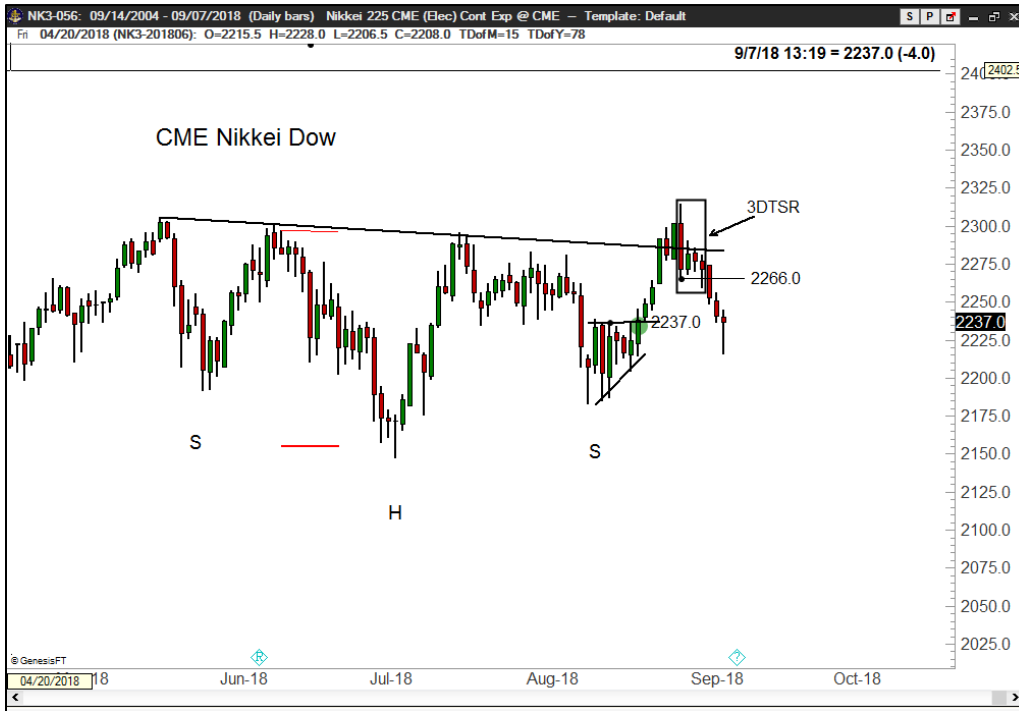
## DAX

The German DAX appears to be in the late stages of a possible 17-month H&S top pattern. Note that the right shoulder has completed a descending triangle pattern. This contract is too large to be considered for the Factor Tracking Account.



### Nikkei Dow

I came into the week long this futures contract. I was stopped out by Tuesday's decline. I treat a sweeping reversal which includes the new high for an advance as both the high day and set-up day for the 3DTSR. Thus, Tuesday was the trigger day.



### China A50

The SGX China A50 (traded on the Singapore Exchange) is in a sustained downward trend. The market is now forming a possible 10-week descending triangle. As a trader I have done well over the years trading 10-or-so week descending triangles or pennants within a strong trend. Factor is short, but will consider trading a downside breakout in this index. The continuation and Dec contract charts are shown.



# Gold

The possibility continues to exist that Gold is forming a massive inverted H&S pattern on the monthly chart. The COT profile as at a historical extreme with Commercial and Large Specs basically flat. The last time the market experienced a similar COT profile was at the Dec 2015 low. Factor is flat. I would consider the long side of Gold but first must see signs of a chart bottom.



# The Factor Crypto Corner

## Cryptos

### Bitcoin (GDAX)

If the super bullish narrative on cryptos is correct it will be led by BTC. I am currently holding to two possible interpretations of the BTC chart.

The first interpretation is that of a descending triangle dating back to the Feb 6 low. A decisive close below the lower boundary would establish a target on the log scale chart of 2823. It is extremely rare for a bull market to be launched from a descending triangle. The dynamics of the descending triangle pattern is as follows:

- There is strong demand at a relatively fixed level
- Rallies from this fixed level reach a series of lower highs
- Over the course of the descending triangle demand at the fixed level is exhausted
- In the meanwhile sellers become increasingly more aggressive – willing to sell at lower lows
- The eventual breach of the horizontal level of demand indicates that sellers have gained control of price

The opposite occurs during an ascending triangle when supply is initially strong at a relatively fixed level while demand becomes ever will to raise pay a higher price.

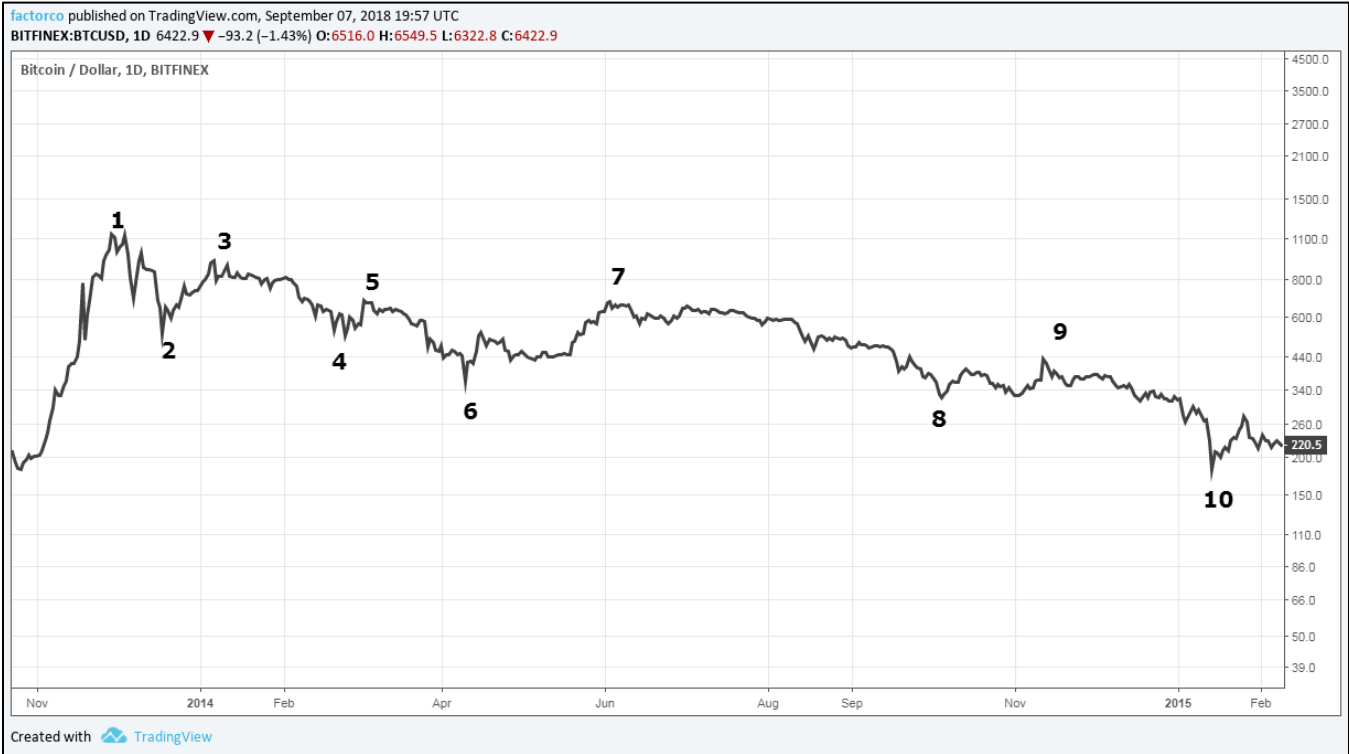




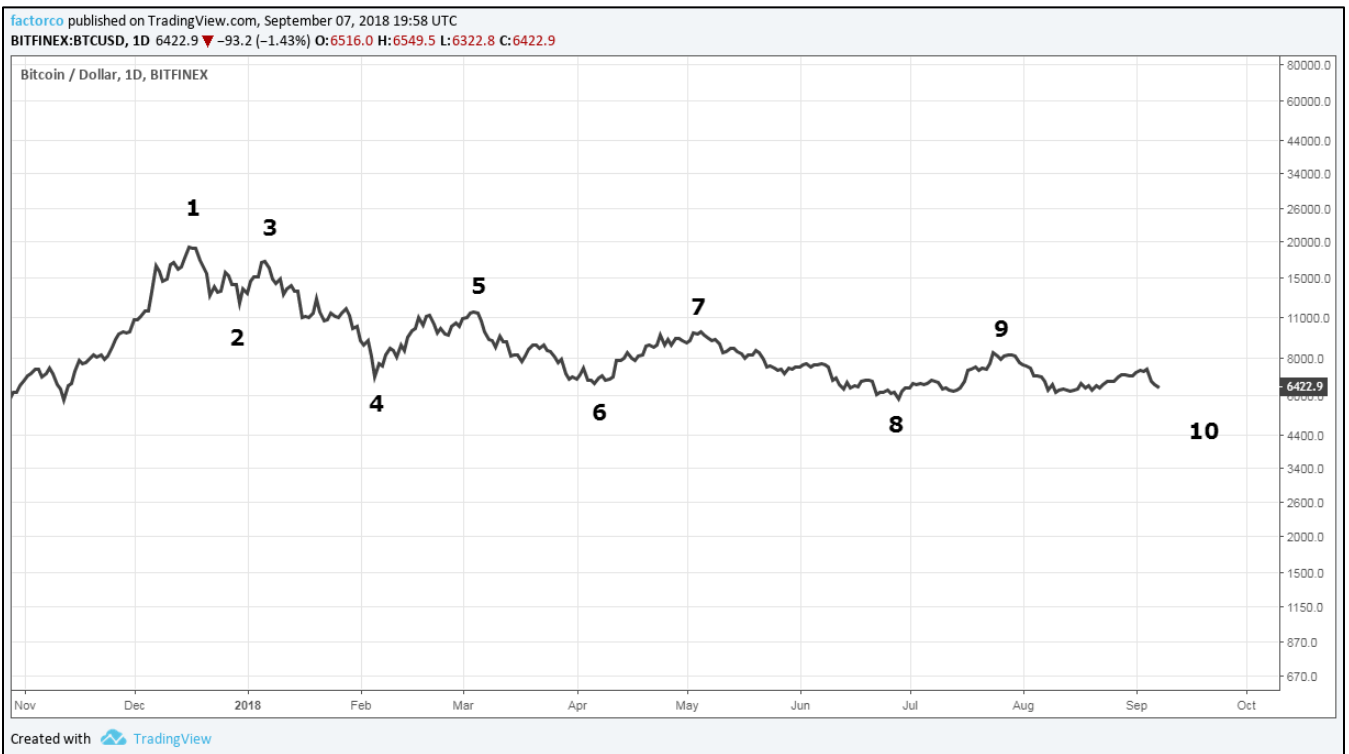
The second interpretation is based on the Factor RealRange chart whereby the orthodox low on Feb 6 is ignored. The dominant possible chart pattern on this chart is a falling wedge requiring one more new low for the current bear trend. My concern about this pattern is that falling wedges should have a stronger angle of decline according to Richard W. Schabacker. Nevertheless, the falling wedge pattern would be very consistent with the 2015 fractal I have presented previously. I am displaying the 2015 period and the current period on separate charts to aid in your visual understanding of the fractal which consists of a series of lower highs and lower lows. It should be noted that eventual bull trend following the 2015 fractal did not begin until late Aug 2016 – in other words, there was no hurry to rush into BTC immediately following point #10.



# 2015-2016 market



# Current market



Factor Tracking Account, September 7, 2018

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

Factor LLC															9/7/2018		
Model Tracking Account Trade History and Portfolio																	
Constant nominal capitalization: \$100,000																	
(See disclaimers and notes below)																	
Market		Date	L/S	Price	Entry				Stop Date	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)
					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	286.19	9/6	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	285.34	9/6	294.48	5-mo asc tri	Retest			\$ 11,252	\$ 11,252	
VYM	Hi Yield ETF	8/17/18	L	87.180	200	84.990	42	86.890	9/5	92.370	6-mo cont H&S	Recovery high			\$ 17,436	\$ 17,436	
RTYU8	Russell 2000	8/21/18	L	1713.40	1	1699.80	68	1719.80	9/4	1797.90	Major bull trend	9-wk triangle	5-Sep	1719.7	\$ 310	Closed	-
NKD08	Nikkei	8/22/18	L	2239.50	1	2229.50	50	2259.50	8/30	2436.50	Poss cont. H&S	Anticipatory RS	4-Sep	2259.50	\$ 995	Closed	-
ITA	Aerospace ETF	9/6/18	L	209.86	100	205.84	40			229.84	7-mo rectangle	7-mo rectangle			\$ 20,986	\$ 20,986	
Trades as of															\$ 1,305	\$ 61,296	\$ 60,925
Indicates open position value as of																Levered at	0.61
Margined at																	
<b>PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE</b>																	
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 Services \$100,000 Tracking Account most often holds a single futures contract in a trade where 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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