



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

Factor Update, October 20, 2018

Market Review

New candidate Factor Moves™ are developing in:

- *EuroSwiss
- Bitcoin

Candidate Factor Moves™ are currently ongoing in:

- *Treasuries
- *INDA

This issue comments on global stock markets (NYA, S&Ps, ITA, NIFTY/*INDA, DJIA, SGX China A50, DAX, Taiwan Index), forex (CAD, EUR/USD, Swiss Franc, USD/JPY, USD/TRY, CAD/CHF, GBP/NZD), interest rate markets (T-Bonds, *Eurodollars, T-Bond/T-Note spread, *EuroSwiss), *Sugar, metals (*Gold, *Silver, *GDXJ, Copper), WTI Crude, Grains (KC Wheat, Milling Wheat) and cryptos. *Signifies a position in the Factor \$100,000 Tracking Account.

<u>Developing signals</u>	<u>Existing positions</u>
<ul style="list-style-type: none"> • EuroSwiss – entry order • Bitcoin – entry order, alerts • T-Bond vs. T-Note spread – alert • LTC – entry order • Silver – alert • Copper -- alert 	<ul style="list-style-type: none"> • EuroSwiss – target • Eurodollars – target and protective stop • INDA – target and protective stop • GDXJ – target and protective stop • Gold – target and protective stop • Sugar – target and protective stop • Silver – target and protective stop
<p>The Factor Tracking Account is currently leveraged at 1.0X. Capital Utilization is at 27.0%.</p>	

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Factor Member Twitter (@Factor Members) – UPDATE

- We were testing a concept through which I could provide real time thinking
- We fully disclosed that outsiders would be sneaking under the tent during the trial
- We stated that if the concept provided value a private delivery mechanism would be sought
- Many members enjoyed the interaction, but the feed (even in a trial form) needs to be private per member feedback
- The @Factor_Members Twitter feed has been discontinued -- we will re-explore the concept sometime in 2019

Interest rate markets

Yields are in a cyclic bull trend that is likely to last for a considerable period of time. Remember that the cyclic decline in yields that began in the early 1980s lasted 35 years.

T-Bond Yield chart

Three charts are presented for your consideration. The first chart is the quarterly yield chart dating back to the late 1980s, showing the channel in which yields declined. Actually, the channel extends back to the early 1980s. The second chart is the daily "blow-up" of the channel, showing that prices broke above the upper boundary of the channel on Sep 18. The third chart is the weekly yield chart, displaying a completed 4-year H&S bottom with an initial yield target of 4.37%.



See additional yield charts, next page.



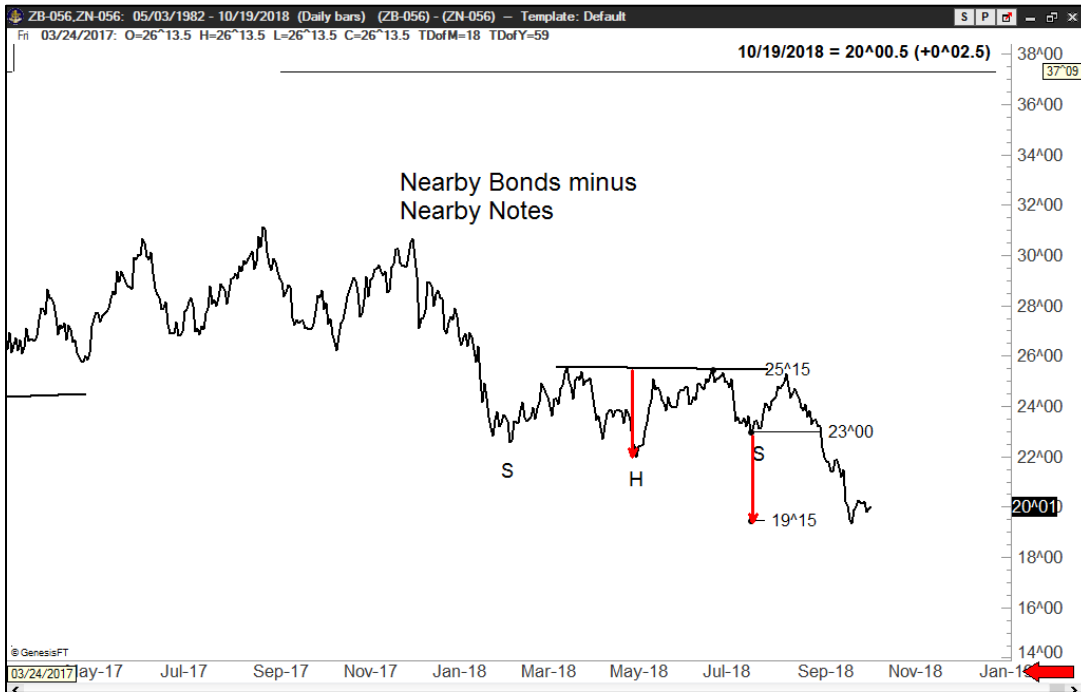
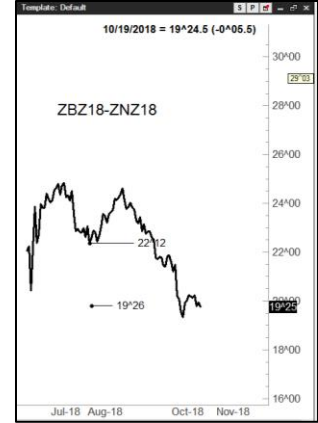
T-Bond futures

The dominant chart construction is the massive H&S top on the weekly graph with a target toward 118^00. The daily continuation chart displays a H&S failure pattern with an unmet target of 135^11. Factor is flat - I am monitoring the daily chart for a measured risk shorting opportunity.



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

The target of 19^15 (premium to the Bonds on a 1-to-1 contract basis) of the 7+ month H&S failure pattern on the daily continuation chart was met on Oct 5. The target of 19^26 in the spread between the Dec contracts of Bonds and 10-Yr Notes was also met and Factor took profits accordingly. I am monitoring this spread for an opportunity to re-enter. A rally back to my preferred re-enter level of 21^26 is not likely to occur. The chart of the spread between the Dec contracts is also shown.



EuroSwiss

Factor is short the Jun 2019 contract.



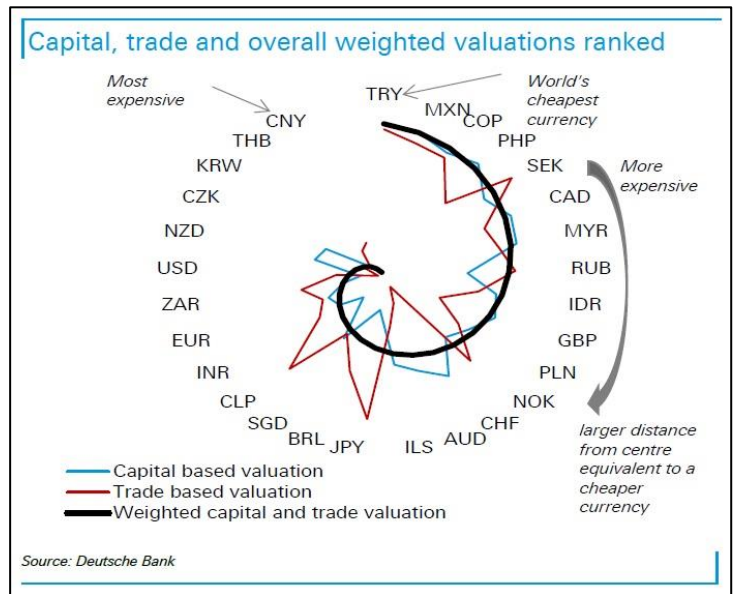
Eurodollars

The Factor Tracking Account was stopped out of a tranche on Oct 5 (the stop was jammed) and remains short a tranche (2 contracts). The target is 96.56, representing a yield of 3.44%.



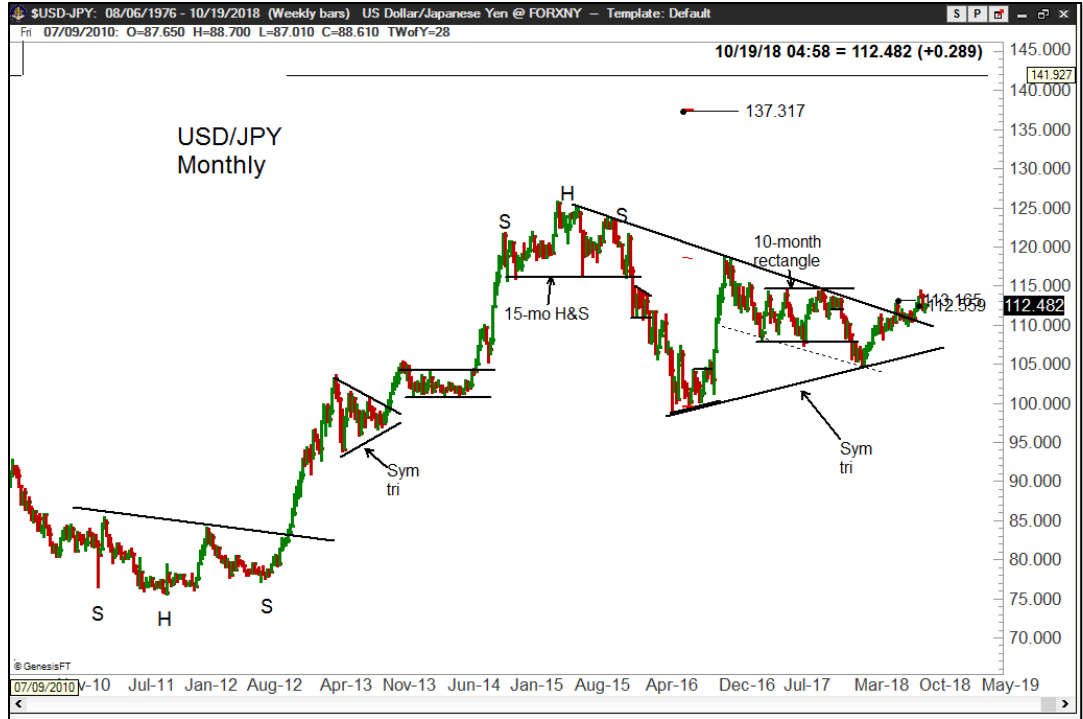
Forex

As an interesting side note, the graph below is a fundamental valuation appraisal of global currencies. Note that both the USD and EUR are overpriced according to the analysis by Deutsche Bank.



USD/JPY

The dominant chart construction could be a massive continuation symmetrical triangle on the weekly graph dating back to mid-2015. I took a shot at the long side but was stopped out on Oct 10. Factor is flat.



GBP/NZD

I was stopped out of a long position on Oct 15. My trade management rules are designed to let a winning trade run (if that is how a market unfolds) but to exit a trade when a market falters. Factor is flat.



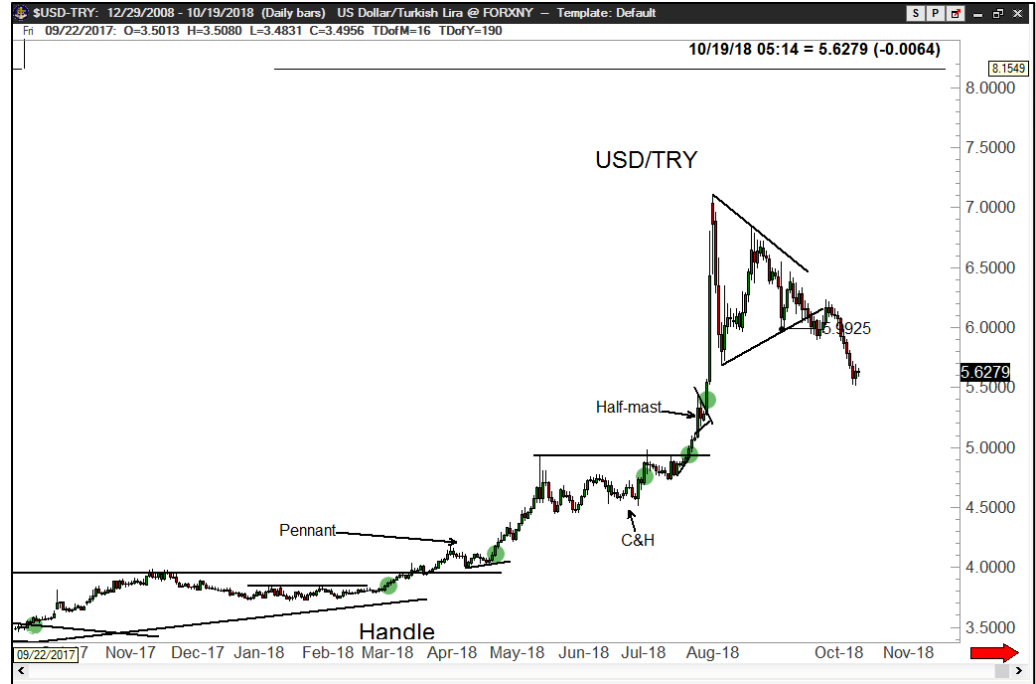
EUR/USD

Long-time Factor members are very familiar with the January Effect report I issue each year. The January Effect addresses the strong tendency for EUR/USD to establish its annual high or low in Jan. Note that the 2018 high occurred on Jan 25. One of my big screw ups in 2018 was not being all over the short side of EURUSD in late Apr. The daily chart is forming a possible H&S bottom. Might the Jan Effect in 2019 be a right shoulder low? I will monitor this market accordingly. Of course a further decline from the late Sep high would negate the H&S bottom possibility. Factor is flat. I will issue the 2019 January Effect report toward the end of Dec.



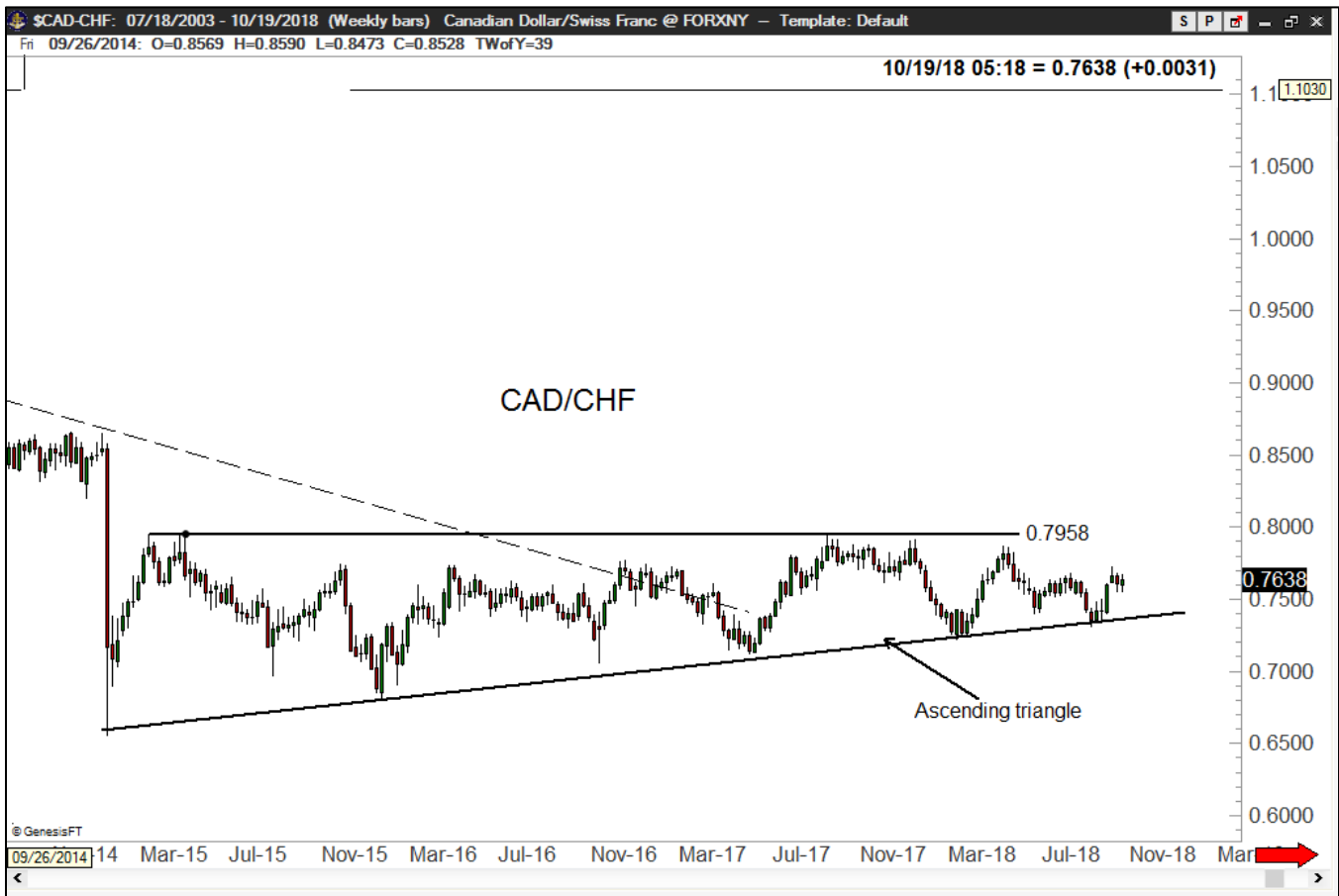
USD/TRY

The parabolic advance on the weekly log chart dating back to 2010 remains unbroken. The daily chart (arithmetic scale) has a completed a symmetrical triangle top. I have no interest in trading this cross. USD/TRY was among my most profitable markets in 2018 and I have the sense that a forced trade at this point would accomplish little more than returning some of the profits.



CAD/CHF

I have shown various charts for Canada/Swiss in the past year or so. The dominant chart construction is a possible 46-month ascending triangle on the monthly graph. The weekly chart more clearly shows the importance of the .7960 level. Factor is flat – I will continue to monitor this forex cross for a measured risk long position.



Canadian Dollar (futures) Charts represent possibilities, not probabilities and certainly not certainties. Following is a possible chart scenario. How likely is this scenario to come bear fruit? Not likely at all, but just in case I am prepared to act.



- The trend on the monthly chart is down, although the market has been correcting from the Jan 2016 low in the form of a rising wedge.
- The weekly chart indicates the market is attempting to complete the rising wedge as prices are crawling up the lower boundary.
- The daily chart displays a possible up channel. A decisive penetration of the lower boundary of this channel could represent a sell signal.

Factor is flat.



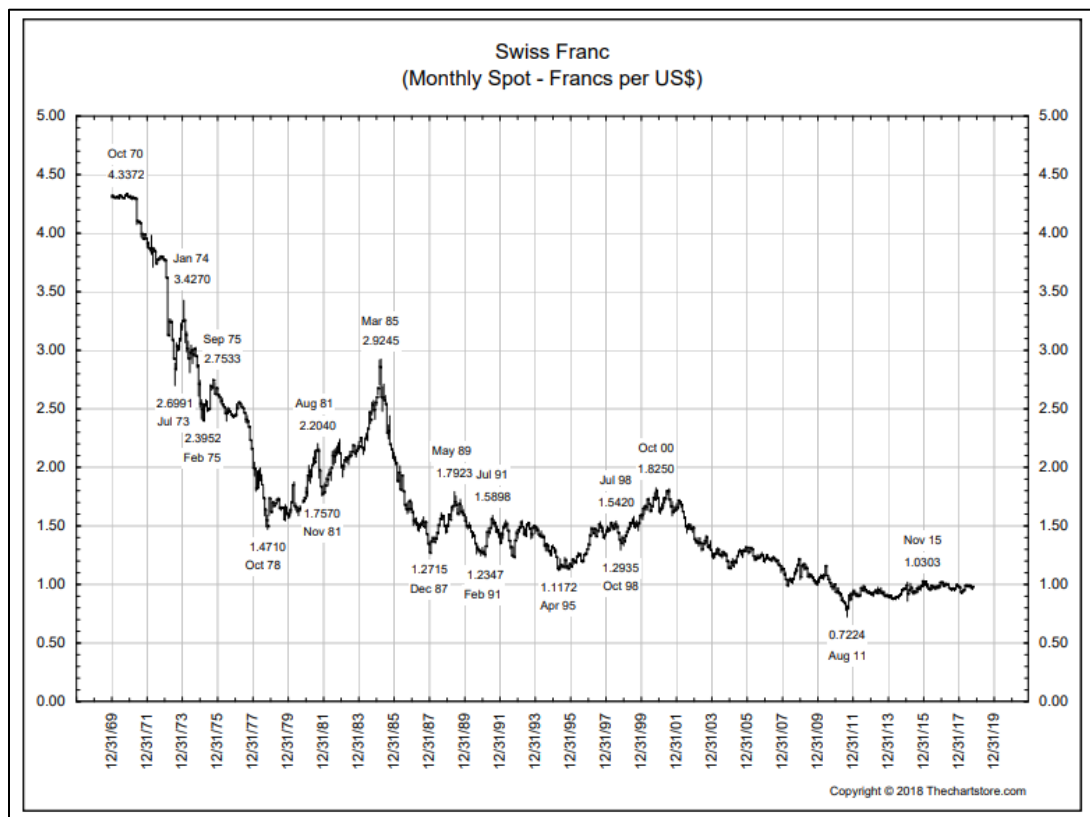
Currency markets – futures vs. spot

I prefer to trade the currency futures markets vs. the spot FX markets whenever possible for three reasons.

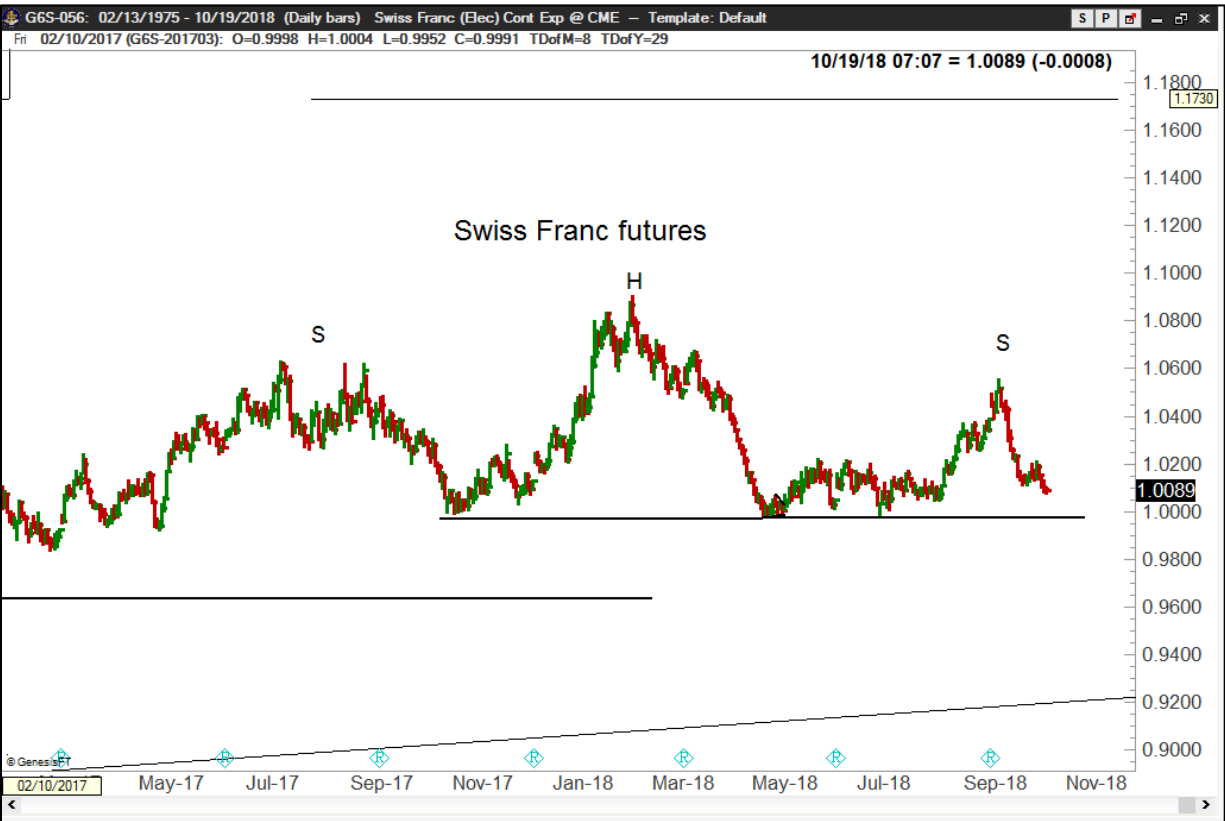
1. The counter-party to a futures trade is the CME Clearing Corp. One never knows the counter-party risk in a spot FX trade.
2. As a U.S. citizen, futures market profits are taxed as 60% LT and 40% ST gains. Spot FX profits are taxed as ST gains. [I am not sure how the new U.S. tax law will impact this.]
3. The carry/reverse-carry in the futures market does not carry the additional (and excessive) roll-charges made by spot FX dealers.

Swiss Franc

The U.S. Dollar has declined in value by 77% against the Swiss Franc during the past half-decade. Even on this mega-scale chart a possible bottoming pattern can be envisioned. The weekly closing price chart displays a possible 7-year ascending triangle. I am monitoring this market for a measured-risk trading opportunity. My preference is to trade the futures market – which displays a topping pattern – remember, some futures contracts trade at a reciprocal value to spot price. I will be closely watching the 17-month H&S top in Swiss Franc futures as a possible launching pattern.



See additional charts, next page.



U.S. stock market

The big mover since the last Factor Update was the sharp decline in U.S. and global equity markets. The A/D line in the NYSE Composite has turned sharply down while the A/D lines in the S&Ps and NASDAQ are rolling over, but not yet in clear down trends. The major question is if the dominant trend in U.S. equities is now down or if the current correction will prove to be a wash-out similar to the early Feb decline. Time will answer this question – but there is no doubt that some damage has been done to the bull case for now. Factor has no position in equity index markets.



The correction brings into play a trading theme I have employed numerous times. Following sharp declines a trader should pay careful attention to quality growth stocks that make a subsequent new high. This set up represents a buying opportunity.



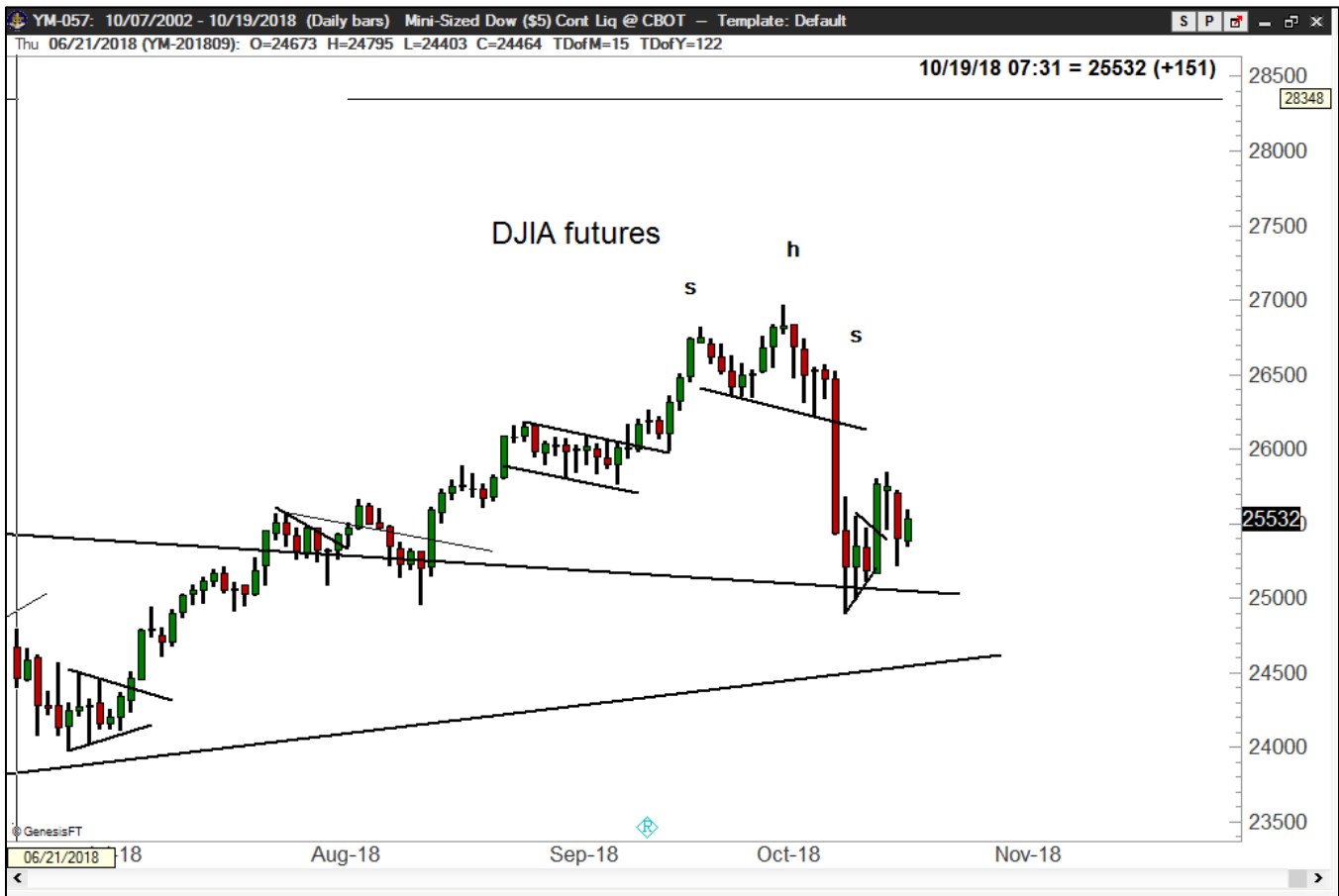
S&Ps

No comment necessary.



DJIA futures

Note the small H&S at the top of the Dow chart.



ITA (Aerospace ETF)

Factor has been long ITA. The decline on Oct 9 triggered the protective stop level listed on the trading table of the Oct 6 Factor Update. Factor is flat. Due to active and aggressive trade management protocol I was wrong on the trade but walked away with a small profit.



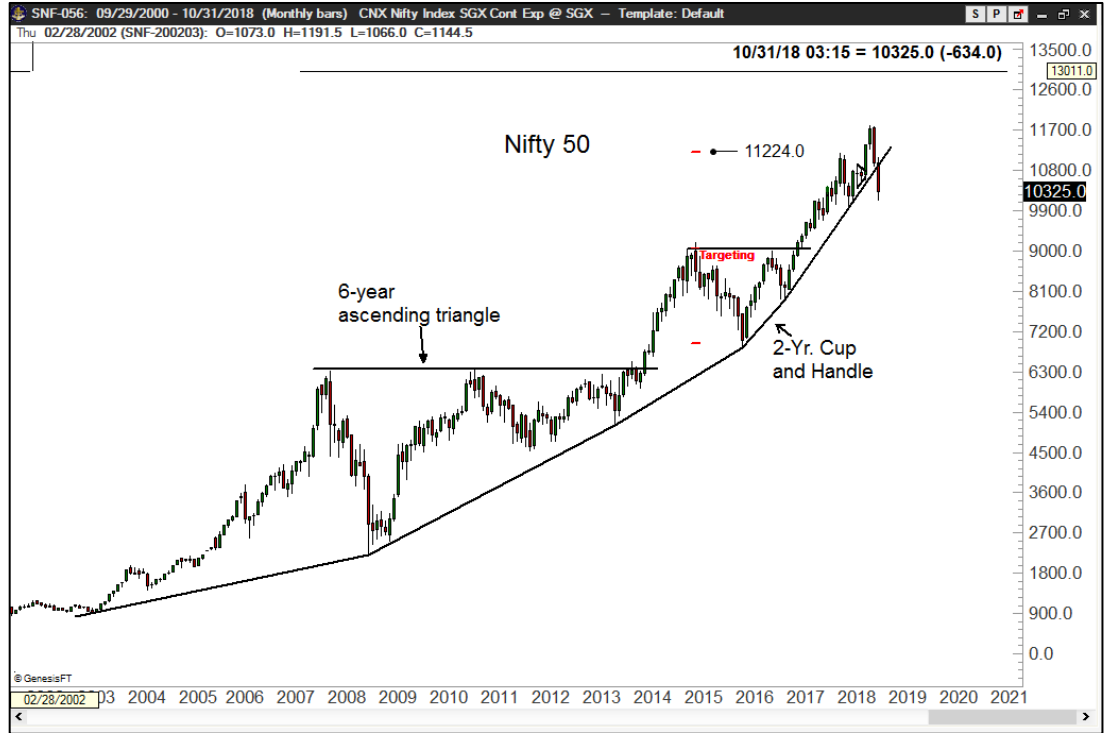
DAX

The German DAX has completed a H&S top with a downslanted neckline on the weekly chart. H&S tops with downslanted necklines are generally more reliable and powerful than H&S tops with an upslanted neckline. Factor is flat.



Nifty/INDA

The Nifty 50 has broken its dominant trendline. INDA has completed 15-month H&S top. Factor is short INDA.



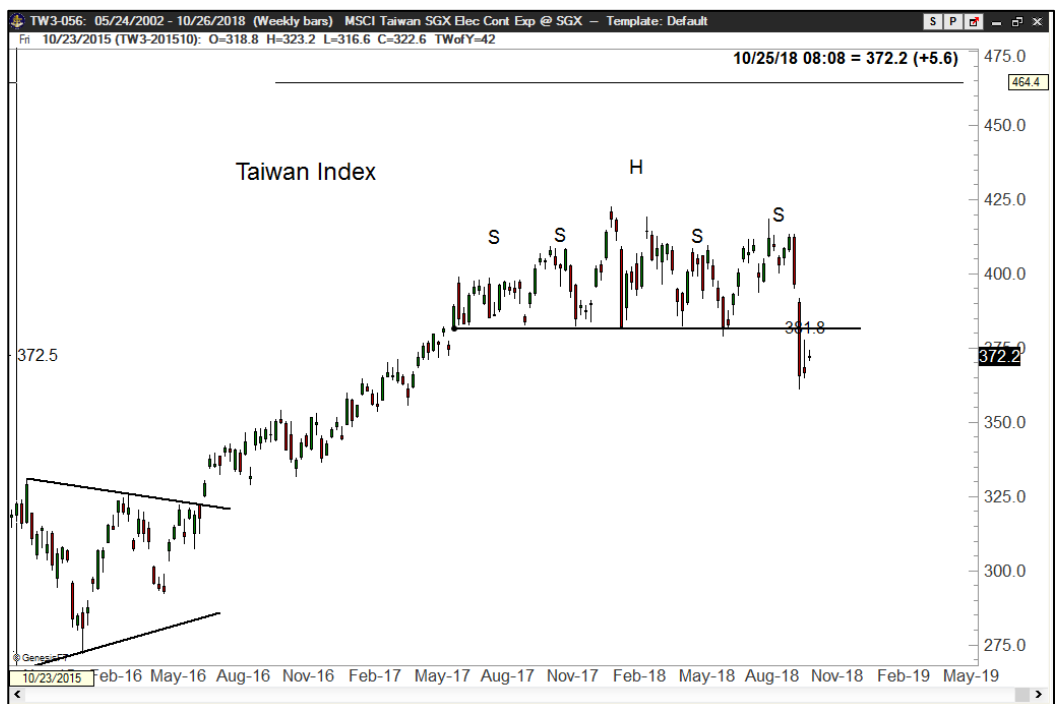
SGX China A50

The dominant chart construction is a possible 15-week rectangle on the daily SGX China A50 chart. I am willing to take a shot at the short side if this pattern is completed.



Taiwan Index

The weekly chart is a textbook example of a complex H&S top pattern. Factor is flat – I count this as a missed trade.



Precious metals

Gold

I continue to note the possibility of an inverted H&S on the monthly Gold chart (shown in log scale). I have been viewing the daily chart as a V- bottom (Aug 16 low) with a large flag retest. The WBB advance on Oct 11 completed the flag. The Factor Service Tracking Account is long a mini Gold contract.



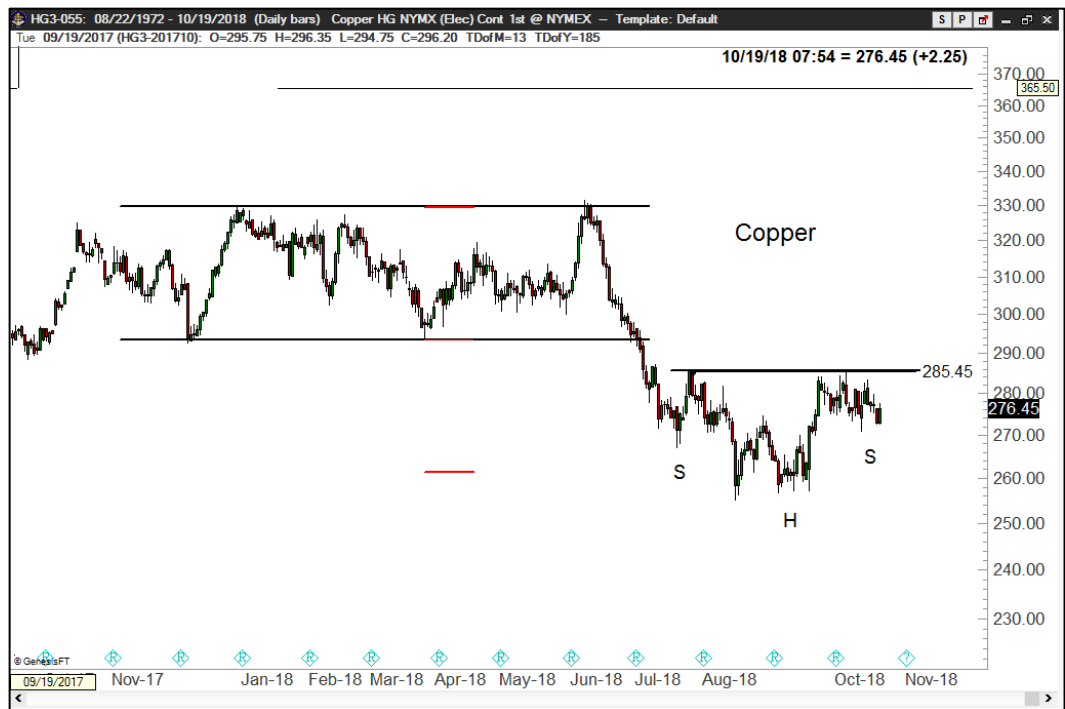
GDXJ

The advance on Oct 11 completed an extremely clear H&S bottom on the daily graph of the "Juniors" ETF. Factor is long.



Copper

The daily continuation chart displays a very clear 15-week H&S pattern with a neckline at 285.45. Depending upon the nature of the breakout I will consider the long side in Copper.

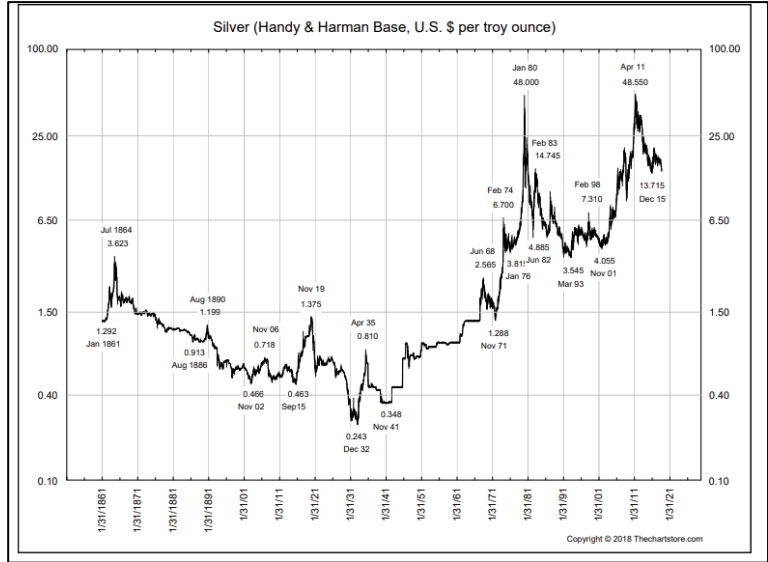


Silver

The Oct 6 Factor Update expressed my interest to purchase Silver at 14.34 in expectation that the market was building the right shoulder of a H&S bottom on the daily chart. Accordingly, the Factor Tracking Account is long from Oct 9. Silver has the potential to be the type of trade that can make a year. Of course, Silver could also become a big dud – this is why I try to remain agnostic on trading themes.

The two quarterly charts shown display a possible Cup and Handle pattern on a log scale. The Cup and Handle is more clearly seen on the log graph dating back to 1861. Also note that for the first time in the history of Silver futures

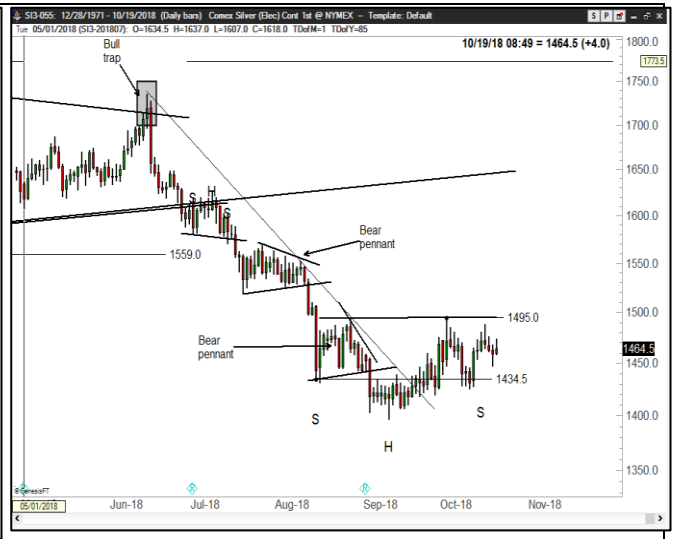
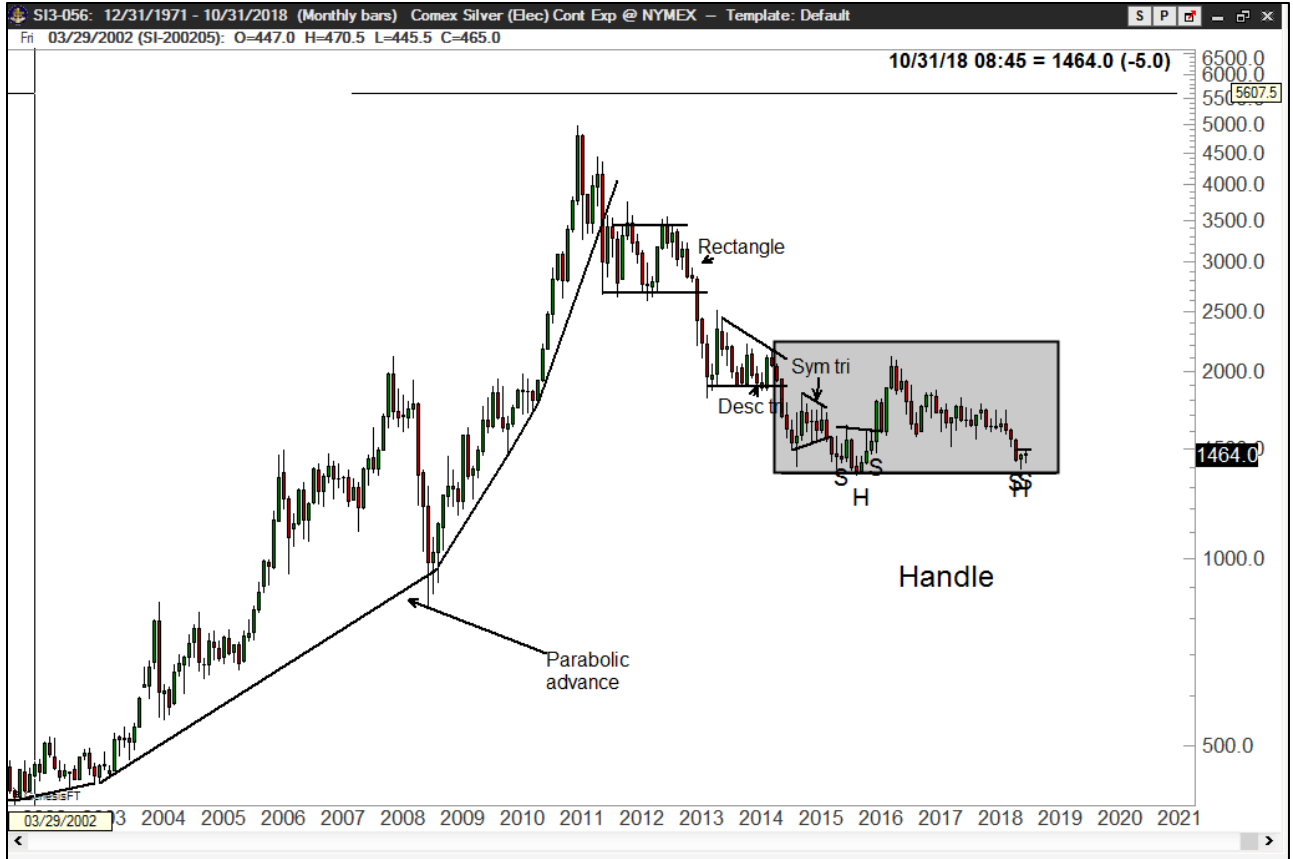
Commercials hold a net long position while Large Specs hold a net short position.



It is possible to interpret the monthly graph as a possible 4+ year double bottom (as noted by the grey box). The weekly chart displays a very precise 11-week H&S bottom with a horizontal neckline. A decisive close about 1495 would complete this pattern. The daily chart is also shown.



See additional charts, next page.



Crude Oil

Factor's long position in Nov mini Crude Oil was stopped out on Oct 10. The advance reached the 70% mark from the breakout to the target – thus the 3DTSR was activated. I believe the bull market from the Feb 2016 low could be over. Factor is flat.



Grains

KC Wheat

I took a stab at the long side of KC Wheat based on the Oct 15 completion of a symmetrical triangle. The trade was short lived, stopped out on Oct 15. I continue to believe that all U.S. grains are in a major bottoming phase.



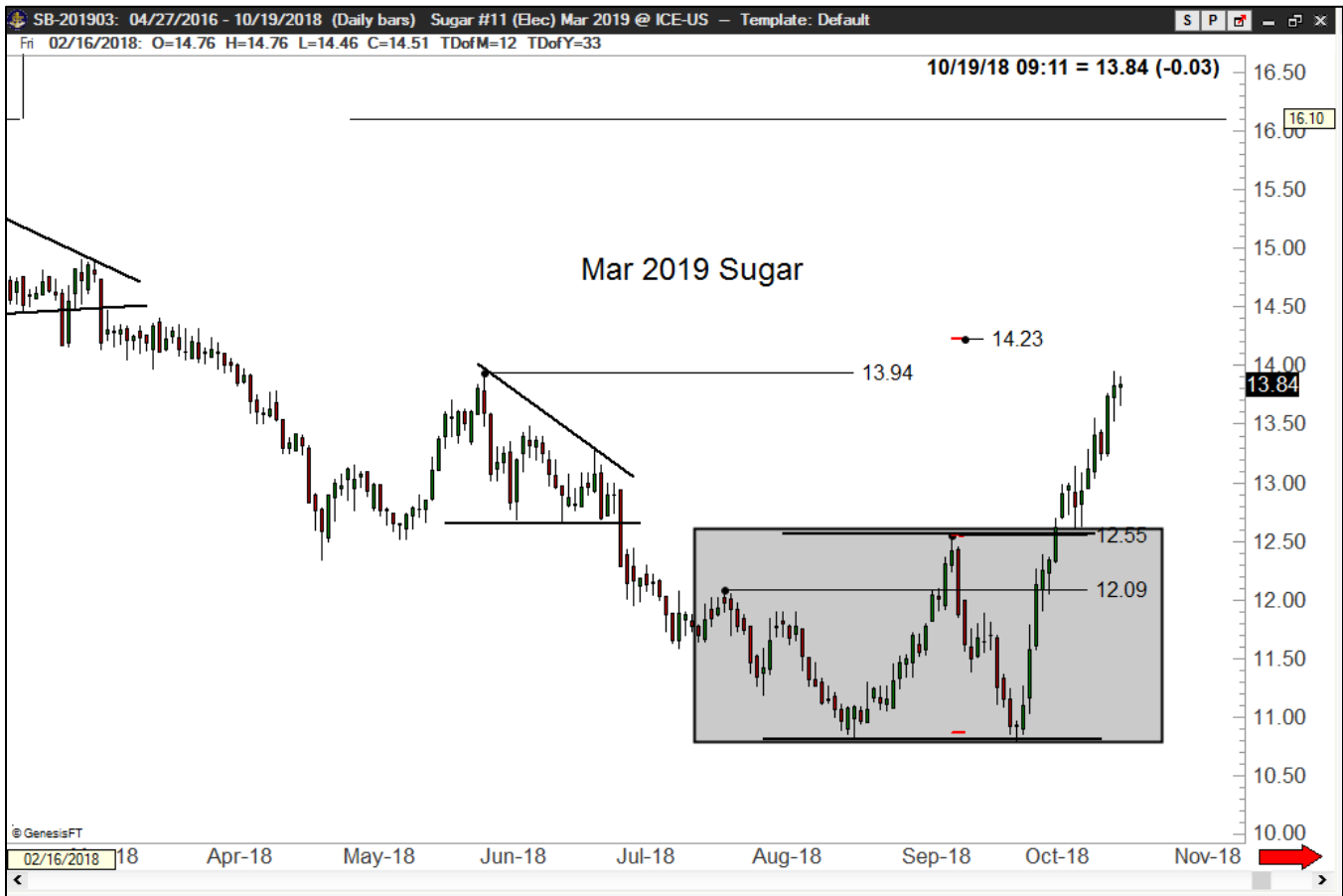
MATIF Milling Wheat

The major trend in this market is up. I viewed the decline from the Aug 2 high to the Sep 14 low as a retest correction of a massive base. The advance on Oct 12 completed an arguable H&S bottom – I bought the breakout and was stopped out on Thursday. Factor is flat. This trade is yet another example of my trading philosophy of throwing mud at the wall, hoping something will stick. This blob of mud did not stick.



Sugar

The advance on Oct 8 completed a double bottom on the daily chart of the Mar 2019 contract. The target of this pattern is 14.23, although some resistance is logical at 13.94 (the early Jun high). Factor is long.



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The Factor Crypto Corner

Cryptos

Bitcoin (GDAX)

The daily and weekly BTC charts continue to unfold a massive descending triangle pattern. This pattern has a bearish bias. I have presented different possible interpretations and will do so again pending further price action. I consider the CME Bitcoin contract to be liquid enough for short selling.



LTC

LTC displays a possible H&S bottom pattern, but the 50.04 low must hold and upside momentum needs to occur very soon. If such upside momentum occurs I will buy an upside breakout.



EOS

The daily chart now displays a 9+ week symmetrical triangle. I am willing to buy an upside breakout of this pattern.



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Factor Tracking Account, October 19, 2018

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

Factor LLC															10/19/2018			
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	Stop Date			Weekly	Daily	Date	Price			
GEU19	Eurodollars	9/11/18	S	96.950	2	96.995	22	96.915	10/17	96.560	4-desc tri	3-mo rectangle				\$ 330	-	
LUM9	EuroSwiss	9/13/18	S	100.690	1	100.780	27			Open	44-mo desc tri	44-mo desc tri				\$ 336	-	
QMX8	Mini Crude	9/21/18	L	70.85	1	69.90	48	73.475	10/9	78.40	4-mo sym tri	4-mo sym tri	10-Oct	73.45	\$ 1,295	Closed	-	
GBP/NZD	GBP/NZD	10/3/18	L	1.9861	30k	1.9736	24	2.0148	10/12	2.0587	10-mo asc tri	10-mo asc tri	15-Oct	2.0118	\$ 505	Closed	-	
GBP/NZD	GBP/NZD	10/3/18	L	1.9861	30k	1.9736	24	2.0148	10/12	2.0587	10-mo asc tri	10-mo asc tri	15-Oct	2.0118	\$ 505	Closed	-	
INDA	India Index	10/3/18	S	31.89	400	32.82	38	31.62	10/18	26.31	15-mo H&S top	15-mo H&S top				\$ 12,756	\$ 12,756	
USD/JPY	USD/JPY	10/9/18	L	113.04	80k	112.48		112.68	10/9	123.90	2-yr sym tri	2-yr sym tri	10-Oct	112.674	\$ (325)	Closed	-	
YIZ8	Mini Silver	10/9/18	L	14.34	2	14.18	32	14.290	10/18	15.87	COT extreme	Possible H&S				\$ 1,960	\$ 28,680	
SBH9	NY Sugar	10/10/18	L	12.72	1	12.28	48	13.49	10/19	14.19	Historic support	3-mo dbl bottom				\$ 1,190	\$ 14,246	
YGZ8	Mini Gold	10/11/18	L	1213.20	1	1199.80	43	1217.40	10/19	Open	Poss 5-yr H&S	V-bottom w/flag				\$ 1,800	\$ 39,004	
GDXJ	Jr Miners	10/11/18	L	28.81	300	27.79	30	28.57	10/16	33.48	Possible 5-yr H&S	8-wk H&S				\$ 8,643	\$ 8,643	
FWHZ8	Milling Wheat	10/12/18	L	203.50	2	199.00	35 r	201.00	10/15	218.25	Retest support	6-wk H&S	18-Oct	201.00	\$ (306)	Closed	-	
KWZ8	KC Wheat	10/15/18	L	5.305	1	5.21	45	5.2575	10/16	5.69	Historic support	4-wk sym tri	17-Oct	5.2575	\$ (243)	Closed	-	
Trades as of															\$ 1,674	\$ 27,015	\$ 103,330	
Indicates open position value as of																Levered at	1.03	
Margined at																		

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 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.

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-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.

Looking ahead to 2019

The Factor Tracking Account has entered 133 trades to-date in 2018 (includes tranches separately), representing approximately 90 to 100 trades. I am quite unhappy with this level of trading frequency. My tentative goal entering 2019 will be to cut trading frequency in half by becoming much more selective on trading signals. This reduction will be made by focusing more on weekly chart patterns as a filter.

Hopefully my crew can work out the privacy issue with a Twitter-like form of communications. My goal will be to increase the involvement of Factor Members with an average of 1.5 NIPs (New Initial Positions) per week.

Factor Updates will also become shorter, more concise and actionable.

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