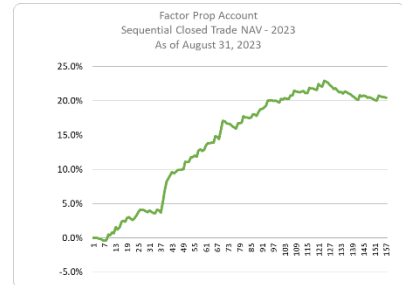




September 1, 2023

Factor Periodic Update

In recent days/weeks I have discussed that the Factor Prop Account is experiencing a drawdown (DD). Many traders might think that admitting to a drawdown is something to avoid – but not me, and it should not be for you. Steel is hardened by pressure and heat. Good traders become great traders through adversity. My advice to novice and aspiring traders is that more knowledge and wisdom can be gained during challenging periods than during times of glory.



- In my experience, there are five primary reasons for deep/prolonged DDs.
 1. The trading approach in question has never registered a successful record – thus, DDs are the default performance profile. For this paper, I will define “success” as profitable in two of last three years with a worst-case DD no larger than the three-year Avg. ROR.
 2. DDs occur for all traders because no trading approach is perfect and always synch with market behavior.
 3. Trader was impulsive, over-rode his/her trading guidelines numerous times.
 4. Trading size was too large and over-sized trades got clipped.
 5. Trader became obsessed with a given market was repeatedly chopped up.
- DDs can take two forms – asset drawdowns and emotional drawdowns. Emotional drawdowns can be the worst of the two.
- DDs do NOT indicate that a trading approach is broken (of course, this assumes that the trading approach in question has previously proven its worth).

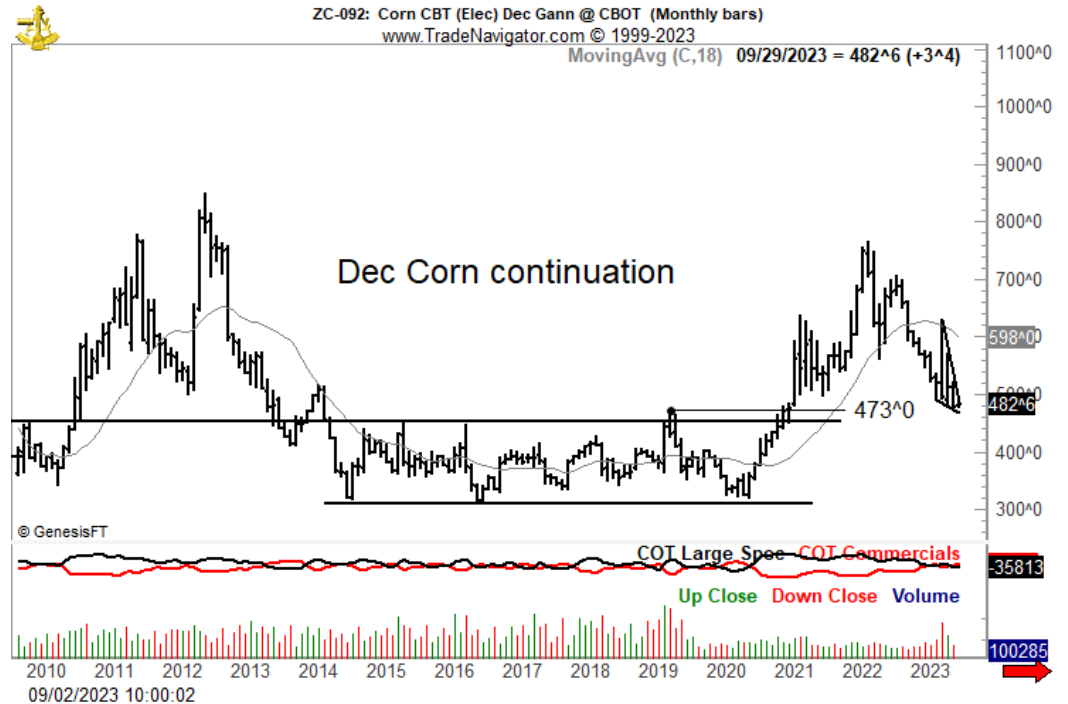
Following are some of the questions I ponder during a drawdown:

- By what metrics am I measuring this DD?
- Are there changes to my external circumstances in your life (family issue, health, etc.)?
- Is this DD ordinary (like past DDs) or extraordinary in either depth or duration?
- Has this DD occurred during a time in which I've have had greater than normal expectations for success?
- Has a conscious or subconscious change to my trading style accompanied the DD?
- Are the trading peers with whom I communicate experiencing similar trading difficulty?
- Has my trade sizing been larger than normal?
- Are there any unusual macro conditions impacting markets in general?
- Have I systematically reduced my trading size during the DD?
- Am I forcing my biases upon the charts in any unusual way?
- Is the current DD significant enough to stop trading for a period?

At this point I have no emergency bells going off. I have always considered myself to be a grinder – and it is time to grind my way through this challenge, although I will intentionally take a slightly longer-term view of the charts.

Charts of interest

Corn. Commercials have returned to the long side of Corn for the first time since Jul 2020. The monthly graph is retesting the 7-year rectangle base that was completed in Mar 2021. The Dec 2023 contract is developing a large falling wedge. This is a diagonal pattern – I would need a smaller horizontal pattern to base a trade.



Bitcoin. Even though the Jul high is slightly above the Apr high, the case can still be made that the daily chart is forming a 6-month rectangle, pending a decisive close above the 2023 high. A decisive move below the Jun low would indicate further weakness. I am willing to go in either direction in BTC (buying spot if long, selling futures if short).

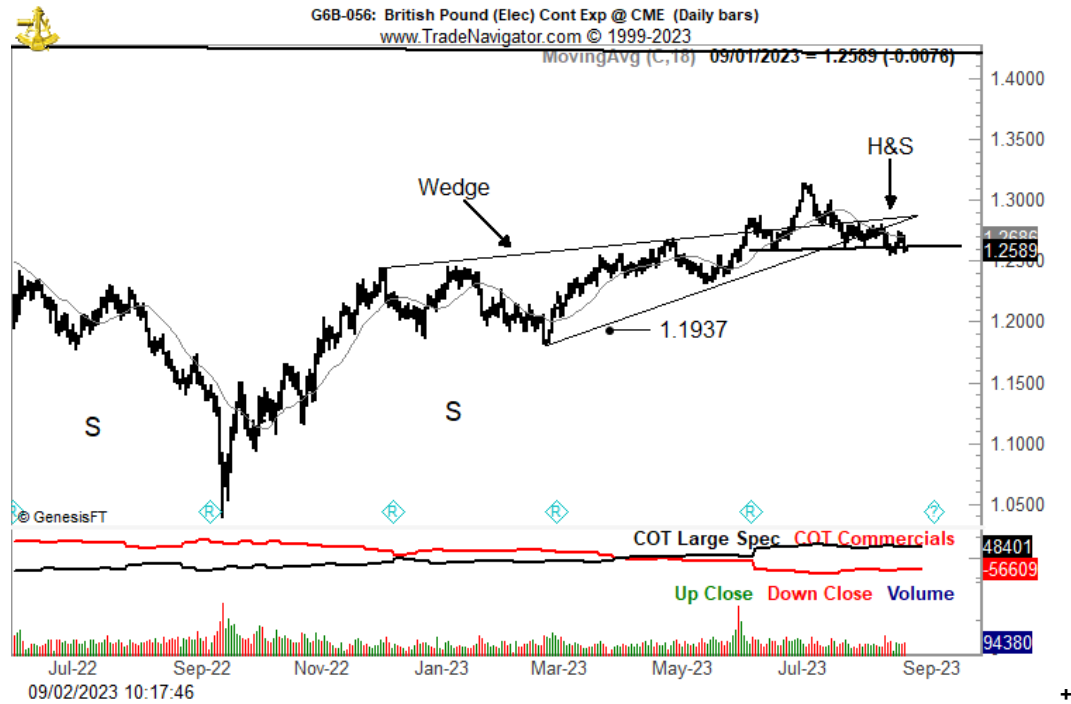


Osaka Dow. A possible continuation channel could be forming in this very strong bull trend. This is a diagonal pattern. A long position would be established under two different conditions:

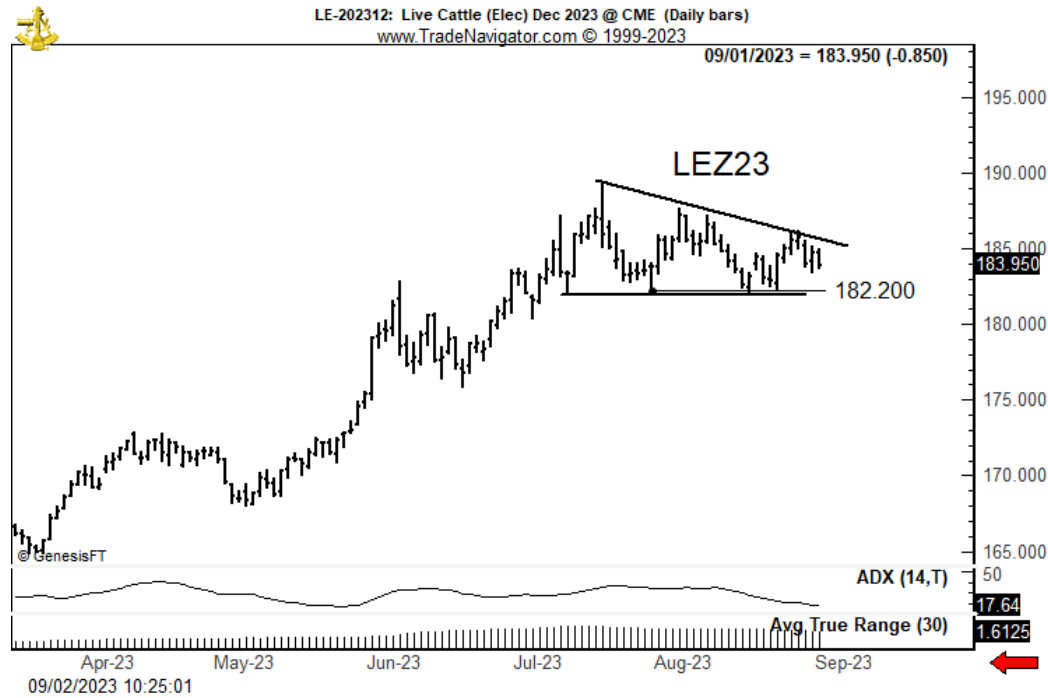
1. Price stalls at upper boundary for several days, then breaks out.
2. Price immediately breaks out, then a retest occurs.
- 3.



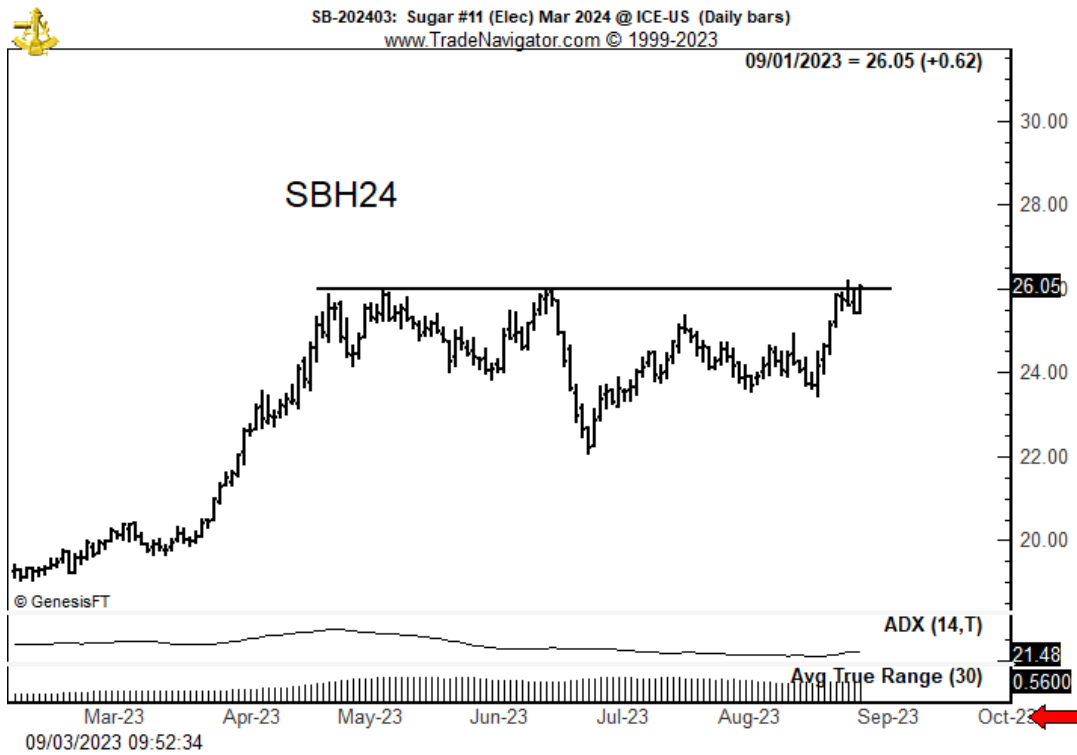
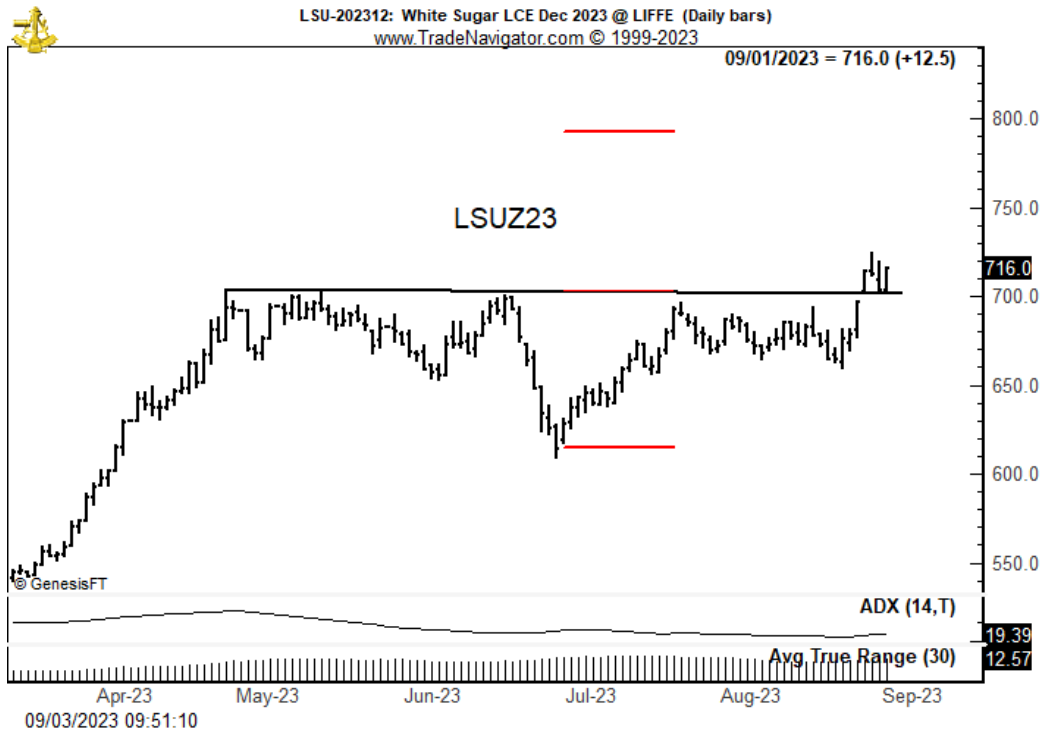
British Pound. The decline on Friday could be the first step in the recompletion of an 11-week H&S top. This has been a tricky market, but the fact Commercials hold the most extreme short position since 2007 urges me to take another shot at the short side if the recent low is exceeded.



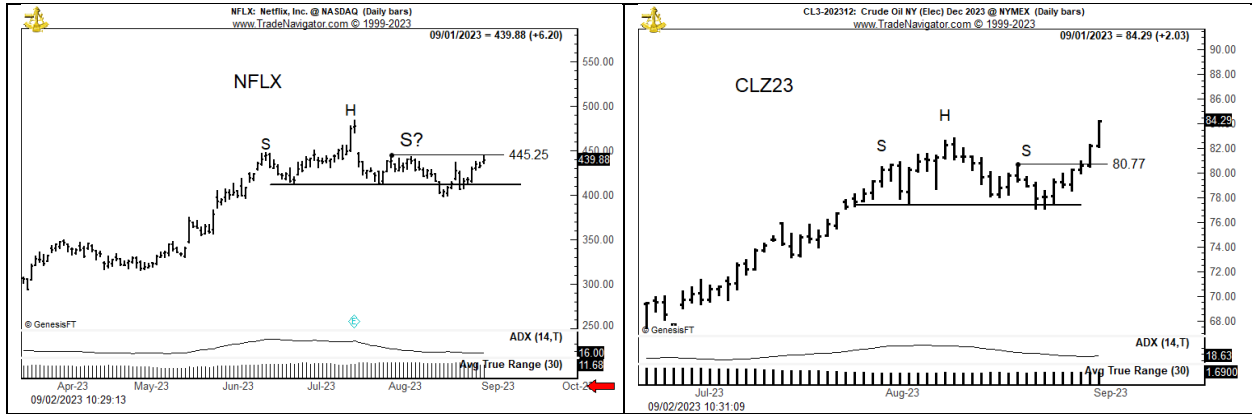
Live Cattle. The Dec 2023 contract appears to be forming a possible descending triangle top pattern on the daily graph.



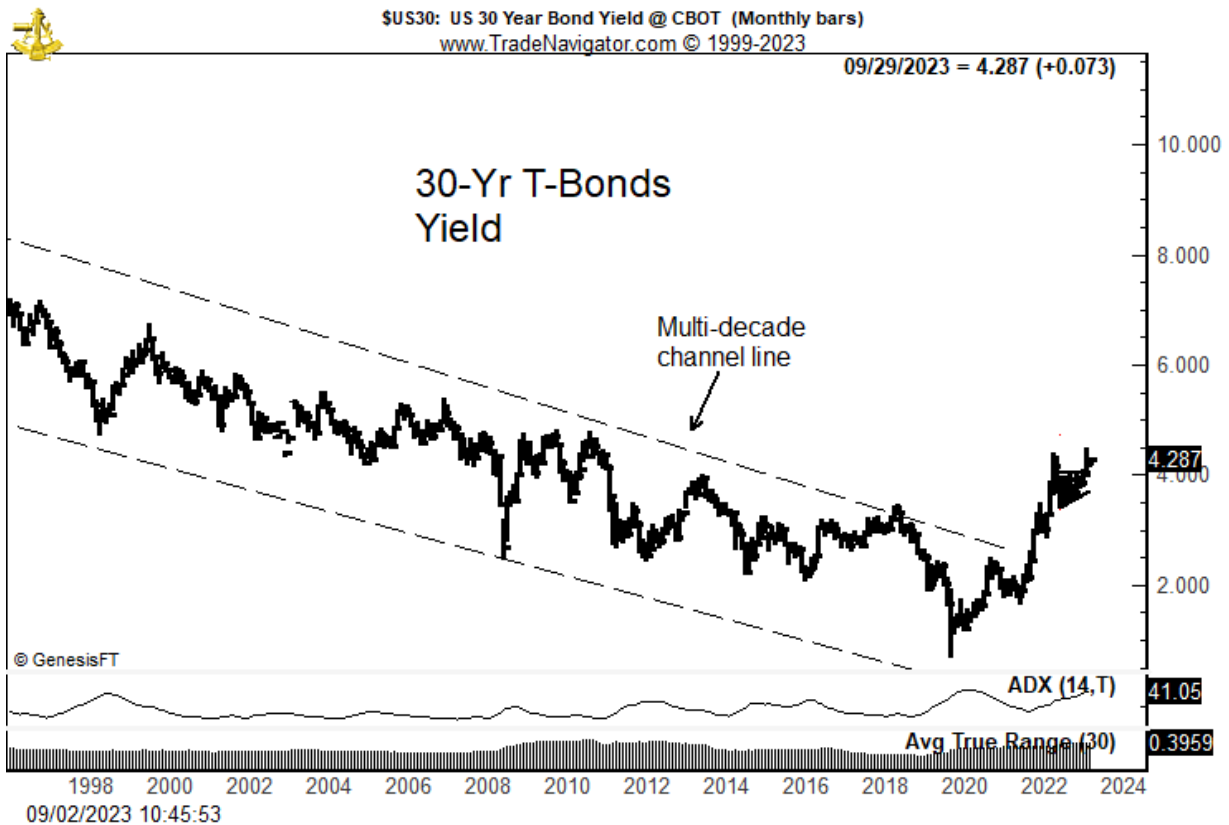
Sugar. NY Sugar is poised to breakout. London Sugar broke out last week with might be a breakaway gap. I will be a buyer of the London contract.



NFLX and Crude Oil. It will be interesting to see if the NFLX chart unfolds in a manner similar to the Crude Oil graph.



Interest rates. A major multi-decade change in trend has occurred in interest rates, as shown by the 30-Yr Bonds. I want to remain alert for continuation signals across the yield curve.



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