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Factor Update, February 9, 2019

Market Review

This issue comments on global stock markets (DJIA, *AAPL, Nifty), grains (*Soybean Oil, KC Wheat, Corn), forex (Mexican Peso, USD/JPY, GBP/NOK, USD/CHF, CHF/JPY), Crude Oil, Sugar, interest rates (2-Yr Notes), energy, Gold and cryptos. *Signifies a position in the Factor \$200,000 Tracking Account.

<p><u>Developing signals</u></p> <ul style="list-style-type: none"> • Corn futures – entry order • GOLD (stock) • Gold futures • CHF/JPY spot • Sugar futures 	<p><u>Existing positions</u></p> <ul style="list-style-type: none"> • Soybean Oil • AAPL
<p>The Factor Tracking Account is currently leveraged at .25X. Capital Utilization is at 6.9%. This means that 93% of the account balance is idle and not being used to carry trades. [Note: Factor does not include the nominal value of interest rate futures contracts.]</p>	

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Energy

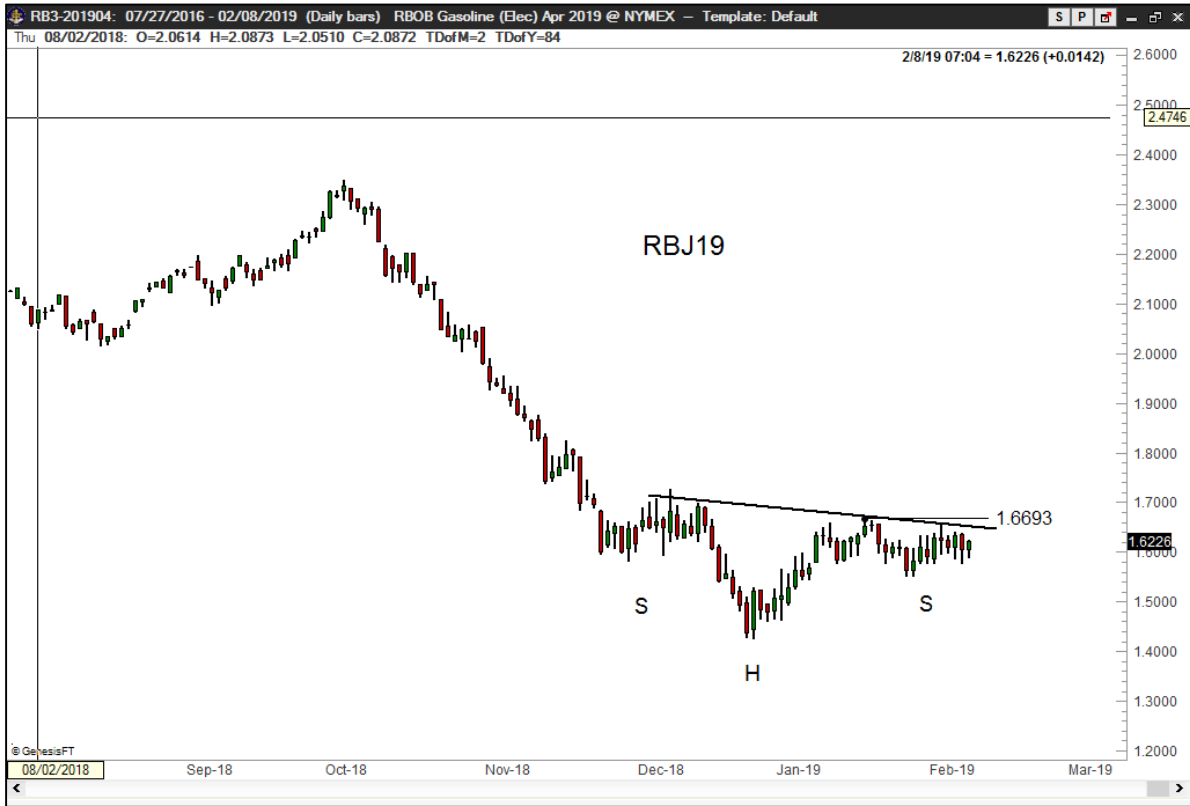
Brent Crude

The weekly chart of Mar Brent appears to be forming an 11-week H&S bottom. I will monitor the daily chart (not shown).



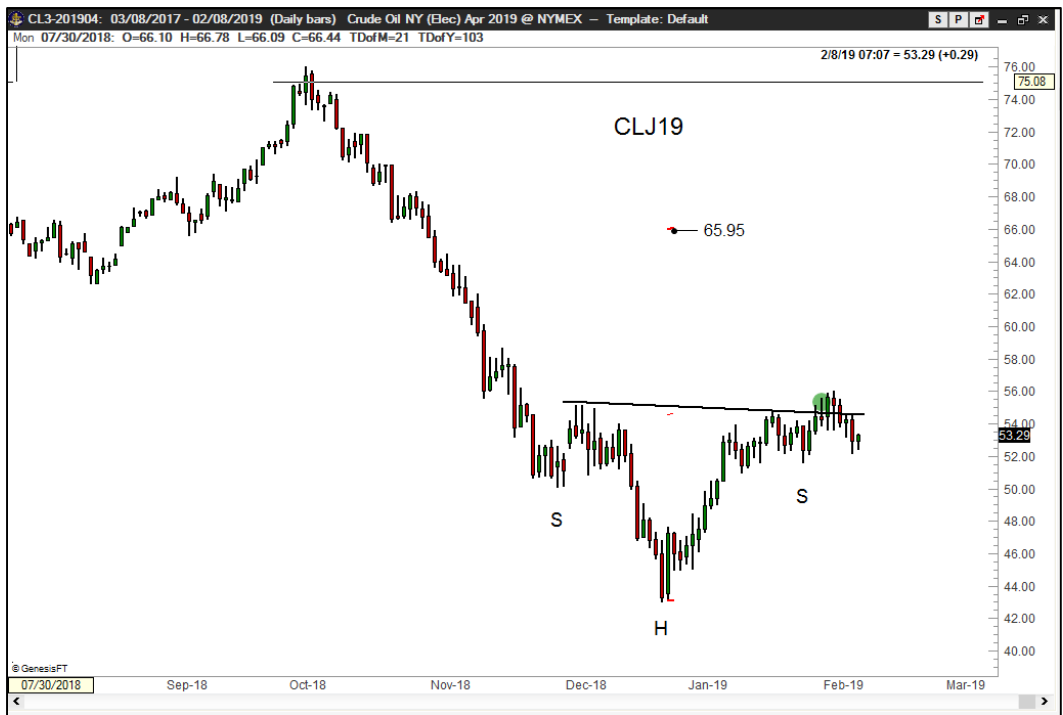
RB Gas

The H&S bottom in RB Gas did not experience the same false breakout that occurred in WTI.



WTI Crude

The Feb 1 completion of the H&S bottom in WTI was either a fake breakout or a premature breakout. I took at 33 BP loss in the process.



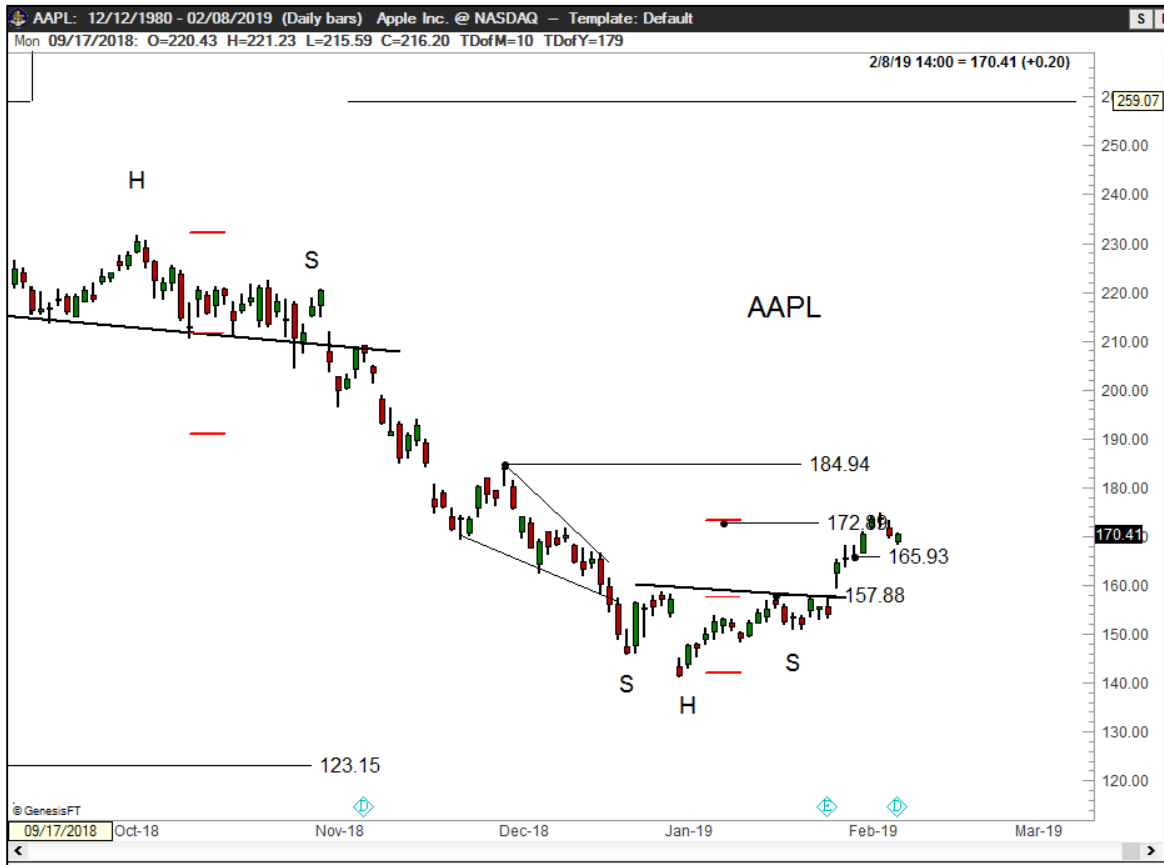
Global Stock index markets

I have a bias on the U.S. stock market based on the S&P A/D line – it is difficult for me to be a bear given the breadth of the market which I equate to underlying demand for equities. Rightly or wrongly (probably wrongly) I interpret new highs in A/D without new highs in price to be a bullish non-confirmation. In OND 2017 the S&P index registered a new high after the A/D line had already rolled over to the downside, thus producing a bearish non-confirmation.



AAPL (NASDAQ)

The target of 172.89 was met on Tuesday and I took 50% profits. Technically the 3DTSR was triggered on Friday, but I over-rode the rule and remain long a 50% position with a further target of 184.94.

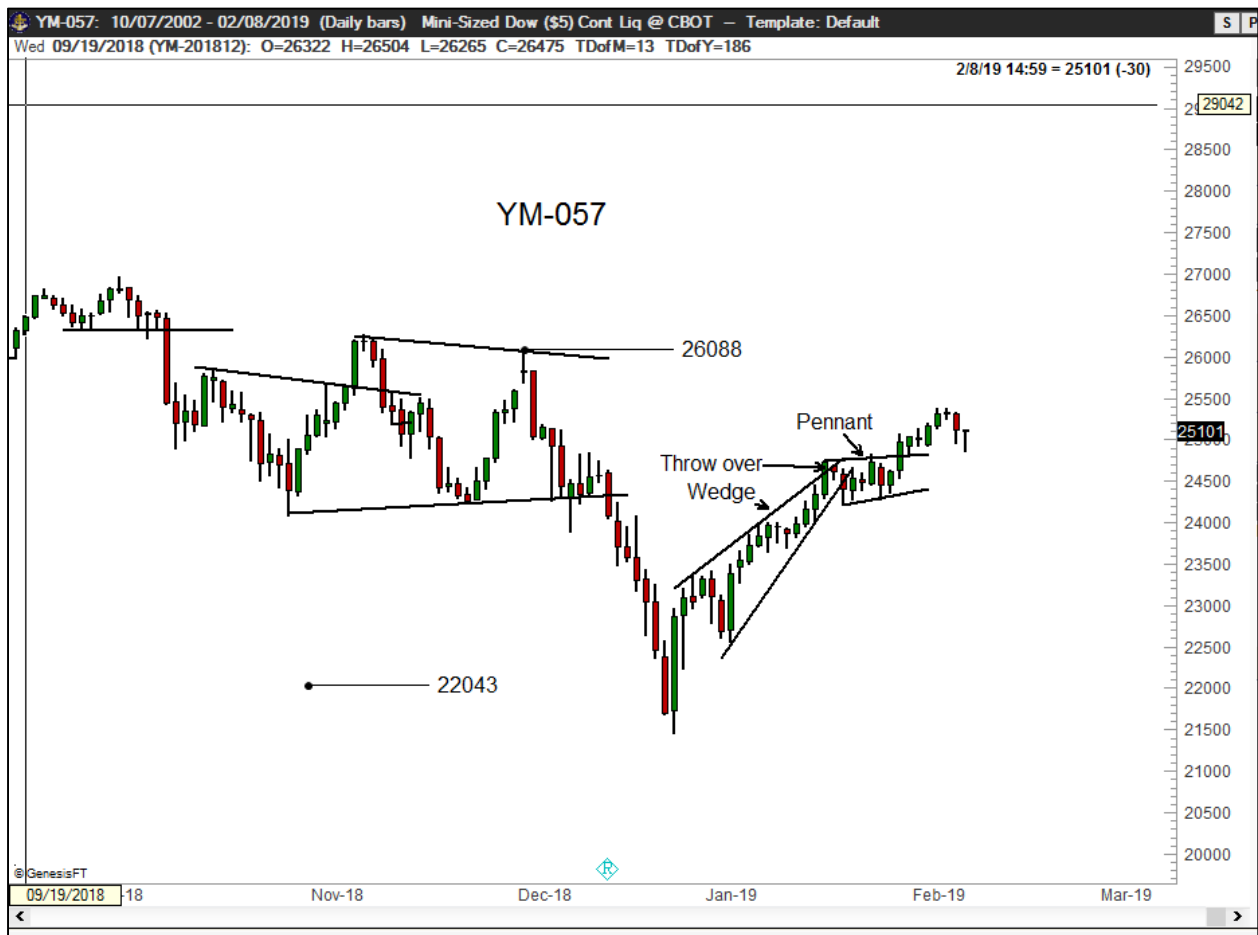


DJIA (CBOT)

The Oct-Dec 2018 decline was:

1. Part of a morphing process within a broad trading range that will continue for a sometime to come, or,
2. The first leg down in a more significant bear trend yet to come, or,
3. A sizable correction in an ongoing bull market.

The new high in the A/D line leads me to conclude #3 above. If this is the case I would NOT expect a retest of the Dec lows, but rather a 5% or so decline. The rally from the Dec 26 low is over-extended, yet the candlestick bar on Friday would indicate that new recovery highs will occur next week. Factor is flat.



Grains

Soybean Oil (CBOT)

Bean Oil is the strongest member of the grain complex. Factor remains long two tranches of the Dec contract.



KC Wheat

The Mar KC Wheat contract is within striking distance of life-of-contract lows. This chart illustrates how difficult it is to make money in a carrying-charge market during a prolonged bottoming process. Factor is flat. I would have been interested in the short side of KC Wheat for a swing trade if this continuation pattern was a rectangle or descending triangle.



Corn (CBOT)

The weekly Corn chart displays an inverted H&S pattern dating back to Jul 2014. The daily chart of Jul Corn displays a complex bottom but just cannot seem to get up off the mat. Factor is flat.



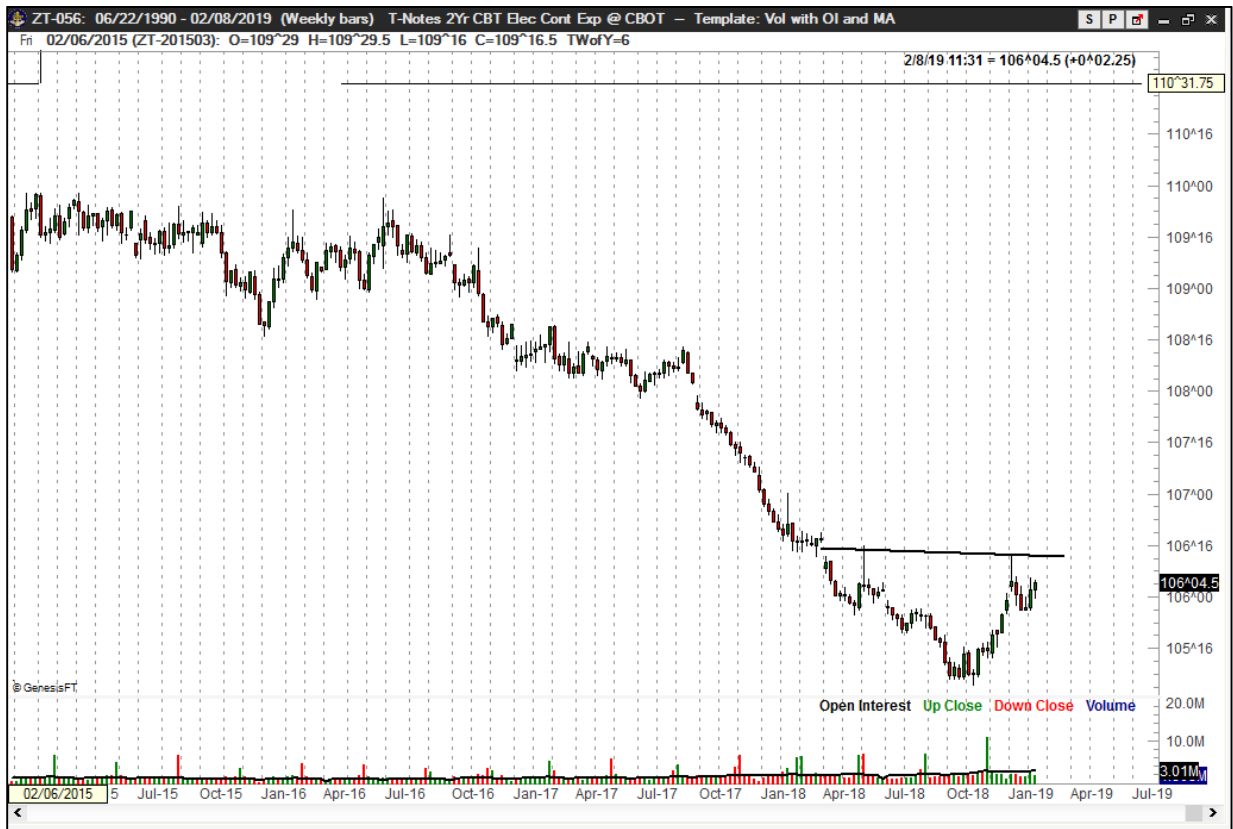
Sugar (ICE)

I am interested in the long side of May Sugar on a decisive close above 13.30.



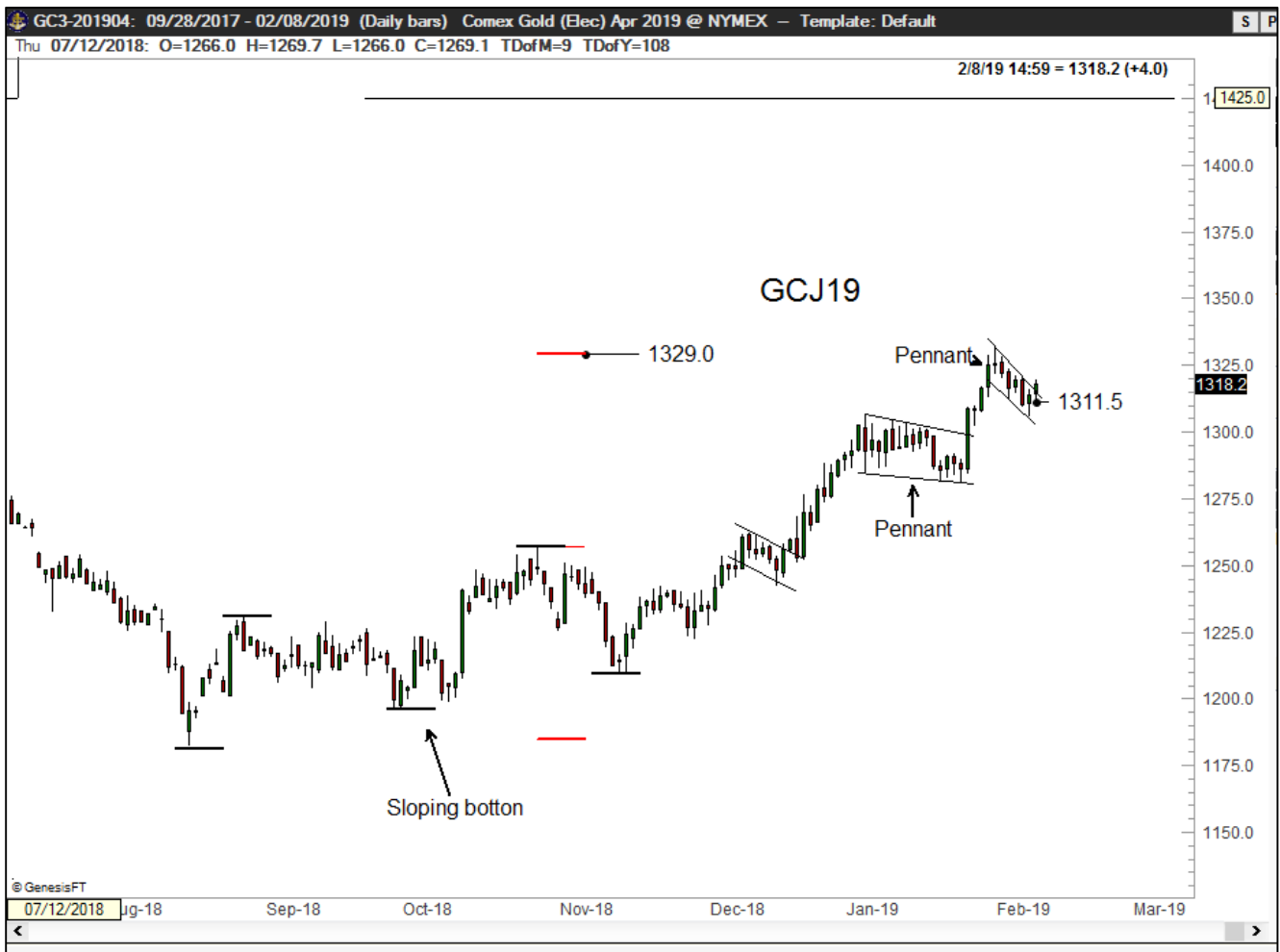
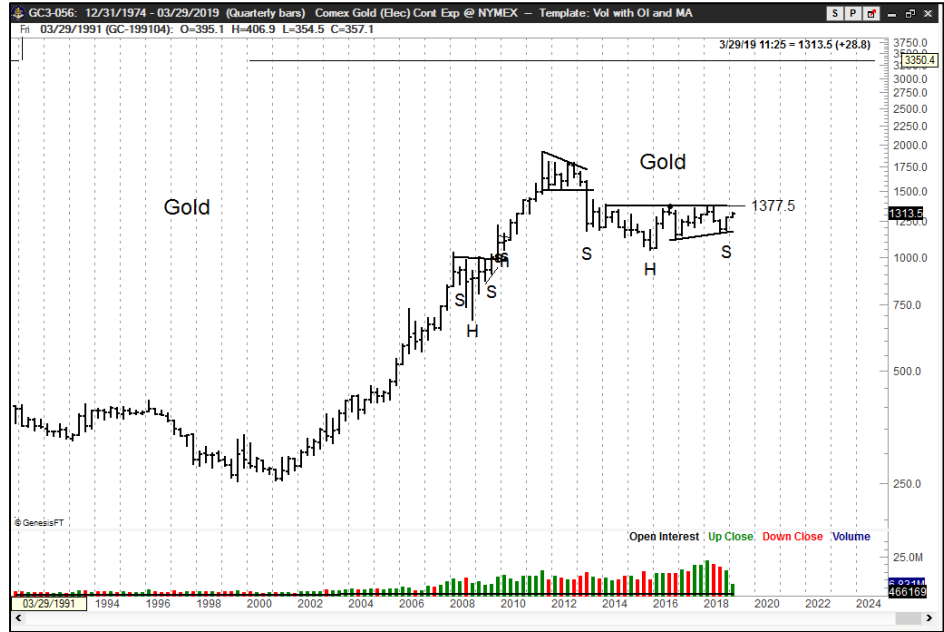
U.S. interest rates

A H&S bottom could be forming in 2-Yr T-Notes, suggesting higher prices and lower yields ahead. Factor is flat.



Gold (NYMEX)

Factor came into the week long Gold futures, but exited the trade on Monday. The dominant trend remains up in Gold. There remains the possibility that Gold is forming a multi-year inverted H&S pattern on the quarterly graph. A decisive close above 1391 (1% breakout) would be significant and suggest a retest of the 2011 high. The advance on Friday might have completed a continuation flag. I will attempt to buy a slight dip next week, risking to Friday's low.



Several mining stocks are worthy of note. GOLD (Barrick Gold Corp) is forming a 12-month H&S bottom on the weekly chart. A completion of this H&S bottom would confirm the breakout of a 31-month wedge pattern. I am extremely interested in this stock. Freeport-McMoran (FCX) is forming a 6-month inverted H&S bottom on the daily graph. I am equally interested in this stock.



Forex

GBP/NOK

This forex cross continues to display a possible 28-month ascending triangle. I really like this pattern – but I do not like the volatility that Brexit is likely to create with any trade involving the British Pound. I am willing to go with an upside breakout of this pattern, but sized extremely small (perhaps as small as 20,000 GBP/NOK per \$200k of trading capital).



CHF/JPY

This cross is forming a possible rounding or complex H&S top. I am watching this cross carefully for a trading opportunity. This cross should be immune from the craziness of Brexit.

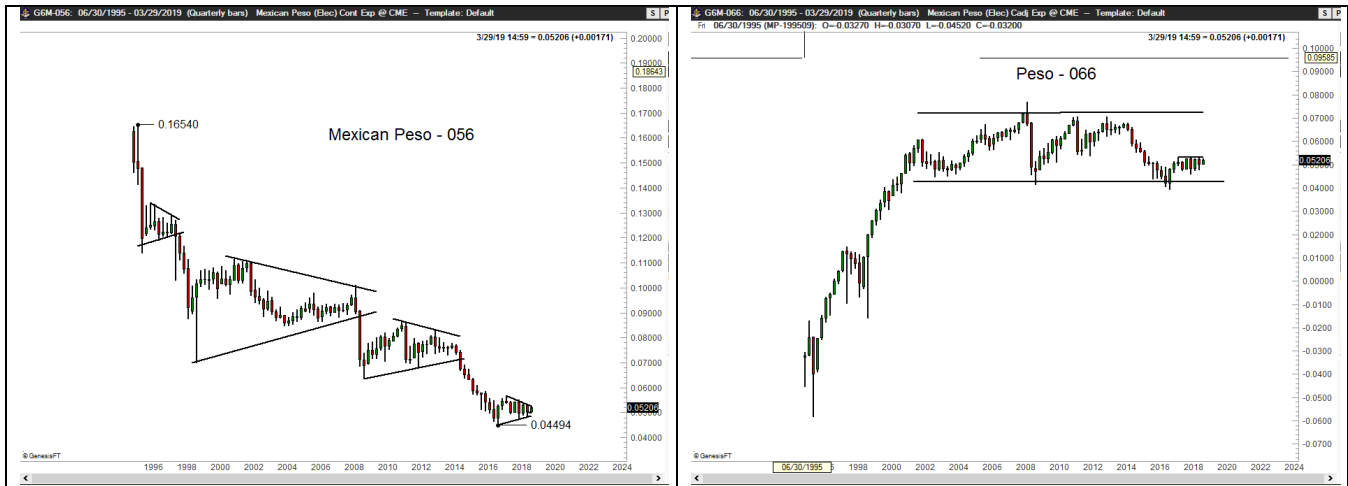


Mexican Peso futures

I have frequently commented in Factor updates on the collapse of the Mexican Peso since I first became a trader at the Chicago Board of Trade in the mid-1970s. Since 1995 the Peso has fallen from 16.5 cents to a 2017 low of 4.49 cents. One might assume that being short Peso futures has been the way to go. As is often the case, the easiest conclusion is often wrong. The Peso 056 continuation chart shows the 24-year decline without adjusting for the price differential between the expiring contract and the next-in-line contract month. Because of the interest rate differential between the U.S. and Mexico the Peso futures contracts are in what is called an "inverted" or "backwardation" profile. The spot Peso price has perpetually traded at a higher price than the first delivery contract. The result is that the Peso has been in a 24-advancing trend when viewed on the back-adjusted 066 continuous chart.

The spot price has gone down over time, but the futures contracts have cumulatively advanced to a greater degree in order to expire at the spot price. This was especially true from 1995 through 2008. In effect, despite the decline in the actual value of the Peso, traders who have been long the nearby contract and continuously rolled to the next delivery contract have made money since 1995 (although not since 2008). Thus, one should pay attention to possible buy signals in Peso futures because Mexican interest rates (presently at 8.25%) are significantly above U.S. interest rates (presently at 2.5%). This means that if the interest differential remains the same and spot Peso remains at the current level, the hypothetical value of the Mar 2020 Peso futures should advance at least 5.75% in the next year (8.25% minus 2.5% = 5.75%).

Is there any reason to believe that Peso could advance? Yes. The Peso 066 quarterly chart can be interpreted as a multi-year rectangle. The Peso 066 weekly chart displays a possible continuation H&S or rounding pattern. I will monitor the Peso for a buying opportunity. I typically do not use continuous charts for timing, but in this case it is appropriate.

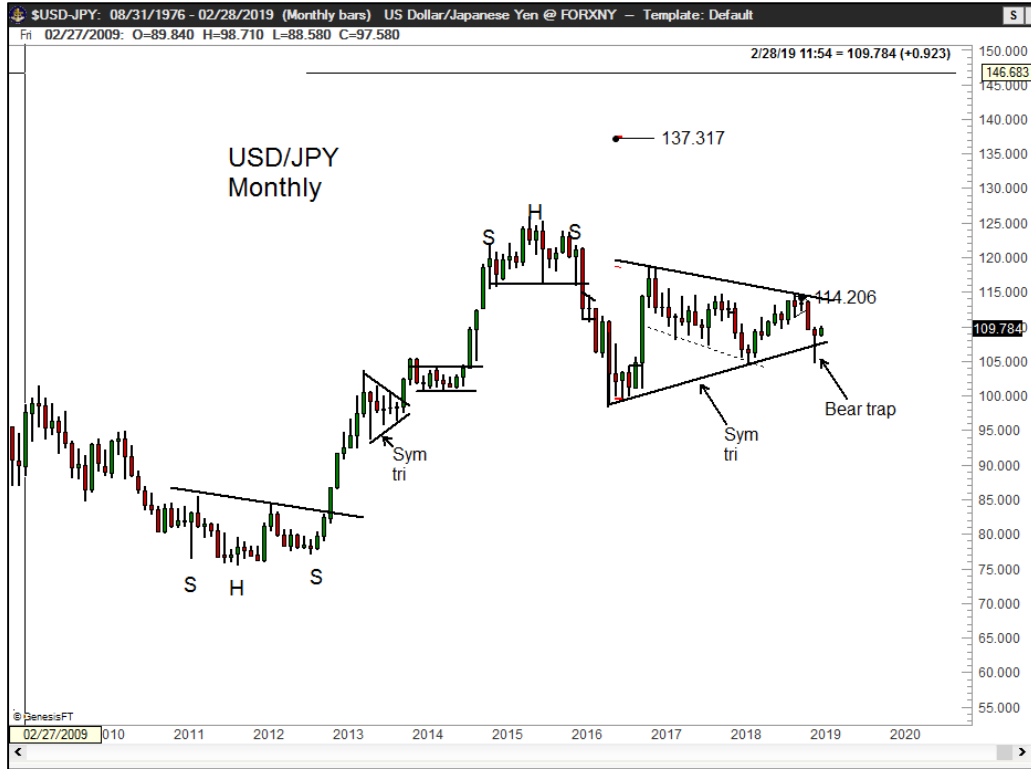


For a more thorough discussion of the differences between Continuation vs. Continuous charts, see <https://www.peterbrandt.com/continuation-vs-continuing-futures-charting-2/>



USD/JPY

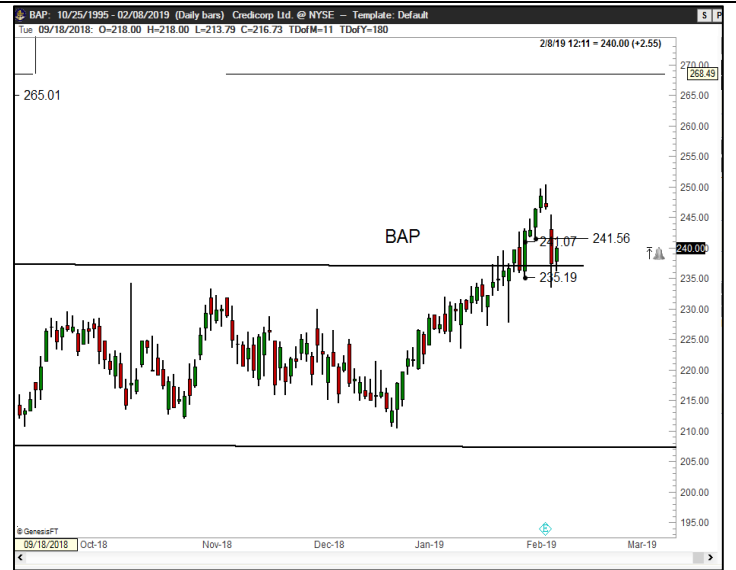
I am displaying a chart of USD/JPY as a reference point for JPY because of my interest in CHF/JPY. If there is a pattern I like less than a prolonged symmetrical triangle on a daily chart it is a prolonged symmetrical triangle on a weekly or monthly graph. Nevertheless, USD/JPY is coiling. Factor is flat – I have no trading interest in the Yen.



Post Mortems

BAP

I had considered covering half of my BAP position on Wednesday prior to the earnings report – but chose instead to jam stops to below the Feb 4 low. I was stopped out of my entire position on Thursday for basically a breakeven trade. The close on Friday suggests that the Thursday decline was simply a deep retest of the underlying rectangle.



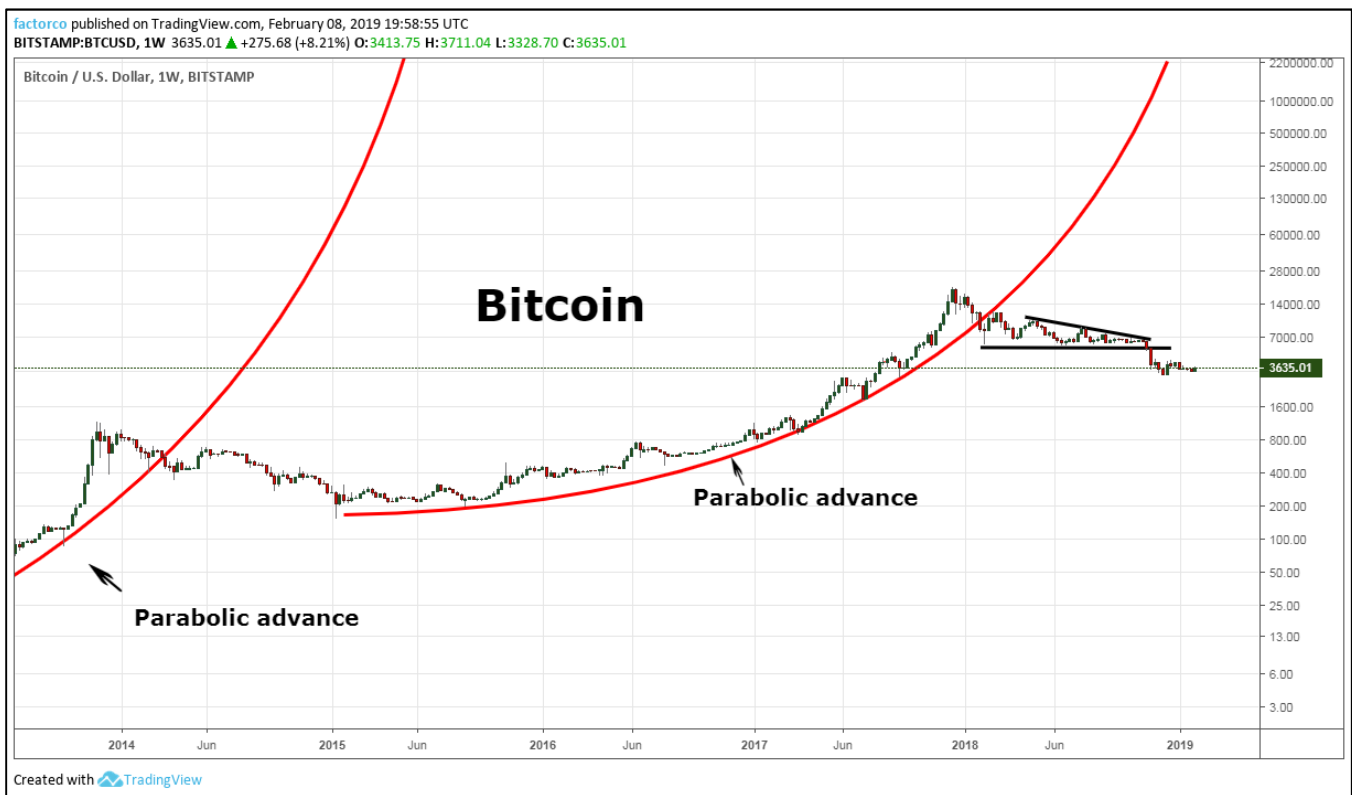
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The Factor Crypto Corner

Cryptos

A little life came into the crypto markets on Friday. Yet, there are still no charts among the macro caps that give me an urge to take a risk position.

I am a long-term bull on BTC. My expectation is for a bottom sometime between March and the end of 2019. I give BTC a 50% chance to go to \$100,000 and a 50% chance to go to zero. This is a tremendous reward to risk ratio, yet Factor has a swing trade orientation and the BTC chart does not yet support a long position.



The biggest move among the macro-caps this past week was LTC/BTC. I do not pursue non-USD trades in cryptos. While I prefer more symmetry between the left and right shoulders, it should be noted that abbreviated right shoulders (in duration or depth) indicate increased potential.

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Factor Tracking Account, February 8, 2019

A complete listing of the Factor Tracking Account for 2019 is updated monthly.

Market		Date	L/S	Price	Size	Initial stop	BP risk	Current Stop	Stop Date Δ	Target	Weekly	Daily	Date	Price	Net	Capital to carry trade	Value of trade (entry)				
Factor LLC Model Tracking Account Trade History and Portfolio Constant nominal capitalization: \$200,000 2/8/2019 (See disclaimers and notes below)																					
Positions open as of 12/31/18																					
CCH19*	Cocoa	12/18/18	L	2229	2	2163	66	2338	12/28	2788	Possible H&S bottom	Right shoulder SOS	4-Jan	2337	\$ 2,150	Closed	-				
SIH19*	Mini NY Silver	12/26/18	L	1509.50	3	1487.00	32	1498.00	12/28	1589.50	16-wk dbl bottom	16-wk dbl bottom	4-Jan	1589.5	\$ 2,385	Closed	-				
SIH19*	Mini NY Silver	12/26/18	L	1509.50	3	1487.00	32	3DTSR		1574 r	16-wk dbl bottom	16-wk dbl bottom	3-Jan	1574	\$ 1,920	Closed	-				
*Sizing adjusted to \$200k Tracking Account																					
Total -- Carry in positions															\$ 6,455	\$ -	\$ -				
2019 forex roll charges and FX losses on foreign margin deposits; day trade P/Ls on repositioned trades															\$ (37)						
ZCN19	Corn	1/3/19	L	3.9325	2	3.8725	30	3.94	1/8	4.29	Historic support	Possible 7-mo H&S	10-Jan	3.94	\$ 65	Closed	-				
ZCN19	Corn	1/3/19	L	3.9325	1	3.8725	15	3.94	1/9	4.29	Historic support	Possible 7-mo H&S	10-Jan	3.9375	\$ 20	Closed	-				
LTC/USD	LiteCoin	1/5/19	L	34.48	100	31.97	38	35.19	1/8	46.94	7-wk inv H&S	7-wk inv H&S	10-Jan	35.18	\$ 65	Closed	-				
LTC/USD	LiteCoin	1/6/19	L	37.01	100	33.49	36	34.59	1/8	40.49	7-wk inv H&S	7-wk inv H&S	8-Jan	40.49	\$ 343	Closed	-				
EUR/USD	EUR/USD	1/9/19	L	1.15141	40k	1.1417	20	1.1476	1/10	1.1819	January Effect	11-wk asc tri	11-Jan	1.14748	\$ (156)	Closed	-				
EUR/USD	EUR/USD	1/9/19	L	1.15141	40k	1.1417	20	1.1476	1/10	1.1819	January Effect	11-wk asc tri	11-Jan	1.14748	\$ (156)	Closed	-				
RTYH19	Russell	1/23/19	S	1468.7	1	1478.3	25	1468.30	1/24	1204	Retest H&S	H&S ID	25-Jan	1468.4	\$ 10	Closed	-				
ZLZ19	Soy Oil	1/24/19	L	30.51	1	29.83	21	31.34	2/7	33.14	Flying buttress	Flying buttress			\$ 495	\$ 18,306					
ZLZ19	Soy Oil	1/24/19	L	30.51	1	29.83	21	31.09	1/31	33.14	Flying buttress	Flying buttress	1-Feb	31.08	\$ 337	Closed	-				
ZLZ19	Soy Oil	1/24/19	L	30.51	1	29.83	21	30.97	2/7	33.14	Flying buttress	Flying buttress			\$ 495	\$ 18,306					
GCJ19	Gold	1/28/19	L	1303.30	1	1293.4	50	1318.80	2/1	1329 r	Sloping bottom	Flag	4-Feb	1318.7	\$ 1,535	Closed	-				
BAP	BAP	1/30/19	L	240.07	100	233.97	21	240.78	2/5	264.97	8+ mo rectangle	8+ mo rectangle	7-Feb	240.71	\$ 61	Closed	-				
BAP	BAP	1/30/19	L	240.07	100	233.97	21	239.87	2/5	264.97	8+ mo rectangle	8+ mo rectangle	7-Feb	239.84	\$ (26)	Closed	-				
QMJ19	Mini Crude	1/30/19	L	55.30	RO	53.275	50	54.050		64.45	10-wk H&S	10-wk H&S	4-Feb	54.00	\$ (655)	Closed	-				
AAPL	Apple	1/30/19	L	161.29	80	155.84	22	165.680	2/4	172.89	6-wk H&S bottom	6-wk H&S bottom	5-Feb	172.89	\$ 923	Closed	-				
AAPL	Apple	1/30/19	L	161.29	80	155.84	22	164.780	2/7	184.94	6-wk H&S bottom	6-wk H&S bottom			\$ 12,903	\$ 12,903					
SNFG19	Nifty	2/6/19	L	11062.0	2	10932.0	26	11036.0	2/7	11481.0	10-wk asc tri	10-wk asc tri	8-Feb	11036.0	\$ (124)	Closed	-				
SNFG19	Nifty	2/6/19	L	11062.0	2	10957.0	21	11048.0	2/6	11481.0	10-wk asc tri	10-wk asc tri	8-Feb	11047.5	\$ (78)	Closed	-				
Trades as of															\$ 8,582	\$ 13,893	\$ 49,515				
Indicates open position value as of																		Levered at	0.25		
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																		ROR YTD	4.29%	Cap utiliz.	6.9%
f = 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.																					