



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

Factor Update, November 3, 2018

Market Review

This issue comments on global stock markets (S&Ps, Nikkei Dow, INDA), forex (Swiss Franc, CAD/CHF), interest rate markets (T-Bonds, \*T-Bond/T-Note spread, Eurodollars, \*EuroSwiss), metals (Gold, Silver, Platinum, Copper), Crude Oil, Sugar, post mortems and cryptos. \*Signifies a position in the Factor \$100,000 Tracking Account.

<u>Developing signals</u> <ul style="list-style-type: none"> <li>• EuroSwiss – entry order</li> <li>• Bitcoin – entry order, alerts</li> <li>• Silver – entry order</li> <li>• USD/CHF – alert</li> <li>• Sugar – entry order</li> <li>• Copper – alert</li> </ul>	<u>Existing positions</u> <ul style="list-style-type: none"> <li>• EuroSwiss – target</li> <li>• T-Bond/10-Yr Note spread – risk alert</li> </ul>
<p>The Factor Tracking Account is currently leveraged at 0X (<i>Factor does not determine the nominal value of interest rate futures contracts</i>). Capital Utilization is at 4.0%. This means that 96% of the account balance is idle and not being used to carry trades.</p>	

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**One of the biggest lessons novice traders must learn:**

**Profitable trading  a high win rate**

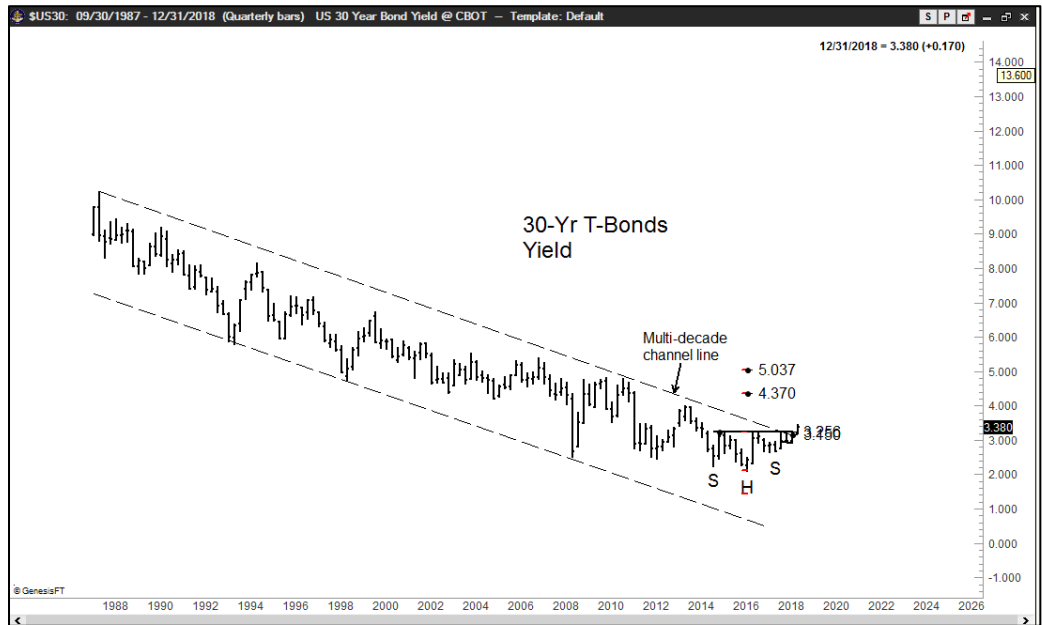
**Being right on a trade is grossly over-rated**

## Interest rate markets

See the Factor Alert dated Oct 30, 2018.

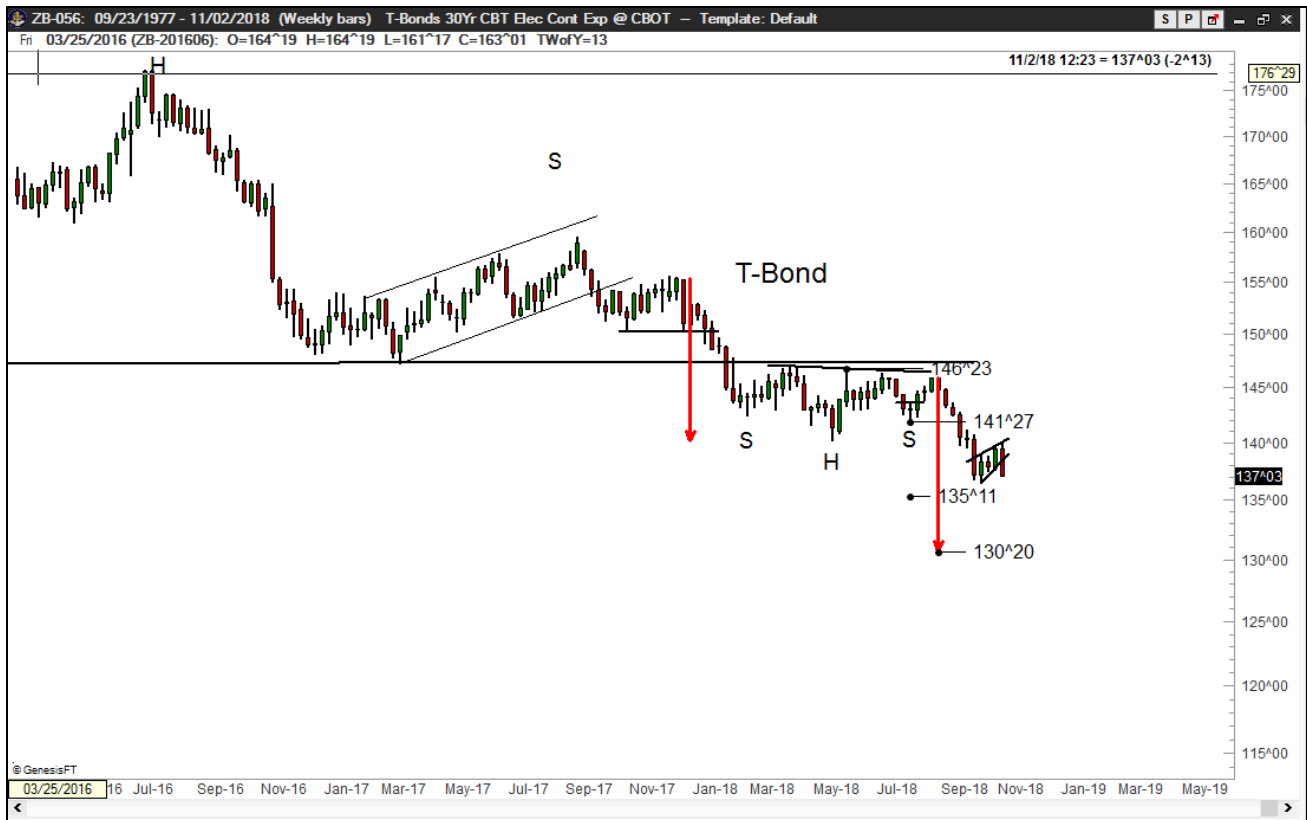
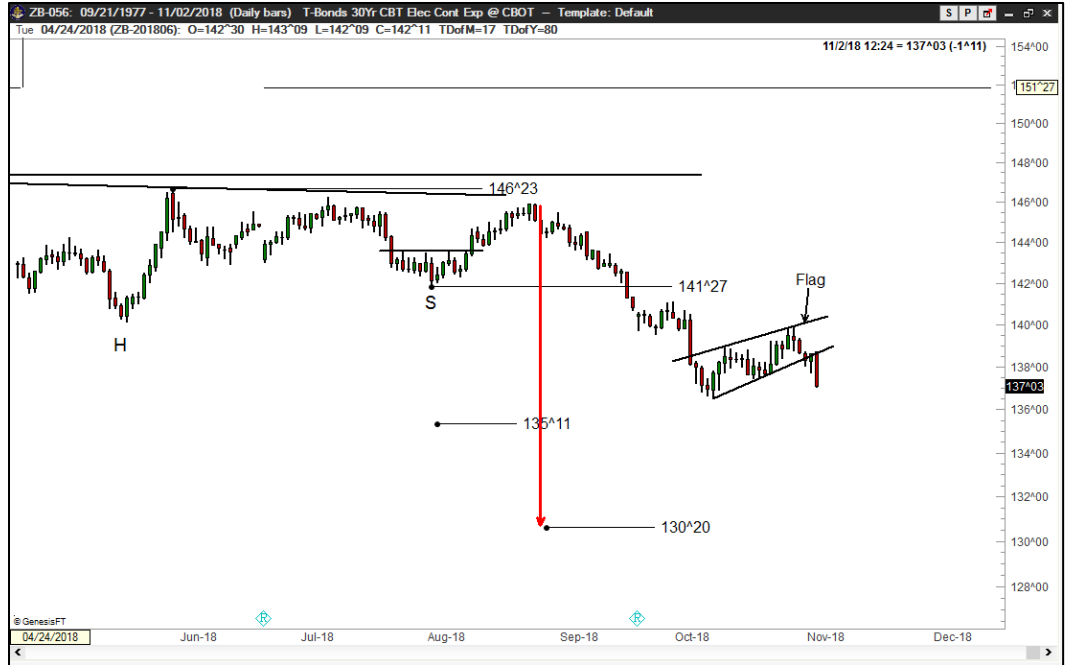
### T-Bond Yield chart

A decline into the 3.15% to 3.25% zone (should it occur) would be a test of the major breakout on the weekly yield graph. There is a chance the shallow retest to date is all we witness. A major generational low in yields has likely been registered.



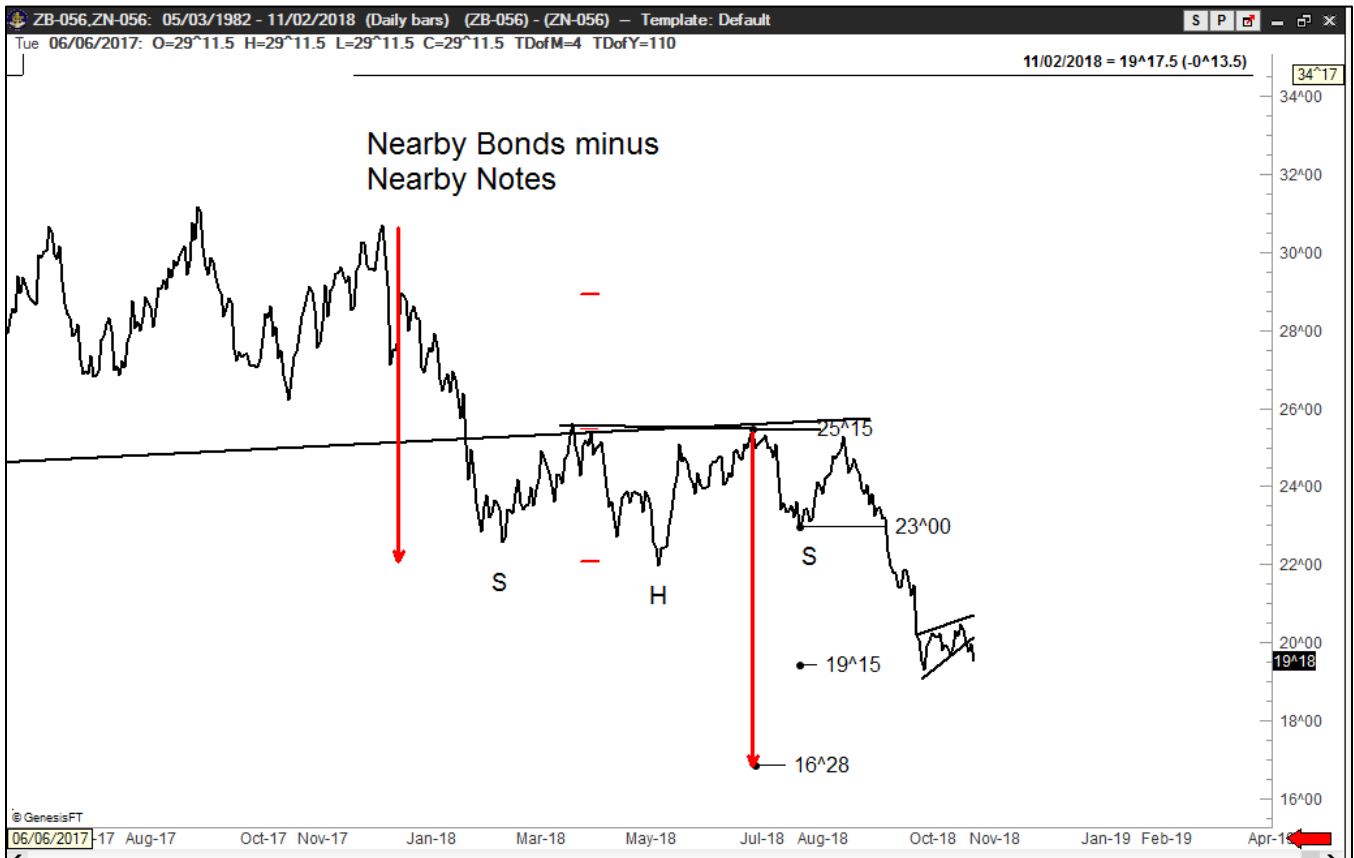
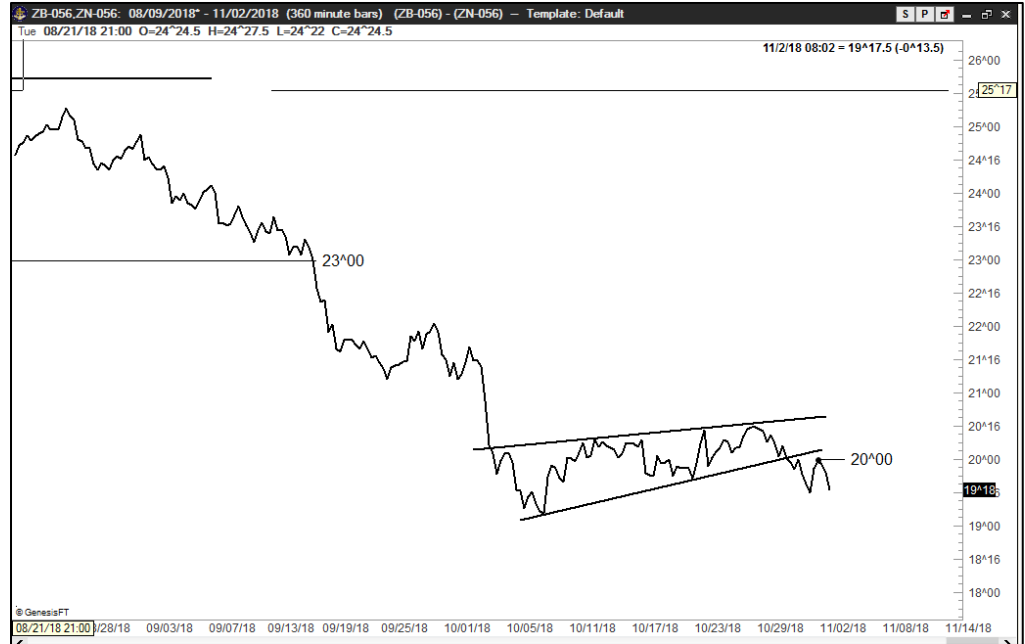
### T-Bond futures

The decline on Friday completed a 5-week flag on the daily and weekly graphs. The price target is  $130^{02}$  if the decline from the late Aug high equals the distance of the late Dec 2017 to mid-May 2018 low. I generally use "equal-distance" swing targets – I have never gotten into Fib ratios.



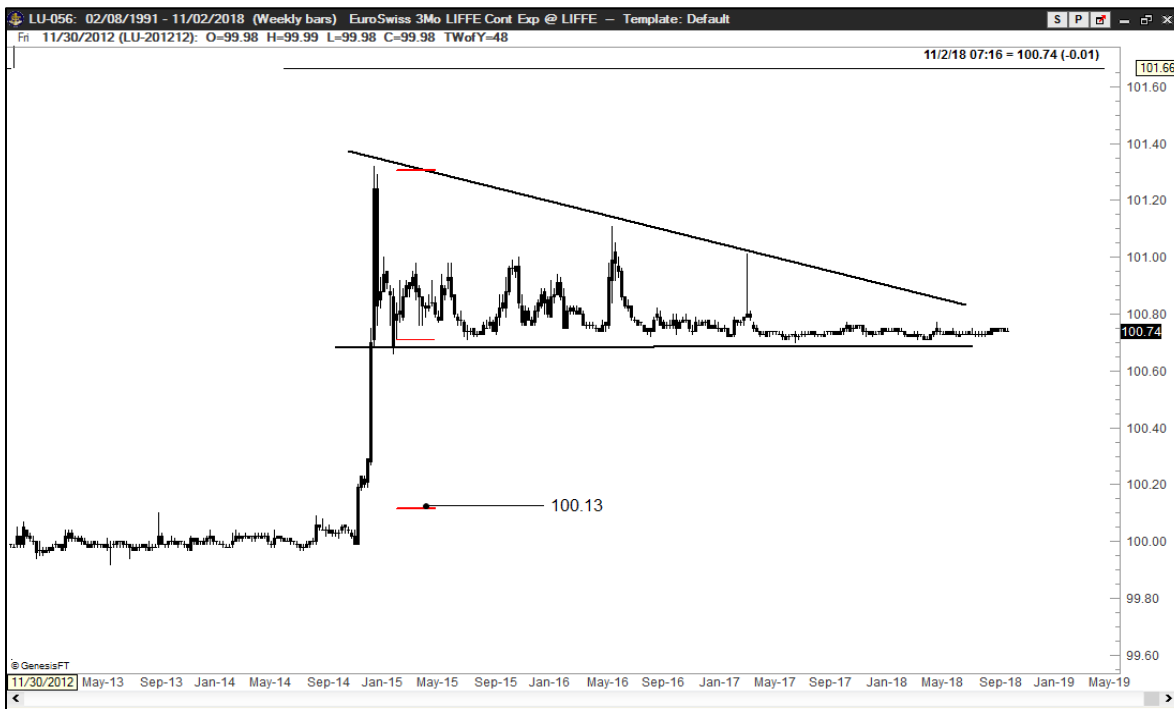
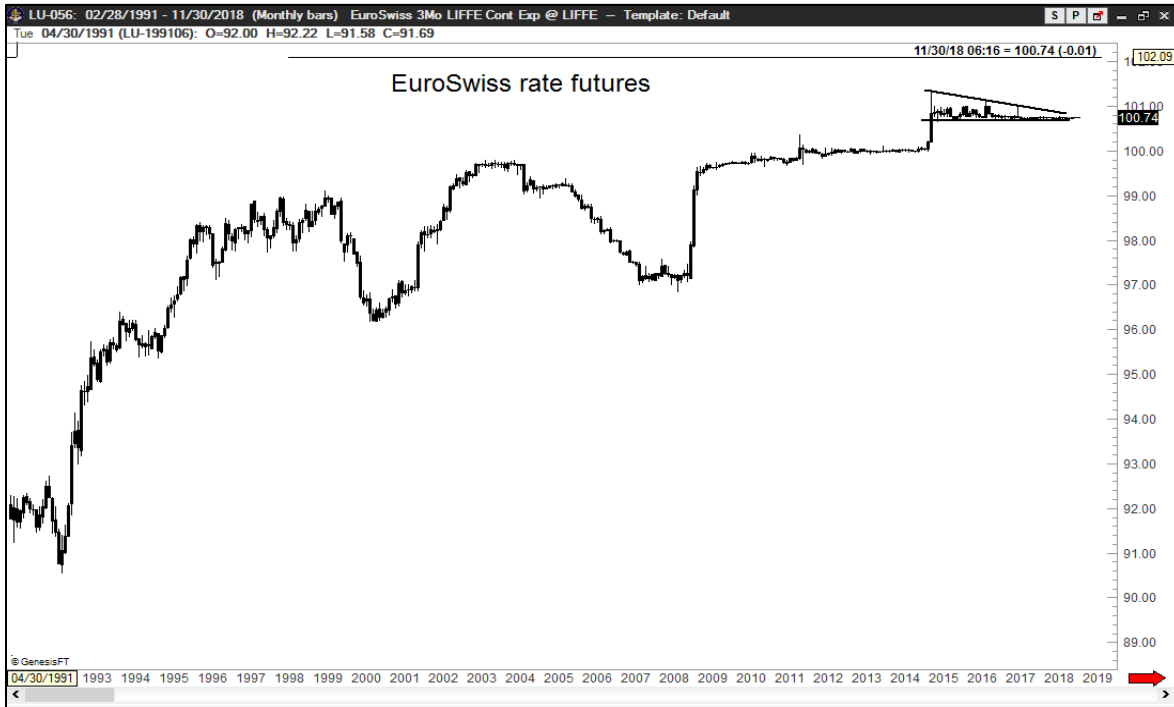
**30-Yr T-Bond/10-Yr Note spread**

The major trend is down. The decline this past week completed a flag pattern on the daily and intraday chart. Factor is short the spread.



## EuroSwiss

The monthly graph is presented to put the current interest rate in Switzerland into context. Twenty-five years ago the EuroSwiss rate was at 9%. The current rate is minus 3/4<sup>th</sup> of 1%. I am not sure a country has ever had a negative interest rate as long as has been the case with the EuroSwiss. Note massive descending triangle on the monthly graph. Factor is short the Jun 2019 contract.



## Eurodollars

The late Oct rally now appears to be just a retest of the completed descending triangle. Factor was stopped out on this rally and is flat. I am looking to re-enter this trade.



### Getting stopped out of a trade only to have it work

I receive many inquiries from Factor Members on the subject of getting stopped out of a trade only to have it turn around immediately and work. This has happened to me hundreds of times over the years. Does it bother me?

**NO!**

It once did – but I matured as a trader. Getting knocked out of a trade only to have it work is the price to pay for protecting trading capital. It comes with the territory. It is the cost of being a good risk manager. I put getting stopped into the following perspective:

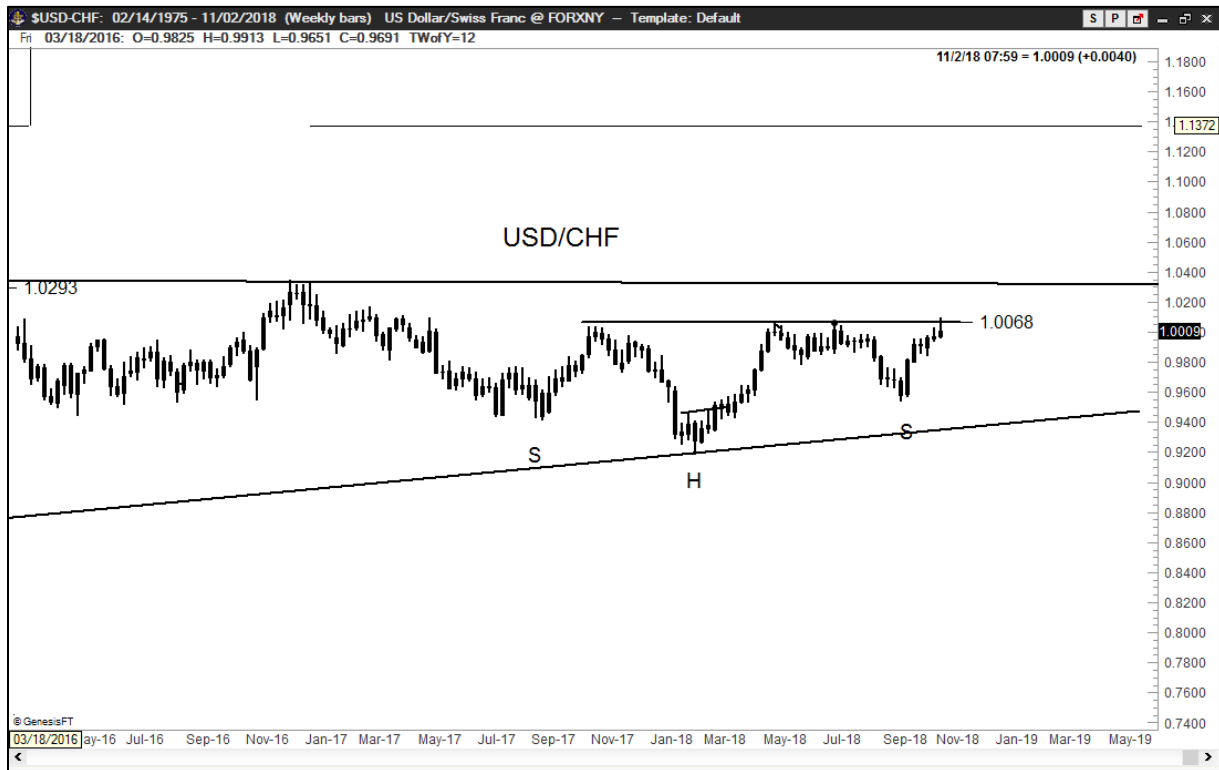
- The overwhelming proportion of my net profits as a career trader have come from trades that never experienced a hard retest
- There have been hundreds of great trades in the past and there will be hundreds of great trades in the future (if I am around long enough to experience them)

I have the incredible benefit of data from thousands of actual trades. Using active and aggressive trade management guidelines does cost me some good trades. Based on my data, allowing trades more wiggle room would increase my trading profits by about 20% per year. Yet, I have hard data proving that active and aggressive trade management doubles my Profit Factor and Gain-to-Pain Ratio. I believe this trade-off between net profitability and asset volatility is completely worthwhile.

## Forex

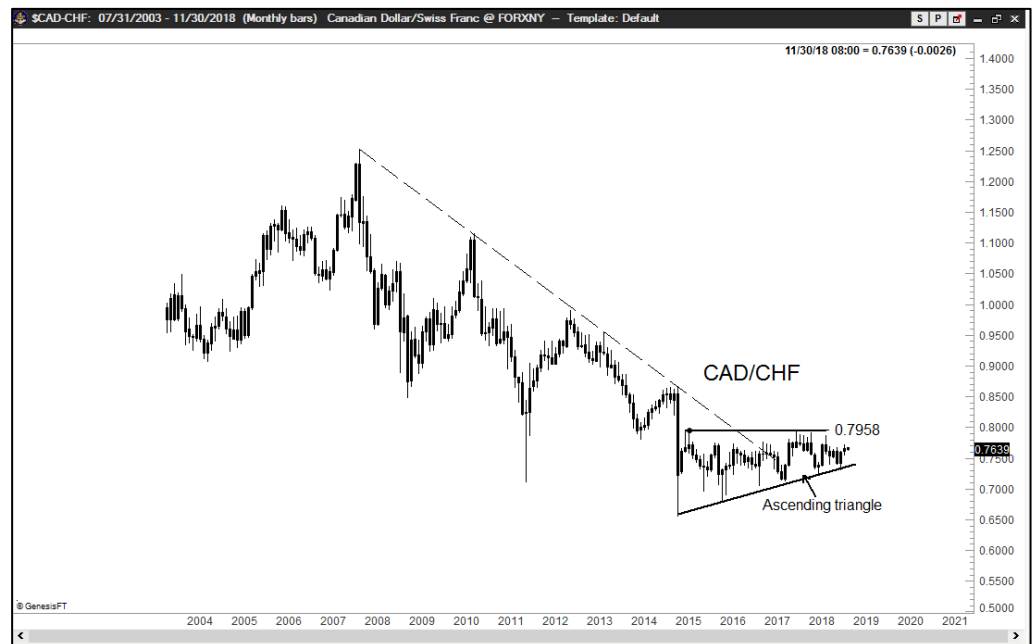
### Swiss Franc (USD/CHF)

The weekly chart displays a possible inverted H&S bottom. I will comment on the larger chart construction taking place once (and if) this pattern is completed. I am interested in the long side of USD/CHF – or the short side of Swiss Franc futures (chart not shown).



### CAD/CHF

The longer-term graphs display a possible ascending triangle. I am very interested in the long side of CAD/CHF but the market is a considerable distance from a breakout. Factor is flat.

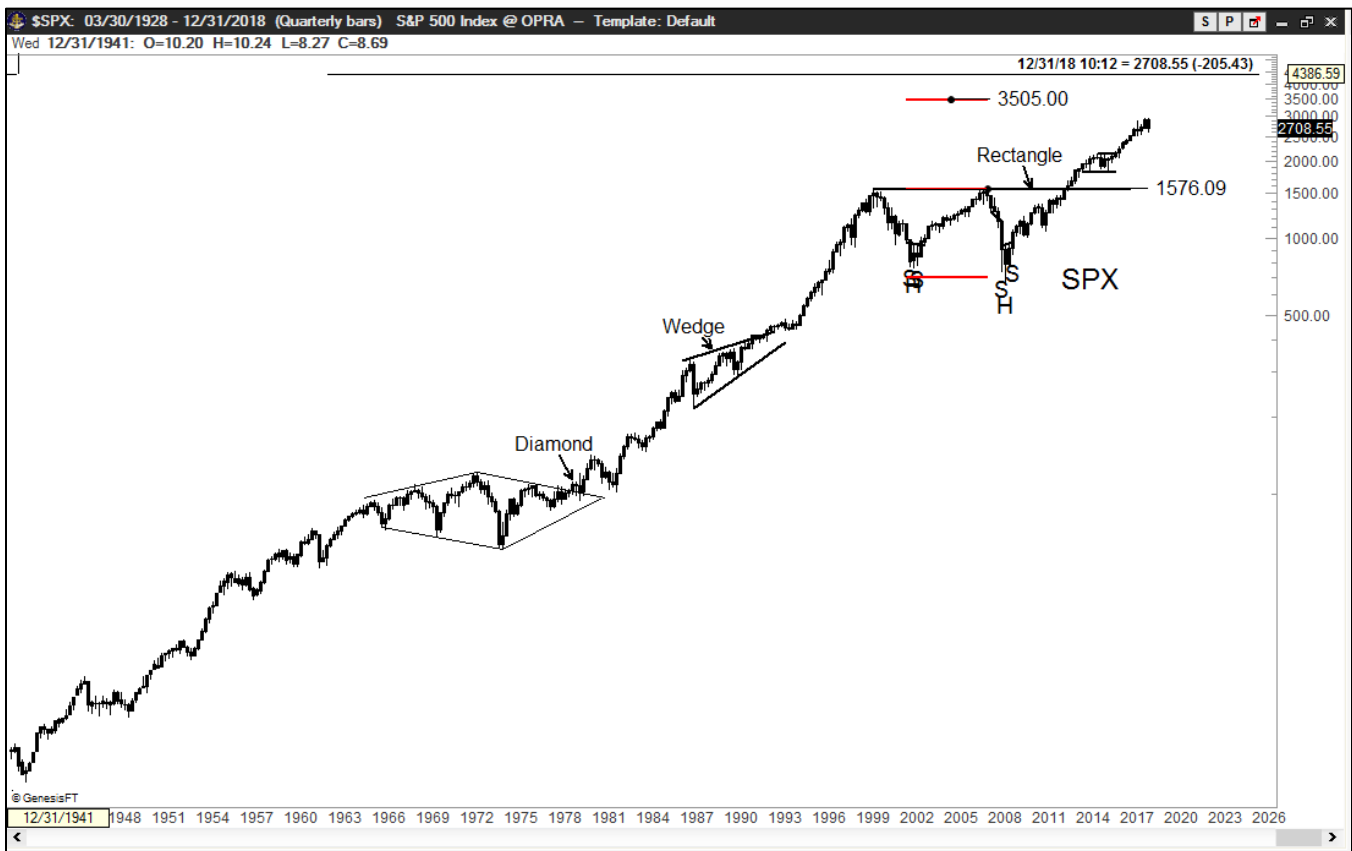


## U.S. stock market

Of course the real action in the commodity and financial markets is in equities. The big question is whether the weakness in U.S. and global equities is all or part of a correction or if a dominant bear market has begun (circa 2000, 2008 or even 1929). I do not have the answer to this question. The charts do not provide a clue in the U.S. My hunch (only a hunch) is that the bull market is injured but not terminally. Hopefully the daily charts might provide some direction in the weeks and months ahead. For now the sidelines is where I want to be.

## S&Ps

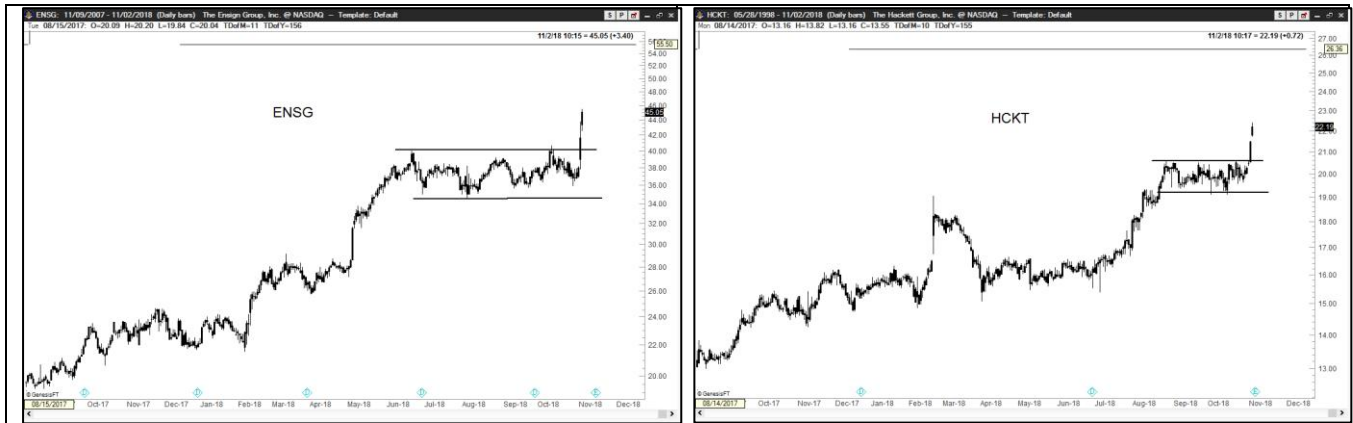
Without comment.





Buying new highs in stocks after a significant general market correction

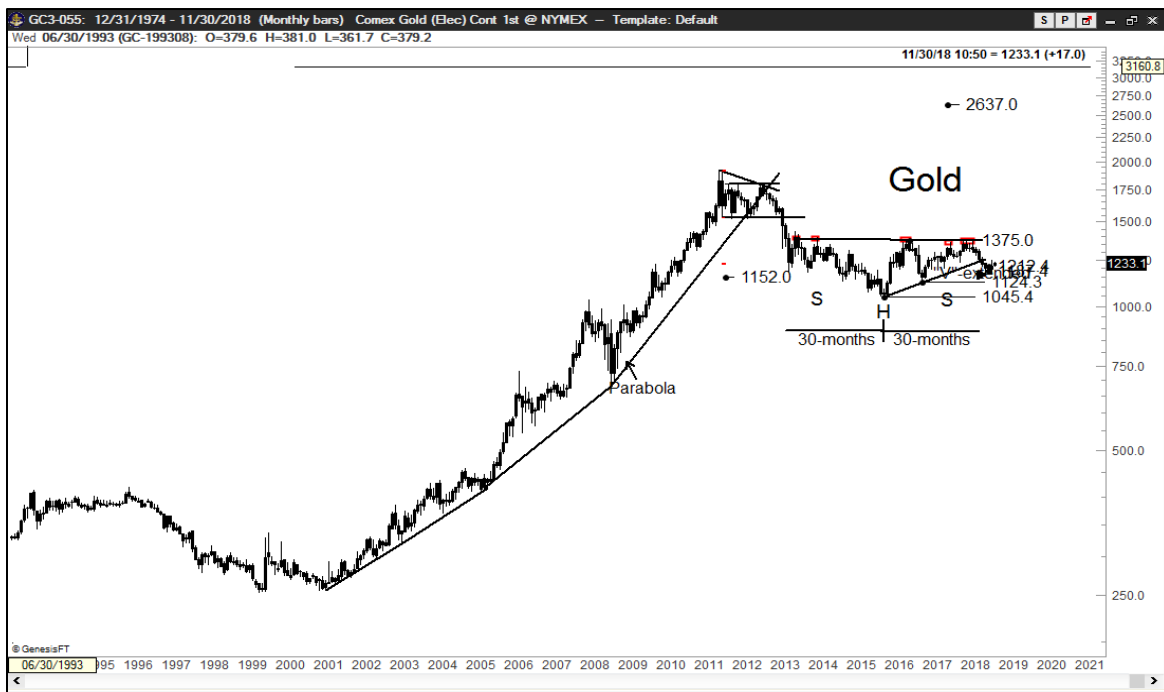
I recently mentioned a strategy I have used for years in my IRA/Keogh/Roth/Step/et al accounts. After a broad market correction it pays to monitor stocks that quickly make a new ATH (or 52-week high). A risk position is warranted if such new highs are in a growth company and/or launched by a recognizable chart pattern. Without belaboring the concept, following are just two examples. Note that the broad market correction created only hiccups in these stocks.



Precious metals

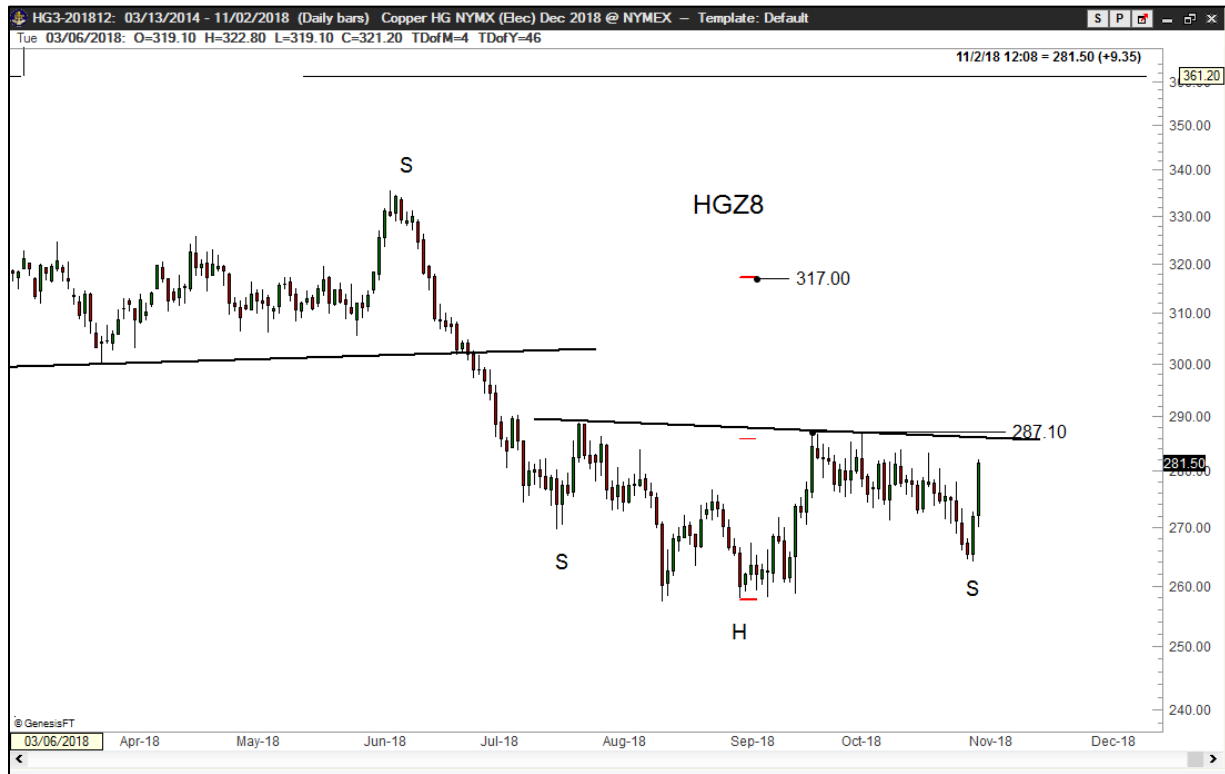
Gold

I continue to note the possibility of an inverted H&S on the monthly Gold chart (shown in log scale). I had 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. I was stopped out of a long position on Oct 29. Note the pivot points used to manage the trade in the Post Mortem section. I will watch from the sidelines.



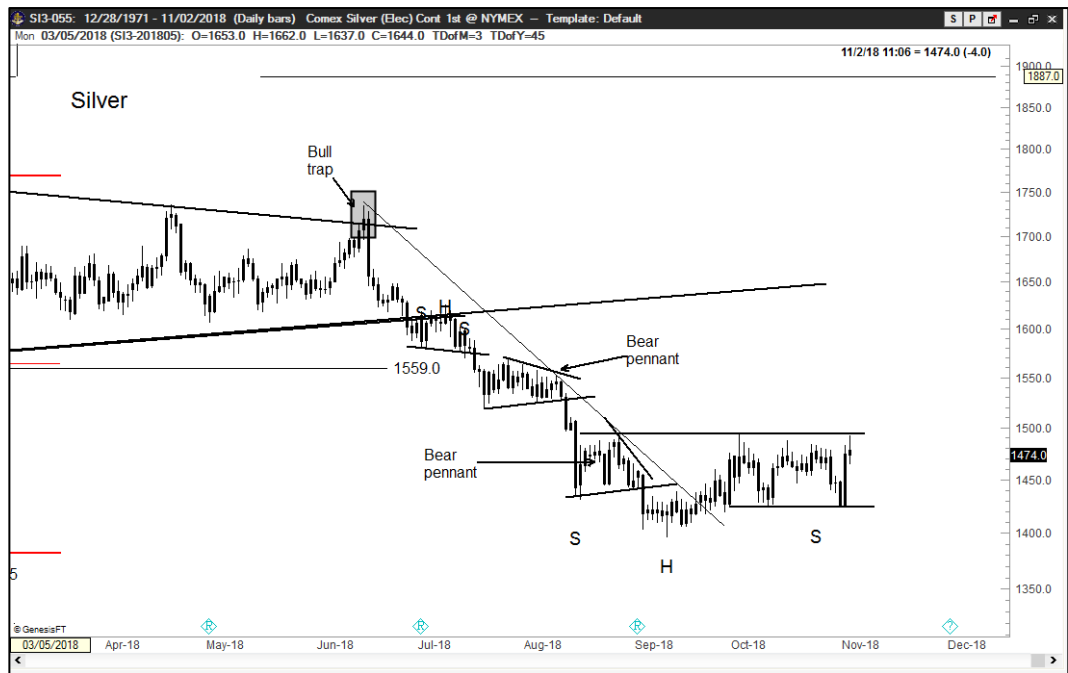
## Copper

Thursday was a Wyckoff Sign-of-Strength day (SOS). The daily chart displays a H&S bottom with a slightly exaggerated right shoulder low. I will monitor Copper for a measured-risk breakout entry.



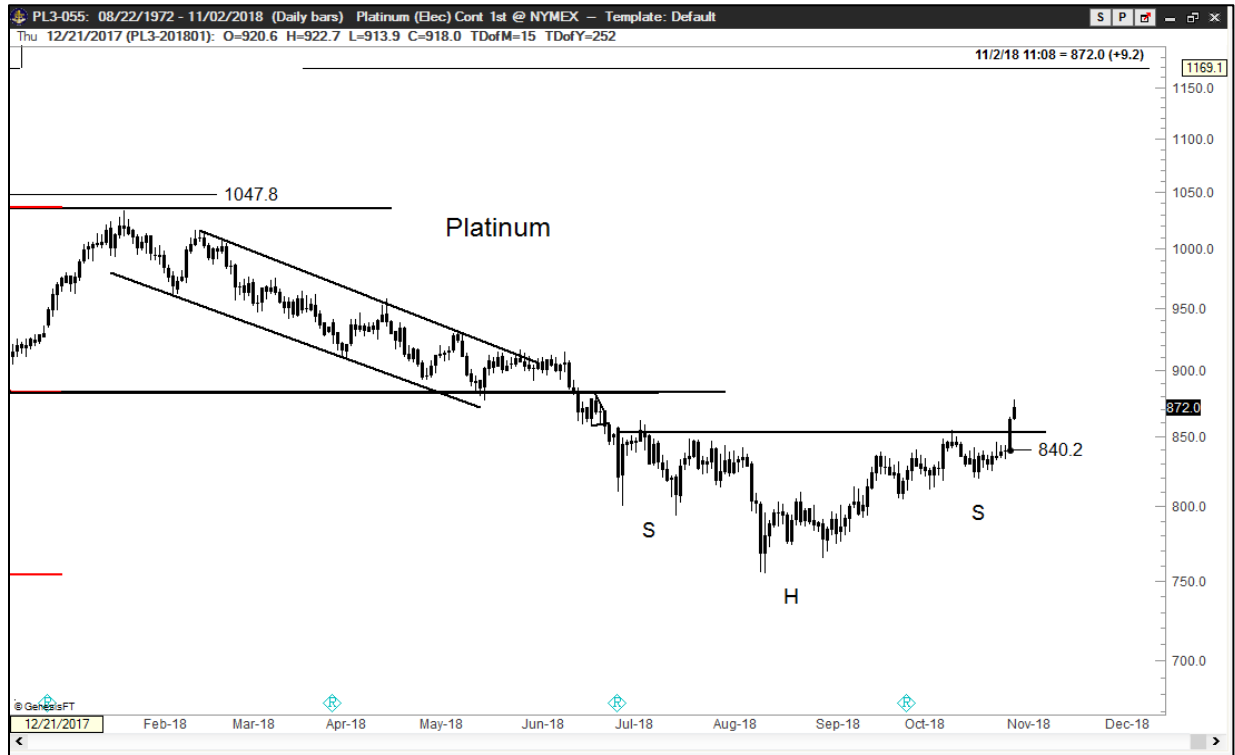
## Silver

It remains possible to label the daily Silver chart as a H&S bottom with an extended right shoulder. I must clearly state that extended-duration right shoulders can weaken an upside breakout. Factor was stopped out of a long position this past week (see pivot points in Post Mortem section). I remain open to buying a breakout of the bottoming pattern.



## Platinum

Historically Platinum has carried a premium to Gold. The advance on Thursday completed a H&S bottom pattern. I did not go long for the Factor Tracking Account because I did not have the appetite for a 100 BP risk. The benefit of having a well-funded futures account (e.g. \$200k-plus) is that a single contract can be properly handled with a more acceptable BP risk level. I would be a willing buyer for the Factor Tracking Account if the market had a hard retest of 852 early next week.



## Crude Oil

The WTI cash chart is displayed to illustrate a proper double top. Double tops and double bottoms are among the most misdiagnosed chart patterns. There are a couple of rules governing the "double" patterns.

- The distance from mid-point low (or high) should be at least 15% (and preferably 20%) of the underlying value. (In the case of Crude Oil, the 76.93 high was 18% above the mid-point low.)
- The tops (bottoms) must be at least several months or more apart. In this case the tops were 14 weeks apart.



I have never considered the triple top (or bottom) to be a legitimate pattern.

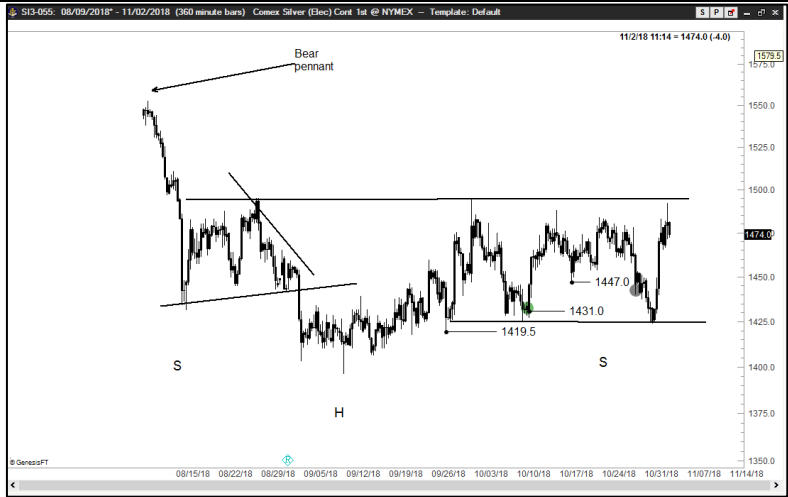
## Sugar

Watch for the possibility of a H&S bottom. Should the late Oct high hold I will be quite interested in picking the bottom of a possible right shoulder (in the 12.50 to 12.75 zone).



# Post Mortems

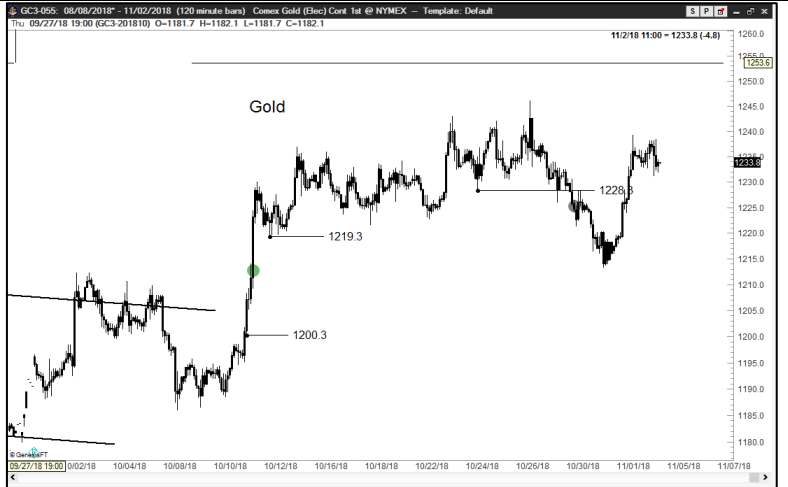
Silver



INDA



Gold



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# The Factor Crypto Corner

## Cryptos

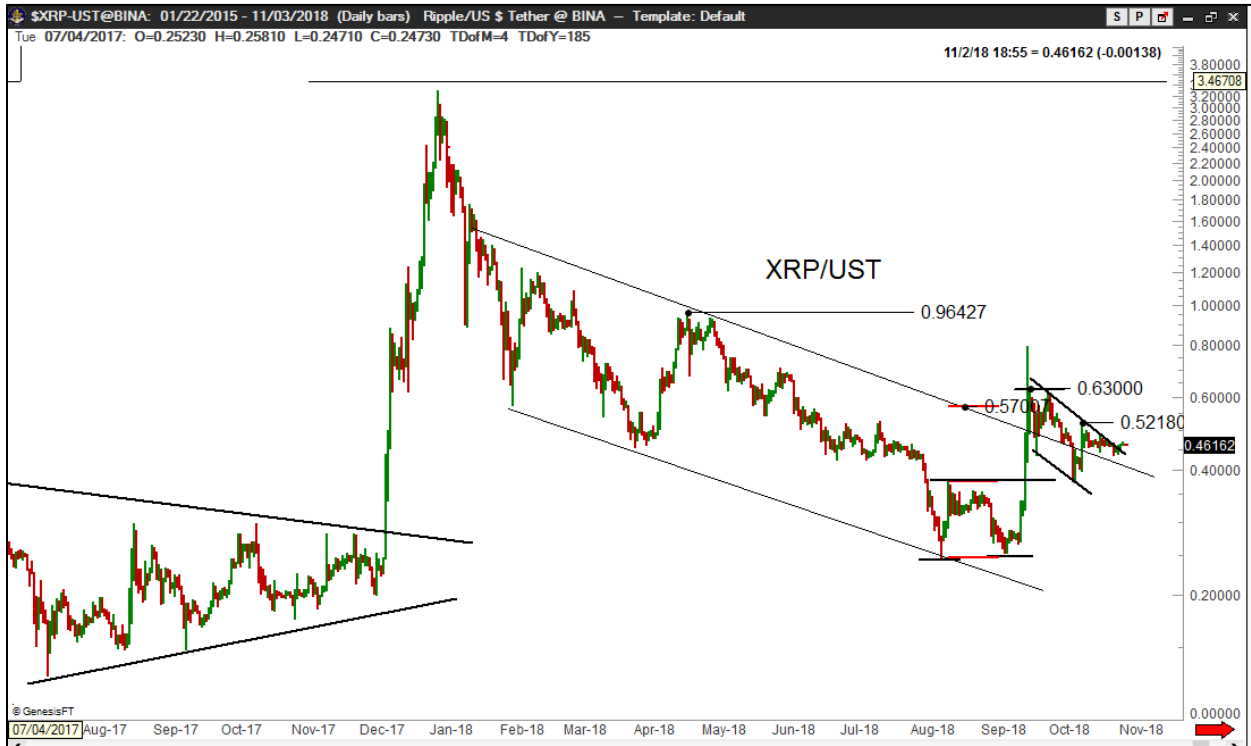
### Bitcoin (GDAX)

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. An advance above 7402 is required for me to take the long side of BTC seriously. A decline and close below 5777 would be decidedly bearish. Bollinger Bands tend to provide confirmation of valid breakouts in the crypto markets. The BBands are at the narrowest level since early 2016 at the launch of a parabolic advance. A WBB breakout of the current trading range accompanied by a divergence in the BBands would be significant.



XRP/USD

An advance above .5218 would be constructive.



XLM

The weekly chart displays a very clear descending triangle. A decline and close below .1700 would complete this pattern.



plb  
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**Factor Tracking Account, November 2, 2018**

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

Factor LLC															11/2/2018		
Model Tracking Account Trade History and Portfolio																	
Constant nominal capitalization: \$100,000																	
(See disclaimers and notes below)																	
Market		Date	L/S	Entry					Stop Date Δ	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)
				Price	Size	Initial stop	BP risk	Current Stop			Weekly	Daily	Date	Price			
LUM9	EuroSwiss	9/13/18	S	100.690	1	100.780	27	100.750	10/19	Open	44-mo desc tri	44-mo desc tri				\$ 336	-
INDA	India Index	10/3/18	S	31.89	400	32.82	38	30.71	10/29	26.31	15-mo H&S top	15-mo H&S top	1-Nov	30.72	\$ 341	Closed	-
YIZ8	Mini Silver	10/9/18	L	14.34	2	14.18	32	14.440	10/25	15.87	COT extreme	Possible H&S	29-Oct	14.4380	\$ 186	Closed	-
YGZ8	Mini Gold	10/11/18	L	1213.20	1	1199.80	43	1226.80	10/24	Open	Poss 5-yr H&S	V-bottom w/flag	29-Oct	1226.7	\$ 429	Closed	-
ZBZ8-ZNZ8	Bonds-Notes	10/31/18	S	19^31	1	20^08	28	20^01 co	11/2	15^11	7+ mo H&S fail	4-wk flag			\$ 3,685	NA	
Trades as of															\$ 956	\$ 4,021	\$ -
Indicates open position value as of																	
																Levered at	0.00
																Margined at	

**PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE**

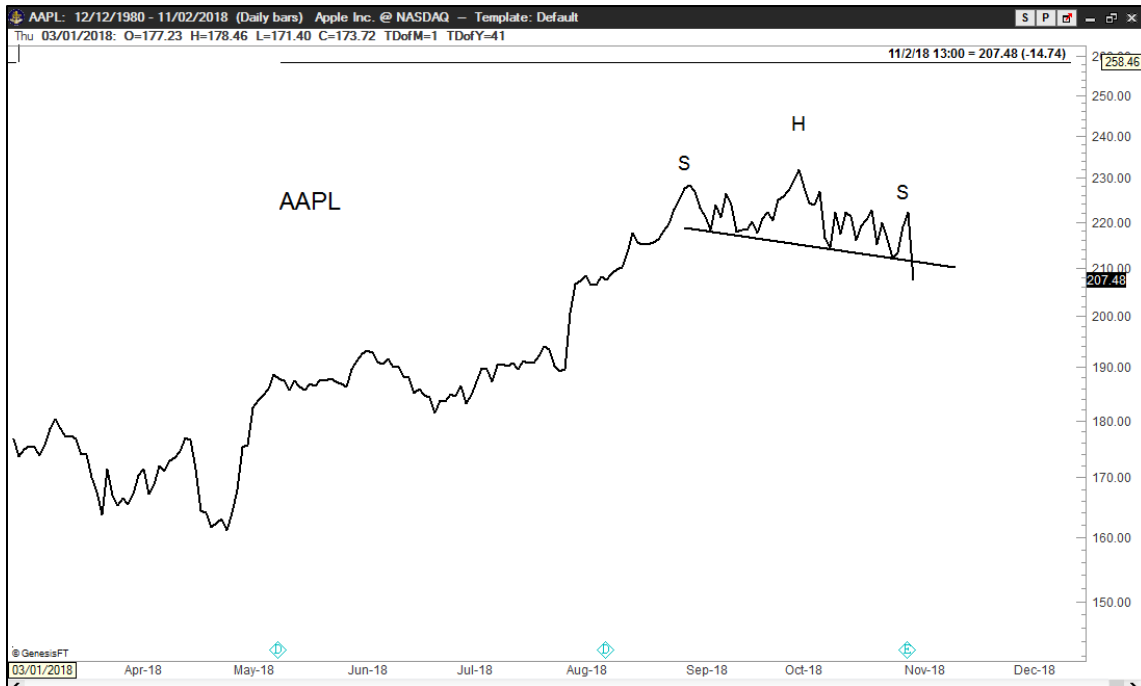
r = revised    RO = Rollover    A = Alert

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 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-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.

**One final chart**

AAPL has completed a H&S top on the daily closing price chart. Is the Apple about to fall from the tree.



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