

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

Administrative notes:

- Factor will be relocating to our winter headquarters in Tucson, AZ early next week, but should be back up and running by the end of the week.

Bye Pikes Peak



Factor Update, January 22, 2017

Market Review

New candidate *Factor Move*™ (trading set-ups) are developing in:

- German Bobl

Candidate *Factor Moves*™ are currently ongoing in:

- *FAST
- FTSE 100

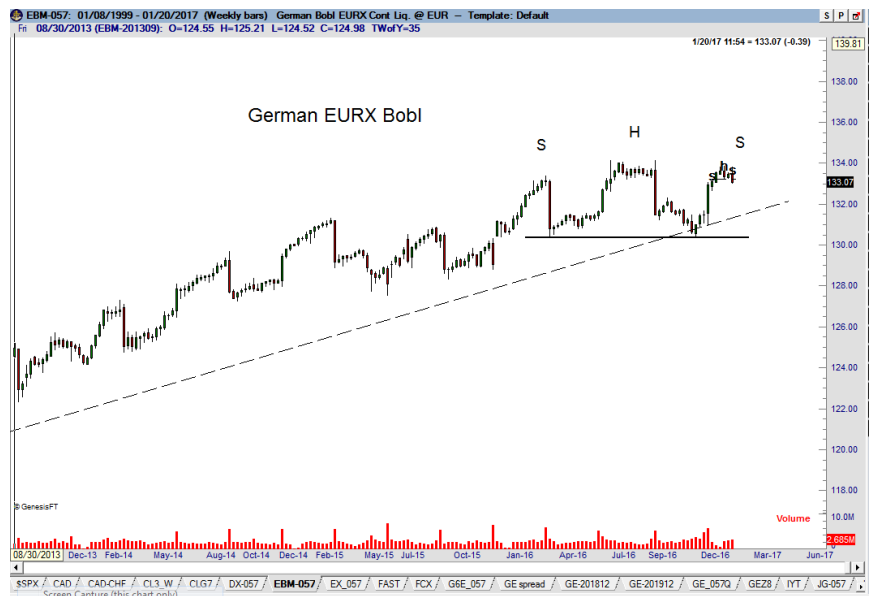
Other markets of interest. This issue also comments on *Mpls. Wheat, Crude Oil, Canadian Dollar, *EUR/NOK, *AUD/NZD, EUR/USD, Corn and Soybean Meal. *Signifies a position in the Factor \$100,000 Tracking Account

<u>Developing signals</u>	<u>Existing positions</u>
<ul style="list-style-type: none"> Dow Jones – alert EUR/NOK – entry order and protective stop Crude Oil – alert German Bobl -- alerts 	<ul style="list-style-type: none"> AUD/NZD – protective stop and target EUR/NOK – protective stop and target Minneapolis Wheat – protective stop and target FAST – protective stop
<p>The Factor Tracking Account is currently leveraged at 1.4X The margin-to-equity use for futures and forex positions is 6.7%.</p>	

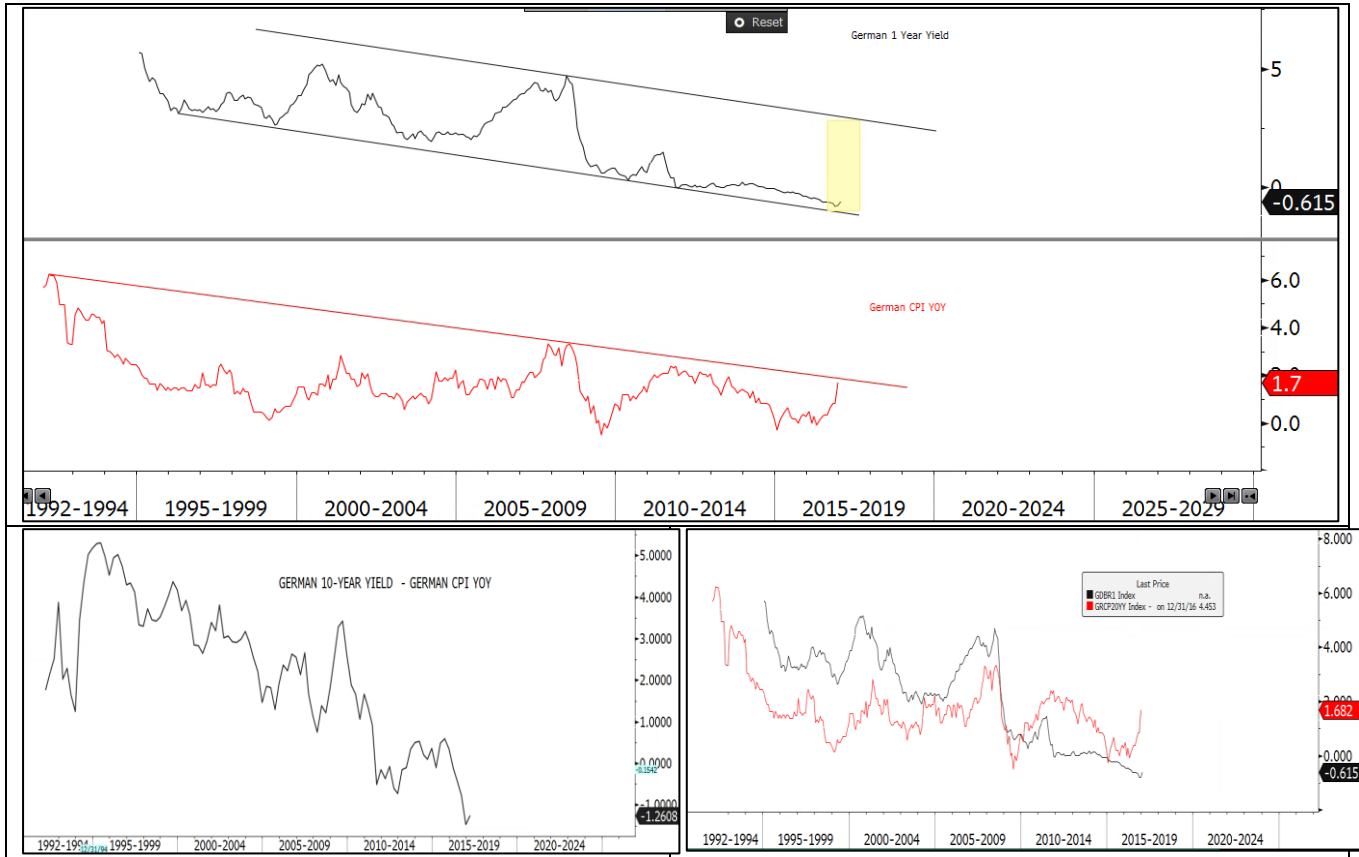
Candidate Factor Moves™ Setting Up

German Bobl

There are reasons to suggest that the German interest rate contracts are setting up for a short sale. From a chart perspective, the weekly graph of the German Bobl is forming a 12-month H&S top pattern.



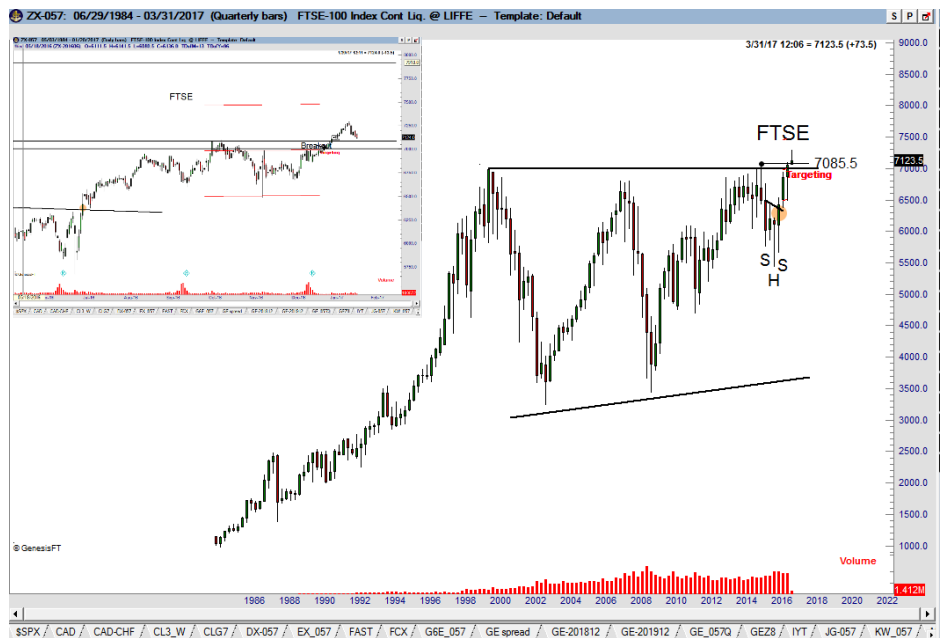
From a fundamental perspective, “real” German rate yields are at or near all-time lows, as shown on several versions of German rates vs. German CPI graphs. [Charts courtesy of Nautilus Capital.] Factor intends to short any minor rally in the Bobl next week risking to 133.51.



Candidate Factor Moves™ in Progress

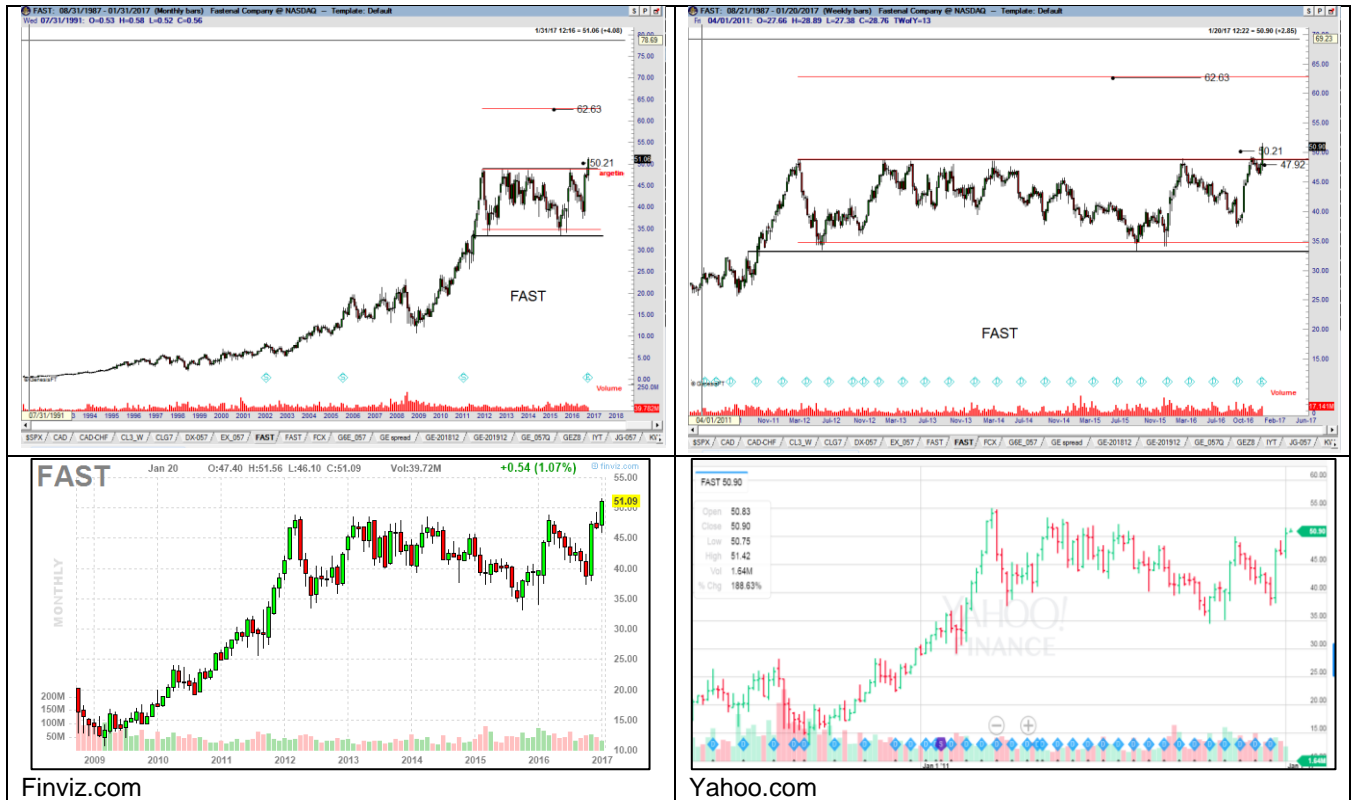
FTSE 100

The real story in the FTSE is that prices have broken through the upper boundary of a 16-year price range. This reminds me of similar breakouts into new highs by the S&Ps in May 2013 and by the DAX in Sep 2013 (charts not shown). I am interested in establishing a long position if the market can pull back toward 7,000 – but I do not have orders in place yet.



FAST

The advance this past week in Fastenal penetrated the upper boundary of a multi-year rectangle on the long-term graphs, as shown. A number of Factor members have emailed me inquiring as to why their chart of FAST does not look like my chart. The reason deals with how past dividends are treated. The stock charts on Trade Navigator (and Barchart.com and Finviz.com among others) represent "total return." I typically look at charts both ways to make sure that they support the same trading idea. While FAST has not entered a new all-time high on charts available on Bloomberg, Yahoo Finance and MetaStock (among others), these charts broke out of a bull channel and are supportive of a long position. Factor is long FAST.



Other Markets

Crude Oil

A Factor Alert was issued on Wednesday establishing a case for a bearish stance in Crude Oil. That analysis remains valid. I would view a move and close by the Mar contract below 51.25 as negative in the intermediate term. Instinctively I believe Crude Oil is an accident waiting to happen. Commercial shorts are at the same level as the 2014 top. Who is left to buy this market?? Factor is flat.



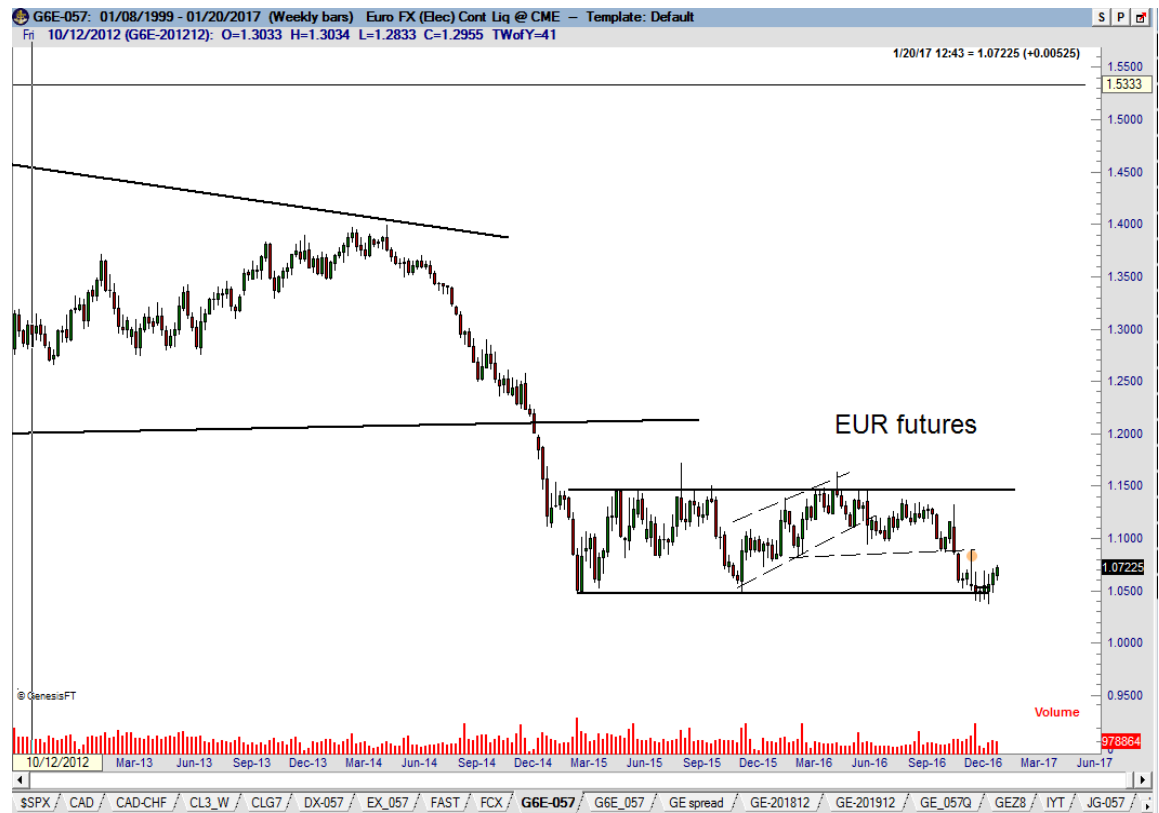
Canadian Dollar

When I am right I can be really right. But when I am wrong I can be really and immediately wrong. You know what? – I am really ok with being completely wrong. I thought for sure the analysis of a bull channel in the Canadian Dollar futures was correct – but I was really and immediately wrong.



EUR/USD (spot and futures)

No idea. I am completely confused on the EUR/USD cross and on USDX. My bias is that a January Effect low is in place in EUR/USD – but I lack the conviction or daily chart trigger to be long. Factor is flat.



AUD/NZD

The right shoulder of the 8+ month H&S bottom on the daily graph has become belabored – and this is cause to doubt the interpretation of a H&S pattern. Factor is long based on the Jan 6 completion of a falling wedge. This purchase was in anticipation that the advance would gain momentum and the cross would rally toward the neckline of the H&S pattern. The protective stops is just below this past week's low.



Corn

I missed this one – sorry folks. The advance on Tuesday completed a 12-week continuation symmetrical triangle on the daily chart of the Mar Corn contract. This pattern has a target of 396. Is it also possible to interpret the chart as a 5-point symmetrical triangle bottom extending back to the Aug 31 low (dashed line) – this would provide a profit target of 415. The Factor Tracking Account is flat.



Soybean Meal

Meal has the tendency to make big powerful moves – both up and down. The advance on Friday, Jan 13, completed a 16-week bottom in Meal. The bottom was clearer on the daily continuation graph (shown) than on the charts of the individual contracts. My guess is that Meal will advance toward 400. Factor is flat.



EUR/NOK

The dominant chart construction in this market is the completed 14-month H&S top on the weekly graph. This pattern has targets of 8.7351 and 8.5860. A 16-week H&S pattern is forming on the daily chart as a retest of the neckline of the weekly pattern (see inset). Factor is short EUR/NOK. I will short an additional layer if the daily H&S pattern is completed by a decisive close below 8.9200.



Minneapolis Wheat

A double bottom has been completed on the weekly chart with a target of 638. Support should exist at or under 560. The target of the H&S bottom on the daily chart of the Mar contract at 586 was reached on Tuesday – the Factor Tracking Account covered half of its long position at the target and remains long the other half. Might the daily chart be forming a 2-week half-mast pennant? Time will tell.



U.S. stock index market

Your guess is as good as mine. There are no clear patterns developing. My gut tells me two things: First, that stocks have higher to go over the next few months; and, second, that a major high will occur in 2017 from which a substantial correction will occur. [No charts shown.]

Member Q&A

Question:

I was just wondering how does Peter calculates the objective of a complex H&S failure. For example, in Kiwi where multiple heads are present and a possible H&S failure is in progress, which head is used to calculate the height to be added to the right shoulder? – R.P.

Answer:

First, I am not sure the H&S interpretation in the NZD was correct. If it was correct, and a H&S failure is occurring, the target is established by taking the height of the complex H&S and extending it from the high of the Dec right shoulder. This would establish a target of .7739, as shown by the red arrows.



Question:

In your interview with Jack Schwager, you mentioned that if you have two consecutive bad trades you would cut the next trade to risk only 30 basis points. You said you'd do this not by making the stop closer, but by position sizing. How would you achieve this in an account with only \$100,000 of capital? Even by trading just one contract, there are many futures instruments that could easily exceed 30 basis point. Would you then only trade those that can be sized to 30 basis points for the amount risked? – Peter L.

Answer:

I probably misspoke if I stated I would cut risk to 30 BPs immediately after two straight losing trades. In fact, I begin cutting risk after two straight losing trades and keep cutting risk until I get down to 30 BPs. I was referring to the Factor prop account which is funded at a substantially greater sum than \$100,000. You are correct in realizing the problems of cutting back risk to 30 BPs when dealing with futures in a \$100,000 account. If I was trading only \$100,000 and a losing streak occurred I would fine tune my entry and stop level or eliminate higher risk markets or trade mini contracts (if available) or a combination thereof.

Question:

I have an important question about the last 2 alerts you posted. In one you say you are looking to go long CAD and in another you are looking to go short Oil. CAD and OIL have had a long standing correlation - can you please provide some guidance on this? I have an alert in to sell USD/CAD as I have done my analysis on the pair and concur with your post and also had seen the H&S bottom in crude. – Bryan L., Roseville, CA

Answer:

Great question – not a simple answer. In the first place I was dead wrong on the C\$ so the question is somewhat moot. Yet, my practice is to analyze and trade each market on the basis of its own chart. Correlations come and correlations go. Chart-book-based global macro analysis is not reliable.

Question:

The book by Edwards and Magee emphasize the importance of volume behavior during a breakout, yet you seem to deemphasize volume. Just wondering why? -- Several members

Answer

Volume confirmation of breakout in equities is very important. The reason deals with the fact that volume is always relative to the fixed supply of shares (the float). Volume in futures is not as important. There are no fixed number of contracts of any futures market. Yet, at times volume is important (such as “hinge,” “SOS” and “SOW” days.)

Factor Special Situation Reports

Trade management on positions attributable to Factor Special Situation Reports may differ from positions carried by the Factor Tracking Account. The Factor Special Situation Reports are intended for Factor members who want a "lock-it-in-and-leave-it" Readers' Digest approach for order entry.

	Market	Report Date	Trade Status
SSR.2016.01	Mpls. Wheat	29 Nov 2016	The Factor SSR portfolio is flat in Mar Mpls. Wheat having taken profits on a long position (established at 533 on 30 Nov) at 586 on 17 Jan. Orders are in place to re-purchase Mar Mpls. Wheat at 554-1/2 with protective stops at 544 (per the SSR Update dated 17 Jan). Single contract profit to date = \$2,650
SSR Update		5 Jan 2017 Update	
SSR.2016.01B		17 Jan 2017 Update	
SSR.2017.01	Mar Can Dollar	17 Jan 2017	A long position at .7651 established on 18 Nov was almost immediately stopped out at .7574. Single contract loss = (\$770)

plb
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Factor Tracking Account as of Jan 20, 2017 (prior to the close) – Open positions ONLY

Factor LLC															1/20/2017			
Model Tracking Account Trade History and Portfolio															14:27 MST			
Initial capitalization: \$100,000																		
(See disclaimers and notes below)																		
Market		Entry								Stop Date Δ	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)
		Date	L/S	Price	Size	Initial stop	BP risk	Current Stop	Weekly			Daily	Date	Price				
EUR/NOK	EUR/NOK	1/3/17	S	9.0058	50k	9.1011	55	9.0711	1/19	8.7352	14-mo H&S top	Poss 14-wk H&S				\$ 2,601	\$ 52,025	
MWEH7	Mpls Wheat	1/5/17	L	5.4700	1	5.3900	80	5.540	1/16	6.34 r	6+ mo H&S	5-wk asc tri				\$ 1,500	\$ 27,360	
AUD/NZD	AUD/NZD	1/9/17	L	1.0508	70k	1.0419	45	1.0459	1/11	1.0746	Poss 7-mo H&S	10-wk wedge				\$ 2,574	\$ 51,478	
FAST	Fastenal	1/18/17	L	50.220	200	47.740	50			62.5900	57-mo rectangle					\$ 10,044	\$ 10,044	
Trades as of															\$ -	\$ 16,719	\$ 140,907	
Indicates open position value as of																Levered at	1.4	
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																		
r = revised RO = Rollover																		
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 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-OR-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.																		

Factor prop account as of Jan 20, 2017 (prior to the close) – Open positions ONLY

Factor LLC															1/20/17			
Proprietary Trade History and Portfolio																		
Capitalization: per \$1,000,000 of Factor prop funding																		
(See disclaimers and notes below)																		
Market		Entry								Stop Date Δ	Target	Pattern		Exit		Net	Capital to carry trade	Value of trade (entry)
		Date	L/S	Price	Size	Initial stop	BP risk	Current Stop	Weekly			Daily	Date	Price				
LRCH7	Robusta Coffee	12/16/16	L	2070	5	2032	19	2214 oco 2239 sco	1/19	2313 r	Major uptrend	3-wk H&S				\$ 5,000	\$ 103,500	
2017 forex roll charges and FX losses on foreign margin deposits; day trade P/Ls on repositioned trades																		
MWEH7	Mpls Wheat	1/3/17	L	537.00	5	528.00	25	544.50	1/12	634 r	Poss 6-mo H&S	Poss 5-wk asc tri				\$ 5,000.00	\$ 134,250	
EUR/NOK	EUR/NOK	1/3/17	S	9.0398	200k	9.1011	14	9.0711	1/19	8.7352	14-mo H&S top	Poss 14-wk H&S				\$10,405.40	\$ 208,108	
LRCH7	Robusta Coffee	1/4/17	L	2151.0	5	2099.0	27	2238	1/20	2313.0	Major uptrend	8-wk H&S				\$ 5,000	\$ 107,530	
AUD/NZD	AUD/NZD	1/6/17	L	1.0481	300k	1.0408	15	1.0459	1/11	1.1197	Poss 7-mo H&S	10-wk wedge				\$ 10,952	\$ 219,030	
CH7	Corn	1/17/17	L	365.50	10	356.50	45	358.0	1/19	384.750	13-wk sym tri	13-wk sym tri				\$ 9,900	\$ 182,750	
FAST	Fastenal	1/18/17	L	50.220	2000	47.740	50			62.5900	57-mo rectangle					\$ 100,440	\$ 100,440	
FGBMH7	German Bobl	1/20/17	S	133.1200	5	133.5700					Poss 12-mo H&S	5-wk H&S				\$ 711,992	€ 5,515	
Trades as of															\$ (187.29)	\$ 853,689	\$ 957,643	
Indicates open position value as of																Levered at	1.0	
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE																		
RO = Rollover																		
Fut/FX MTE = 12.3%																		

COT Special

If you, as I, believe that all-time historical extremes in the profile of open interest is an important market factor – and you want to take a flyer on an idea – then long T-Notes and short Crude Oil may be a trade for you. The problem with such a trade is that risk and trade management are extremely difficult. My interest is to find daily chart development in each of the two markets that provide timing and active trade management.

Crude Oil. The thick horizontal red line in the lower COT pane indicate the all-time historic levels. The thick vertical line marks the date of the all-time historic COT profiles.



T-Notes. The thick horizontal and vertical red lines represent the current all-time COT extremes. The thin red lines represent dates corresponding with was previously represented COT extremes.

