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The Annual Awards Issue

30 Top Futures Brokers

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10 Market Makers & Shakers of 2017

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31 Key Market Moments of 2017

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Steve Bannon
Jeremy Corbyn
Xi Jinping
Kim Jong-un
Robert Mercer
Robert Mueller
Satoshi Nakamoto
Jerome Powell
Ed Tilly

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01.18 • Issue 539

45th Annual Awards Issue

Cover Illustration by Scott Adams

Folio Eddie Award: Best Single Article Business, Banking & Finance (April 2017–The Banana Republic of Snapchat), Finalist • Folio Eddie Award: Best Full Issue Business, Banking & Finance (January 2017–Cannabis), Finalist • Min's Magazine Media Award: Best Single Magazine Issue (January 2017–Cannabis) Finalist • Min's Magazine Media Award: Best Cover Design Portfolio, Finalist • Nichee Award 2017: Winner Best Business-To-Business Magazine Of The Year • American Society Of Magazine Editors People's Choice Award: Winner Best Political Campaign Cover Of 2016 • Min's Magazine Media Award: Best Feature Article (July 2015-Sell Stocks Now) Finalist • Folio Eddie Award: Best Editorial Full Issue Business, Banking & Finance (July 2015–Premiere Issue) Finalist

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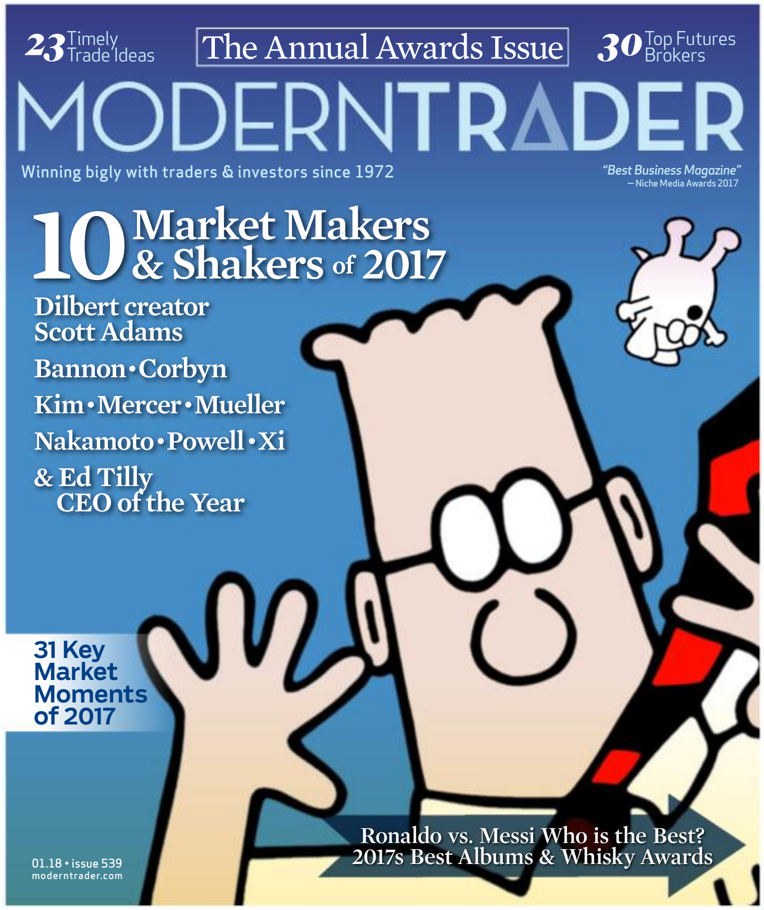
Industry insights from a 28-year trading industry veteran.

A long strange trip

Annual year in review issues always produce some surprises. There are moments or events that came early in the year that we have forgotten about (see “**31 Moments & Minds that Made the Markets,” Page 30)**. Many of 2017’s moments surround reaction to the 2016 election, which still has us reeling as a nation. The 2016 election was expected to be disruptive to markets, but equity markets crashed and recovered all in one night. What analysts predicted would likely happen over months in case of a surprise Trump victory, happened all at once, so we weren’t sure what would come next.



The year 2017 was full of anomalies. Political issues and geopolitical crises have been extreme and came at us at an accelerated pace; however, the overall market theme was the lack of volatility. How could this be? Norms were falling one by one that in the past would lead to market disruptions, but the market has just chugged along higher.

It seems that we have been waiting for a major market correction ever since the market regained the ground lost from the 2008 credit crisis. The massive bull run following that crisis occurred amid tepid growth and was attributed to extremely low interest rates and not real economic growth. But the low interest rates were real. Ironically, it appeared to be the lack of faith in the bull market that kept it afloat–there wasn’t the necessary irrational exuberance.

Before you can have faith in bitcoin futures, you need to have faith in bitcoin.

With more solid reasons – roll backs in regulations and promised tax cuts – for a bullish outlook the market soared, and subsequently held out potential for a serious correction. Still it hasn’t come.

With all this irony, it was a great time for MODERN TRADER to talk with Scott Adams, the creator of the sardonic Dilbert cartoon (**see “Winning Big League with Scott Adams,” page 42)**. Adams is not just a master of office-place satire, but was one of the few who saw well in advance how the election was playing out, and why.

While the volatile events of 2017 didn’t lead to greater market volatility–outside of bitcoin–futures brokers are not complaining. In our annual futures broker rankings (**see “Top 30 Futures Brokers of 2017,” page 48**) leading FCMs are happy interest rates have come off of the floor and the regulatory environment is moderating. They appear confident in the current market environment. They have adapted to the new world and have created the efficiencies needed to thrive in the current environment.

Brokers are also preparing for the possibility of an exciting new asset class: Derivatives on cryptocurrencies. While there is a fair amount of trepidation as well as excitement for these products, it has been a long time since there has been this type of buzz over a new product, or class of products.

The most legitimate question over bitcoin futures has to do with the lack of confidence in the underlying market. We have seen new futures contracts based on an established underlying cash market fail. Before you can have faith in bitcoin futures, you need to have faith in bitcoin. ∆

Daniel P. Collins

Daniel P. Collins
Editor-in-Chief,
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"Now, this isn't where I was born, I was born in Kenya... That's a joke."

That's former President Obama doing his standup tour.

The latest stop was at the Foundation Summit in Chicago, where Obama began his career as a community organizer in the 1980s.

Give it a week. Amy Schumer will steal this line and claim it is a coincidence.

"I have yet to see an ICO that doesn't have a sufficient number of hallmarks of a security."

That's Securities and Exchange Commission (SEC) Chairman Jay Clayton at the Securities Industry and Financial Markets Association annual meeting. The WSJ seems to think it is a sign the SEC may soon require firms using coin offerings to raise cash in the United States to register the deals with the SEC. It may also suggest that there could be a burgeoning turf battle among regulators as to what a cryptocurrency is and who should regulate them. While futures on bitcoin clearly fall under the domain of the Commodity Futures Trading Commission, it is unclear who has jurisdiction over the underlying cryptocurrency itself.

"The reason our stock market is so successful is because of me... I've always been great with money, I've always been great with jobs, that's what I do. And I've done it well, I've done it really well, much better than people understand and they understand I've done well."

That's President Donald Trump.

Shh… don't tell him…

Other things that have the stock market at all-time highs:

Quantitative easing

Low interest rates

Irrational exuberance

Inflation

Irrational confidence in Elon Musk

"For the nth time, I am NOT Trump's foreign policy adviser! I have NO association with the Trump camp! NONE!"

That is George Papadopoulos, a CFP, CPA, and Wall Street Journal Expert Panelist.

He really wants everyone to know this morning that he is not the former Trump foreign policy adviser who shares the same name and was just arrested for lying to the FBI.

Thanks to the magic of Twitter, hundreds of people are firing off messages at him in a classic case of mistaken identity.

He continues to reply that there is more than one George Papadopoulos.

Twitter's continuous response to him?

"Your name's Lebowski, Lebowski. And your wife is Bunny."

"If I could change one thing it'd be to have both my parents here seeing how far I've come from the punk who got fired from an ice cream shop."

That's Kevin O'Leary in an interview with CNBC on what motivates him and how far he's come since he was shown the door at his first job. It's a fairly good interview. The highlight comes at the end when his mother gave him advice that he said he'd never forget. "There're two types of people in the world," she said, "those that own the store and those that scrape the s--- off the floor, and you have to decide which one you are.'"

"I've seen the headlines about the world's most useless airport, but for St. Helenans this has already been the most useful airport."

It took about 90 years and £285 million ($376 million), but St. Helena finally has an airport.

Libby Weir-Breen, a travel operator who has brought tourists to the island for more than a decade, said that she has "never felt so emotional in all my life" about the opening of the airport.

She might need to get out more.

November 2017

OPEN OUTCRY

Matt Weller's article ("Trump's Fed could boost the buck," MT November 2017) claims that inflation is stubbornly low. The true rate of inflation is over 9%. The government can't admit the true [rate of] inflation as the increases in [spending tied to measured inflation] would [worsen] deficit spending. James Grant nailed it when he said the United States is depreciating the currency willfully with that high inflation rate the government won't admit to. We desperately need a balanced budget amendment and money backed by gold. Unfortunately the [United States] owns no gold and cannot return all the gold to other countries that they are demanding be shipped back to them.

Also, bitcoin has no intrinsic value at all, it is pure speculation on top of a con game that will fleece the greater fools. It is not secure, as exchanges have been hacked. People have lost their hard drives with their coins and they have forgotten their magic number making their coins useless. In the long run, it cannot work as it does not scale and is too slow while using too much power. [It is not] easy to use and is too volatile for use as a real currency. No government will accept bitcoin for taxes, so it will never replace fiat money.

William Adams, PhD
Roanoke, VA
Subscriber since 1990

We believe your inflation figure is inflated, but acknowledge that inflation, as consumers experience it, is greater than the core (ex food and energy) inflation figures reported by the Bureau of Labor Statistics. According to the World Gold Council, the United States has 8,133.5 tons of gold. Most economists believe a return to the Gold Standard would be extremely impractical and disruptive.

Daniel Collins, EIC

"Everyone will have five years to get their car off the road or sell it for scrap or trade it on a module."

That's Bob Lutz. The former General Motors executive doesn't expect a bright future for driving enthusiasts. In a recent essay, Lutz offers what we consider to be a dystopian vision of the future for transportation. Dealerships are doomed. Auto magazines are done. And auto retail?

Well, you can put one and one together.

Boy we can't wait to sit on automotive pods like transportation was right out of some Philip Dick hallucination. Exit question: How the heck are we going to get anywhere when cars are banned and the grid is taken down? Technology has a price. The black market for motorcycles will explode.


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Trades

19 HIGH CONVICTION IDEAS FROM TOP TRADERS, ANALYSTS & INSIDERS

WB: China's Twitter ready to break out

By **Doug Busch**

Weibo (WB) is a Chinese internet play that is up 174% year-to-date and 148% over last one-year period. Earnings have been on the ascent with three consecutive positive quarterly reports. The stock rallied 15.2% in the first half of November. Weibo is prone to big streaks as evidenced by a six-week streak ending in mid-May, which rose 48% and an eight-week streak of 37% ending in mid-September. WB broke above a double-bottom trigger at $105.60 on Nov. 8. Traders should get long WB on a pullback at $109. Δ

WB
Buy Trigger: 109
Stop: 105.10

***Doug Busch** trades U.S. equities using technical analysis with an emphasis on Japanese candlesticks.*

WEIBO (WB)
Source: ChartSmarter

This month in TRADES

4x Upside for Adamas Pharma

By **Sahm Adrangi**

Adamas Pharmaceuticals (ADMS), a small-cap drug company, will soon launch a treatment for patients with Parkinson's disease called Gocovri. The mainstay therapy for Parkinson's is a drug called Levodopa, which usually works well but frequently causes involuntary and often painful movements called dyskinesias.

High-quality Phase 3 studies have proven that Gocovri significantly reduces dyskinesias and improves patients' overall conditions, leading the U.S. Food and Drug Administration (FDA) to designate Gocovri the one and only drug approved for Levodopa-induced dyskinesia. With the potential to deeply penetrate a $3.5 billion addressable market, Gocovri is worth, $1.6 billion, or $65 per Adamas share.

Adamas is currently trading at a 64% discount to that value – even at a discount to its prior high of $30, reached years before FDA approval. In addition, Adamas is heavily shorted, with short interest standing at 33% of shares outstanding, equivalent to seven days worth of recent trading volume. Clearly many investors have little faith that Adamas will be able to capitalize on the Gocovri opportunity.

We believe this skepticism is misplaced. Criticism of Gocovri stems from aesthetics more than economics. Some market participants find it distasteful to make money by merely repackaging existing drugs in improved forms. This is what Gocovri – a high-dose, extended-release formulation of a generic drug called amantadine – does, leading to suspicion that it's nothing more than an unsustainable cash grab. But this view fails to appreciate the fact that Gocovri's generic, immediate-release counterpart, which is not FDA-approved for dyskinesia, has never been convincingly shown to work, with studies pointing to rapidly vanishing benefits and high rates of patient abandonment. By contrast, Gocovri's efficacy, even over the long term, is well-documented. In addition, multiple lines of evidence strongly suggest that Gocovri works 30% to 50% better than generic amantadine. Patients that switch from generic to Gocovri improve just as much as patients who switch from placebo.

Despite purists' doubts, many drugs that repackage old, off-patent molecules have done well commercially in recent years. For instance, **Raptor Pharmaceutical** (RPTP) was acquired for 5x consensus peak revenue even though its main asset was just a delayed-release version of a competing therapy. Despite a huge price premium, this delayed-release drug achieved 66% U.S. market share in only three years. Similarly, Acorda Therapeutics has achieved high market share and $500 million of annual revenue with an extended-release version of an old drug that the vast majority of patients don't even respond to.

Adamas specializes in the unglamorous enterprise of making existing treatments work better.

Gocovri is a good drug, not another poster child for pharmaceutical-industry misdeeds. Besides, even those misdeeds are often quite profitable. Multiple precedents point to the potential for repackaged versions of off-patent drugs to generate billions of dollars of value, even in cases of dubious efficacy or only modestly improved convenience. Gocovri, with a far more convincing story, should do even better.

Adamas Pharmaceutical
Symbol: ADMS
Market Cap: $600 million
52-week high/low: $28.69/$13.68
Target: $100

Adamas's recent success has been a long time coming. Founded in 2000, Adamas, then called NeuroMolecular Inc., brought together Greg Went, a co-founder of the pioneering genomics firm CuraGen, and several scientific advisors, including the main inventor of the blockbuster Alzheimer's drug Namenda. The company focused its research on a class of neuroactive molecules called aminoadamantanes, including Namenda and a more obscure generic drug called amantadine. But rather than gamble on novel molecules, Adamas took a more hard-headed approach. It noted in a 2010 report:

Adamas was founded to approach drug development in an extremely practical way. … Adamas scientists work with well-characterized and widely studied drugs, which helps reduce the uncertainties typically associated with the development of new chemical entities."

In other words, Adamas specializes in the unglamorous, underrated, but nonetheless valuable enterprise of making existing treatments work better.

Beyond Gocovri, Adamas has two little-noticed Phase 3-ready pipeline assets with massive upside; in one case, despite compelling data and obvious M&A potential, no sell-side analyst has quantified what we estimate to be a $300 million opportunity. Overall, we believe Adamas is realistically worth over $100 per share – more than 4x higher than its current price. Δ

***Sahm Adrangi** is founder and CIO of Kerrisdale Capital Management, a private investment manager that focuses on special situations. @SahmAdrangi*

Short Prothena
The placebo shows more promise

By **Sahm Adrangi**

Prothena Corp. PLC (PRTA) is a $2.4 billion development-stage biotechnology company whose stock has climbed more than 700% since its spin-off from **Elan** (ELN) in December 2012. We are certain that its lead asset, NEOD001, will fail its ongoing Phase 2b and Phase 3 trials.

NEOD001 is a monoclonal antibody designed to treat amyloid light chain amyloidosis (AL amyloidosis). AL amyloidosis is a condition caused by light chain proteins misfolding, which then leads to the light chains sticking together and forming amyloid structures. These amyloids are then deposited within tissues and organs of the body where they interfere with organ function, and can potentially lead to organ failure/death. NEOD001 is intended to bind to and induce the removal of amyloid deposits.

Prothena Corp.
Symbol: PRTA
Market Cap: $2.1 billion
52-week high/low: $70/$45.13
Target: short

While this sounds good in theory, all clinical and scientific evidence points to disappointment. In the Phase 1/2 trial, NEOD001 failed to achieve meaningful clinical response, durable response, dose response, control over catastrophic events, or any apparent benefit at all.

The Phase 2b and Phase 3 trials will be no different. The imminent failure of NEOD001 comes as no surprise to amyloidosis researchers; in the words of one amyloid antibody co-inventor, the probability of NEOD001 succeeding in its Phase 3 trial is "almost zero." Another co-inventor believes that NEOD001 "is just not going to work."

Antibodies targeting AL amyloidosis have been around since at least 2000 but have performed poorly in practice. The principal issue is that AL amyloid deposits are far too heterogeneous for a single antibody to work consistently among patients. On top of the heterogeneity, researchers believe that organ-specific occlusion and amyloid proteolyzation could further contribute to the inability of AL amyloid antibodies to bind to their target epitopes and achieve meaningful responses. Radio imaging studies for other AL amyloid antibodies have shown that even in situations where investigators have achieved binding between antibodies and amyloid deposits in patients, there is virtually no effect on amyloid deposits in the heart or kidneys – the key targets in Prothena's trials. Prothena conspicuously opted against publishing such a radio imaging study for NEOD001.

Investors should ask themselves why a company would be so opaque with its clinical results and avoid releasing more detailed data.

In its Phase 1/2 trial, Prothena declares any patient who achieves a decline in NT-proBNP of ≥30% from baseline at any single point during its trial to be a responder. But NT-proBNP has been shown to have a week-to-week clinical variance of 35% – so seeing 53% of patients temporarily achieve a ≥30% decline in NT-proBNP at one point over a median of 12+ monthly measurements tells investors nothing. Using best response also masks patients who see their condition worsening because it only reflects the single best change in NT-proBNP. For instance, one patient saw his NT-proBNP levels skyrocket by 300% at which point he quit the trial, and another patient died during the trial. Both patients were recorded as "responders" under Prothena's hollow best response endpoint – but this will still not translate to statistically significant results in the placebo-controlled Phase 2b and Phase 3 trials because precedent published data shows that a control group can be expected to achieve a comparable NT-proBNP response rate. Prothena's purported cure is nothing but a deception to prop up its stock.

Prothena's valuation implies a high probability that NEOD001 will succeed in its Phase 2b and Phase 3 trials. This optimistic outlook is driven by management's guidance that the drug's Phase 1/2 results as presented to investors, specifically the cardiac best response rate, are far better than would be expected from a placebo group and proof that NEOD001 works.

We strongly disagree with this assessment. Prothena's cardiac best response rate is merely a byproduct of well-documented natural variance, and we believe there is no chance of NEOD001 producing statistically significant results in its current Phase 2b and Phase 3 trials.

NEOD001 is the most poorly understood "future blockbuster" drug currently pending pivotal results. Its best response measure merely confirms what is already well-known: there is high variability in month-to-month NT-proBNP measurements among patients. Investors should ask themselves why a company would be so opaque with its clinical results and avoid releasing more detailed data. ∆

Sahm Adrangi *is founder and CIO of Kerrisdale Capital Management, a private investment manager that focuses on special situations. @SahmAdrangi*

SNAP INC. (SNAP)
Source: ChartSmarter

Snap is still a short

■ By **Doug Busch**

Snap Inc. (SNAP) has been a reliable short since its overpriced IPO in March (see "The Banana Republic of Snapchat," MT April 2017). SNAP is a social media play down 49% since inception. Earnings momentum is about as weak as it can be, with its only three quarterly reports producing double digits sell-offs of 14.6%, 14.1% and 21.4%.

The stock is on a current four-week losing streak falling 24%. SNAP now sports a bear flag, which indicates a challenge to its all-time low just below $12. Traders should short SNAP on a sell stop below $12, which carries a measured move to $8.50.

Doug Busch *trades U.S. equities using technical analysis with an emphasis on Japanese candlesticks.*

SNAP
Sell Trigger: 12
Stop: 13

Three Software Buys

By **John Blank**

If you want to invest in the hot technology sector, but are looking to drill down to a more specific niche, you may want to look at the Business Software Services sub-sector. This is a Zacks industry sub-sector with 12 public companies. This active information technology niche is currently ranked #21 out of the 265 sectors Zacks rank, which puts it in the top 8%.

The 2017 year-to-date return is 28%. Further, it doesn't look like covering analyst earnings upgrades will stop arriving anytime soon. Evidence for that is that eight companies in the sector have recently been upgraded in our system, with only one downgrade. The proprietary Zacks heat map shows this group has stayed hot, going back eight weeks in a row, and it is getting hotter over time.

A recent industry report by Grand View Research stated that traders should expect the global business software and services end markets to grow smartly. They say this is primarily due to a relentless need for transparency and efficiency in ever more complex, information technology-oriented internal business functions.

Furthermore, compliance with stringent government regulations assists the broad implementation of such software. Business software can improve productivity and minimize complexity. Often known as enterprise software and services by this 'wonkie' crowd, their programming efforts facilitate the integration of numerous business processes.

Their latest software upgrades assist a smoother flow of information across functions. That makes for quicker decision making and speeds up both worker and machine-based productivity. The business software industry segments its programming effort based on functions; usually into finance, human resource and supply chain.

The finance function accounts for a maximum share of activity. Software makes it easy to manage different financial activities including investment, accounting, asset management and cash flow management. Yet, the human resource function should show the maximum growth. This is due to ballooning organizations in rapidly expanding companies.

A high cost of implementation, and a high level of competition within this very established market, act as the major restraints for those in the business.

Three top Zacks Picks include **Synnex Corp.** (SNX), a Zacks Rank #1 (STRONG BUY); **Cognizant** (CTSH), a Zacks #2 Rank (BUY) and **Wipro** (WIT): A Zacks Rank #2 (BUY). ∆

***John Blank** is the chief equity strategist at Zacks. He covers the global financial markets for Zacks.com. @JohnBlank100*

TOP-RATED INDUSTRIES

Top stocks in top-rated industries.

Source: Zacks

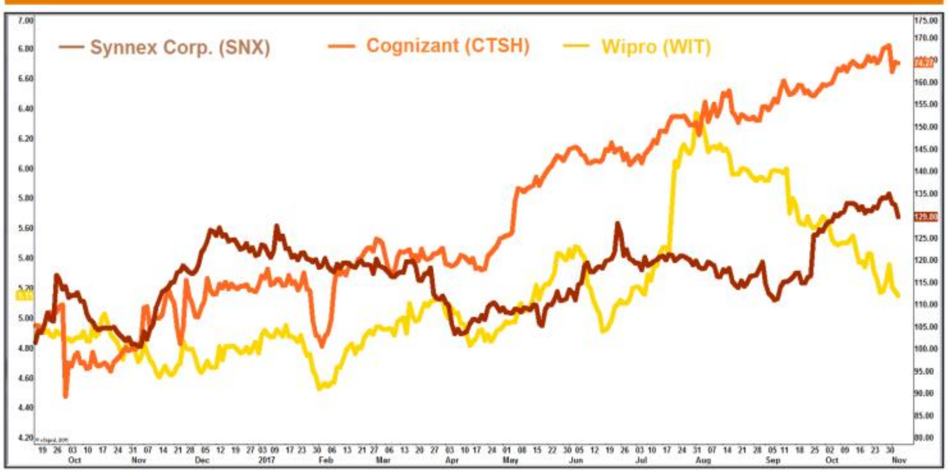
Top Zacks Industries with Stocks

Industry	Top Stocks		
Office Supplies	ACCO	AVY	
Household Appliances	ELUXY	WHR	
Building Products: Air/Heating	AAON	FIX	LII
Publishing: Books	JW.A	SCHL	
Consumer Products: Misc Staples	ENR	NWL	TUP
Insurance: Accident & Health	AFL	EIG	TRUP
Machinery Tools	ATU	KMT	SDVKY
Consulting	ACN	FCN	IT
Semiconductor Equipment	AEIS	AMAT	KLAC
Office Products	DLX	HNI	KNL

BEST OF INFO TECH

These top-rated tech stocks have performed well in 2017.

Source: eSignal



Tech stocks & energy appear volatile

■ By **John Rawlins**

The Cycle Projection Oscillator (CPO) is a technical tool that employs proprietary statistical techniques and complex algorithms to filter multiple cycles from historical data, combines them to obtain cyclical information from price data and then gives a graphical representation of their productive behavior. Other proprietary frequency domain techniques then are employed to obtain the cycles embedded in the price.

AMAZON

Amazon (AMZN) began a rebound in September that accelerated in late October. The CPO expects the rally to carry into December before beginning a long downward cycle. The weakness is expected to be relatively moderate at year-end and through the first quarter of 2018, but then accelerate in the second quarter of 2018. Traders who miss shorting AMZN in December should look for rebounds in early 2018 as a shorting opportunity.

APPLE

Apple (AAPL) has been in a steady uptrend since mid-2016, which has seen its value nearly double since May 13, 2016. Currently the CPO shows Apple nearing overbought territory and ready for a mini-correction. While Apple is surely due a correction, the CPO expects only a minor retracement in late November/early December before once again turning higher. Despite being overbought, a safer play would be to wait for a correction as the CPO expects Apple to begin another move higher in December that should bring it to new all-time highs in the first quarter of 2018. At that point, a more substantial correction is expected.

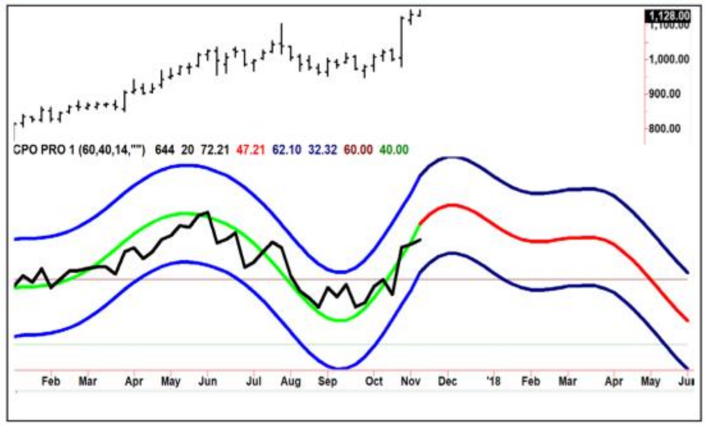
GOOGLE

Google (GOOG) has had an impressive rally in the second half of 2018 after a minor correction in the summer. The CPO expects Google to remain range bound for the remainder of 2018 before rallying sharply in January. The spike forecast by the CPO in January and February may be significant, but also will set up a serious shorting opportunity by the end of first quarter 2018. The sell-off is expected to extend through Q2 and challenge major support at the July 2017 low just below $900.

NATURAL GAS

Natural gas has been in a pretty tight 50¢-range for most of 2017 after rebounding from lows set in February. That is about to change according to the CPO, which expects an explosive rally to close out

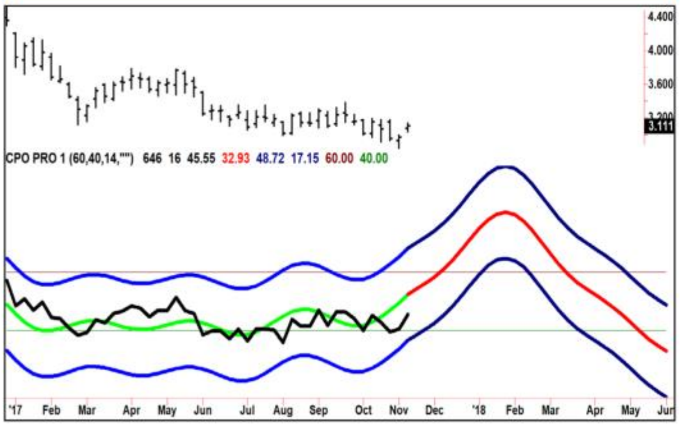
AMAZON



APPLE

GOOGLE

NATURAL GAS



CRUDE OIL

2017, as we enter the heating season in earnest. In what could be described as a volcano pattern, the CPO shows natural gas rallying through January before reversing course and selling off just as sharply beginning in February. The rally should challenge the later 2016 highs near $4 and the sell-off–expected to last into June–could challenge 2016 lows below $2.

CRUDE OIL

Crude oil broke out of its downward pattern this summer and recently took out its 2017 high above $55. This has pushed crude into overbought territory on the CPO. With crude solidly overbought, it could be a good shorting opportunity, though the CPO's overall outlook doesn't have crude turning lower until around Christmas or New Years. At current levels, it may make sense not to wait but if crude breaches $60 that would be a good area to short. The CPO expects crude to continue to drop well into the second quarter and test mid-2016 lows near $40. Δ

John Rawlins *is a former member of the CBOT with more than 30 years of experience in trading and research. He co-developed the Cycle Projection Oscillator with an aerospace engineer. @cpopro1*

A look at long-term trends of commercial interest in the CFTC's "Commitments of Traders" report.

Corn & cattle divergence

By **Andy Waldock**

This month, we'll focus on two related markets at opposite ends of their respective trends, cattle and corn. The domestic cattle industry has been expanding its herds for the last couple of years. Ranchers have taken advantage of low grain prices to hold cattle back, and drive up prices. After recently reaching a 60-year low, the U.S. cattle herd is expected to be the largest it has been in 10 years heading into 2018.

Obviously, these animals will need to be marketed. This is where the story divides the market's players' actions. Speculators tend to move from one hot market to the next with expectations of capturing quick profits. We noted this behavior last month as the speculators jumped into the energy markets to play the hurricane action. The 16% cattle rally since the September low has caught the eyes of speculators looking for the next hot market. Speculators in the live cattle market are long 4.5 contracts for every contract they're short. This is only the fourth time in the last 20 years that the market has been so imbalanced that the speculative COT ratio has climbed above 4 to 1. The record for this ratio is just over 6 to 1, which was set in August of 2004.

Building further on last month's piece, we noted that the COT ratio might not tell us when the next trend begins but it is very good at measuring speculative bubbles.

This leads us to the commercial side of the equation. Commercial traders use the futures markets to hedge their positions. Their actions explicitly state that they do not expect to be able to market these cattle at delivery anywhere near the $130 per hundred weight level at which we've been trading. This is most obvious in the feeder cattle market where the commercial traders just set a new net short record.

Meanwhile, the commercial traders in the live cattle market are very near the record short position they set last June. We'll be watching their actions closely as they may set a new record short position now, at lower prices than they did last summer. When they set new record positions at worsening prices, we pay attention.

Market	Net Commercial Position	Commercial Trader Momentum	Trend, Sideways, Reversal
Currencies	**4 Week Net Change +/-**		
AD	-68,738	Negative	Sideways
BP	-19,970	Negative	Sideways
CD	-89,688	Negative	Sideways
DX	-2,547	Negative	Sideways
EC	-105,598	Negative	Sideways
JY	146,992	Positive	Reversal +
SF	25,257	Positive	Sideways
MP	-58,138	Negative	Reversal +
Grains			
BO	-76,293	Negative	Sideways
C	60,139	Positive	Reversal +
KW	-4,821	Negative	Reversal +
S	-19,533	Negative	Sideways
SM	-53,515	Negative	Sideways
W	39,074	Negative	Sideways
O	-3,217	Negative	Reversal -
Rates			
ED	2,822,882	Positive	Reversal +
FN	522,135	Positive	Reversal +
TY	85,298	Positive	Sideways
US	-13,884	Negative	Sideways
Metals			
GC	-210,653	Negative	Sideways
HG	-56,807	Negative	Reversal -
PL	-27,083	Negative	Reversal +
SI	-75,505	Negative	Sideways
Energy			
CL	-449,589	Negative	Reversal -
HO	-77,001	Negative	Reversal -
NG	48,096	Positive	Sideways
RB	-81,065	Negative	Reversal -
Softs			
CC	-5,774	Negative	Reversal -
CT	-52,054	Negative	Sideways
KC	26,660	Positive	Reversal +
OJ	-916	Negative	Reversal -
SB	64,580	Positive	Sideways
Meats			
FC	-4,859	Negative	Reversal -
LC	-93,627	Negative	Reversal -
LH	-23,341	Negative	Sideways
Indices			
DJ	-80,919	Negative	Sideways
ES	-98,748	Negative	Reversal -
ND	-33,440	Negative	Sideways
RU	1,948	Positive	Sideways

Corn

Cheap corn prices have fueled the cattle herd expansion. The corn market has been on a downward slide since the August 2012 peak, except for a couple of brief spikes. However, the market is beginning to behave in a manner that suggests it's finally building a base that could lead to higher prices. The December 2010 corn futures contract bottomed near $3.43 per bushel. The current December contract has bottomed at $3.425. The noteworthy part is that the speculative position is short more than 70k contracts with less than 50¢ in anticipated short side profit potential, at best. They seem earnest in their attempt to drive prices towards $3 per bushel.

Remember to look at the actual expired contracts to find the real prices, rather than a continuous back-adjusted chart. The formations and prices are significantly different. The significant numbers are the 2014 and 2016 lows at $3.18 and $3.15 as well as the 2008 and 2009 lows at $2.90 and $3.02, respectively. Our guess is that the speculators will not be able to push the market much lower for very long.

Finally, the corn and cattle market have a unique relationship. Between trends, their price action is typically positively correlated, as the final price of cattle varies with the price of the corn input. At the extremes, this relationship turns negative as either the cattle or corn market move becomes unsustainable. Cheap feed prices have helped restrict consumer supply as ranchers rebuild their herds. These animals are beginning to come to market as ranchers decide whether to keep them through the winter or cash out. We expect this to lead to herd liquidation with this year's corn harvest being stored for spring feed. We'll have to keep an eye on the stocks-to-use ratio in the Dec. 12 U.S. Department of Agriculture supply and demand report to see which side has the upper hand heading into the New Year. Δ

Andy Waldock *is a futures trader, analyst and founder of brokerage firm Commodity & Derivatives Advisors. He specializes in analyzing the CFTC COT data. @waldocktrades*

Blockchain Applications

By **Christine Short**

While there still continues to be an ongoing debate around the value of cryptocurrencies, with well-known CEOs such as Jamie Dimon claiming it is a fraud and many others wondering if there is any practical use for them. An opinion that is far less controversial is the value of the blockchain. This distributed ledger technology keeps records of economic transactions, and while it was initially built to manage bitcoin transactions, it isn't limited to digital currencies but can be applied to anything of value.

Deloitte recently reported that the number of blockchain-related projects on GitHub clocked in at more than 26,000 in 2016. We are just in the infancy of discovering how the blockchain can be utilized outside of digital currency, and that is sure to have a major impact across a variety of sectors.

The first and most obvious sector in which the blockchain is already being applied is financial services. Bankchains are picking up in popularity as the blockchain makes transactions public record and removes any risk that payments won't go through, eliminating the necessity of a third party to oversee this process, potentially making banks obsolete in the future.

Blockchain startups such as Ripio provide a peer-to-peer lending platform to extend credit lending globally. The utilization of tokens and "smart contracts" ensures that each loan is secure and that all parties involved are accounted for. This includes a co-signer who agrees to repay the loan in the case that the borrower defaults.

The consumer discretionary sector is expected to get shaken up again, at first it was the trend towards e-commerce, and now disruption will be caused by the blockchain. Most retailers pay big bucks to hire advertising agencies that act as a liaison between the company and potential customers. These ad companies rely heavily on consumer data from the likes of **Amazon** (AMZN) and **Google** (GOOG) to develop the most efficient ways to market to each individual in a target audience. By providing secure decentralized ledgers, the blockchain is giving consumers control over which information they want to share. As such, a whole slew of blockchain applications have cropped up in this space, many that facilitate better connections between retailers and customers. Incentive- based platforms like NAU give individuals cryptocurrencies in return for their data, and for inviting others to share their data. Or companies like Bitclave that eliminate the advertising middleman in order to directly connect a business to its customers.

Deloitte recently reported that the number of blockchain-related projects on GitHub clocked in at more than 26,000 in 2016.

Other potential benefits to retailers include using the blockchain as an additional, and potentially less expensive way for customers to pay for merchandise. Currently, most retailers pay roughly 2% transaction fees for all purchases made with a credit card. Bitpay is a startup in this space that helps retailers integrate bitcoin payment options. There are impediments to this becoming more widely accepted due to the extreme volatility of digital currencies and the ongoing debate over value. However, if these cryptocurrencies could keep transaction fees lower than current credit card rates, this could be a boon for retailers.

Application of the blockchain could also revolutionize supply chain management. It's ability to closely track individual goods as they make their way from the supplier to the customer by keeping a thorough and secure record of serial numbers and transportations would lead to a more efficient logistics process and get products into consumers' hands more quickly. This will also help reduce the circulation of fake goods, making counterfeiting more difficult by keeping a record of every step of the supply chain process and fully documenting the journey of a product through secure labeling and tracking. This is useful for the loads of consignment markets that have cropped up such as TheRealReal, Thredup and Rebag that have to assure the authenticity of designer items. It will also will help with event ticket sales for third-party distribution platforms such as Stubhub and in guaranteeing the safety of food and wellness products.

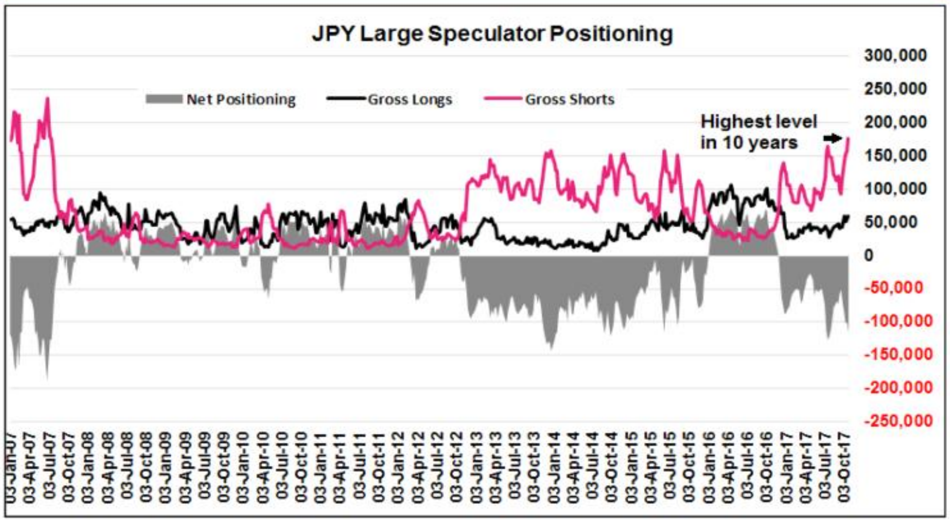
The future for the blockchain seems endless, but we are only in the first inning. While financial services and consumer discretionary appear to be the most easily disrupted sectors in the early days, there is no doubt several more applications will be discovered as this technology develops. Δ

Christine Short, *Estimize senior VP, is an expert in corporate earnings who produces content highlighting Estimize data. @estimize*

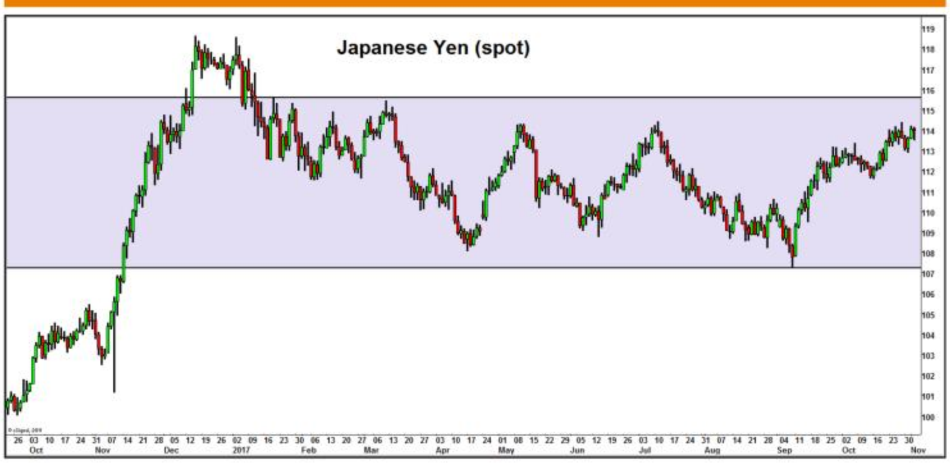
Yen at bearish sentiment extreme?

■ By **Matt Weller**

BEARISH YEN
Large speculators have record short positions in Japanese yen futures.
JPY Positioning
Source: CFTC/Faraday Research



YEN ON THE RANGE
Despite record speculative short positions, the yen has remained in a relatively stable range in 2017.
Source: eSignal



The pendulum of market sentiment swings ever back and forth between fear and greed.

Taking the U.S. dollar as an example, greed was ascendant at the turn of the year. Investors were optimistic about the pro-business policies of President Donald Trump and that the Federal Reserve would be the only major central bank raising interest rates. As the realities of governing and economic hiccups deflated dollar bulls' wildest hopes, market sentiment swung back to excessive pessimism toward the U.S. dollar. By the end of the third quarter, the fear had reached a short-term extreme, setting the stage for the dollar's recovery over the last two months.

While these sentiment extremes are difficult to pinpoint in real time, there are some tools that investors can use to help increase their odds. One of the most useful tools is the Commodity Futures Trading Commission's (CFTC) Commitments of Traders (COT) report, which provides a snapshot of how futures traders are positioning themselves in different assets. When these traders grow lopsidedly long or short in a certain market, it suggests that a potential reversal may be at hand. In other words, when everyone's already long a market, there's no one left to buy and vice-versa.

Skimming the latest COT report, there's a risk that such a situation is developing in the Japanese yen. According to the most recent data (through Oct. 24), speculators are short nearly 177,000 yen contracts, the highest gross short reading on the yen since July 2007 (see "Bearish yen" left). The net short positioning (which accounts for speculators who are long) is slightly less extreme at around 117,000 contracts, but is still within striking distance of the 10-year extreme at about 144,000 contracts. Put another way, net short positioning in the yen is currently in the 97th percentile of all the readings over the last 10 years.

Interestingly, this extreme bearish sentiment in the Japanese currency has developed despite a lack of a clear trend in USD/JPY; the pair has spent almost the entire year range bound in the 108.00-115.00 zone (see "Yen on the range," left). More broadly, the yen has been a middle-of-the-road performer among the major currencies

The bar is low for positive economic surprises in Japan.

so far this year, ticking higher against laggards like the New Zealand dollar and Swiss franc, while falling against standouts like the euro and pound sterling.

Fundamentally speaking, it's clear why traders have staked out such an extreme position. The Bank of Japan (BOJ) continues to aggressively buy assets of all types in an effort to stimulate the economy, and Goushi Kataoka, the newest BOJ governor, has been calling for even more aggressive stimulus in recent months. Despite these unprecedented measures, inflation remains mired well below the central bank's 2% target, meaning that the easy-money policy is likely to remain in place until 2019 at the earliest.

That said, the night is often darkest just before the dawn. With yen bulls as downbeat as they've been in a decade, despite a relatively stable currency, the bar is low for positive economic surprises in Japan. Even if Japan's economy doesn't show signs of perking up in the coming months, yen bears could struggle to push the currency lower given the already-lopsided positioning, especially against currencies that speculators have accumulated heavy long positions in, like the euro and Canadian dollar.

Make no mistake; the yen could certainly fall further from here, much as it did after reaching its last sentiment extreme in late 2013. Sentiment and positioning analysis is far from a foolproof tool. But if the recent past is any guide to the future, the forex market's sentiment pendulum may be reaching its a pessimistic extreme on the Japanese yen. ∆

Matt Weller, *CFA, CMT is a Senior Market Analyst, Faraday Research*

La Quinta solo + CorePoint Lodging = $2.4 billion

By **Joe Cornell**

In November La Quinta Holdings (LQ), trading at $17.05 for a market cap $2 billion, announced plans to separate its real estate business–to be named CorePoint Lodging Inc.–from its franchise and management businesses to create two distinct, publicly traded companies. La Quinta Holdings has hotels throughout the United States, Canada and Mexico. La Quinta has more than 880 hotels, which encompass some 87,000 guest rooms. Most of the chain's hotels operate in the limited service, midscale segment. It targets a mix of corporate and leisure travelers on a budget. Backed by investment firm The Blackstone Group, the company went public in 2014.

La Quinta is on track to complete the taxable spin-off of CorePoint Lodging, the company's owned real estate business in

INSIDE THE NUMBERS

Source: Bloomberg & Spin-Off Research

La Quinta (Stub)

$ million	Sales	Adj. EBITDA
2018E	535	112
EV Multiple (x)	2.7x	15.0x
Enterprise Value	1,446	1,687
Average EV		**1,566**
Less: Net Debt		(450)
Equity Value		**1,116**
Shares (million)		117
Target Price ($)		**10.00**

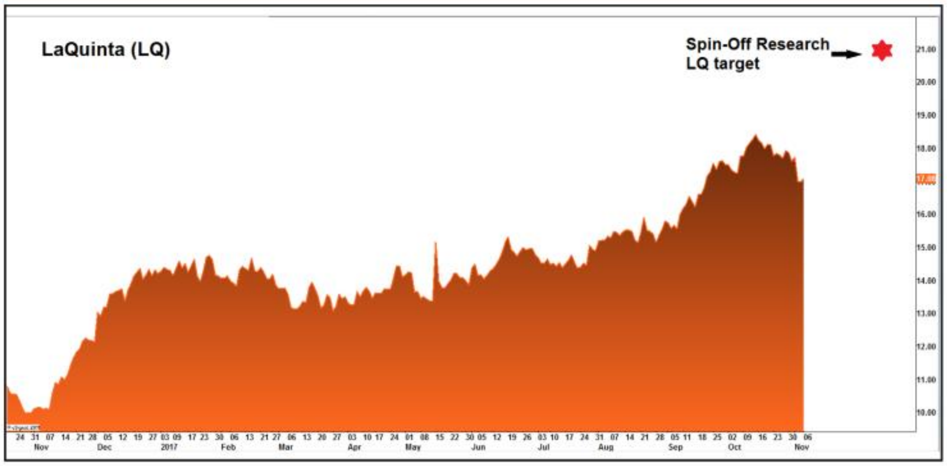
2) CorePoint Lodging (Spin-Off)

$ million	Sales	Adj. EBITDA
2017E	845	200
EV Multiple (x)	3.3x	10.7x
Enterprise Value	2,789	2,135
Average EV		**2,462**
Less: Net Debt		(1,197)
Equity Value		**1,265**
LQ Shares (million)		117
Fair Value per LQ share ($)		**11.00**

SUM GREATER THAN WHOLE

Spin-off Research forecast the value of the LQ and CorePoint to grow by 23% once spin-off is completed.

Source: eSignal



COMBINED VALUED

Bloomberg & Spin-Off Research

La Quinta Holdings (Consolidated)	
$ million	
New La Quinta Fair Value/LQ share ($)	10.00
CorePoint Fair Value/LQ share ($)	11.00
Target Price ($)	**21.00**

La Quinta is on track to complete the taxable spin-off of CorePoint Lodging, ... in the first quarter of 2018.

the first quarter of 2018. Post separation, La Quinta will focus on the asset-light franchise and management businesses, which offer strong visibility through the expected long-term franchise and management contract agreements with CorePoint. After the separation, CorePoint could operate as a tax-efficient real estate investment trust (REIT) with a robust portfolio of owned hotel properties. We believe both companies could be attractive targets for any industry player seeking consolidation.

Following the transaction, La Quinta plans to actively capitalize on the embedded growth opportunity of a large and growing pipeline; strong interest from developers in expanding the La Quinta brand into the more than 30% of U.S. markets where the brand is not yet represented and a scalable property management platform, according to the LQ.

CorePoint Lodging will have a portfolio consisting of 316 hotels, excluding three hotels held for sale, with approximately 40,500 rooms located in key U.S. locations. The company stands to benefit from the continuation of a longstanding and mutually beneficial relationship with La Quinta. As a standalone public company, CorePoint's total adjusted EBITDA (Earnings before interest, taxes, depreciation and amortization) for the full year 2017 is estimated to be between $200 million and $215 million. It plans to grow its portfolio primarily within the midscale and upper-midscale select-service lodging segments.

Sum of the Parts Valuation

We sum the two units to arrive at an estimated target price of $2.4 billion or $21 per share for La Quinta consolidated (see "Inside the numbers," page 23). This suggests 23% upside from current levels (see "Sum greater than whole," above). We value "new" La Quinta at $1.1 billion or $10 per LQ share, we value CorePoint Lodging at $1.26 billion or $11 per LQ share (see "Combined value," above). ∆

Joe Cornell is the founder and publisher of Spin-Off Research, a chartered financial analyst and author of "Spin-Off to Pay-Off." @spinoffresearch

With ETFs, you need to look under the hood

By **Matt Litchfield**

Exchange-traded funds (ETFs) can represent a specific index such as the SPY or even an underlying commodity, but many are created to capture smaller slices of an equity sector. How they are labeled can too often be about marketing and can inaccurately represent what they hold. If you make investing decisions based on a name and not a careful analysis of the underlying equities within an ETF, and their weighting, you may be getting something you did not plan for. Worse, you can accurately analyze market fundamentals, but still lose by picking an ETF that doesn't quite represent the specific market sector you are looking at.

Consider the recent introduction of the Department of Labor's new Fiduciary rule, the first major change in the laws governing how financial professionals manage retirement assets since the introduction of ERISA in 1974. The elevation of advisors to the level of fiduciaries led many to conclude that the entire investment industry was about to undergo a revolution, with the biggest losers being independent broker-dealers whose profits depend on advisors selling commissioned products that would run afoul of the new rule. Enter the iShares U.S. Broker-Dealers & Securities Exchanges ETF (IAI), part of a suite of funds offering exposure to different parts of the financial services sector and the only pure play brokerage fund on the market. For a while, IAI did seem to track the debate of the proposed new rule. The brokerage industry had been under intense regulatory pressure for years until Donald Trump's election helped it regain some lost ground with IAI benefiting from the "Trump Trade" after his election.

IAI: IT'S NOT WHAT YOU THINK

The top 10 holdings of IAI are heavy on exchanges and investment banks and light on broker dealers.

Source: iShares

Ticker	Name	Sector	Weight (%)	Notional Value
GS	GOLDMAN SACHS GROUP INC	Financials	10.58%	17,480,390.59
MS	MORGAN STANLEY	Financials	9.68%	15,993,105.66
SCHW	CHARLES SCHWAB CORP	Financials	8.74%	14,429,495.85
CME	CME GROUP INC CLASS A	Financials	7.99%	13,194,418.16
ICE	INTERCONTINENTAL EXCHANGE INC	Financials	7.11%	11,736,333.20
AMTD	TD AMERITRADE HOLDING CORP	Financials	4.75%	7,845,113.76
CBOE	CBOE GLOBAL MARKETS INC	Financials	4.71%	7,782,034.44
ETFC	E TRADE FINANCIAL CORP	Financials	4.58%	7,565,707.80
RJF	RAYMOND JAMES INC	Financials	4.44%	7,327,878.84
NDAQ	NASDAQ INC	Financials	3.65%	6,031,445.85

But fast forward to 2017 and something went wrong as IAI continued to outperform even as the Fiduciary rule began to be implemented last June.

Some traders might be wagering that a Republican Congress will be able to overturn or water down the rule, but the fund doesn't deserve all the blame for its strong performance as very few broker-dealers, especially independent brokers, are even publicly traded and those that are: **LPL Financial Holdings** (LPLA), **Ameriprise Financial** (AMP) or **Raymond James** (RJF), are large enough to employ small armies of lawyers and compliance specialists to digest the 1,000+ pages that make up the Fiduciary rule. In fact, many of the firms unloading their brokerage arms are insurance firms who decided that the regulatory costs of having a captive sales arms outweighed any benefits. **Metlife** (MET), **AIG** (AIG) and **Prudentia**l (PRU) have all sold their brokerage arms.

IAI was designed to offer representation to a wide swathe of the financial sector including investment banks, discount brokerages and exchanges. This was necessary to build a sector fund to keep it from being too concentrated, especially given the relatively few publicly traded firms. It doesn't leave a lot of room for a pure brokerage play. Even then, IAI is both heavily concentrated in just 26 names and has a modified market cap weighting system, which results in more than 60% of the fund's assets being in just the top 10 holdings (see "IAI: It's not what you think" above). This means that while you'll see big independent broker dealers like LPL Financial in the fund, it has less than 3% of the assets, while a similar firm like Ameriprise isn't included at all. Instead, the top spots include larger firms like investment banks **Goldman Sachs** (GS) and **Morgan Stanley** (MS) who are less dependent on their wealth management teams to bring home the bacon and more capable of managing the new rule. Futures exchange **CME Group** (CME) is one of IAI's top holdings. How did it get in an ETF of U.S. Broker-Dealers & Securities Exchanges?

What this shows is that when buying an ETF, just like with food labels, it's important to look at the list of ingredients. Δ

IAI was designed to offer representation to a wide swathe of the financial sector ... It doesn't leave a lot of room for a pure brokerage play.

Matt Litchfield *is the content editor for ETF Global at ETFG.com @etf_global*

Naked Put Power

By **Michael C. Thomsett**

The covered call is a well-known, widely liked option strategy. But often overlooked is the equally attractive uncovered, or naked put. The naked put has the same market risk characteristics as the covered call, with some distinct advantages: You do not have to own 100 shares to write a naked put, and the put can be rolled forward to any strike you want without having to worry about exercise.

Some disadvantages have to be observed as well. You need to deposit collateral equal to 20% of the put's strike price value, and you do not earn dividends with a naked put as you do with a covered call.

Overall, the naked put is desirable because of its flexibility. Not being tied to stock ownership, the major restriction is the collateral requirement. However, opening a naked put with a few important attributes provides the same level of income as a covered call.

Two primary features maximize the opportunity with naked puts. Ideally, the naked put should be purchased well out-of-the-money with a good buffer zone between the strike and the current price. This protects you against exercise if and when the underlying moves against you and the put ends up in-the-money. Second, expiration should occur very quickly. The ideal timing is on the Friday one week before expiration. This is a crucial date because, on average, options lose one-third of their remaining time value between Friday before expiration and Monday. This is when a single trading day passes but three calendar days pass. For example, if you sell a naked put for $300 on the Friday before expiration, on Monday, expect it to decline to about $200.

A good example occurred with **Amazon** (AMZN) on the close of business Thursday Nov. 9 (see "Amazoned" below). It highlights an advantage found with opening naked puts on Friday, Nov. 10 and expiring one week later on Nov. 17.

You do not have to own 100 shares to write a naked put.

AMAZONED

Amazon was set up for a good put writing opportunity in November.

Source: StockCharts.com

The price had jumped about $130 two weeks earlier on positive earnings news and a change in the target price. As of Nov. 9, the underlying closed at $1,129.13. Two hours after Friday's open, the underlying price has dropped to $1,127.50 per share. Options available for trading on Friday after two hours of trading, at the following values:

Strike	Put bid
1,117.50	6.55
1,107.50	3.90

Either of these short puts could be traded. Both expire in one week, and both contain attractive premiums. Assuming $5 brokerage fees, the 1,117.50 strike nets $650 and the 1,107.50 put nets a credit of $385. The selection of one over the other depends on a balance between your risk perception and the premium income. The 1,117.50 strike is $10 below the price of the underlying, at $1,127.50. Thus, the buffer zone is $10 plus $6.50 from premium, for a total buffer of $16.50 and margin requirement of $21,550.

The 1,107.50 strike is $20 below the underlying price, and yields a net of $3.85. So the total buffer is $23.85 and margin requirement of $20,550.

These examples demonstrate that on a high-priced stock such as AMZM, a nice cash flow can be generated with naked puts. However, you have to be willing to post cash in your margin account to take care of collateral. That is 20% of the strike value, minus premium received for selling the put. To calculate margin for any trade, use the free margin calculator offered by the Cboe website.

A case can be made for either covered calls or naked puts. Both offer advantages, but for many traders, the naked put is more desirable. It overcomes the need to hold 100 shares of the underlying, and even with collateral, the leverage is tremendous (20% vs. 50% margin for stock). Δ

Michael Thomsett *is author of 13 options books and has been trading options for 35 years.*
@michaelthomsett

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10 Market Makers & Shakers

By **Garrett Baldwin & Daniel P. Collins**

Xi Jinping

The Chinese President has consolidated power in a way that hasn't been witnessed since Mao Tse-tung. Now, Xi will aim to expand China's influence on the global economy. In a more than three-hour speech in October, Xi outlined a "new era" o Chinese power. Xi wants to lead the word on economic, military, political and environmental issues. Is that the reason so many people are encouraging children in the United States under five years of age to learn Mandarin?

Satoshi Nakamoto

Nine years since the mysterious name graced the whitepaper calling for the creating of a decentralized peer-to-peer network. Since 2009, the price of one bitcoin has surged from a half penny to as much as $7,765. The price has surged higher in nations where local currencies have been battered by triple-digit inflation. Meanwhile, every central banker and Wall Street "expert" has speculated on the long-term value or the "speculative bubble" that bitcoin finds itself in. Regardless, 2017 was the year when bitcoin became a legitimate asset in the eyes of millions of investors around the globe. Both CME Group and Cboe Global Markets have plans to list futures on bitcoin before 2017 is over. Bitcoin won't go away, and the blockchain is here to stay.

Steve Bannon

The Republican Party is in the midst of a brewing civil war that will come to a head in November 2018 with the mid-term elections. And riding a pale horse is former White House Chief Strategist Steve Bannon who also served as CEO of President Trump's 2016 campaign.

Bannon, a controversial figure from the start as the defacto leader of the alt-right movement, has returned to his home at Breitbart News and has his sights on traditional GOP leadership. Bannon previously worked to support primary challengers to establishment Republican politicians, but has escalated his fight since exiting the White House and has vowed more primary challenges to remove Senate Majority Leader Mitch McConnell from leadership. In an interview with the *Economist* after leaving the Administration, Bannon quipped, that in the White House he had "influence," but at Breitbart he has "power."

Robert Mercer

How did Steve Bannon gain so much power? Robert Mercer, his long-time benefactor, bankrolled Breitbart News and has been huge supporter of conservative causes. Mercer is co-CEO of $50 billion plus hedge fund Renaissance Technologies and majority owner of Breitbart though he announced recently plans to leave Renaissance and to transfer his stake in Breitbart to his daughter.

Bannon photo by Gage Skidmore. Kim Illustration, Courtesy DonkeyHotey. Tilly, courtesy of Cboe. Mueller, courtesy Medill DC

Kim Jong-un

Geopolitical tensions are rising around the globe after a year of very low volatility. While Spain and Venezuela continue to exhibit social chaos, there is no single greater threat than the nuclear program developed by North Korea over the last two decades. Kim is playing a game theory box from the dominated position. But he's using his nuclear threats as a way to effectively blackmail the rest of the world and strike fear into political opponents.

Ed Tilly

Cboe Global Markets' (CBOE) Chairman and CEO Ed Tilly has been busy in 2017. He has overseen the successful integration of Bats following its acquisition by Cboe and a pretty significant shake-up of senior staff following the merger. Cboe was also the first major exchange to announce plans to launch futures on bitcoin and cryptocurrencies with a targeted Q4 launch. Oh, and by the way Cboe stock is up more than 50% on the year.

Scott Adams

Scott Adams is more than the creator of one of the most popular syndicated cartoon strips ever. His time management and visualization platform WhenHub recently launched an initial coin offering and his book: *Winning Bigly: Persuasion in a World Where Facts Don't Matter,* explains the strategies of persuasion that allowed Donald Trump to win the 2016 presidential election against all odds (see Winning Big League with Scott Adams," page 42). For Adams it wasn't a matter of hindsight, he was one of the first to predict Trump's upset.

This year's market makers and shakers include an eclectic group of world leaders, political operatives and market innovators that will be creating market disruptions for years to come.

Robert Mueller III

When Robert Mueller III was appointed by Deputy Attorney General Rod J. Rosenstein as special counsel to investigate Russian interference in the 2016 presidential election, he was widely praised across the political spectrum as an unimpeachable professional prosecutor. As the investigation has gained steam, Mueller has ruffled feathers and supporters of the Administration have begun to target Mueller. That is a clear indication that he is making people nervous. (Image)

Jerome Powell

The soon-to-be central bank chief will now attempt to navigate the great unwinding of the Federal Reserve's $4.6 trillion balance sheet. Trump's nomination of Powell was hardly surprising given the other candidates. Powell offers Trump the chance to replace current Fed Chair Janet Yellen, yet carry on with the Fed's interest rate normalization plans and unwinding schedule. The former partner at The Carlyle Group joined the Federal Reserve Board of Governors in 2012, and he'll carry the central bank into the next decade.

Jeremy Corbyn

As if London didn't have enough problems, a man who praised the Venezuelan socialist revolution is getting very close to becoming the Prime Minister of the United Kingdom. But Corbyn is capitalizing on the collapsing support of current leader Theresa May. At a time that companies are reevaluating the stability of England in a post-Brexit world, Corbyn's plans may include robot taxes, heavy taxes, and more. That should end well. ∆

31 Moments & Minds that Made the Markets

By **Garrett Baldwin**

1. The Trump Inauguration

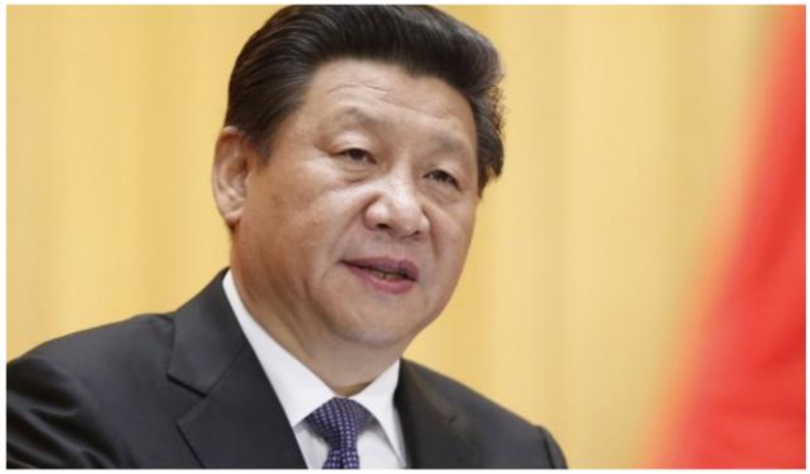
There were battles between President Donald Trump and reality over the official size of the crowd. But in the end, the only things that mattered were the stock market and GDP, and whether they went up or down. From Jan. 20 to Nov. 3, the Dow Jones added 18.7% to a post-election surge that has investors cheering. Third-quarter GDP hit 3%, topping economists' expectations. The jobless rate sits at the lowest level since 2000. Consumer sentiment is also at the highest level in nearly two decades. This data is either the sign of a prolonged rally or the harbinger of a future downturn. ➔

2. The "WTF Moment" of the Year: Saudi Purge

The Saudi government detained dozens of the nation's richest executives, princes, and other people of influence under a widespread crackdown on corruption in the nation. Was it a power grab or was it really an effort to stop illicit activity? In this case, questions will be asked when reporters start to follow the money. According to reports, the Saudi government, already facing a massive budget problem, is looking to confiscate cash and assets of certain individuals that is valued at as much as $800 billion. Anyone who is found guilty will see their assets become property of the state.

3. Xi Jinping Seizes Control

It seems that no one in the mainstream press wants to admit it, but China has won without firing a single shot. Chinese President Xi Jinping walked away from the 19th Communist Party Congress as the most powerful person in the country since Mao Zedong. In a 3.5 hour speech to start the event, Xi cheered his nation's growing influence on the global stage and its increasing presence in the South China Sea. He also called for a stronger military and… gulp… for China to control Taiwan.



4. Amazon Buys Whole Foods

The most important merger of 2017 will be Amazon's (AMZN) purchase of Whole Foods. In fact, it likely will be the most important corporate takeover of the decade. The $13.7 billion deal is just a harbinger of Amazon's future expansion into a wealth of other industries. The question, of course, is whether Washington will ever step in and break up the company. Amazon's growth pattern is similar to a death star eating everything that comes into its path.

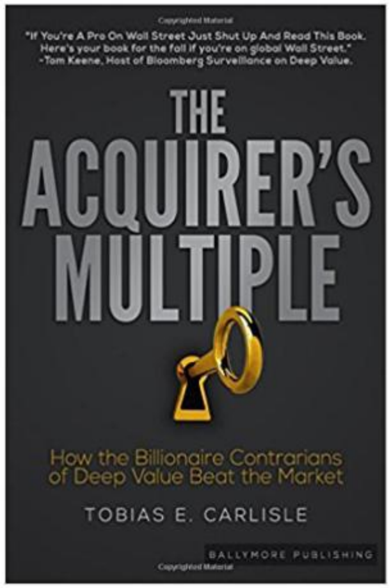
AMAZON
Source: eSignal

5. The GOP's Unity Woes

It is easy to point at the Democratic National Committee (DNC) and see dysfunction. But here's reality. The Republicans have held power in Congress for nearly a year and the progress on policy change has not held the fervent pace of 2009 under the Democrats' healthcare and Dodd-Frank run. The repeal of Obamacare failed, and now we have Republicans defending the Affordable Healthcare Act against liberal calls for single payer. Tax reform has not gone smoothly, and there have been few reports that infrastructure spending is on the way. The Republicans are a house divided ahead of a very consequential 2018 House race. It's a good thing for them that they are facing an equally dysfunctional and divided party in the year ahead.

6. Finance Book of Year: Tobias Carlisle: The Acquirer's Multiple: How the Billionaire Contrarians of Deep Value Beat the Market

This is the best book on value investing in decades. Professional traders should pick up a copy as it can be digested in the time it takes to get from Stamford, CT. to Manhattan.



7. Bad Actor: Equifax

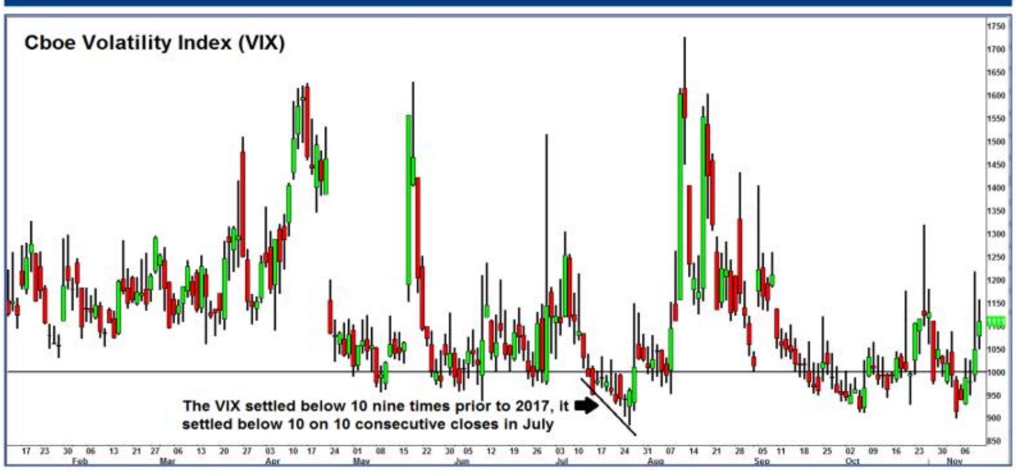
How does a company responsible for the breach of pretty much every American with a credit report get to stay in business? Equifax announced in September that it had suffered a massive data breach affecting as many as 143 million people.

8. Biggest Market Shock: Cboe Volatility Index (VIX) closes below 10 on 38 occasions in 2017. Under 10 (how many days in 2017?)

The lack of volatility in 2017 has not been seen in decades. This is the trade that everyone missed, particularly in the wake of all of the warnings about President Trump. Since its inception in 1990 through the end of 2016 the VIX settled below 10 nine times. The index settled below 10 38 times in 2017. The last time VIX settled below 10 prior to 2017 was in 2007.

CBOE VOLATILITY INDEX (VIX)

Source: eSignal



9. Worst Market Assumption: Balance Sheet Shock

There have been no shortage of market collapse predictions in 2017. Trump's inauguration, the German election, North Korea's nuclear threats and Venezuela's economic crisis all were predicted by some to create a market correction. But it was the swirl of rumors that the late summer Federal Reserve meeting would lead to a monster selloff. The Fed announced plans to scale back its $4.5 trillion balance sheet, but — as we've noted in the past — the experience will be like watching paint dry.

10. Top Game Theorists of 2017: OPEC

The second topic discussed in every graduate level Game Theory course after the Prisoner's Dilemma is the collusion of OPEC. This year, OPEC and its friends in Russia have engaged in enough cuts to excessive production and corralled concerns about increased output in financially starved countries like Nigeria and Libya. With Brent crude at two-year highs in November, Saudi Arabia and Iran have avoided a breakdown in talks. An extension of the agreement beyond March 2018 is looking more likely by the day.

11. The Captain Louis Renault Award: Donna Brazile

2017 was the year that "we were all born yesterday."
All year, the media and our elites were shocked, shocked to find out that there was gambling going on in a casino. Hollywood has long had a culture of casting couches, sexual harassment, and abuse of power... the media was shocked by Ronan Farrow's reporting. Foreign powers attempt to influence the elections of their rivals? What? The wealthiest people in the world like Bono have been hiding money offshore? Say it isn't so! But there was no bigger attempt to express "shock" than the news from Donna Brazile who wrote in her book that she was shocked - shocked to find out that the Democratic National Committee had rigged the election process to ensure that Hillary Clinton was their candidate. Brazile backed off that she ever said or wrote this, only to have it pointed out to her that she actually wrote these claims in her recent memoir. Meanwhile, there was no shortage of other people expressing similar surprise that the Clinton machine had taken over the entire Democratic Party.

Donna Brazile photo by Tim Price

12: Best Financial Platform: Sentieo

One of the most powerful and reasonably priced tools for traders and investors alike. The platform quickly enables global document search, but its real charm is in helping analysts tell a story quickly and efficiently.

13. Worst CEO of the Year: Richard Smith, Equifax

In the wake of Equifax's massive hack attack, CEO Richard Smith decided to do something that few executives do in the face of scrutiny. He just left the building as a public relations crisis consumed the financial institutions. Somewhere Tony Hayward and John Stumpf are thinking: "Wait… I could have just quit?"

14. Top Investment Trend: Blockchain

This isn't surprising given the massive surge in cryptocurrency values this year. However, the surge of bitcoin and other crypto prices has overshadowed the dramatic advances in blockchain technology and the heightened expectations. While the massive growth in the value of bitcoin has caught great attention as has the prospect of listed derivatives on them, many experts believe blockchain is here to stay regardless of what happens with bitcoin.

15. The It's Never Going to Happen Award: Hillary Clinton

Democratic nominee Hillary Clinton has been rewriting history (again) in 2017. Her book "What Happened" blames several hundred factors, but ignores the fact that she was a lousy candidate. There are rumors already that she is eyeing 2020. It looks like former interim DNC chairperson Donna Brazile has taken a torch to those aspirations.Rise and Fall: Anthony Scaramucci

16. Top Analysts: Top 10 market analysts as ranked by TipRanks:

Rating	Analyst	Firm	Sector	Success Rate	Average Return
1	Gerard Cassidy	RBC Capital	Financial	84%	25.10%
2	Richard Davis	Canaccord Genuity	Technology	82%	32.40%
3	Jonathan Atkin	RBC Capital	Technology	84%	19.90%
4	Amit Daryanani	RBC Capital	Technology	91%	27.40%
5	Robert Wetenhall	RBC Capital	Industrial Goods	82%	17.60%
6	Glenn Greene	Oppenheimer	Technology	85%	20.20%
7	Mark Miller	Benchmark Co.	Technology	82%	33.60%
8	Matthew Hedberg	RBC Capital	Technology	79%	29.20%
9	Howard Rubel	Jefferies	Industrial Goods	83%	21.60%
10	Mark Lipacis	Jefferies	Technology	785%	30.20%

17. Whistleblower of the Year: The Paradise Papers

This report begs the question: Why on earth does the United Kingdom continue to pay the Royal Family? Sure, the country makes a lot of money off the rents of the Royal Family's land, but every time one of these exposes come out, we find that the Royals are hiding money offshore.

18. Crazy Uncle at Thanksgiving Award:

Marc Faber

So, this got awkward. In October, Marc Faber decided to comment on the social justice movement in the United States. Let's just say that he didn't stick the landing. At best, it wasn't the most articulate thing said by a guy who has already been consistently wrong for years. At worst, it was an absurdly racist diatribe that was awful on so many levels. CNBC, Fox Business and Bloomberg all cut the cord on his future television appearances. Now, watch one of his predictions go right.

19. Worst Market Insight:

Albert Edwards, SocGen

The Financial Times called him a "stopped clock," one who correctly predicted the last recession 18 times.

Back in January 2016, he predicted that the stock market would decline by 75%. This year, he was the favorite on Zero Hedge, and famously claimed that he was wrong because he was too optimistic on how badly the market would die in 2017. With Marc Faber out of a job. CNBC needs someone to make hyperbolic claims to help them keep their ratings at record lows. He should fill out an application. Sure, he'll be right one day, but how much money do you want to have when finally it is time to short?

20. The Reason Why We Drink Award: Fearless Girl

There was no lamer story on Wall Street this year than Fearless Girl. A diminutive bronze statue facing the iconic Wall Street bull was turned into a champion of pay equality. People actually cried over this statue and talked about it as if this piece of artwork were a human with the same joy Mister Geppetto had when Pinocchio became a real boy... Even DeBlasio took a few minutes from his busy day of riding around in police escorts to lecture Americans about the merits of this statue. Of course, the company that commissioned the statue – State Street Corporation – has underpaid female and African American executives for years. The company agreed in October to pay $5 million in a settlement tied to a Department of Labor investigation.

Fearless Girl photo by Anthony Quintano

22. The That's Not How This Works Award: Nicolas Maduro

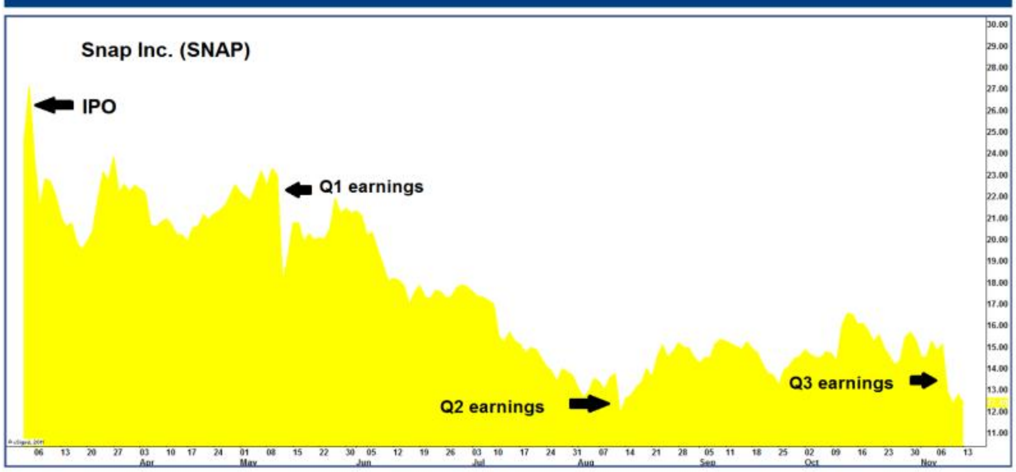
In November, Venezuelan President Nicolás Maduro announced a decree on the refinancing and restructuring of all of Venezuela's global debt. A decree. As in he was just telling the international lending community that it would be his way or nothing. Good luck with that socialism thing, Nicolas. You've finally run out of other people's money.

21. Biggest Flaming Pile of Garbage Stock: Snap Inc.

Modern Trader warned investors ahead of the Snapchat IPO that this company was one of the worst offerings in decades (see "The Banana Republic of Snapchat," MT April 2017). Not only were investors forced to buy non-voting shares of an unprofitable company if they wanted on board, but many institutional investors were forced to take part in this train wreck just because of their exposure to index funds. Snap had its third earnings report ever in November, and once again its revenue numbers and daily active users figures were very unimpressive.

SNAP

Source: eSignal



23. The Just Take Our Money Please Award: Elon Musk

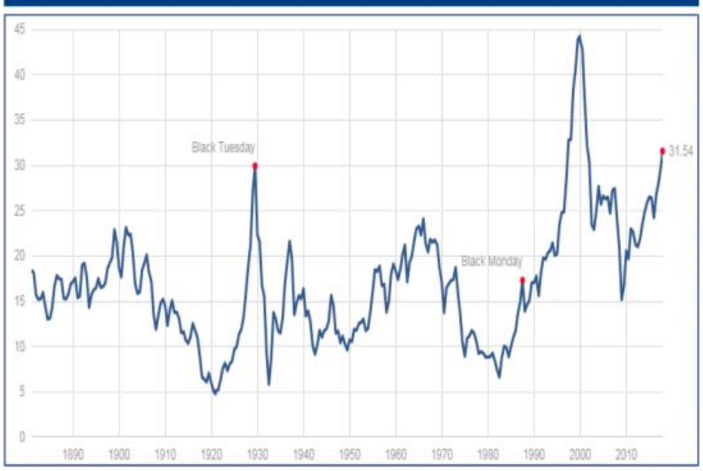
Tesla (TSLA) is burning cash again. But you know what? Musk is going to get more money because – as Ronnie Moas has said – it's hard to bet against a guy who says he's going to put you on a rocket ship from New York to China in 45 minutes. The cash churn is incredible, but the Tesla cult doesn't mind the ambition. One just has to ask: How much common sense does it make to create a system of underground tunnels across Los Angeles, a city sitting along the Ring of Fire and still waiting for the Big One to hit the San Andreas Fault at any time? Eh, whatever, just take our money, Elon.

25. The Most Ominous Trump Warning: Robert Schiller

January 2017: "I think there will be a Trump boom for a while. Stocks look high, but they are not yet super-high. In 2000, the (Cape Shiller) price-earnings ratio was over 45 [just before the dot-com bust] and we may see a repeat of that." The Cape Shiller hit its highest level since the 2000 boom in early November and hit the same peak level recorded in 1929.

CAPE SHILLER

Source: multpl.com/Seeking Alpha



24. Apology, Non-Apology of the Year:

Keith Olbermann

Since being booted from cable yet again, Olbermann has taken up residence in what appears to be his parents' basement. He makes videos – it seems – every five minutes about President Trump for Twitter, each caterwauling more invective than the next. So, give it to Olbermann, who said in a roundtable with Megan McCain that Trump has caused more damage to the United States than Osama Bin Laden and ISIS combined. Defending his statement, he said that he "probably owed" George W. Bush and John McCain apologies. They never came, but he seemed misty eyed for the days when Bush and McCain were the face of the GOP. It's stunning to watch Olbermann now waxing poetic about the days when Bush was in the White House. Olbermann had regularly accused Bush of "siding with terrorists," called him one of the "greatest political felons of our history," and regularly suggested he committed treason. Spare us the reflection, Keith.

26. The Most Ominous Problem for the U.S. Economy: Millennials

Forget the part about them not buying houses, getting married, or doing things that grown-ups do. The real proof is in their political leanings. A recent study by the Victims of Communism Memorial Foundation, an anti-communist organization, discovered that 44% of millennials would prefer to live in a socialist nation. That figure outpaces the preference for capitalism, which came in at 42%. If you're looking for an even dumber subset of this population, pay special attention to the 7% of respondents who said they'd prefer to live in a communist country. Remember, these people will be in charge of government one day.

27. Trade of the Year: The New England Patriots

With nine minutes left in Super Bowl 52, the odds of the New England Patriots winning the Super Bowl fell to 0.4%. Live bettors in Las Vegas with a little bit of extra beer money could turn every 40¢ into $100. A drunken off the wall c-note bet after hitting a good blackjack run would have earned $25,000.

29. The Fund of the Year: Bill Miller's MVP Fund

Bill Miller, the former chairman of Legg Mason Value Trust mutual fund, and current chairman of Miller Value Partners, hit the ball out of the park in 2017. At the end of October, the fund was up 72.5%. His secret weapon? bitcoin. At the same time, he unveiled that performance figure, he disclosed that roughly 30% of his fund's assets are tied to bitcoin.

28. Call of the Year: Ronnie Moas

Bitcoin may very well be in a bubble, but that doesn't mean that people aren't going to exploit the basics of speculative finance. As Moas has noted, the supply and demand imbalance in bitcoin is incredible. This could end badly, but Moas has been out in front of it. On July 5, Moas predicted that bitcoin would rise 80% to $5,000. By early November, it pushed above $7,500, and Moas now has his sights set on bitcoin at $11,000.

30. Overused Term of the Year: Fake News

Perhaps we should say misused, as Fake News is a real thing documented by U.S. intelligence agencies and finally admitted to by the social media platforms that allowed its platforms to promote false stories placed by Russian sources and paid for in rubles. The term has been highjacked by President Trump and his supporters to describe any item in the news they view as negative to the Administration.

31. The Most Irrelevant Media Moment of 2017

MSNBC host and former Republican Congressman Joe Scarborough announced that he was leaving the GOP in October. The guy went to wherever one goes to this and brought the media along with him to make the change. Did anyone notice? Or were they too busy listening to his awful music video to care?

Call of the Year: Ronnie Moas

By **Garrett Baldwin**

On July 3, 2017, Standpoint Research founder Ronnie Moas initiated coverage on bitcoin. He recommended investors purchase it at $2,570. By Nov.17, the price neared $8,000.

Also, bitcoin has experienced two forks since Aug. 1, so when you include both bitcoin cash and bitcoin gold in the value, it is considerably higher on a split-adjusted basis.

This 200% return is MODERN TRADER's top call of the year.

While there had been a wealth of projections from bitcoin fanatics and exchange operators, Moas' recommendation stood out and became a catalyst for broader coverage in the market. We have profiled Moas in the past (see "The Cult of Tesla," MT September 2016). He has been the top-ranked analyst according to TipRanks over the last decade compared to more than 4,000 analysts.

Moas' forecast centers on the increasing popularity of cryptocurrencies as an alternative asset. He notes in his recent report that there are $200 trillion in assets around the globe in cash, bonds, stocks and gold. Moas has a bearish argument against all four. The U.S. dollar has lost 50% of its value since he was in high school 33 years ago. Gold hasn't moved much despite jewelry demand and inflation. Stocks remain at their highest P/E valuation since 2000, and you're probably going to have to get lucky to get a good return on junk bonds.

In the search for alpha, Moas projects that more and more of these assets will migrate to cryptocurrencies.

"If 1% of that $200 trillion ends up in crypto over the next 10 years, you're looking at a $2 trillion valuation," he says. "That would be 10 times what space is valued at today. The cryptocurrency total market cap is $200 billion right now. If you go to $2 trillion, that's a 900% return - 10x return on your money." Should bitcoin maintain its 50% dominance in the market, bitcoin could obtain a $1 trillion valuation.

Moas has set two forecasts for bitcoin in the years ahead. His conservative forecast calls for $50,000 by 2027. The aggressive forecast calls for the price to hit $100,000 by 2022.

Moas' call had generated headlines around the globe. Shortly after his recommendation went viral in July, more than 12,000 people visited his site from 140 countries. Naturally, his business changed, and he became one of the most sought-after analysts in the cryptocurrency space.

"I've been interviewed by everyone from CNBC and Bloomberg, to Barron's and Forbes, and many large publications outside the United States contacted me as well," he says. More than 100,000 recently viewed an interview with Moas at *Coin Telegraph* in early November.

"Crypto was zero percent of my business four months ago," he says. "Now it is more than half of my business."

In the future, Moas anticipates that other Wall Street banks will initiate coverage. "This is the direction that the world is going right now, and nobody wanted to be the first one in," he says. "But once one person jumps in, it's going to be like a bunch of sheep following a shepherd. You're going to see other firms jumping on this and wanting to get a piece of the pie. You know how Wall Street is. They are looking at an industry that is probably going to have a $2 trillion valuation a few years from now. That would be 15% of the value of the stock market, it's significant."

Moas has also generated headlines after initiating a sell/short rating on Tesla on Oct. 4. At the time, the stock traded at $357. Following his valuation call, shares fell to roughly $303 by Nov.10.

Nobody wanted to be the first one in, but once one person jumps in, it's going to be like a bunch of sheep following a shepherd."

--Ronnie Moas

After years of unrealized merger speculation, Cboe Global Markets made a move, acquiring Bats, and is currently the second-largest U.S. equities market operator on any given day. Now Cboe is on the cusp of listing the most anticipated futures contracts since single-stock futures, all under the leadership of long time executive Ed Tilly.

Ed Tilly: CEO of the Year

As Cboe Global Markets has been growing consistently in relevance in the exchange world by adding asset classes to its leading position in equity options, Ed Tilly has been there, taking on more responsibility and growing along with it.

Like many exchange leaders Tilly began his career in the trenches as a trading floor clerk. He went on to become a member and floor trader before joining the management team in 2004 as vice chairman. Tilly was named president and chief operating officer (COO) in 2011, CEO in 2013 and chairman and CEO in February 2017 after the completion of its acquisition of Bats Global Markets.

Tilly's progression through the ranks occurred at a time of expanding competition in the equity options world and overall disruption in the exchange space, and Tilly helped to navigate Cboe through these transitions and maintain its leading position in equity options while expanding into other market sectors.

During this period, most of Cboe's equity options competitors were partnering up with larger exchange players and there was constant speculation as to who Cboe would partner with or be acquired by. Cboe was open to, but not in any hurry, to make a deal, and struck when it saw the best opportunity in 2016.

Tilly says Cboe's growth prospects were strong prior to the Bats transaction but have grown exponentially since. "We were strongly attracted to Bats' broad global reach, its equity, [exchange trade-fund] and FX product lines, which were new areas of business for us," he says. "These pieces complemented our existing business. We've brought together the largest U.S. options market with the largest stock exchange in Europe and the second largest U.S. stock exchange operator."

While the acquisition is less than a year old, Tilly says it is already reaping synergies. "The deal combines Bats global equities trading, global ETP trading, listing venues and global FX platform with CBOE's robust group of index services, index options, futures, multi-asset volatility products and educational and market data resources. The results produced a more diverse product offering."

Like everything related to trading, acquisition of technology was a major benefit of the deal. "Our plan to transition Cboe products

CBOE STOCK GROWTH

Cboe stock has grown steadily since its IPO in 2010, but that growth has significantly accelerated in 2017.

Source: eSignal

The fact that other exchanges plan to trade bitcoin futures validates our efforts and our belief in the future of cryptocurrency trading.” --Ed Tilly

to Bats’ state-of-the-art proprietary trading system remains on track,” he says. “When finished, trading will be offered in U.S. and European cash equities, global ETPs, options, futures, volatility and FX products on a single state-of-the-art platform. As for technology synergies, we are working very closely with customers on the progress of our technology migration, and their feedback remains positive.”

Tilly has not only managed the merger of two major exchanges but a generational transition, as many long-time Cboe executives retired shortly after the acquisition closed, or will soon retire. Tilly himself replaced Bill Brodsky who had led Cboe since 1997; a period that included forced multiple listings of equity options, exchange demutualization, Regulation NMS, an explosion in competing options exchange and for-profit exchanges.

“Change is natural in any dynamic organization, and we’ve gained some remarkable new talent, thanks to (former Bats Chairman and CEO) Chris Concannon, our President and COO,” Tilly says. “We’ve also said goodbye to some exceptional long-term executives, who frankly were ready to retire in the last year. We’re fortunate that the two companies have brought together two incredibly deep benches of talent that we can draw from and this is reflected in the look of our new leadership team.”

Managing such a large, transition is a huge responsibility in itself, but Cboe is also working on introducing a much anticipated new class of futures products: Futures on cryptocurrencies.

“Cryptocurrencies have really captured the attention of our end-users,” Tilly says. “The rapid rise of digital asset markets and strong customer demand we’re seeing couldn’t be ignored. Giving customers exposure to digital assets in a lit market that’s regulated was key to our development of a product that we will be comfortable listing on the Cboe Futures Exchange (CFE).”

Ed Tilly (right) & Chris Concannon ring opening bell.

It should not be a surprise that Cboe is the first major exchange to announce bitcoin futures as the most recent game-changing derivatives product is arguably futures and option on the Cboe Volatility Index (VIX) and the suite of volatility products that have followed.

Cboe has not been the flashiest player in the field, but has been a model of stability and innovation. “Stability comes from an enduring commitment to growth through product innovation,” Tilly says. “That commitment and ability to bring new innovations to market has never been greater. This is an exciting, energizing time in Cboe’s history, and I wouldn’t want to miss it.”

Tilly hasn’t missed it, he has led it. “Our bitcoin futures contract is designed with a hedger in mind, a true trader, and we took time to get that right,” Tilly says. “We used the model that we have for VIX futures and options. A trader who trades bitcoin futures on CFE will have the ability to replicate a position on the Gemini exchange. The settlement price on Gemini is the result of an auction process using actual trades to set a single settlement price, similar to the way our VIX settlement is conducted.”

The VIX model is a successful one. “VIX has become the world’s barometer for equity market volatility,” Tilly says. “Creation of the index, bringing listed options and futures to the marketplace and designing a suite of VIX-related benchmark indexes has propelled the growth of volatility into a new asset class.”

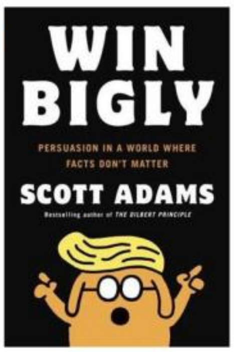
When CME Group announced that it also would list futures on bitcoin, some of the major business networks failed to note that Cboe had already announced a roll out. While there are a lot of skeptics of bitcoin and the potential for successful derivatives based on them, it would be a mistake to dismiss their potential and a mistake to dismiss that success resting at Cboe.

“I’m not going to speculate on which exchange will get the most trading volume,” Tilly says. “The fact that other exchanges plan to trade bitcoin futures validates our efforts and our belief in the future of cryptocurrency trading. Over time, we envision bringing ETFs to market, once the regulated futures market is built up and liquid. So we’re encouraged by the opportunity to build a trading ecosystem in the digital asset space.”

Cboe has already built an ecosystem for equity options and volatility products, so no one should doubt Tilly. Δ

Winning Big League with Scott Adams

■ By **Jeff Joseph**



Scott Adams is the creator of Dilbert, a daily comic syndicated in more than 2,000 publications that takes a satirical look at work office culture. He has just dropped his latest book, "Win Bigly: Persuasion in a World Where Facts Don't Matter," which highlights the strategies of persuasion Donald Trump used in his upset victory in the 2016 presidential election.

Adams earned political punditry and forecasting cred by handicapping candidate Donald Trump's chances of winning the presidency at 98% a week after Nate Silver put Trump's odds at 2%, and for his early-stage, time management and visualization platform WhenHub, which just launched an initial-coin offering-like simple agreement for a Future Token offering for half a billion tokens.

As market makers and shakers go, Scott Adams is smoking hot.

Modern Trader: What will readers learn from Win Bigly: Persuasion in a World Where Facts Don't Matter?

Scott Adams: Win Bigly is packed with practical persuasion techniques that can be used in every walk of life. I wrap the tips in the story of the 2016 presidential election because that is a common reference point.

MT: Last June a Salon.com column called you a "fascist" for noting the persuasive technique of the then candidate Trump, which you document in your new book. Then, a week before the presidential election, a Washington Post column's headline asked in its story about you, "What makes a rich celebrity risk his very brand in order to climb into a political pulpit?" Did the Post ask the same question of celebrities supporting Hillary Clinton?

SA: [LAUGH] Well, I've never seen the level of personal human-to-human hatred as I have this whole election cycle, and now the presidency. One of my contentions is that Trump supporters got a world that they had hoped for, and to some extent, at least some of them were expecting. So their world view is complete. They did not flip out and get crazy. They're just sort of enjoying the victory. On the other hand, there are the folks who were positive that Trump could not get elected. They had been convinced largely by their own side that he was a monster of unprecedented historic proportions. An actual literal, Hitler-like character. Their world view blew up when he was elected, along with everything they imagined about the country; how people thought and their ability to predict the future. Their entire world view just fell apart in an instant. This is what I write about in "Win Bigly."

MT: The bursting of a bubble?

SA: It would be normal, the way human brains are designed, that you would experience something called a cognitive dissonance, which is the moment when the script in your head has to be rewritten to make it all make sense again. The world didn't make sense when Trump (won). There are far more terrible people in the country than they had imagined. That is the best way to preserve their moral high ground "we were right all along." We got everything right, except that we didn't realize how bad the people on the other side are, that they could support this monster.

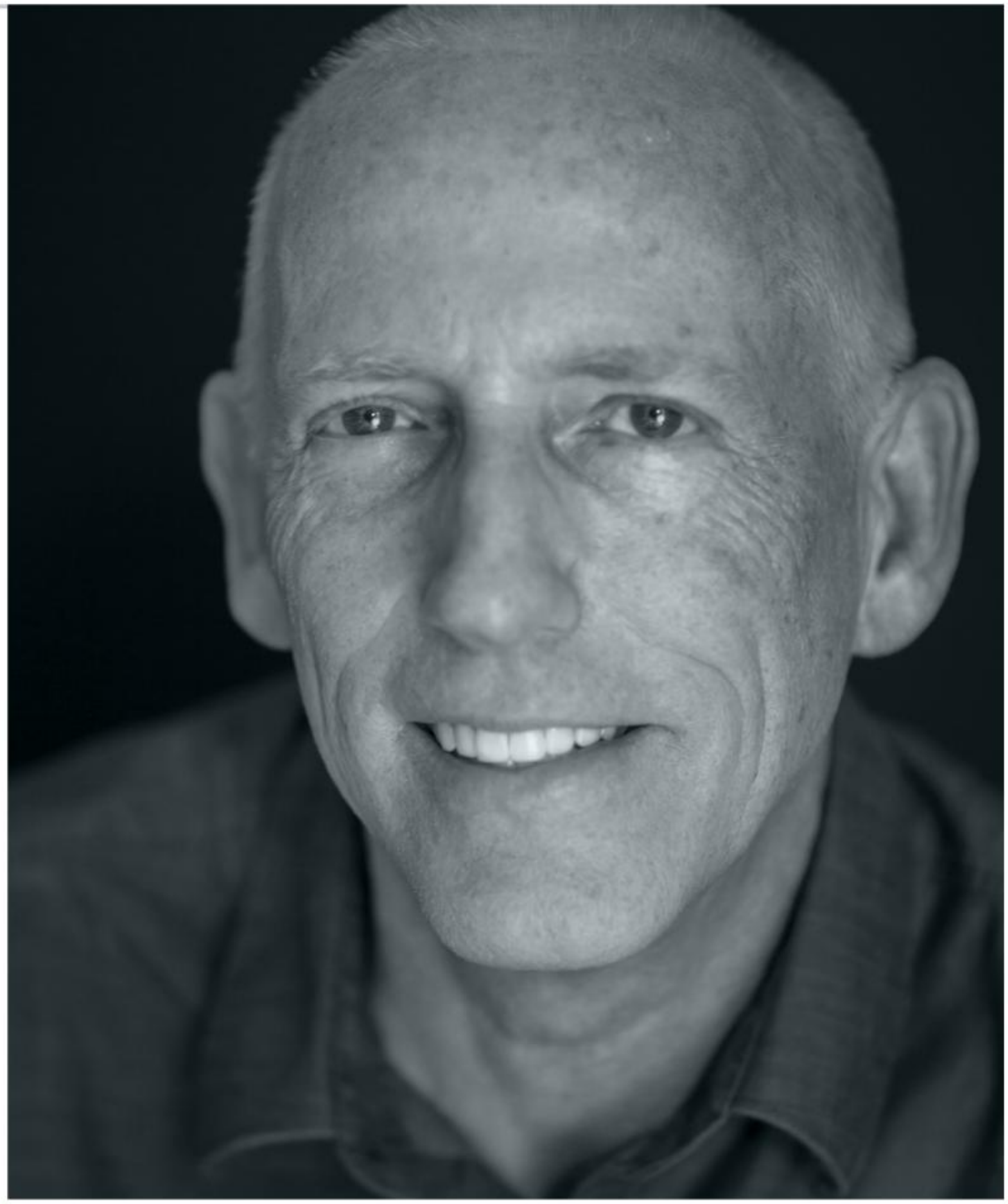
So part of that thinking imagines that the people who supported him in any way, are villains. I predicted and understood his victory, but I personally didn't vote. I don't line up well with Republican politics expect in the few cases that might be coincidence.

But anybody who was viewed as supportive of the President's efforts was considered "bad people," and this is really different. This past election, many people on the losing side actually hate the people on the other side. I've never seen anything like it. It's because their world view just got scrambled, and they didn't have an opportunity to just integrate this flow of history into the mental movie in their heads, so they called for an instant rewrite. Thus, all of the Trump supporters were horrible people. So I got painted with that brush along with everybody else.

MT: It appears as those two perspectives continue to define how his administration is being perceived and evaluated. You recently characterized the Trump presidency thus far, from the perspective of those who are his supporters, as "he's having a bumpy transition ride but generally doing the people's work."

SA: It is what I call "the turn." I predicted a year ago that you'd see the following story arc develop: Trump's opposition would be committed to their "Hitler" frame around inauguration day and you'd see them marching in the streets with people loudly proclaiming that he's actually some kind of Hitler. But then, after a few months of not doing Hitler stuff, people would start to lose that illusion, but would still hate him for reasons that could evolve as long as they keep their hate. I predicted the Trump opposition story arc would then turn into "well, he may not be Hitler but he's incompetent."

I predicted that that would last through the summer, which is exactly what you saw. It was the word incompetent that you heard the most over the summer. But, I [also] predicted that by the end of the year there would be a body of success in terms of him getting the things that he wanted for his voters. That body of success would make it impossible to say he was incompetent, because he was getting what his voters wanted. That's when the story arc will evolve to "well, he is effective but we don't like what he's doing."



"I predicted the Trump opposition story arc would then turn into, 'well, he may not be Hitler but he's incompetent.'"

MT: Where would you say that "body of success" is beginning to appear?

SA: In China, Trump was received like a rock star. He is super popular with the Chinese population and he gets along well with the leader of China. Similarly, Japan loves him, South Korea loves

him and Israel loves him. He is on a trajectory to be, perhaps, the most successful president we've had internationally in some time. It's too early to call that, but his Asian trip illustrates that some countries really like his "brash, free-wheeling style," as Reuters referred to it. So internationally, he's a complete surprise to the people who hated him, because he's not just doing okay.

It is also impossible to ignore that we are seeing ISIS being defeated. We see illegal immigration coming down and we are seeing some prototypes for the Wall that the doubters never imagined could become a reality. Of course, funding for the wall will not be what he said it would be, but that was part of his technique (described fully in "Win Bigly") where he starts big and pulls back. Mexico paying for the Wall is what made that story so interesting. That's one of the techniques he uses for persuasion–it makes his point of view more interesting.

Also, the economy is doing very well–jobs, the market and consumer confidence are strong. And, I would argue that although North Korea is as close as you can get to an impossible problem, I am sure that the leader of North Korea, Little Rocket Man, is wondering about his own mortality. Whether he'll be alive next month. I don't think the leaders of North Korea have ever wondered if they would be dead in the next 30 days. And while it would be unlikely bordering on impossible that North Korea would launch a preemptive nuclear attack as long as he's worried and getting more worried. To the contrary, there's more chance that he'll come to the table with a little more flexibility than we've ever seen before.

So I'm not going to predict a win there, but we might be on the verge of a president who's done more internationally than any president in decades. Now, it could go easily the other way, and it could turn quickly. But, if you were to look at the big signs, it looks like we might be on the cusp of a golden age, where the United States has a super strong economy, the world respects us, we are getting our trade deals in order, and, we are less adventurous in terms of wanting to effect regime change in other countries.

MT: You made a comment earlier that you didn't vote in the election. But you clearly shifted your endorsement at one point from Hillary to Trump. So how do you define yourself politically?

SA: I am to the left of Bernie, except that I prefer plans that work. What I mean by that is, I would like everyone in the United States to have healthcare, but nobody knows how to get there. But unlike current politicians, I think we should have a plan that says, all right, we don't know how to get there, but we have to get there. I would love to see free college as well. But again, nobody knows how to get there. So philosophically, I would like some of the basic things taken care of. I think you'll see something closer to socialism in the next 20 years.

MT: Yet your stated positions on tax policy and defense are decidedly more traditionally conservative.

SA: Well, on the big issues like let's say, national defense in particular, citizens never have enough information, so I couldn't tell you if we should spend more on it or less on it because I don't know how you would ever become informed enough to have a good opinion .

When it comes to tax policy, I think everybody is sort of on the same page that our business corporate taxes are too high to be competitive with other countries.

I have a background in economics and got my MBA from Berkeley and one of the things you learn is that if the economy's doing well, you don't want to mess with it too much, unless there's something

"I don't think the leaders of North Korea have ever wondered if they would be dead in the next 30 days."

specific you're fixing. And fixing the business tax is something specific that logical people can agree on.

MT: What about Dilbert's politics?

SA: I keep Dilbert completely out of politics. But he is an engineer by trade, so he is not going to be on board for anything that doesn't make sense on paper. And that would be most plans.

MT: You mentioned previously that your acceptance of Trump was bad for your business?

SA: Yes, so my speaking engagement inquiries went from a couple per week, down to exactly zero, and has stayed zero for a year the first time in 20 years. But the President's rhetorical and persuasive talents allowed me a framework to explain things that would have been impossible to explain without people watching it unfold as a once-in-a-lifetime situation and I wanted the public to see it for what it was.

MT: Your book evaluates Trump's persuasion techniques from your perspective as a trained hypnotist. Do you believe that Trump is an accidental hypnotist, or a purposeful persuader?

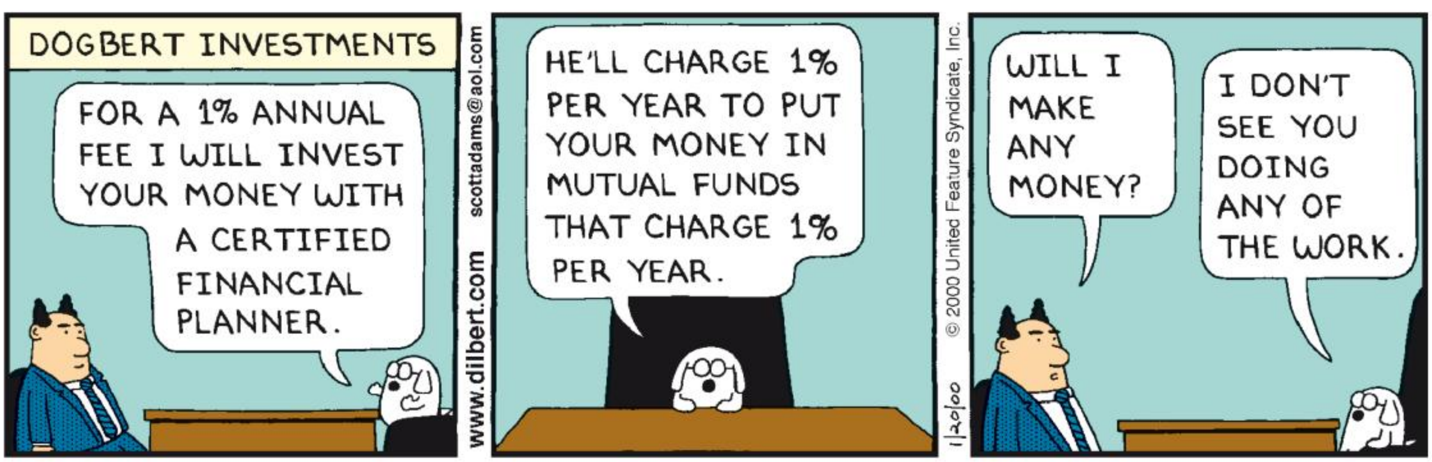
SA: The president is a persuader, not a hypnotist. I sometimes use the words interchangeably but I probably shouldn't. And I would say that most of what political persuaders are doing is persuading their own side. So the game in politics is not to change the minds of the other side, because you can't. People just don't change their minds based on anything. In a political contest you're trying to move maybe 2% of the public, the 2% who could be moved, that's often the difference between winning and losing.

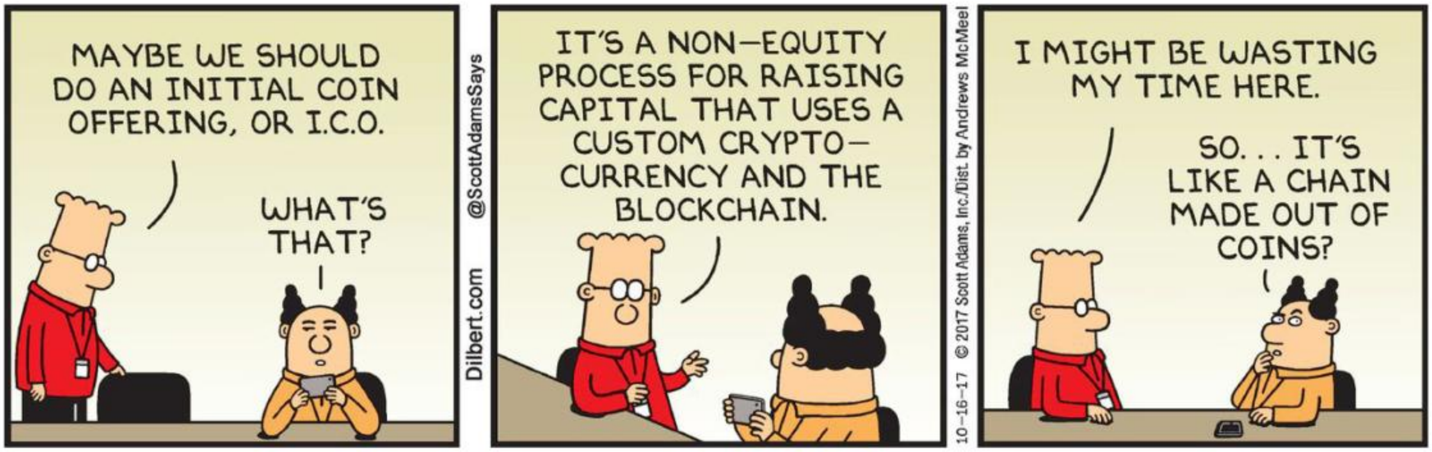
Trump has some natural talent, but he is very much intentional. A lot of people don't know that his pastor when he grew up was Norman Vincent Peale, "The Power of Positive Thinking" author. He taught that you could actually think your way into a better reality. And you see Trump doing that all the time. Recently he was talking about the GDP, he was saying, "well we have 3%, but it could have been 4% except for the hurricane." You can see him already thinking us into the future. It's actually technique. In his day Normal Vincent Peale was accused of being a hypnotist because he was so persuasive.

Consider also that Trump's father was a successful business person, so he probably knew how to negotiate. We observe that the president is one of the best marketers, branders and salespeople that we've ever seen. And we see how he does it from the design of everything from his logos to his choice of slogans for the campaign, to the hats. And he talks about it in his book, "The Art of the Deal," in which he uses hyperbole throughout as a persuasive tool.

There's no way it could be anything but intentional. Now, that said, one of the techniques of intentional persuasion is to inject a little bit of wrongness into what you're saying so people can't look away. Because our brains are tuned to locking in on that which stands out, not the ordinary. And it's that wrongness that makes you unable to look away. For example, I titled my latest book "Win Bigly," so people are telling me that I have it wrong; Trump is actually saying "win big league." Now of course I know that, and I write that in the book that I've potentially given them a little bit of wrong because then they will think about it, talk about it, toss it around in the mind, but will certainly remember the title of this book.

So you see the President doing that. Some of it may be that he just gets some facts wrong, but he is sufficiently knowledgeable about persuasion that he knows it just doesn't matter. And so he doesn't bother to correct the factual inaccuracies, sometimes he'll just go with it as long as the wrongness is in the right direction for his persuasion – he's still winning. So, for example, if he said the gun violence in Chicago is such that 1,000 people a day are dying with guns, the media would say my God, that's terribly wrong, there are not 1,000 people dying from guns in Chicago. But everybody would be looking at the violence problem in Chicago, which is real. So if what he wants you





concentrate on something, he will use some hyperbole and he'll make it impossible for you to look away.

So yes, it's almost entirely purposeful and intentional.

MT: Interesting, and contrary to his opponent's frequent profiling of him as a buffoon.

SA: Let me jump in there. I talk about his use of simple phrasing and how powerful it is. I was the first person to point out what people were calling his six-grade level vocabulary was actually perfectly suited for ideal communication.

Because we're not people who pick up a lot of complexity. If Trump were a regular politician talking about border security, he would use a variety of methods to describe securing the border, and it would have just been another concept that nobody cared about. But when he calls it a Wall, it's simple, it's repeatable, it's chantable. You can see it and you can argue about who is going to pay for that Wall. But, you have already committed to idea that there is a wall. Your brain has already accepted a wall because you are already talking about how to pay for it. That is called making you "think past the sale."

MT: Let's shift gears a little bit, you recently wrote about bubbles on your Scott Adams blog. When you think of bubbles, bitcoin and the recent run-up, do you see any parallels?

SA: One of the things that I talked about is that analogies are terrible ways to do reason and logic. They're simply things that remind us of other things, which does not mean that those two things are going to act the same. We just are easily reminded of things. So in the same way that Trump may have reminded somebody of Hitler, it turns out he didn't do any Hitler stuff, right? Bitcoin will remind you of bubbles, but that doesn't necessarily mean it will follow the same pattern.

MT: Tell us about your software company, WhenHub. How did you come to be the co-founder and financier?

SA: I'm really bad at managing my calendar and I had kids in school, who had all kinds of events and activities after school and I thought, wouldn't it be better if the coach could directly put these things on my calendar? So, we developed a calendar tree which allows a coach or any organizer to put things on your calendar if you accept it. So, it was really about solving my own problem with my partner, who saw the same opportunity to devise a solution. We have since evolved to where WhenHub is now more about visualizing time and events, both on your calendar and off.

MT: What will WhenHub's primary application be?

SA: We built a platform such that its API will support a whole variety, hundreds if not thousands, of different applications. We have built a few applications to illustrate what it can do, and then who knows where it's going to go from there.

But the one that we're using as a subject of this recently launched token sale, is a way for domain and subject experts to simply go online anytime they want, to publish their availability for consulting, and to be able to do micro transactions that could be as short as 15 minutes, where the expert just says, "Hey, I can fix your iPhone problem or answer your cryptocurrency question."

It would allow people to very quickly and easily connect with experts and consultants and then execute the billing and invoicing seamlessly. So in other words, all we will do is detect that the expert and the person who wanted to connect actually have a conversation, and then execute the billing and invoice. I call it the "long tail problem with consulting." If your job is consulting, you usually have to go out and find a client and you do some

"Bitcoin will remind you of bubbles, but that doesn't necessarily mean it will follow the same pattern."

contracts and you have got a purchase order. You need to do a long-term contract to make all the effort worthwhile, because there is a lot of administrative setup for any kind of a new client. What we do is take all of that away. We say, if you're sitting there and there's nothing on television, you can just say, I got an hour, I think I'll make $100.

MT: So is this platform up and running right now?

SA: The Simple Agreement for Future Tokens sale is our mechanism for funding this new application.

We're doing the token sale as part of what we do to build that app. It is addressed in the White Paper on the WhenHub site. It's not an investment in the company in any way that the word investment works in a legal sense, but the tokens can increase in value if the product is successful. So you get potentially to share on the upside but not within the architecture of an investment.

MT: You have earned some forecasting cred because of your prediction of the President's win and the evolution of his story arc. Forecast the president's forward approval ratings?

SA: With this president there's going to be a separation between his approval ratings and how people think he's doing on the job, because when people say they approve or don't approve, they're often thinking of his personal style. They're thinking of something he said that offended people and they don't approve. But if they were to look at just the things that are getting done, the Republicans will be pretty happy.

"Democrats have a big problem. They need to produce a charismatic leader and I don't see any on the horizon."

MT: Who are the most likely Democratic candidates for 2020?

SA: I was just looking at an interview with George Clooney who was noting that there are no charismatic up-and-comers on the Democratic side. Mark Cuban has talked about running, which I don't think is going to happen. So there's literally nobody on the democratic side who has charisma, and if the president runs again running against somebody with no charisma, it is going to be a lay-up. Democrats have a big problem. They need to produce a charismatic leader and I don't see any on the horizon.

MT: Are there other politicians or prospective presidential candidates that have the persuasive instincts and skills of the President?

SA: Black Lives Matter leader (NY chapter) Hawk Newsome is the one to watch. No one else comes close. Mark Cuban is a learning machine and could surprise if he runs as a Democrat. George Clooney has an impressive stack of persuasion skills but the Hollywood stain puts a cap on him.

MT: What about political pundits and commentators? Who do you find to be the most effective persuaders?

SA: I am most impressed by Van Jones on the left. He has a strong combination of empathy, charisma, and brains. Alan Dershowitz is the best persuader who embraces positions on both sides. Greg Gutfeld is the best persuader on the right, but I'll bet most viewers don't realize it because he uses humor as a cloaking device. Δ

2017 was a year of anomalies. Unprecedented global disruptions were accompanied by record-low volatility, but futures brokers thrived in a competitive landscape with the help of a rising rate environment.

Top 30 Futures Brokers of 2017

New markets & challenges

By **Daniel P. Collins**

In recent years, futures commission merchants (FCMs) have focused on creating efficiencies and adjusting to the "new normal" which included increased regulatory and compliance costs, tougher competition in a mature consolidating industry, dealing with aggressive product pricing from exchanges and perhaps most significantly, a more than decade-long low interest rate environment.

What has emerged is an environment with fewer but more efficient FCMs that have survived difficult times and come out on the other side stronger and more efficient.

As for 2017, it has been a strange year full of geopolitical and domestic crises, but without the associated volatility one would expect to come with such events.

"Frontline headline news has caused a lot of discomfort for many," says Tom Kadlec president of ADM Investor Services, who adds, "Geopolitical headlines have not translated into volatile markets. Our volume is fine, but it is not exciting. VIX has been at half its average, the market has been in a slow grind up."

Nicholas Lamaina svp of Strategy and Brokerage Services for TradeStation says 2017 was a good year despite the low volatility. "This low volatility and directional market have in some ways been great, but also lower the amount of customer activity," Lamaina says. "We see customers go long and ride it out rather than actively managing their positions with the constant ups and downs of volatility. We are in a better place than we were 12 months ago. The interest rate increase have helped. We look forward to see where we are in 12 months."

The Return of the Float

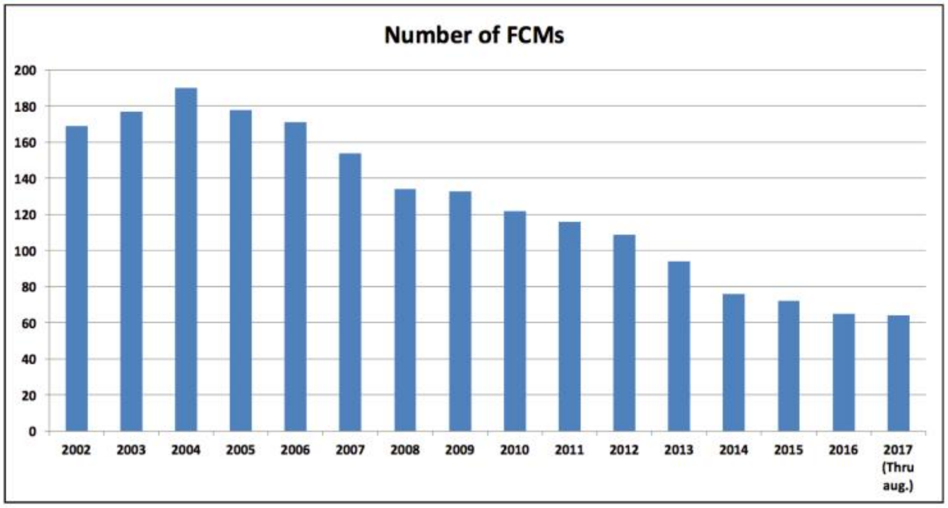
Of course, the most positive development over the last 12 months was the three quarter-point rate increase from the Fed after ending the zero-interest-rate policy (ZIRP) environment with one increase in December of 2015; and expectations of another rate increase in December 2017. Interest on customer funds had been a staple for FCMs, but dried up in the era of ZIRP (2008-2015).

"Interest income has historically equaled the bottom line profit for most FCMs," Advantage Futures CEO Joe Guinan says. "The zero-rate environment was a particular challenge for FCMs and rates moving higher has aided Advantage as

SHRINKING FCMS

The number of registered FCMs has dropped from 190 in 2004 to 64 in 2017.

Source: CFTC



well as our peers."

RJ O'Brien & Associates Chairman and CEO Gerry Corcoran says, "When the Fed raises interest rates it is helpful to our P&L. It was good to see it coming but we learned to live without it over the years. It was a long stretch of time when the Fed kept interest rates at zero; we learned to recreate ourselves in a lot of different fashions."

Indeed, we have highlighted the consolidation in the FCM space over the years, and those brokers who depended on earning interest on customer funds could not survive seven years of ZIRP (see "Shrinking FCMs," left).

"We have worked hard over the better part of the past decade to manage our business in a way that ensures we are not dependent on high interest rates in order to achieve profitability," says Rosenthal Collins Group Chairman and CEO Scott Gordon. "When there are rate increases, they provide additional revenue potential and the prospect of higher volumes, but they are by no means essential to our daily operation."

Interest income is critical because, as it had gone away, FCMs also faced greater costs from exchange fees, data fees, technology needs and regulation and compliance.

"That interest rate [income] helps to pay the costs of running the FCM, to keep cost low for customers," Lamaina says. "Low rates put a lot of pressure on trading revenue. Now with some relief and a little higher interest rates, we will see a little more volatility infused in the market and can drive some revenue from more than just trading revenues and help to keep overall costs to the customers down."

The ZIRP era did force FCMs to evolve. "Over this time, we focused on geographical expansion and product expansion with a discipline on managing expenses," Corcoran says. "[When] the Fed went to zero in 2008, we were largely a U.S.-centric FCM; since then we have acquired the Kyte Group – a full European clearing firm; established very strong sales in Asia including in Korea, Hong Kong and Beijing; and built a tremendous global infrastructure."

Corcoran points out that in 2014, 98% of RJO's revenue was generated from domestic business, in 2017, only 76% of their business is domestic. "There is a vast middle market for RJO to serve. We have focused on our core strengths while transforming ourselves into a truly global entity," Corcoran says.

"Higher interest rates are never a bad thing for FCMs," Kadlec adds. "It is helpful to offset some of the rather aggressive fees exchanges charge us. While interest rates go up, exchanges continue to add to their fees. They added banking/custodial fees. Those types of charges that add up over time challenge FCMs."

A GOOD DECADE, FOR EXCHANGES

Both CME Group and ICE stock has soared in the last decade, which saw FCMs struggle due to low interest rates and increased regulations.

Source: eSignal

A Love/Hate Relationship

The relationship between FCMs and exchanges has been strained ever since the exchanges demutualized, consolidated and became for-profit entities. While they are partners in some sense, many FCMs believe that CME Group and Intercontinental Exchange (ICE) have exploited their pricing power.

"The marketplace has helped define who has the pricing power. That marketplace, who we all are students of, shows they can drive price," Kadlec says.

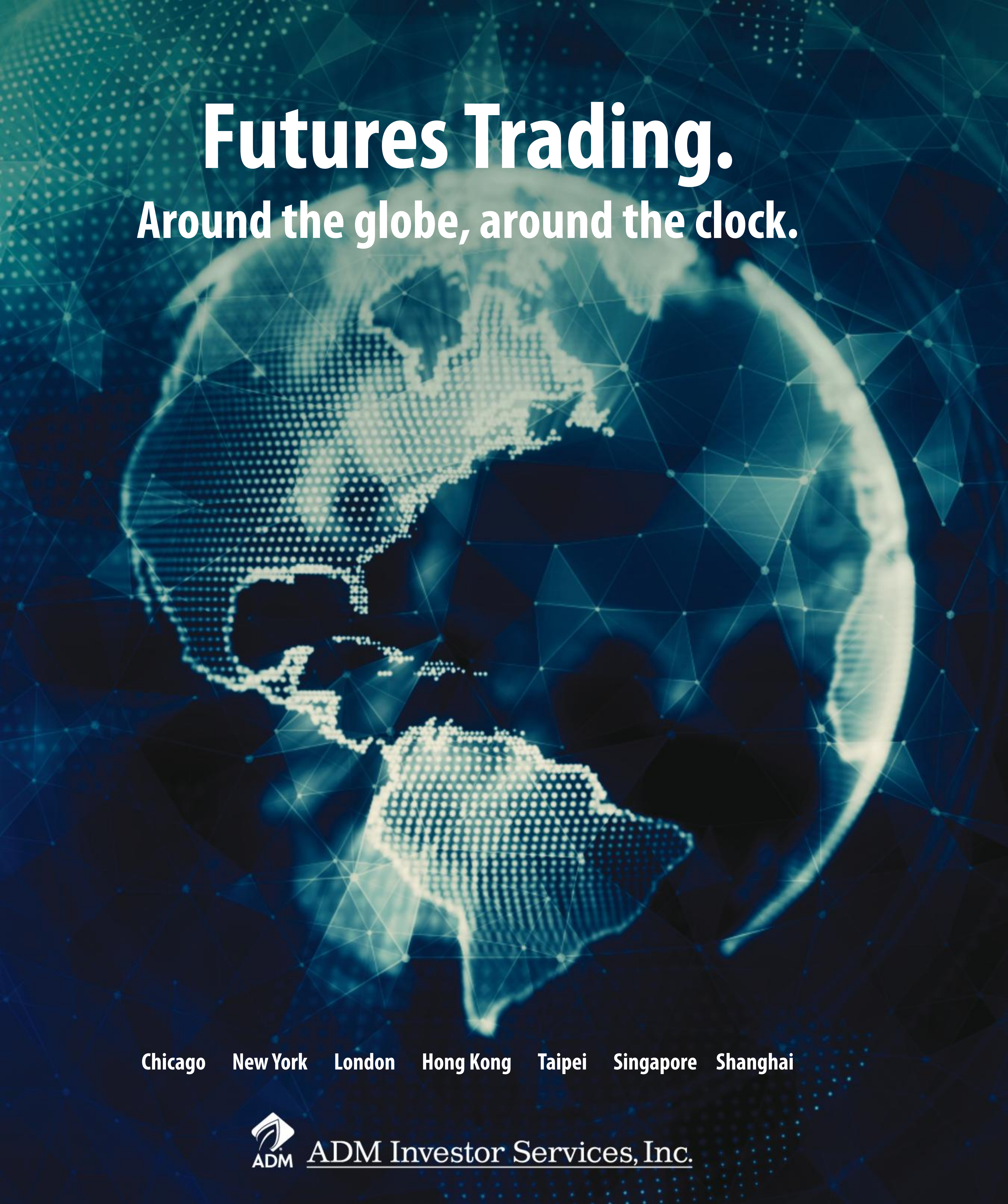
"Exchange fees are a large part of the trading cost. Anything we can do to make the cost for retail traders come down and make them simple and easy to understand is a step in the right direction," says Lamaina, who adds that CME is helping the retail FCM. "They have made some progress with their retail program and even advertising on television trying to promote retail futures trading," Lamaina says. "They also have some programs for the retail-focused FCMs like ourselves that help us restructure some of our costs."

"The exchanges could do more to aid FCMs," Guinan says. "Certainly everyone benefits if the number of participants increases. Perhaps joint marketing efforts with FCMs will evolve into a team effort."

"We have some strategic initiatives with

Continued on page 52

"Geopolitical headlines have not translated into volatile markets. … the market has been in a slow grind up." --Tom Kadlec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2017 RANK (AS OF SEPT. 30)

Source: CFTC

2017 Rank (as of sept. 30)		2016 Rank	customers' seg required (in mln$) (1)	2016 customer seg required (in mln$)	adjusted net capital	excess net capital (2)	customer amount pt. 30 Required (3)	funds in separate cleared swap segregation (4)	registered as	dsro
1	GOLDMAN SACHS	1	20,517.62	20,712.12	17,870.84	15,326.07	11,634.54	4,911.45	FCM BD SD	CBOT/NFA
2	JP MORGAN SECURITIES	2	16,101.90	18,101.66	15,584.89	12,769.61	4,828.08	12,731.12	FCM BD SD	CEI/NFA
3	MORGAN STANLEY	4	13,939.57	15,324.04	10,612.72	8557.96	4,726	13,634.16	FCM BD SD	CME/NFA
4	MERRILL LYNCH PIERCE FENNER & SMITH	5	12,888.98	12,976.35	12,862.56	11149.57	4,221	6,248.54	FCM BD	CBOT
5	SG AMERICAS SECURITIES	3	12,731.33	15,324.05	4,437.16	3258.60	4,804	658.96	FCM BD	CME
6	UBS SECURITIES	6	7,238.06	8,413.03	5,813.44	5013.36	3,676	938.65	FCM BD	CBOT
7	CITIGROUP GLOBAL MARKETS	7	6,738.54	7,789.60	10,458.46	8484.70	1,553	20,286.70	FCM BD SD	CBOT/NFA
8	CREDIT SUISSE SECURITIES (USA)	8	5,762.48	5,658.39	9,838.80	8464.22	3,520	12,114.05	FCM BD	CBOT
9	BARCLAYS CAPITAL	9	4,746.03	5,015.20	7,193.68	6108.69	3,460	5,645.76	FCM BD	NYME
10	INTERACTIVE BROKERS	14	4,409.74	3,045.56	3,868.99	3450.72	400.65	0.00	FCM BD	CME
11	ADM INVESTOR SERVICES	10	4,389.92	4,459.48	310.28	121.36	352.69	15.65	FCM	CBOT
12	WELLS FARGO SECURITIES	12	3,968.72	3,106.01	8,443.14	7627.08	364.65	7,171.80	FCM BD	CME
13	RJ OBRIEN ASSOCIATES	11	3,941.08	4,170.40	209.12	65.59	229.33	0.00	FCM SD	CME/NFA
14	MIZUHO SECURITIES USA	15	2,892.79	2,806.97	664.87	432.71	673.98	34.32	FCM BD SD	CME/NFA
15	RBC CAPITAL MARKETS	18	2,810.98	2,153.80	1,955.00	1720.52	250.67	561.75	FCM BD	CME
16	ABN AMRO CLEARING CHICAGO	16	2,493.90	2,795.73	614.83	460.78	113.26	0.00	FCM BD	CBOT
17	DEUTSCHE BANK SECURITIES	13	2,309.17	3,064.59	12,715.39	12453.15	923.05	0.00	FCM BD	CBOT
18	INTL FCSTONE FINANCIAL	19	2,235.30	2,097.11	157.13	83.18	148.74	0.00	FCM BD	CME
19	MACQUARIE FUTURES USA	20	1,774.97	1,978.08	279.60	135.56	32.00	24.30	FCM	CBOT
20	BNP PARIBAS PRIME BROKERAGE	17	1,712.94	2,563.62	1,329.78	1158.28	43.05	19.72	FCM BD	NYME
21	WEDBUSH SECURITIES	27	1,596.32	724.70	174.20	143.86	123.78	0.00	FCM BD	CBOT
22	HSBC SECURITIES USA	24	1,530.52	1,273.07	938.09	675.23	130.85	1,123.93	FCM BD	CME
23	E D & F MAN CAPITAL MARKETS	22	1,354.61	1,539.06	139.56	92.54	43.97	3.17	FCM BD	CME
24	ROSENTHAL COLLINS GROUP	23	1,223.07	1,346.66	73.37	28.79	22.94	0.00	FCM	CME
25	BNP PARIBAS SECURITIES	25	1,030.75	1,014.81	1,518.62	1306.65	139.09	1,068.60	FCM BD	CBOT
26	MCVEAN TRADING & INVESTMENTS	26	762.96	731.63	3,423.47	13.83	0.00	0.00	FCM	NFA
27	SANTANDER INVESTMENT SECURITIES	29	612.37	529.34	14.92	142.61	0.00	0.00	FCM BD	NYME
28	TRADESTATION SECURITIES	30	563.48	516.67	167.78	79.90	21.91	0.00	FCM BD	CME
29	ADVANTAGE FUTURES	28	547.88	546.66	83.86	14.14	47.60	0.00	FCM	CME
30	RBS SECURITIES	21	449.26	1,841.56	24.33	529.00	32.53	0.00	FCM BD	CBOT

Footnotes

1. This represents the total amount of funds that an fcm is required to segregate on behalf of customers who are trading on a designated contract market or derivatives transaction execution facility. This is the sum of all accounts that contain a net liquidating equity.
2. Excess net capital is adjusted net capital, less the firm's net capital requirement.
3. This represents the amount of funds an fcm is required to set aside for customers who trade on commodity exchanges located outside of the united states.
4. This represents the total amount of money, securities, and property held in cleared swap customer accounts for cleared swap customers in compliance with section 4d(f) of the commodity exchange act.
5. Designated self-regulatory organization.

the CME Group to help education and drive additional business into the futures market," Kadlec adds. "We appreciate their support around that, we appreciate their transparency effort but at the end of the day, I do have a question on how directly they compete with us."

And therein lies the rub. While FCMs appreciate some of the work the exchanges do in promoting products, they are also reaching out directly to some customers, which threatens to disintermediate FCMs.

"Their trading platform CME Direct does compete with many of the platforms that have supported this business for many years," Kadlec says. There are good things about it. The CME is doing a lot of good things that are supportive of FCMs but they are also doing a lot of things that allows them to have direct access to customers."

Of particular concern for Kadlec is a CME remote clearing initiative that would allow non-FCMs from outside the United States to access its markets. "They would like non-U.S. FCMs to trade directly with the CME. To me that is a direct competitor of the U.S. FCM. If they are going to lower the standards of an FCM at the CME level or at ICE and not require U.S. boots on the ground that is a concern," Kadlec says.

"It is a big problem for the existing FCM community, we need to preempt this," Corcoran adds. "There is, however, a logical reason for part of this rule, that

“The run-up in price of [bitcoin] is much more representative of a speculative vehicle than an instrument for paying for transactions.” --Joe Guinan

would provide capital relief for firms that have CME clearing members in Europe. But, it also opens the door in Asia, where firms can become a CME clearing member without the same types of controls and oversight as U.S. FCMs have.”

While Corcoran acknowledges that there are legitimate problems the remote clearing rule is addressing, he says it is undercutting existing FCMs who have invested in those markets. “Solve the problem with your current members but don’t open the door to others that don’t have the same requirements we do. Adding FCMs in Asia doesn’t create new business. All you’re doing is splitting the pie further and diluting the existing brokerage community.”

“FCMs are quasi franchisees of these exchanges; we are out there as their sales unit,” Corcoran says. “This proposed rule allows access to the CME for FCMs that don’t have the same oversight that we have and that is not good from a regulatory standpoint. We have spent a ton of money being regulatory compliant and investing in technology and they flip a switch on the rule book that allows potentially eight or nine FCMs in with different types of oversight than we have. It is not necessary, and it doesn’t make sense”

Corcoran says that the FCMs and exchanges have a symbiotic relationship “We are their frontline salespeople for every product, and we provide a layer of capital protection. The FCMs’ capital constitutes 99% – close to $5 billion – of the guaranteed funds the exchanges have put in place for protection. To be fair, the exchanges have helped with co-op advertising dollars. I would urge them to understand the FCM better because the FCM is an important element of their success.”

In terms of what they would like to see from the exchanges, Kadlec put it this way, “Lower market data fees, lower custodial fees, lower transactional fees, be a rational regulator, promote market transparency and be good educators to undeveloped marketplaces.”

Gordon adds, “FCMs provide an extremely valuable benefit to exchanges as a conduit or intermediary for their business. It is in the exchanges’ best interest to ensure that FCMs remain a vital part of their ecosystem. We would welcome any initiatives that bring us greater cost efficiencies and new revenue-producing opportunities.”

The bottom line for brokers is that exchanges have thrived over the last decade, while FCMs have struggled with consolidation, added regulatory costs and a low-interest environment. They would like the exchanges to recognize this value and not press their pricing advantage (see “A good decade, for exchanges,” right).

Regulation

While FCMs work out their complicated relationship with the exchange community, they appear satisfied that the era of over-regulation is coming to an end.

“We are a proponent of good and reasonable regulation, but we hope to see a pattern going forward of more thoughtful cost/benefit analysis in the introduction of new rules,” Gordon says. “This is consistent with the CFTC’s recent Project KISS initiative, which we hope will bring a decrease in requirements that are burdensome without serving a broader purpose.”

“We see light now,” Corcoran adds. “With the reconstituted CFTC we are seeing a common sense approach to regulation and also some relief on how past rules or proposed rules are being thought through. [We are] feeling a lot better about regulation and optimistic that the CFTC is taking a more reasonable approach.”

An example of this new approach is the CFTC’s decision to pull a provision of Reg AT that would have allowed the regulator to access the proprietary algorithms of high-frequency traders. This rule drew the ire of traders who feared sharing their proprietary algorithms with a third party.

“What are they going to do with the data?” Kadlec asks. “If you have data you should define what you are going to do with it. I know what we do with our data.”

Most brokers have little desire to roll back rules; they simply want a break from additional rules and a more rational approach to enforcement. “We dedicate material resources to ensure our adherence with regulatory requirements, and any reduction in those requirements would allow for those resources to be redeployed on other client-facing initiatives,” says Craig Robertson, head of listed derivatives, Americas, Prime Services, Societe Generale.

“There is room for smarter regulation,” Guinan says. “Disruptive trade practices, in particular, seems to me an area where some top-down reform can aid the entire industry. Two simple rules could eliminate

“We have worked hard over the better part of the past decade to manage our business in a way that ensures we are not dependent on high interest rates.” --Scott Gordon

90% of the disruptive trade issues, while also boosting trading volumes and providing more clarity and less of a gray zone for traders."

Guinan would like every order to be exposed to the market for a minimum period of time, a fraction of a second. The other rule would delay, by a similar time period, an order lifting a bid or offer from a trader who has a resting order on that bid or offer. The original order must be canceled and then a mini-delay will come in. This way a trader couldn't bait others to join a bid or offer that he intends to cancel.

Kadlec has one simple request, "How about no new rules."

Consolidation

One area these existing FCMs do not have a problem with is broker consolidation. They see it as a natural evolution. "Capital intensive industries offer significant economies of scale and are ripe for consolidation," Guinan says. "The post-crisis regulatory efforts have raised the capital requirements increasing the trend toward consolidation. There are still plenty of FCMs and lots of competition."

Kadlec views consolidation as a positive sign of a maturing business. "In any maturing business, with added regulation [and] technology requirements, scale matters. Any [firm] must be larger to deal with the infrastructure costs. It is a natural progression of a changing business that has gone from a manual process with much wider commissions to a more efficient marketplace where scale is key. I don't believe it will reverse."

While there is some debate over whether consolidation will continue or taper, there is a consensus among FCM leaders that we won't go back to a world with 100+ FCMs. "It is not reversing. I don't see a need for more FCMs," Corcoran says. "You would have to start from scratch. It is a very high cost to entry. The survivors have a very specific strategy on what market segment they are going to serve."

Robertson says, "Despite the reduction of FCMs in previous years, our clients still have a great range of options when it comes to finding a service provider and the marketplace remains competitive."

Bitcoin Futures

The view of FCMs on bitcoin futures vary from excitement to cautious optimism to extreme skepticism. To a man, they all will offer these instruments to their customers, once approved, though some have significant apprehension.

"Bitcoin is like any other new commodity, if our customers choose to trade it, as a clearing firm we will trade it," Kadlec says. He is encouraged that it is being offered at CME and Cboe Futures Exchange because they have the wherewithal to support a new contract, but adds, ADM Investor Services will not be first to market. "As a traditional FCM that caters to hedgers we are not going to be early adopters of bitcoin [futures]. My concerns are standard: What's the bid/ask? Is it a transparent market? How's the liquidity? Is it a fair market? That is why it will have to be the Cboe or CME."

"We see this as a tremendous opportunity, not just for us but for the industry in general," Lamaina says. "Bitcoin over the last two months has doubled in price. And there is more than just bitcoin, there are plenty of other cryptocurrencies, there are over 1,000. Most people focus on the granddaddy of all, bitcoin, but we view this as a potentially huge opportunity. It is something that we are looking to support and provide our customers access to bitcoin futures at both the CFE and CME."

Lamaina acknowledges that there are still a fair amount of unknowns in the regulatory environment, especially when it comes to owning and transacting in the underlying.

Corcoran is apprensive about bitcoin futures and will not offer them to customers on day one. "We agree with much of the substance of Tom Peterffy's recent letter to the CFTC that the product needs to be closely examined. I do have fears that it is so unknown and volatile," he says.

Perhaps more skeptical is Guinan. "We have had several clients inquire about the cryptocurrencies. Advantage will offer access as we do with other exchange listed products," He says, while cautioning, "I think strong leadership at the Federal Reserve or Treasury Department should be aggressively thwarting these products, and yet they are not. The era is reminiscent of the dot-com run-up in some concerning ways. While there are infinite possibilities for more cryptocurrencies, the run-up in price of any particular one, as it gains popularity, is much more representative of a speculative vehicle than an instrument for paying for transactions across the globe."

Throwing more cold water on the bitcoin futures buzz was a letter Interactive Brokers Chairman Thomas Peterffy sent to CFTC Chair Christopher Giancarlo in mid-November where Peterffy called for any cryptocurrency futures to be placed in a separate clearing pool from the rest of the products in an exchange clearinghouse. "There is no fundamental basis for valuation of bitcoin and other cryptocurrencies, and they may assume

"While the buyer of a cryptocurrency futures could be required to put up 100% of the value to ensure safety, determining the margin requirement for the seller is impossible." --Thomas Peterffy

“My friends that are entrepreneurs all own some bitcoin. The younger generation, I don’t think they understand it, but they want to be in it.” **--Gerry Corcoran**

any price from one day to the next. This has been illustrated quite clearly in 2017 as the price of bitcoin has increased by nearly 1,000%,” Peterffy wrote. “Cryptocurrencies do not have a mature, regulated and tested underlying market. The products and their markets have existed for fewer than 10 years and bear little, if any, relationship to any economic circumstance or reality in the real world.”

He goes on to say the only way to protect clearing organizations, their members and the financial system as a whole from this unique risk is to isolate cryptocurrencies derivatives from other products. “Margining such a product in a reasonable manner is impossible. While the buyer (the long side) of a cryptocurrency futures contract or call option could be required to put up 100% of the value to ensure safety, determining the margin requirement for the seller (the short side) is impossible.”

While several people have pointed out concerns, no other new product in recent years has created so much buzz.

“The last product that had as much fanfare as bitcoin has was single-stock futures, and it just didn’t happen,” Corcoran says.

Lamaina points out there is a great deal of enthusiasm for bitcoin futures. “The amount of customers requesting this is relatively moderate; however, the people who are contacting us about it are extremely passionate. Comparing that to other products that are coming out, the amount of customer enthusiasm is much greater than any other product we have seen in recent history. This indicates to us that we are going to have quite a few customers who are going to want to trade early on.”

“My gut feeling is that bitcoin is going to start out with a retail flare, but we need to approach with caution rather than rush it to market” Corcoran says. “My friends who are entrepreneurs all own some bitcoin. The younger generation, I don’t think they understand it, but they want to be in it.”

Kadlec is content to wait. “The reason why you want to pay attention to bitcoin is [it may] become a form of payment for our core customers. It could because it could be a dollar substitute and we have an international presence.”

Since ADM Investor Services has international customers, if bitcoin becomes an actual currency those customers may eventually use it, and need to hedge it. “We do a fair amount of business in emerging markets and emerging markets don’t have the strength of a federal reserve system and a top tier banking system,” Kadlec says. “Our customers are more methodical and strategic and use this marketplace for the traditional economic purpose, which is to hedge. We will use the marketplace once it hits our rather pragmatic view of using tools.”

While there is risk, brokers are in the risk management business. “Everyone has been asking for volatility, well we have a product that is going to potentially have some volatility to it so let’s try and figure out what the proper margin requirements are so it is not overly onerous, but at the same time, the FCMS are able to protect everyone from a tremendous move,” Lamaina says.

Risk & Opportunity

In accessing risks and opportunities, futures brokers are focusing on what has allowed them to survive in a difficult environment.

“We need markets that are liquid, deep, transparent and smartly regulated – that allow clients to trade and hedge in a cost-effective manner,” Gordon says. The biggest risks to FCMs are those things that could negatively impact these qualities, including rising costs with a limited ability to offset them and unreasonable regulatory hurdles that don’t solve a problem or protect the customer.”

While the ZIRP period seemed like it would never end, it has, but there are new challenges. “Many markets have had extremely low volatility for a considerable period of time,” Guinan says. “This depressed volatility may be like compressing a spring and some markets may erupt with unexpected moves resulting in significant profits or losses for clients. FCMs need to be vigilant.”

Exciting new products hold out hope, but also include risk, especially cryptocurrency futures. “Cryptocurrency futures are the biggest opportunity we have seen in a long time,” Lamaina says. “As these products expand, we see opportunities in retail with outright futures and futures on options.”

Kadlec says the key for survival in a continually challenging environment is efficiency. “How can you do more with less? Making personnel smarter; being able to do more transactions with less in an incredibly accurate way.”

What is clear is that today’s FCMs are equipped to compete in the new post-credit crisis world. What lay ahead are both greater challenges and opportunities. ∆

“Everyone has been asking for volatility, well we have a product that is going to potentially have some volatility.” **--Nicholas Lamaina**

46½% ALC./VOL., (93 PROOF)

AN EMPTY FEW BOTTLE WAS FOUND FLOATING OFF THE COAST OF BARBADOS.

The note inside kindly requested a refill.

Whisky ADVOCATE *Craft Whiskey Of The Year*

IF YOU COULD ONLY bring three things on a deserted island, regrettably, the FEW would run out. Leaving you the choice of living your brutish existence without the finest rye whiskey on the globe, or, getting creative.

While arranging beach rocks to spell F–E–W, you might wonder what makes this rye so extraordinary. It begins with our master distiller, and a story that's nothing short of legend. In the dry city of Evanston, Illinois, a community at the epicenter of Prohibition, he overturned century-old Temperance laws to start the first craft distillery in the city, as well as, the rebirth of rye whiskey.

Born of hearty grain, the generous rye content is married with the sweetness of corn for a genteel interpretation of the venerable spirit. Patiently aged in air-dried oak barrels, its spicy character transcends mere resurgence. Behold – the renaissance of rye. The spirit is distilled utilizing the finest grains. Bottled in-house. And handled with the utmost care.

FEW is a new take on timeless distilling techniques, praised far and wide by modern palates. In 2012, FEW rye whiskey was awarded the Silver Medal at the International Review of Spirits. This praise is highly humbling. And a respectful nod to our disciplined method.

If you do find yourself on a sunswept isle, we hope your quest for a refill will be successful. Just beware of signal mirrors flashing on the horizon. For there are those who would try to save" you from watching painted sunsets with a glass of FEW in your hand. If you do spy a rescue boat, lie still. Blend into your surroundings. And keep your head low as you take another sip of paradise.

TIMELESS TASTE *few* SHALL HAVE

On Dec. 23, reigning Spanish and European soccer champion Real Madrid's star Cristiano Ronaldo will meet his match again as they host rival Lionel Messi and Team Barcelona in the first Clasico of the season.

Madrid is slightly trailing La Liga leaders Barcelona heading into the holiday matchup, but the fan-charged Ronaldo vs. Messi debate over the world's best player is running neck-and-neck as Cristiano Ronaldo claimed the title of Best FIFA men's player of 2017 for the second year running in London in October.

Over the past ten years, only Ronaldo and Messi have owned this title. Ronaldo won in 2008, 2013, 2014, 2016 and 2017. Messi was the winner in the years in between – 2009, 2010, 2011, 2012 and 2015, further fueling this elite rivalry.

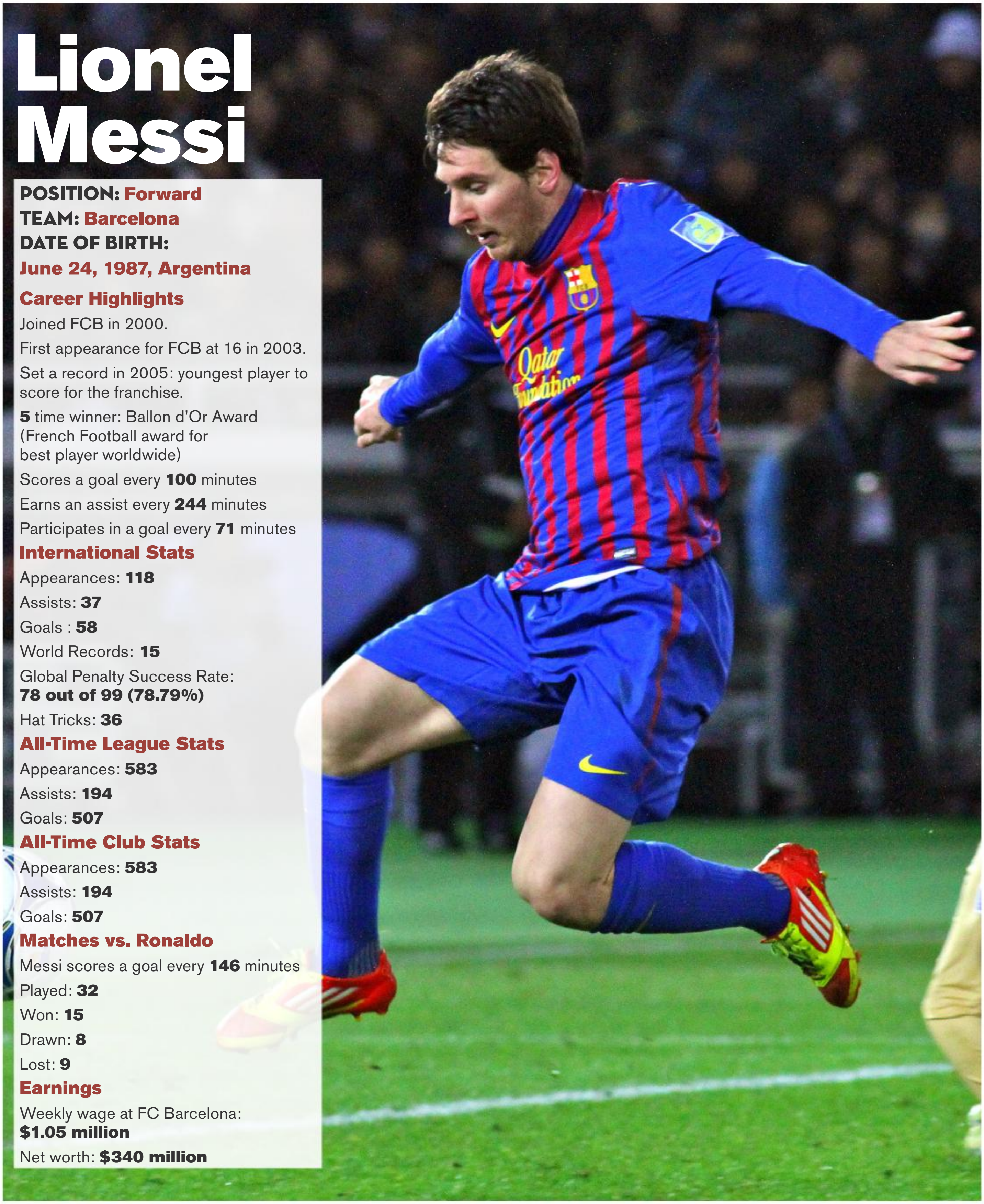
The Greatest Player? Messi vs. Ronaldo

CRISTIANO RONALDO FOLLOWERS cannot believe that despite his out-of-this-world, mind-blowing performances over the last 10 years, there is still someone considered by many to be better than him, and perhaps rightly so. Lionel Messi followers cannot believe that his seemingly super human and breath-taking performances over the last 10 years, has not given him the absolute monopoly of global attention, that someone else is sharing the accolades and honors with him.

Fact is, neither Messi nor Ronaldo may be objectively considered as the greatest player of all time; although that debate would be better resolved when they retire.

Excluding some miracle in the remaining few years of the Messi-Ronaldo careers, Pele will still remain the greatest football player of all time and only core Messi-Ronaldo fanatics will dispute that. Those who actually know what football was from 1950 to the 1980s are not often heard from these days, but whatever scale is used, it would be nearly impossible to rate anyone above Pele. From skills to statistics down to achievements, it's all there. Pele's 750+ official goals in just about 800 matches and his three world cups testify to that. If Pele were eligible for the Ballon d'Or during his playing time, he would've comfortably won seven or more.

@AmirAbdulazeez is a Nigerian football commentator.



Lionel Messi

POSITION: Forward
TEAM: Barcelona
DATE OF BIRTH:
June 24, 1987, Argentina

Career Highlights

Joined FCB in 2000.

First appearance for FCB at 16 in 2003.

Set a record in 2005: youngest player to score for the franchise.

5 time winner: Ballon d'Or Award (French Football award for best player worldwide)

Scores a goal every **100** minutes

Earns an assist every **244** minutes

Participates in a goal every **71** minutes

International Stats

Appearances: **118**

Assists: **37**

Goals : **58**

World Records: **15**

Global Penalty Success Rate:
78 out of 99 (78.79%)

Hat Tricks: **36**

All-Time League Stats

Appearances: **583**

Assists: **194**

Goals: **507**

All-Time Club Stats

Appearances: **583**

Assists: **194**

Goals: **507**

Matches vs. Ronaldo

Messi scores a goal every **146** minutes

Played: **32**

Won: **15**

Drawn: **8**

Lost: **9**

Earnings

Weekly wage at FC Barcelona:
$1.05 million

Net worth: **$340 million**

Cristiano Ronaldo

POSITION: Forward
TEAM: Real Madrid
DATE OF BIRTH:
FEB. 5, 1985, Portugal

Career Highlights

Joined Manchester United in 2003.

Set a record: most paid for a player of his age (£12 million).

Joined FCRM in 2009 at a record
$131 million deal.

Awarded Ballon d'Or **5** times

Scores a goal every **114** minutes

Earns an assist every **335** minutes

Participates in a goal every **85** minutes

International Stats

Appearances: **143**

Assists: **25**

Goals: **75**

World Records: **13**

Global Penalty Success Rate:
101 out of 123 (82.11%)

Hat Tricks: **38**

All-Time League Stats

Appearances: **382**

Assists: **135**

Goals: **349**

All-Time Club Stats

Appearances: **717**

Assists: **172**

Goals: **529**

Matches vs. Messi

Ronaldo scores a goal every **162** minutes

Played: **32**

Won: **9**

Drawn: **8**

Lost: **15**

Earnings

Weekly wage at FC Real Madrid:
$1.12 million

Net worth: **$450 million**

Top-performing liquid assets of 2017

TASTINGS HAS BEEN CONDUCTING OBJECTIVE, independent reviews of beer, wine and spirits since 1981. In 2017, they taste-tested thousands of products. For this annual awards issue, Modern Trader asked **Tastings.com** director (and former Merc clerk) Jerald O'Kennard for his favorite (highest-rated) brown spirits of 2017.

2017 BEST ISLAND SINGLE MALT SCOTCH

95 POINTS

GOLD MEDAL—EXCEPTIONAL

Highland Park Valkyrie Single Malt Scotch

Country: Scotland
91.8 Proof. $79.99

TASTING INFO

Style: spicy, rich, smoky, fruity, complex & candied

Aroma: burning cigarette paper, freshly baked biscuits, sweet honey and burnt orange, and shoe shop

Taste: cherry jam, luxury leather, warm wet sand, and mango chutney and mixed peppercorns

A tempestuous storm of a whisky that brings with it several lifetimes of flavor and intrigue.

2017 BEST IRISH SINGLE POT STILL WHISKEY

97 POINTS

PLATINUM MEDAL-SUPERLATIVE

Dair Ghaelach Single Pot Still Irish Whiskey

Country: Midleton (Ireland)
115.8 Proof. $200

TASTING INFO

Style: candied, complex, fruity, herbal, rich, spirity & spicy

Aroma: vanilla-almond and dandelion, lime leaf, blackberry and currant, men's cologne, and pottery

Taste: butterscotch drenched cherries and cola, fresh praline, spearmint, tobacco leaf, allspice, and clove

A gentleman's club of a dram dripping with mystery, richness, and a perfect balance of power and grace.

2017 BEST BLENDED SCOTCH

93 POINTS

GOLD MEDAL-EXCEPTIONAL

Dewar's The Vintage 18 Year Old Blended Scotch Whisky

Country: Scotland
80 Proof. $60

TASTING INFO

Style: fruity, candied, herbal smooth & spicy

Aroma: candied orange peel and lemon, anise ripe berries, green pear cobbler, and banana bread

Taste: frosted cherry pop tart, raisin, cinnamon dusted creme brulee, ground ginger with heather, and pimiento and honey sesame candy

A pleasing blended scotch that hits all the right notes.

TASTING.com SCORING

Blind panels scores are translated onto a modified 100-point scale.

- 96-100-Superlative (Platinum)
- 90-95 - Exceptional (Gold)
- 85-89 - Highly Recommended (Silver)
- 80-84 - Recommended (Bronze)
- <79 - Not Recommended

2017 BEST SPEYSIDE SINGLE MALT SCOTCH

94 POINTS

GOLD MEDAL-EXCEPTIONAL

The Singleton 18 Year Old Single Malt Scotch Whisky

Country: Scotland

80 Proof. $79.99

TASTING INFO

Style: fruity, complex, herbal & rich

Aroma: cherry pie crusts, nutmeg and ginger, brown sugar, and heather and leather

Taste: fresh parsley, meyer lemon and mint, potato skin and mocha, honey, and pear and black pepper

A soft yet rich and complex single malt for every palate.

2017 BEST BOURBON WHISKEY

95 POINTS

GOLD MEDAL-EXCEPTIONAL

Wild Turkey Rare Breed Kentucky Straight Bourbon Whiskey

Country: USA

116.8 Proof. $44.99

TASTING INFO

Style: fruity, complex, spicy & rich

Aroma: butter roasted peanuts, cherry-peach pastry, root beer float with coffee-banana ice cream, and sandalwood soap

Taste: vanilla toffee, brown and peppery spices, and cola

A flavor-packed, thrusting, in-your-face bourbon that hits the senses like a velvet brick.

2017 BEST AMERICAN SINGLE MALT WHISKEY

93 POINTS

GOLD MEDAL-EXCEPTIONAL

Hillrock Estate Distillery Single Malt Whiskey

Country: USA

86 Proof. $100

TASTING INFO

Style: complex, rich, smoky & spicy

Aroma: smoking rosewood, sandalwood and crisp apple, wild cherry and ripe melon, and horse saddle

Taste: cigar, charred vanilla bean, rackhouse, and baking spices

A deep-woods, smoky American single malt for sipping in a leather chair.

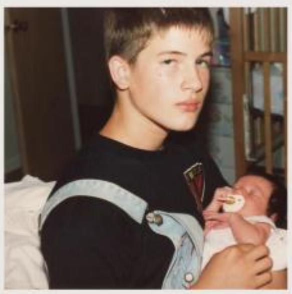
RECORD HIGH *Music Musings & Reviews*

2017's best in music

This list is a mix of the best music released in 2017 and music we will likely be still listening to in 2037. The Nashville Sound ran away with my pick for top album this year. Everything else is in second place.

Album of the Year

« **Jason Isbell and the 400 Unit**— *The Nashville Sound:* Isbell is an American songwriting treasure. He is at the top of his game, seeking truth in just about every line he writes. This is a guitar-driven Americana album to sink into, listen to the lyrics, appreciate the musicianship, and fall in love. Isbell's songs, while personal, are less autobiographical and more universal. The truths he finds in lyrics are anyone's biography.



« **Big Thief** – *Capacity:* Front woman Adrianne Lenker writes cathartic songs of love lost, death and abuse. That she does so in a way that is both haunting and inviting is a testament to Lenker's subject matter and her skill in allowing stories to spill out of her like lava from a smoldering volcano. Not since Springsteen has a songwriter been able to so artfully cram so many syllables into a line.

« **Middle Kids** – *Middle Kids:* Straight forward rock and roll. Hanna Joy's voice can move on an eighth note from a delicate whisper of a voice that you want to wrap your arms around to a full-throated roar that will knock you to the floor. Songs build into rock anthems without veering into cloying pop. I spent enough time with this EP in 2017 until I could hear her voice in my dreams.

« **Skyway Man** – *Seen Comin' From a Mighty Eye:* A concept album of an all knowing and seeing mighty eye in the sky. Watching. In the future. Part David Bowie and part Beulah, keyboards anchor the songs but horns and ample backing vocals create pulsing waves of sound. The entire album is a sonic treat and the live show should not be missed. Band leader James Wallace trades duties between keyboards and guitar – often switching within a single song, singing into analog mics and 1980's telephones.

« **Kendrick Lamar** –*Damn:* For all the flash and flamboyance in rap, the braggadocio and tales of sexual conquests, Kendrick Lamar stands as a contrast. His raps are more introspective and complex while technically spectacular. The instrumentation also serves the lyrics, not overly complicated or orchestral. If you listen to rap at all, it was hard to avoid this album in 2017 for good reason.

« Sylvan Esso – *What Now:* Perhaps it is the combination of ingredients that make this a different electronic flavor. Amelia Meath's first band, Mountain Man, was a Vermont-based Americana Appalachian folk outfit, while Nick Sandborn hailed from Megafaun, a more arrhythmic psychedelic version of Fleet Foxes. Sylvan Esso's sophomore electronic dance and off-kilter beats remain warm and intimate, avoiding the sterility that plagues so many in this genre. Their pop sensibilities developed in previous bands and genres make these songs as singable as anything on the pop charts.

« Bully – *Losing*: Alicia Bognanno is fired up. On Losing, she sings quick punk-infused songs with tuneful melodies. Think what would have happened if Joan Jett had fronted The Ramones in 1996 on Sub Pop. Bognanno is at her best when she moves from a lightly voiced phrase describing her vulnerabilities or fears to letting out a full-throated howl, which is then joined by fuzzed-up crunchy fat guitars, bass and an abused drum kit.

« The War on Drugs – *A Deeper Understanding:* Take a band that loves Bob Dylan, pushes 80's synth pop through a 90s shoegaze cheesecloth to wring out any angularity, emphasize the reverb, highlight 2000's shimmering guitars, and 2010's disjointed noises and you start to get to what The War on Drugs does best. Equal parts bouncy and introspective, A Deeper Understanding will have you closing your eyes and wondering where and when they are from.

« Tyler Childers – *Purgatory:* Childers' voice on the Americana scene is as fresh as a newly plucked berry. His songs are heartfelt tales, likely biographical, describing life in Appalachia – and it's not all coal mines and hollers. Sure, he's drinking beer, getting stoned and snorting coke. But beyond those cliched topics, his lyrics are nuanced and poetic – about how his buckle left marks of feathered Indians on the inside of her thigh as they tussled through the night. Three minute characters achieve Faulkneresque depth, getting stoned but feeling guilt about it; chasing skirts, but seeking love, longing for one more tender night. Childers is ripe for the picking and won't be playing small venues much longer.

« Moses Sumney – *Aromanticism:* At the heart of Aromantacism is a deep blues, lamenting the disappearance of romantic love in a world of instant gratification where everything is available and online all the time. Sumney croons his falsetto jazz-phrasing over arpeggio plucked guitars, shimmering string arrangements and percussive Caribbean beats. Despite all the lush instrumentation, Aromantacism has an amazing amount of space to allow the songs to float and develop, shifting in tone and structure several times over the course of a song.

Notable Reissues and Live Albums:

Lucinda Williams – This Sweet Old World
Radiohead – OKNOTOK 1997 2017
The Replacements – For Sale: Live at Maxwell's 1986
Husker Dü – Some Young Dü

— J Burr Vannatta @jvevanston

***J Burr Vannatta**, a lifelong music critic with prior stints at Southern and Sugar Free Records, has been producing his highly anticipated Best Albums of the Year list for the past 25 years. @JVevanston*

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CHART PATTERNS

Applying classic chart patterns to current trading opportunities

FANTAG Stock Patterns

By **Suri Duddella**

High-end technology stocks have soared in 2017. CNBC's Jim Cramer popularized the acronym "FANG" for four high performing technology stocks: **Facebook** (FB), **Amazon** (AMZN), **Netflix** (NFLX), and **Google** (GOOG). But FANG only represents four of the many technology stocks which share similar spectacular growth stories of late. **Tesla** (TSLA), **Apple** (AAPL), **Adobe** (ADBE) and **Broadcom** (AVGO) have all performed well. Wall Street analysts have modified the original "FANG" acronym to sometimes include Adobe and Apple. The acronym "FANTAG" has sprung up to represent high flyers: Facebook, Amazon, Netflix, Tesla, Apple and Google.

Through October, 2017, the S&P 500 was up 15.29% and the Nasdaq 100 was up 24.49% for the year. FANTAG stocks have greatly outperformed the indexes: Facebook up 54.61%, Amazon up 46.82%, Netflix up 61.18%, Tesla up 50.18%, Apple up 40.78% and Google up 32.06% (see FANTAG performance," right).

INSIDE TECHNIQUES & TACTICS

FANTAG Patterns

Here we will discuss the past and current chart patterns of each of these six stocks that propelled them to high-performance stocks in the recent years.

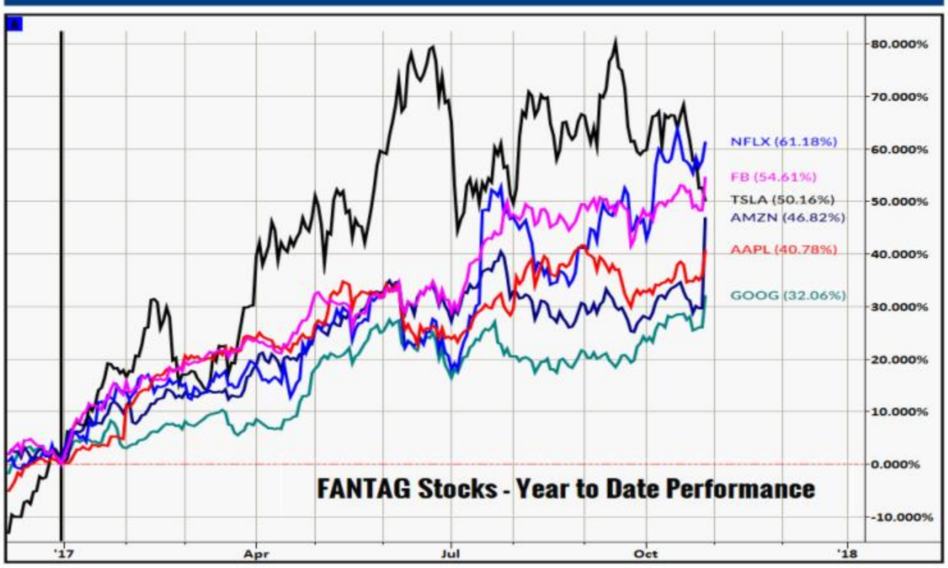
Facebook (FB)

Facebook is second only to Netflix among FANTAG stocks in 2017 (+54.61%) and with its stellar fundamentals, could

FANTAG PERFORMANCE

Nearly all FANTAG stocks have outperformed the major indexes by a factor of 3X.

Source: SuriNotes



continue its rise in the quarters ahead. FB also built an ABC Bullish Pattern (See "Trading ABC Patterns" MT, December 2016) from July to December of 2016. On Jan. 3, 2017, FB traded above its entry-level $117.70 to trigger a buy signal. An initial stop was placed below $114. The first target was at $129. The best-performing target was at $146 and the third target was at $171. During 2016, FB reached all three targets. Each of these price targets also has ABC Time targets (see "ABC of FB," right). The third target range of $171-180 was estimated to be reached between Oct. 16'17 and Jan. 02'18.

Amazon (AMZN)

Amazon has been rising in a Parabolic Arc pattern (See article "Parabolic Arc: What Goes Up...," MT November 2016) since 2005; from a low of $5.51 to a current high of $1,105. Parabolic Arc patterns are extremely long-term bullish patterns, but often return 50% to 62% of its prior rise. After its recent Q3 earnings performance, Amazon may not yet be ready to correct– it might take years for its parabolic arc to retrace – but given the nature of the move, it would be wise to prepare for a correction. Because of the steepness of the move, even a relatively mild correction would constitute a huge move (see "Parabolic correction," right).

Netflix (NFLX)

Netflix, the world's largest video streaming company, saw great growth in 2017 and is expected to grow more in the coming years. NFLX has been trading in a large Bullish five-wave pattern (similar to Elliott Wave) since 2009; from a low of $2.23 to a high of $204 in 2017. The basic five-wave theory dictates that markets move in waves in the direction of primary trends. There will be three-action and two-reaction waves to complete a cycle. There are many variations and key aspects of these waves. However, the main concept is

ABCS OF FB

Source: SuriNotes

PARABOLIC CORRECTION?

Source: SuriNotes

NFLX NEARS END PATTERN

Source: SuriNotes

TESLA BREAKS OUT

Source: SuriNotes

FANTAG stocks have greatly outperformed the indexes.

five waves, three up or down followed intermittently by two corrective waves. Wave ranges can be determined by Fibonacci numbers for time/price ranges. NFLX is near its 100% range near $205.79 (see "NFLX nears end pattern," left). If NFLX completes five-waves at this price range, a correction wave patterns to the downside could follow.

Tesla (TSLA)

Tesla is an automaker, energy storage company and solar panel manufacturing company founded by innovative CEO Elon Musk. Tesla rose more than 50% this year after consolidating in a rectangle pattern since 2014. The rectangle range has been $177 to $291. In April 2017, TSLA closed above the upper range of the rectangle channel to signal a breakout (see "Tesla breaks out," left). The upside targets are $348 and $405 (see "Trading Rectangle Channel Patterns, MT June 2017). TSLA daily chart is also trading in an ABC Bullish pattern.

Apple (AAPL)

Apple stock has been in a "SuperCycle" mode since 2008 with periodic product updates. With its iPhone X launch, AAPL has been one of the top three best performing stocks for 2017 up 40.78% year-to-date. Apple stock is also in a five-wave bullish pattern like Netflix. It has multiple other chart patterns (see "Patterns within Patterns," MT, May 2017). The monthly chart shows an upward regression channel build up from 2009 and an embedded ABC Bullish pattern (see "AAPL: A lot going on," page 68). An ABC Bullish pattern (monthly) has been in works since May 2016 with an entry above $111. The first target range is $138-152 and second target range is ($190-218). ABC Bullish pattern 100% AB target is at $169. The next target range is also near the top end of the regression channel.

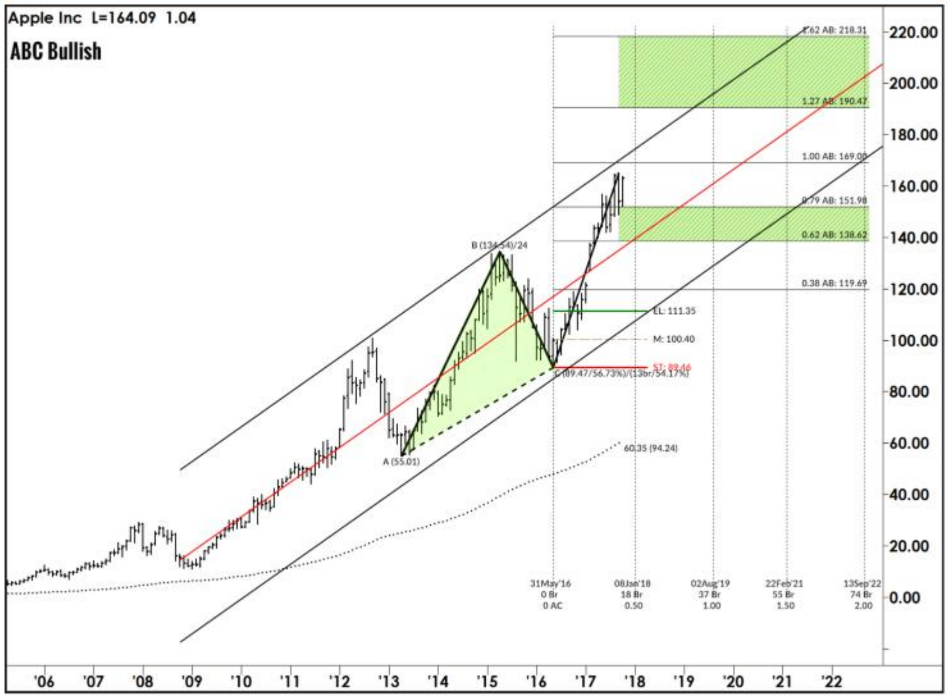
Rectangle channel patterns are one of the more popular charting techniques with precise entry, exit, stop and target trading levels.

Google (GOOG)
Online advertising giant Alphabet (GOOGL), formerly Google, Inc. has seen excellent growth since its IPO at $50 in 2004 to a high of $1,015 in October 2017. Even though it is last in the high-performing FANTAG group, it is up 32% year-to-date. Since April 2017, GOOG is trading in a rectangle channel pattern (see "Trading Rectangle Channel Patterns," MT June 2017).

Rectangle channel patterns are one of the more popular charting techniques with precise entry, exit, stop and target trading levels. Rectangle channel patterns are formed by price action between two key trendlines bound by multiple equal (near) highs and lows. The pattern must have at least two pivots (equal highs or equal lows) on each of the trendlines. The price breakout can occur in either direction from the pattern, but typically price breaks out in the same direction as the prior trend before the pattern formation. Targets in rectangle channel formations are based on the depth of the rectangle pattern. Targets are usually set at 70% to 100% of the depth of rectangle from the trade entry. "Alphabet on target," (right) shows a GOOGL rectangle channel formation with its potential target zones. Δ

***Suri Duddella** is a 20-year veteran pattern-based, algorithmic trader and author of Trade Chart patterns Like the Pros. @surinotes*

AAPL: A LOT GOING ON
Source: SuriNotes



ALPHABET ON TARGET!
Source: SuriNotes

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PAPER TRADE

Essential due diligence before you start trading.

10 Questions to Ask a Futures Broker

By **Tamarah Webb**

Trading is hard, even for grizzled veterans, so anyone looking to trade needs to do their due diligence, especially when selecting their broker.

In the world of electronic trading, traders can trade at very low rates depending on how much help they need. But new traders need to be honest with themselves in selecting a broker. You may not know as much as you think, so it is good to have someone to hold your hand even if it means paying a higher commission.

Once you have decided upon a firm, you should then decide on an individual broker. Here are 10 questions that a new futures trader or investor should ask when selecting a broker.

1. What type of registration do you have?

"We've seen in recent years a lot of fraudulent companies that are based overseas, out of the reach of the U.S. regulators, that have turned out to not be on the board," says Phil Flynn, senior energy analyst at The PRICE Futures Group. When you talk to a broker, you want to find out if they are registered in the United States. If a potential broker is registered, they will be registered with the Commodity Futures Trading Commission (CFTC) after becoming a member of National Futures Exchange (NFA).

You should visit www.NFA.Futures.org to access their BASIC (Background Affiliation Status Information Center) database. The database contains CFTC registration and NFA membership information. In addition to registration status, be sure to look out for any disciplinary history. Make sure you examine the company's history and age of business. Do they, or other brokers who work for that firm, have any disciplinary history you as a potential customer should know about?

2. Can we build a personal relationship?

When selecting a broker, remember that you are developing a long-term relationship. Make sure that person is somebody that you can get along with. Before you open an account with your broker, you need to know that you can work with him or her. See what type of research and experience the broker has to offer; how many years of experience he or she has and find out if the broker's personality is one you can work with on a daily basis.

> **"You will appreciate a broker you can relate to and talk to on a regular basis." --Phil Flynn**

THINGS TO KNOW

Charlie Nedoss of LaSalle Futures Group, says every new trader must answer the following before beginning to trade.

Source: Charles Nedoss

- Are you interested in trading futures, options or both?
- If futures, are you trading spreads or outrights.
- What types of orders do you prefer for entering and exiting markets: Market orders, limit orders, stops etc.
- What is your risk management plan? Do you use options or stops to manage risk on an existing futures position? Do you have profit targets? How do you calculate them?
- Do you have one entry signal or do you scale in and out of a position with multiple contracts.
- What percent of working capital to can you afford to risk on each trade. Why?
- How do you assess the spread on the bid/ask. Do you account for the inevitable slippage that goes along with trading?
- How much time is required to execute your trading plan and how much time can you commit to it? Be honest.

If the trader doesn't have the answers to these questions but still realizes the potential opportunities that futures offer they can consider leasing a system or participating in a managed futures program. In this instance, the trader should do a thorough examination of the program's track record to see if it fits their risk profile.

"It's important to have an open relationship with your broker. You will appreciate a broker you can relate to and talk to on a regular basis," Flynn says. There may be a large amount of material you are required to sign – don't be afraid to ask questions. According to Heritage West Financial, Inc. you should carefully read and understand all material before signing anything. Never exaggerate your financial statistics such as net worth or the amount of risk capital you have. Certain trades and markets can be utilized relatively cheaply, but if you are undercapitalized for a particular strategy, it makes it nearly impossible to be successful in the long run.

Be very cautious and avoid brokers who suggest being less than truthful on your account forms. It is for your protection that commodity laws require these statements. If a broker encourages you to exaggerate to get an account open, that broker is likely churning accounts and not interested in your long-term success.

3. Do you have a working knowledge of the fundamentals and technicals of the markets I wish to trade?

A good broker does not pressure clients to trade. There are a lot of good brokers out there but you need to pick a broker who fits your type of trading style – find somebody you can work with. If you're going to work with a full-service broker, find one who can provide a favorable online trading platform. There's a lot of attraction for some people to trade with electronic platform trading companies because there's very low commission, but at the same time there are a lot of traders that probably wouldn't do as well in that environment because of margin requirements and restrictions. Flynn says, "Sometimes there are restrictions on going short option trading. So in those cases you might be better off with a kind of blue-chip service firm."

If you need help, either in learning the particulars of the market or execution, it's best to find a broker that can hold your hand. Once you become more sophisticated and comfortable you can always take more control of your trading.

4. What kind of customer service do you offer?

It's not like a stock account. Once you have money in the futures account it's not set-it-and-forget-it, you should watch your statement everyday. "It's important to monitor this and never put on a position and go on vacation," says Flynn. Often there can be mistakes made. "There are times where costumers forget they placed orders and it can be very expense." It should be the overall value of service a broker offers as it pertains to the needs of a particular trader that a trader should focus on when choosing a broker.

Pick a broker who matches your style. If a broker has several high net worth customers, he may not be very attentive to your smaller account. Make sure you are on the same page.

5. What about news reports, services and charts? What's included and what will cost me extra?

As previously reported by Modern Trader magazine, in this area you should start by finding out what kind of extras you will need in terms of data and services. Does this broker's system offer all of the quotes, charts, news and research you need? Are there live market data and capabilities offered? Find out what trading tools are available. Some brokers charge extra for real-time quotes and some offer a limited quantity of real-time quotes included in a trading system package, and then charge an amount for extra quotes used. Some brokers may also

Even if you plan to trade from a fundamental perspective, it is important to know the technicals because other traders trade off of them.

charge for charts, which most traders view as pertinent to trading.

You will want as many tools as you can get. Even if you plan to trade from a fundamental perspective, it is mportant to know the technicals because other traders trade off of them and you'll need to know at what levels technical traders are likely to be getting into or out of a market.

6. Are there account requirements?
Some brokers have minimum requirements on account sizes and different pricing structures for different accounts and you should find out which suits you best and which you are most comfortable with. According to Heritage West you should have received this information in the account opening packet sent to you prior to your meeting. If it was not included, you need to know this up front, in case the broker or firm requires a higher initial amount to start than you are willing to put into a trading account. During this discussion you should also talk about the firm's margin requirements and call procedures. Firms can have different policies regarding margin.

7. What is your track record like?
A broker's reputation is important because it is one way of measuring his stability. Is he open to new trading ideas and techniques? Especially if he handles many clients, make sure he has availability for face-to-face encounters. Are most of the broker's clients commercial hedgers, speculators or a mix of both? Most of these questions will be answered if you check his references.

Question the broker about their failures as well as their successes. They will have both so it is important that they can be honest about this.

8. What is your execution and technology?
According to TradingSim.com, execution of orders plays an important role and can be one of the few things that can be the difference between a winning and a losing trade. While most day traders tend to focus on fees, margin and leverage (which are important), execution of the trades should not be underestimated. No matter how good your trading strategy may be, slippage can eat away into your profits and can add up to a significant amount over a period of time.

Besides execution, traders should also ensure that the futures brokerage offers you flexibility in terms of placing and modifying orders as well. Rick Tomsic, founder of Tradovate Holdings, LLC says you should easily be able to log in to check quotes and place trades on your phone or tablet. Does using the platform feel as easy as hailing an Uber ride or does it feel more like using a dial-up modem? Investors should be able to "take a look under the hood" in simulation to see if the platform has a clear and visible layout of key trading functions, and is not stuffed to the gills with obscure bells and whistles.

9. Do you offer educational seminars?
A trader should ask about educational offerings. If you're going to start trading, you've obviously done a good amount of research and homework on the markets, but as a novice you'll still want to learn more. Ask about simulated trading and the extent of education offered on the platform you'll be using.

10. What are the commission fees?
Lastly, ask the broker about commission charges. As with most businesses, commissions vary with the amount of service. Also, make sure you understand all additional fees for value-added services.

While it sounds like a cliché, trading is a marathon and not a sprint. We are not talking about the duration of your trades, but the process of educating yourself. While it is natural to be excited and want to dive in, the more you know before you start putting money on the line, the greater your chances of success. Δ

Avoid brokers who suggest being less than truthful on your account forms.

ADVANCED TECHNIQUE

Explosive growth in various social media stocks lends value as we examine these unique stocks to find correlation trades.

Promising Social Media Trades

By **Paul D. Cretien**

Social media is no longer just a social phenomenon, it is a large and growing market sector. Social media stocks can be exciting and profitable to trade, but require more analysis to separate the wheat from the chaff. Three charts, covering eleven stocks over the period November 2016 through October 2017, will show the different characteristics of each stock – supporting conclusions for those that might provide profitable trading opportunities and others that should probably be avoided.

"Twitter, Amazon, Apple and Google" (page 74) show that two– **Amazon** (AMZN) and **Google** (GOOG) – are phenomenally close in price movements throughout the year. Starting at zero percentage price change on Nov. 1, 2016, they both gained approximately 25% through Oct. 31, 2017. As intertwined as their prices are, at first glance there would seem to be little opportunity indicated for spread trades between Google and Amazon. However, this is misleading because of their relatively large stock prices.

"Amazon and Google" (page 74) shows the two stocks in greater detail and clearly presents several dates on which spread trades might have been formed for short-term profitable results. For example, on April 10, 2017, Google could have been bought for $841.47, while selling Amazon for $907.04. The next month, on May10, 2017, Google was sold for $954.84, while buying Amazon for $948.95 for a net gain of $71.46. Although the two stocks have prices that are closely related, large stock prices make the spread trades interesting.

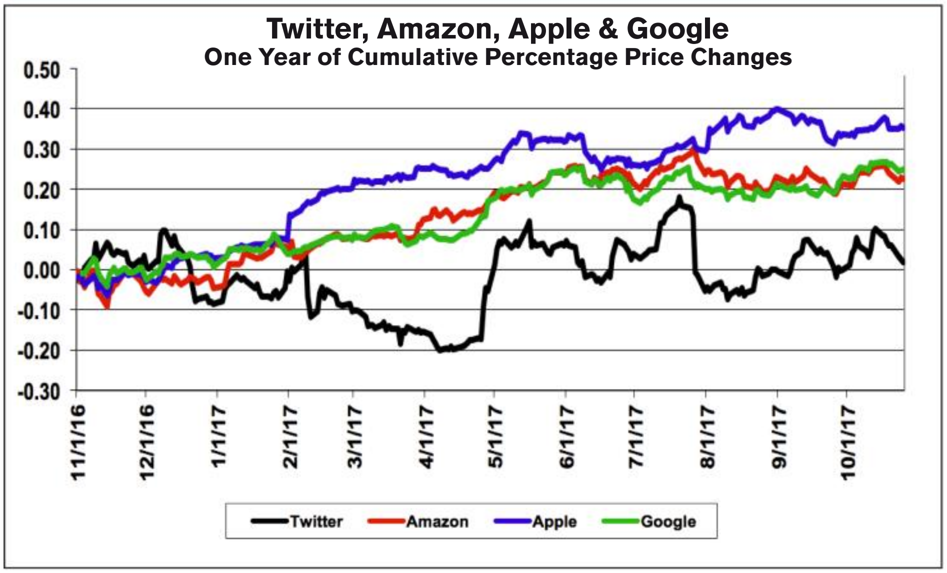
Apple (AAPL) separates from Google and Amazon around Feb. 1, 2017, surging over 10% higher over the next several weeks. Apple maintained this spread at the end of October 2017, reaching a cumulative 35% increase in stock price over 12 months. Of the four stocks shown, Apple seems to have the best chance for continued price gains. Although its price is relatively flat for the moment, Apple's stock may just be waiting in the wings for the next product presentation.

Shortly after Apple showed its sharp increase in price in early February, 2017, **Twitter** (TWTR) suddenly declined 20% at the first of May. However, by the middle of June, Twitter stock was at plus 10%. Twitter held this level, varying between zero and plus 10% through October 2017.

As we will see later, the options market considers Twitter to have relatively high volatility, which would be an advantage for a stock with a potential uptrend in price. Based on its history over the past year, Twitter does not seem to live up to this promising volatility, so the options market may just be viewing Twitter's up and down cumulative percentage changes between plus and minus 20%, good volatility that has not been applied to an increasing price.

"Starbucks, Facebook and Match

TWITTER, AMAZON, APPLE & GOOGLE
Amazon and Google are closely correlated among these tech titans.



AMAZON & GOOGLE
A closer look at Amazon and Google reveals spreading opportunities.

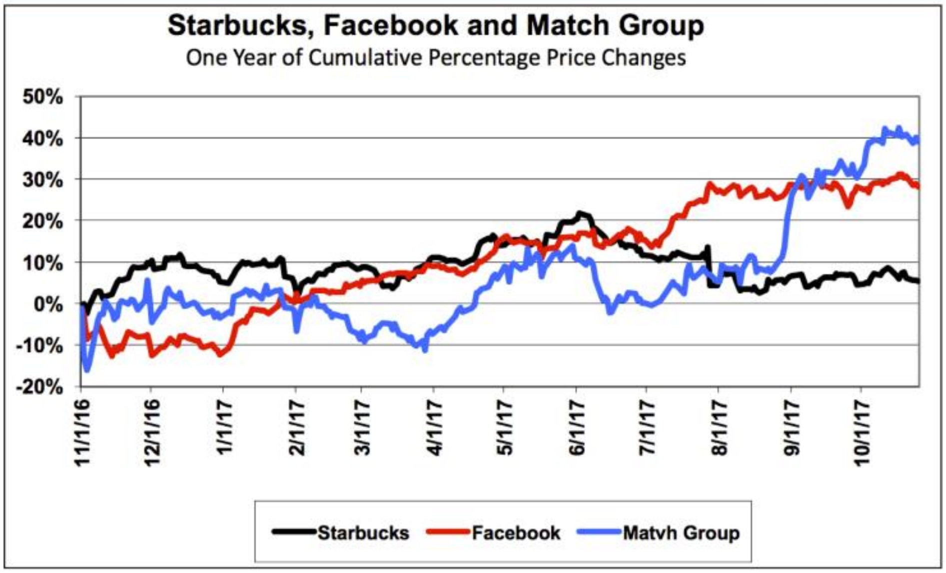
Group" (page 75) combines two social media stocks with the coffee restaurant. Ultimately there is no competition, as **Facebook** (FB) ends with a cumulative gain of 30% and **Match Group** (MTCH) with plus 40%, while Starbucks manages an increase of approximately 8%.

"Weibo, EBAY, Snap and Lumentum," (right) presents an interesting chart in which a stock that seems to have little price increase, EBAY, actually gains more than 30% from November 2016, to the end of October 2017. The comparison with **Lumentum** (LITE) and **Weibo** (WB), both of which end up 80% make **EBAY** stock seem ultra conservative.

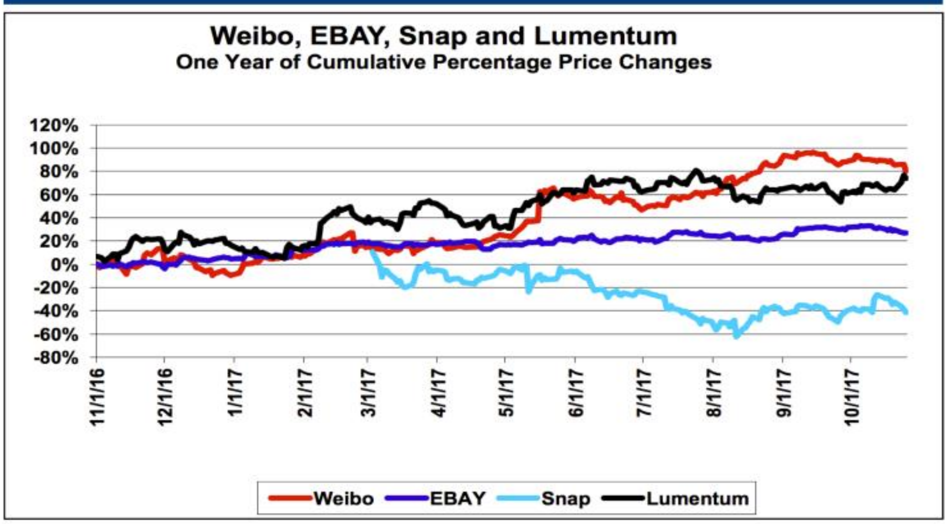
Following its IPO on March 1, 2017, **Snap** (SNAP) declined a cumulative 60% through early August 2017, while ending down 40% by Oct. 31. The fact that Snap has risen 20% in cumulative price change from the bottom in August holds some hope for the future, but the chart also implies that Snap was overvalued by approximately 40% at the time of its initial

With substantial growth in several social media stock prices, good times should continue for Apple, Facebook, Google, Amazon, Weibo and Match Group.

STARBUCKS, FACEBOOK & MATCH GROUP



WEIBO, EBAY, SNAP & LUMENTUM



offering.

"Calls on seven socials," (page 76) shows that Lumentum is by far the highest in terms of curve height and volatility implied by the options market. An unusual feature of Lumentum's call price curve is its lack of any curve. Delta is almost the same value at every strike. With the stock priced at $64.75 on Oct. 30, 2017, at strike price $90, delta is 0.315, while at strike price $65 the delta 0.451. With a straight-line slope for the Lumentum call price curve, delta is safe, but what happens to the other Greeks?

The height of an option's price curve at the point where the underlying stock or future's price equals a strike price is a measure of the options' market implied volatility for the underlying asset. The curve height percentages for the seven social media stocks are shown below:

Stock	Height of Call Option Curve
Lumentum	16.55%
Twitter	13.65%
Weibo	13.33%
Facebook	9.20%
Apple	7.92%
Alphabet Class A, GOOGL	7.48%
Match Group	6.44%

Weibo, sometimes described as the Twitter of China, is planning an issue of convertible senior notes amounting to a total of $700 million. Each note will have a principal value of $1,000. As of Oct. 24, 2017, the conversion rate and other terms of the notes had not been finalized, but that doesn't keep us from considering the possibilities.

On Oct. 30, 2017, Weibo Ads (American Depository securities) were priced at $92.65. Assuming no change in the Ads price before the convertible notes are issued, a conversion rate of 10

With substantial growth in several social media stock prices, good times should continue for Apple, Facebook, Google, Amazon, Weibo and Match Group.

stocks per $1,000 principal would let Weibo issue the stock at a premium of approximately 8%.

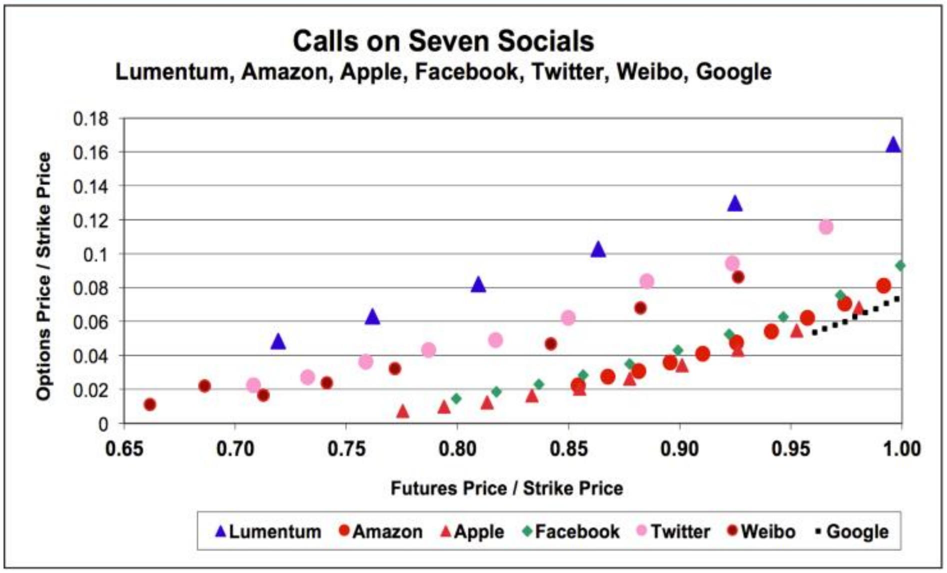
One advantage that the issuing company has with convertible debt is the delay in diluting the stock. In the case of Weibo, an additional 700,000 shares will be issued, which could cause some dilution. By delaying conversion into stock, the company has a chance to invest the new funds to improve earnings, so that earnings per share may not finally be diluted at all, but may actually increase.

"Weibo ads call price curve," (right) shows the current pricing of Weibo calls with the stock price at $92.65. If the senior convertible notes were issued at the present time, this curve would present the market price of each note, except that the market value of the note would equal the straight debt value (the present value of principal payments and interest to the note's maturity) plus the value of the call. Thus, the call sits on top of the note's straight debt value, and both the call and the straight debt are priced separately by the market – adding up to the market value of the convertible note.

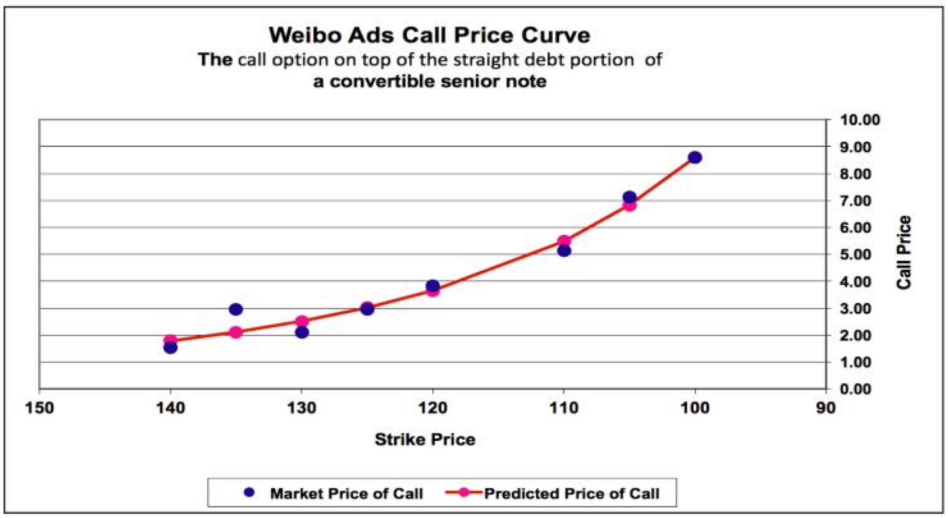
With substantial growth in several social media stock prices, good times should continue for Apple, Facebook, Google, Amazon, Weibo and Match Group. The October to October price histories have indicated potential problems for Twitter and Snap. Two outsiders that continue to grow at a slower pace are Starbucks and EBAY. Will these forecasts prove correct and helpful for trading? We hope that will be true. Δ

CALLS ON SEVEN SOCIALS

You can gain more distinction by looking at the deltas of these various millennial stocks.



WEIBO ADS CALL PRICE CURVE



Paul D. Cretien *is a financial analyst and case writer for the Graduate School of Banking at Louisiana State University. He writes articles analyzing futures and options markets.*

ADVANCED TECHNIQUE

We delve into the complex world of Arima-Garch trading models and detail what it takes to test and optimize your strategy.

Arima-Garch Out of the Lab, Into Trading

By **Murray A. Ruggiero Jr.**

Over my last few articles, we have studied the basics of an Arima-Garch hybrid model. In this article, we will review some academic papers, discuss more advanced concepts as well as practical issues in using this technology in trading. We will once again use the rugarch library and the R programming language, so yes you could do this yourself, but almost a year of resources have been spent on this research to create an advanced research tool for Arima-Garch hybrid models. To recap, ARIMA is short for an autoregressive integrated moving average model, and GARCH is short for a generalized autoregressive conditional heteroskedasticity model.

This technology, for example, can produce double buy and hold returns over the past 20 years. This technology is also generic, so it will work on indexes, stocks, exchange traded funds (ETFs) and futures. Using something called "external regressors" you can even add intermarket analysis to these Arima-Garch Hybrid models.

This can be one of the most important technologies for traders in the modern computer era, on par with spectral analysis and Game Theory in the trading world. The research in this area is just starting as a good percentage of peer review papers on Arima-Garch are less than four years old and some are less than two years old. This will be a one of the hottest areas of research for the next five to 10 years. If you don't look at this technology you will have institutional traders making classic methods untradeable over time. Large institutional traders and hedge funds are researching these methods, your days as a trader may be numbered you don't at least understand what they are up to.

A year researching Arima-Garch Hybrid models just touches the surface of what they can do. My R program Arima-Garch Professional is the result of about 500 hours of work and its output includes many internal variable and advance features. You could try to develop something like this yourself, but it requires world class R programming to develop something as robust as my tool. My tool creates five main output files (see "5 outputs").

5 outputs

Here are the five main outputs from the Arima-Garch tool created in TradersStudio.

- Chart of Arima/Garch Hybrid model vs. long index exposure (see "Beating the benchmark").
- A 10-step forecast (37-column file) of mean returns, sigma and other statistical information to gauge reliability for forecasts (this file can be imported into TradersStudio).
- Trade signals, which can be imported into TradeStation, TradersStudio, AmiBroker, Trading Blocks or anything else that can handle multiple data series.
- Raw returns
- Information about convergence on a bar-by-bar basis.

Source: TradersStudio

Advanced Arima-Garch

Let's take a closer look at more advance approach to Arima-Garch models. The most common hybrid model for the Arima-Garch hybrid approach is sGarch 1,1, which is the standard Garch formula. Through optimization of Arima components we came up with the highest Akaike information criterion or AIC, which is a measure of the relative quality of statistical models for a given set of data

BEATING THE BENCHMARK

The tool creates a comparison of our backtest results vs. long exposure to the underlying market.

Source: TradersStudio

(see "Predictive market modeling in R Language," MT July 2017). Arima-Garch hybrid model is fit to every bar, which is one of the reasons it's so slow. My later research creates forecasts for up to the next 10 bars without refitting. Often the forecast two days ahead will perform better than next-day forecasts. We saved these results for both mean forecasts, sigma up to 10 steps ahead and AIC (Arima) Garch LogLikelyhood, for each bar. In addition we also calculate the probability for our forecast, over the next 10 days (see "Calculating probabilities," page 79).

The 37-column file can be read in TradersStudio using its user define file option. TradersStudio can also load multiple copies of these created with different Arima-Garch parameters. We can use both the signal file, which produces date, sign and raw prediction files which produce raw predicted returns that can be used in both TradeStation and TradersStudio.

Another advance feature is to use what is called external regressors. They can be used in either or both the Arima part of the equation or the Garch part. My models use the regressor in the Arima part of the model to affect mean forecast returns before we use Garch to correct the errors. This allows us to use intermarket analysis as part of the Arima-Garch models or to add other models to improve our forecasts. For example, how to handle error trapping the rugarch libraries took months to get right; otherwise you would crash the first time you get an error. The program now runs weeks without crashing.

Now that we set all this up and my software makes the job easy, but you could do it yourself, the rest of this work will be done using my Arima-Garch Professional Toolbox Version 1.0. This does all the data handling and as long as you create data definition files you can load the data by only pointing to the directory. We support two file formats, TradersStudio textinfo.txt files and TradeStation's DOP files, for third-party ASCII data.

In terms of regressor data, we want to be able to handle both data processed with log difference (main data) as well as data not processed at all. We use an R routine to create RDS files. If the file contains more than one column, we take the log differences, if it contains one column, we do not process it and just convert it.

Also addressed in my more complex

The good news about Arima-Garch hybrid models is they do a good job of creating short-term return forecasts. Models are simpler to create and preprocess. … The problem is the size of the search space takes time and money.

Calculating probabilities

Now that you have forecasts, you should think about how likely, or how true those forecasts are. You can do that by using the conditional mean forecast and its variance estimates. You also will need the skew and shape parameter estimates, if you're using a distribution that has them.

For example, assume the conditional mean forecast is 0.001, with a sigma of 0.0005, using a simple normal distribution. Now you need to calculate the value of the cumulative distribution function at zero for ~N(0.001, 0.0005). The normal distribution is symmetric around the mean, so the value of the cumulative distribution function at the mean will be 0.5 (half of the distribution).

To calculate the probability that the conditional mean forecast is greater than zero, you need to know the probability that the forecast is zero. That means you need the value of the cumulative distribution function at zero. Then the probability that the forecast is greater than zero is one minus the probability. We subtract the probability from one because we want to know the area under the probability distribution that likes to the right of zero.

Keep in mind that we know zero will be less (greater) than our forecast when the forecast is greater (less) than zero, so we know that the probability at zero will be greater (less) than 0.5 (Note this isn't always true if you use some of the skew distributions).

models are the type of Garch and the order of the garch as well as the distribution used. Valid distributions are: "norm,""snorm,""std,""sstd,""ged,""sged," "nig," "jsu".

The variance model specifications: modelValidmodels(currently implemented) are: "sGARCH," "eGARCH," "gjrGARCH," "apARCH" and "iGARCH" and "csGARCH." garchOrder The ARCH (q) and GARCH (p) orders; fGarch submodels are not supported.

Unlike the work we presented in earlier articles, we are using a backtester, which returns points made not a sum of a log return. Using a backtester allows us to backtest to predict two to three days in the future, not just the next day. Finally, we are saving all of the information produced in fitting the models on each bar, so that we can recreate our analysis as well as run extra-analysis, like the effect of new shocks to our current Garch.

External Regressors & Intermarket relationships

One of the more powerful parts of the research is to add external regressor to the Arima part of the calculation. This adds the independent variable part to calculating the mean value prediction, the linear component from Arima. You can also add an external regressor to the Garch part, predicting the error, but this is far off as our goal is to predict returns, not volatility.

An Arima model can be considered a special type of regression model. The dependent variable has been stationarized and the independent variables are all lags of the dependent variable and/or lags of the errors – so it is straightforward in principle to extend an Arima model to incorporate information provided by leading indicators and other exogenous variables. These auto-regressors are simply extra terms in the equation, which help reduce the auto-correlated error and further reduce the mean squared error.

In order do this, you would just re-fit the regression model as an Arima model with regressors, and you would specify the appropriate AR and/or MA terms to fit the pattern of autocorrelation you observed in the original residuals.

The question now is, do external regressors help? We need to look at something like R2 or minimum RMS error to see if the regressor helps the forecasts; often they will not, but in some cases it can greatly improve the forecasts. In my research using E-mini S&P 500 (ES) and the SPY index, many different intermarket relationships were used to develop ES/SPY trading strategies. Many different markets, when plugged into my intermarket divergence models, work well, but some of them work poorly as external regressors in the Arima calculation. It also is valuable to create external regressors with custom preprocessing, for example generate trading signals -1,0,1 and use those or lagging the variable to see if the lagged variable are predictive. This is in addition to just using the log difference of the raw data for the external regressor.

Arima-Garch Research Takes Time & Money

The good news about Arima-Garch hybrid models is they do a good job of creating short-term return forecasts. Models are simpler to create and preprocessing is simple. It's not like trying to build neural network models. Many models will show profitable performance over long time frames, even though they can go through years of flat to slightly profitable performance between periods of outperformance. Other models outperform for some regime and perform badly in others. This means post-processing these models are an important area of research. These models also can be used as parts of a larger trading system and offer a predictive edge. The problem is how computer-intensive developing and testing these models are. A simple model for S&P 500 related markets is in the public domain because the examples of using this technology are mostly for the S&P 500.

Do it yourself

If you want to build your own Arima/Garch model here is a list of articles and documentation that you will need.

- https://cran.r-project.org/web/packages/rugarch/rugarch.pdf
- https://cran.r-project.org/web/packages/rugarch/vignettes/Introduction_to_the_rugarch_package.pdf
- http://www.unstarched.net/r-examples/rugarch/a-short-introduction-to-the-rugarch-package/
- http://faculty.chicagobooth.edu/ruey.tsay/teaching/bs41202/sp2015/IntroPackages.pdf
- http://www.unstarched.net/wp-content/uploads/2013/06/an-example-in-rugarch.pdf

The problem is the size of the search space for these Arima-Garch hybrid models, and each test takes time. For example each test takes 30 to 60 CPU minutes to run 10 years of daily data. We can run these in parallel, so on an 8-core machine, you can run six at a time. If we have 1,000 tests and each one takes an average of 45 minutes, that comes to 5.21 days to run this test assuming six cores. If we are trading a few markets end of day, it's not bad, but let's say we want to test 500 stocks. Then it becomes a big problem. One of the big areas of research is finding search ranges on large portfolios of stocks, or finding different Arima-Garch hybrids that work in different regimes and switching between them. The need for computer power is why institutional traders have an edge. You need someone who doing this research to help you or a big budget to do it yourself.

One of the most important tools for this type of analysis is using cloud-based cluster computers on Amazon Web Services (AWS). This is very important. It would have been easier to build this on Azure but the cost of running experiments like this would have been five to 10 times as much.

If we run that 1,000-test example 5.21 days using six cores and then create a 60 virtual CPU cluster, we can run this in about 13 hours. The cost would be expensive over time, approximately $200 to $250 on AWS CPU (25¢ per CPU hour). There are advance AWS tricks that can cut this to $70, but this requires advance knowledge of AWS.

Test window sizes from 100 to 1,000 steps of 100. Test five different distributions, three different types of Garch. We want to test with no regressor and also four different intermarket regressors. Finally let's use Garch order p,q , p from 0 to 2 and q from 1-2. This brings us 4,500 tests per market in order to do a reasonable search of the space for each market. That is about 4,000 CPU hours per market or about 5.5 months on a single CPU. That comes to a little over one month on our 6-core example. It's also about $1,000 on AWS. This is a reasonable search space on one market where we don't know anything about the search space. The problem is if we need to run the S&P 500, that would be $500,000 to run all the stocks, so 7,500 stocks would cost more than $2 million. We are saving all of the results on each bar so we can try different predictions ahead and also test different probability levels without rerunning.

The other problem is once we run a set of experiments it could lead to other experiments based on our results from this first pass to create robust models. Using past experimentation and statistical and machine learning, we can cut this search space greatly, but this requires a lot of research and expertise.

The number of experiments and cost of them shows the value of experience in using this algorithm to predict the markets. Knowing what parameter space to look at and what regressors to use is invaluable in this process. Large institutions that are using this technology won't share this. Studying one market is not so bad but, baskets of stocks or commodities can be time consuming. Also, the interaction of using external regressors is not as easy as you think. How well an intermarket works as a regressor is not always correlated on how well that intermarket worked in an intermarket divergence model.

In the next segment of this story on our Arima-Garch hybrid model, we will report hypothetical results on our model trading the S&P 500. ∆

ARIMA is short for an autoregressive integrated moving average model, and GARCH is short for a generalized autoregressive conditional heteroskedasticity model.

Murray A. Ruggiero Jr. is a trading system developer and the author of "Cybernetic Trading Strategies."

U.S. economic data & select global influences

January: Bet on tech

By **Daniel P. Collins**

A year ago we discussed how the so called January Barometer, which postulates that the market will perform for the year based on its performance in January, had not been an accurate predictor of market activity over the last decade.

After decades of reliability, this indicator was wrong as often as it was right from 2007 through 2016. But as 2017 winds down the January Barometer is on the mark. The major equity indexes all had tremendous years after the post-election rally in January (though the Dow Jones only posted minimal gains in January 2017). Whether this is a return to form is a question.

Generally, January falls in the middle of pack—sixth best performing month—for both the Dow Jones and S&P 500 indexes, while it is the best performing month for the Nasdaq Composite. Last year we pointed out that this anomaly largely persisted on an apples-to-apples comparison from the year the Nasdaq launched in 1971. It also persisted in 2017. The Nasdaq was up approximately 4.4% in January 2017, while the S&P 500 was up less than 2% and the Dow was only up about 0.5%. The overall yearly performance of the Nasdaq (up more than 25%) also is outperforming its sister indexes in 2017 (both up less than 20%) through mid-November.

While it is unclear whether traders should invest based on this January's equity performance, it may be a safe bet to overweight your portfolios in January with tech stocks.∆

Vital January Statistics

	DJIA1	S&P 500[1]	NASDAQ COMP.[2]
Rank	6th	6th	1st
Average % Change	0.85%	0.94%	2.55%
Up	44	41	30
Down	24	27	17
Best & Worst November % Change			
Best	1976 14.4%	1987 12.3%	1975 16.6%
Worst	2009 -8.8%	2009 -8.6%	2008 -9.9%

Courtesy of Stock Trader's Almanac
[1]1950 [2]1971

Modern Trader Monthly Trading Calendar - Jan. 2018

- 1: Nat Gas Storage | Canada Industrial Production
- 2: Employment Situation | Canada Labor Force Survey
- FOMC Minutes
- 3: EIA Petroleum Status | Construction Spending
- 4: EIA Natural Gas
- 5: Employment Situation | International Trade | Manufacturers' Shipments, Inventories, & Orders
- 8: Eurozone Business & Consumer Credit
- 9: Manufacturing Survey | NFIB Small Business Survey
- 10: Import and Export Prices | EIA Petroleum Status | Wholesale Trade
- 11: PPI | EIA Natural Gas
- 12: CPI | Real Earnings | Retail Trade | Manufacturing & Trade Inventories & Sales
- 15:
- 16: Moody's Policy Uncertainty Index
- Bank of Canada Monetary Policy Report
- 17: EIA Petroleum Status
- 18: EIA Natural Gas | New Residential Construction
- 19: GDP | U of Michigan Consumer Sentiment Survey
- Bank of Japan Monetary Policy Meeting
- 22: Canada Wholesale Trade
- Bank of Japan Monetary Policy Meeting
- 23: Moody's Policy Uncertainty Index
- 24: EIA Petroleum Status
- European Central Bank Press conference
- 25: EIA Natural Gas | Advance Economic Indicators | New Residential Sales
- 26: Manufacturers' Shipments, Inventories, & Orders
- 29:
- 30: Housing Vacancies and Homeownership (CPS/HVS)
- 31: Employment Cost Index | EIA Petroleum Status

Guest Editorial

Bitcoin Futures Should Not Be Approved

By **Joseph Saluzzi**

In late October, CME Group announced that they intended to launch futures on bitcoin. The second major exchange–Cboe Global Markets announced plans for bitcoin futures in August–to make such an announcement, with several smaller players also planning cryptocurrency derivatives. This is a quite a reversal of attitude since just a couple of months ago, when CME president Bryan Durkin said that they had no intention of launching bitcoin futures.

Why the change of heart? Apparently, the CME is getting a huge amount of demand from their clients to trade bitcoin futures, and with Cboe intending to list bitcoin futures and the smaller LedgerX already trading bitcoin swaps and options, competition for market share will be strong.

We are by no means cryptocurrency experts, but we know market structure and what we see happening in the cryptocurrency world worries us. Themis Trading sees the same problem forming here that has been going on in the equities market for years. Large, high-frequency clients demand a product from the (for-profit) exchanges and exchanges, despite reservations, comply because they don't want to miss a profit opportunity. We saw major exchanges like the NYSE and Bats get fined millions of dollars because they caved in to the pressure to improperly send market data to proprietary customers first and not disclose special order types.

> **"...if the CFTC approves bitcoin futures, then the SEC might be swayed to approve bitcoin ETFs. Once this happens, it will be too late to go back."**

The CME knows that the underlying market for bitcoin is very suspect. They know that the bitcoin exchanges have been subject to numerous cases of fraud and theft over the past few years. They know there is no government regulatory body overseeing the bitcoin exchanges. They know that spoofing and layering could be running rampant on these exchanges. So, how does the CME rationalize creating a futures product based on an underlying market of bucket-shop exchanges? They created a reference price known as the CME CF Bitcoin Reference Rate (BRR). This reference price is a volume-weighted average of select five-minute time intervals that are provided from only a select number of bitcoin exchanges. The CME noted that weighted-averages were necessary because "bitcoin spot prices have historically varied considerably across trading venues, in particular in times of high volatility."

But just like that, the creation of an index has apparently legitimized bitcoin trading. While exchanges like the CME and Cboe seem to be trying their best to overlook the underlying bitcoin exchange problem, regulators know that this is a major issue. In their denial earlier this year of the Winklevoss Bitcoin ETF, the Securities and Exchange Commission (SEC) stressed that the lack of surveillance and regulation of the underlying bitcoin exchanges was a major problem: *"The Commission believes that the significant markets for bitcoin are unregulated. Therefore, as the exchange has not entered into, and would not currently be able to enter into, the type of surveillance-sharing agreement that has been in place with respect to all previously approved commodity-trust ETPs–agreements that [address fraudulent or manipulative acts]–the Commission does not find the proposed rule change to be consistent with the Exchange Act."*

Unless the SEC's concerns about the lack of regulation of the underlying exchanges is dealt with, it would be irresponsible and dangerous for the Commodity Futures Trading Commission (CFTC) to approve the bitcoin futures proposals. These products remind us of the collateralized debt obligations (CDOs) which were peddled during the financial crisis. Those were instruments that essentially placed a seal of approval around very risky mortgages. A bitcoin future would be placing a seal of approval around a very risky, unregulated instrument that has a history of fraud and manipulation.

Our bigger fear is that if the CFTC approves bitcoin futures, then the SEC might be swayed to approve bitcoin ETFs. Once this happens, it will be too late to go back. These ETFs would likely be buried in numerous portfolios that do not have a risk tolerance for trading an asset that is unregulated.

We are not ant-bitcoin. We are not anti-futures. We are not anti-ETF. But we are anti-manipulation and anti-fraud. As the CME president noted, the bitcoin exchanges are very nascent right now. Until they clean up their act and address their surveillance issues, we don't believe that any derivative cryptocurrency products should be approved. ∆

Joseph Saluzzi *is partner, co-founder and co-head of equity trading of Themis Trading LLC. He is also the co-author of "Broken Markets -- How High Frequency Trading and Predatory Practices on Wall Street are Destroying Investor Confidence."*

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The Ultimate Trader's Guide to Bitcoin

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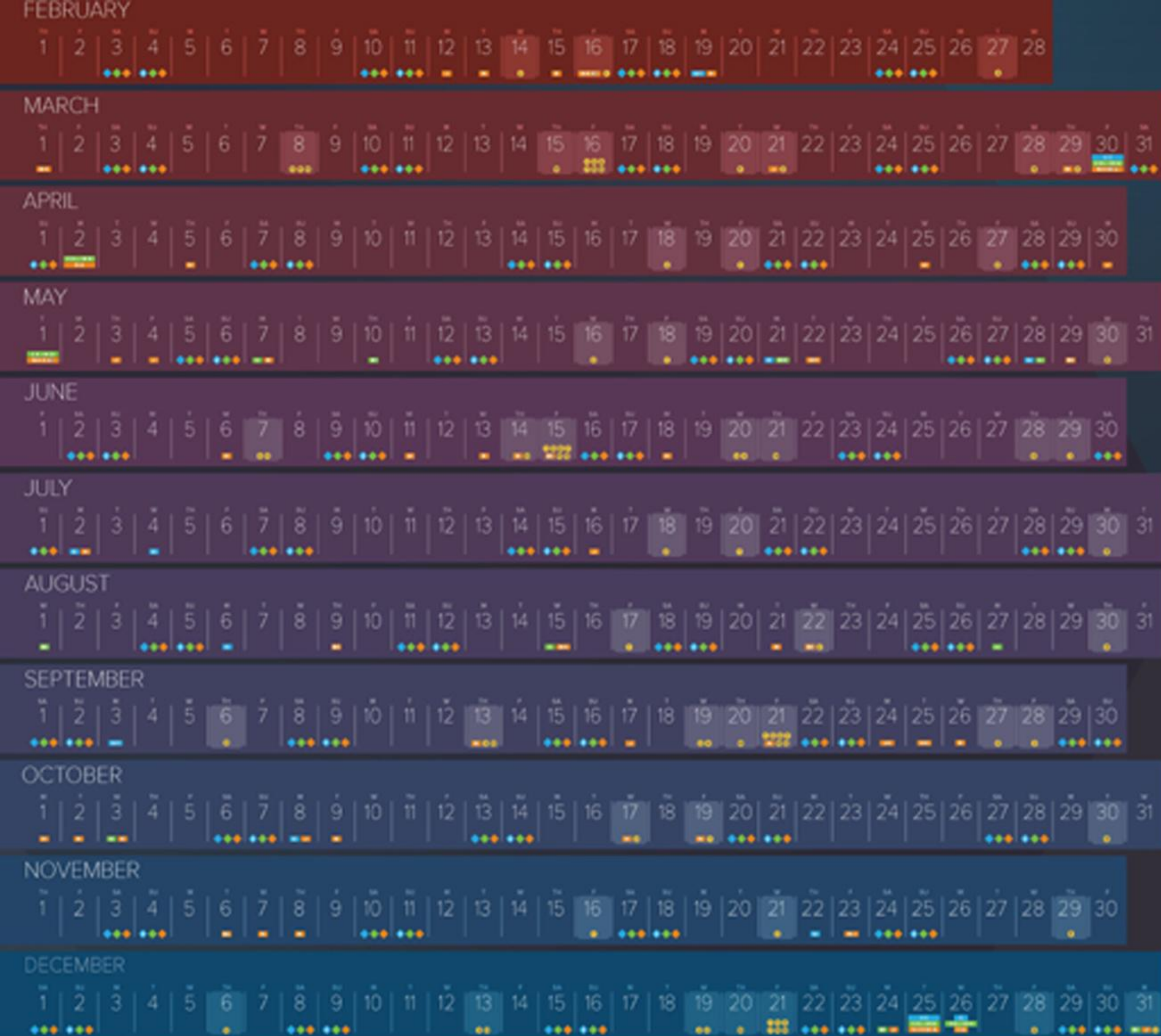

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NORTH AMERICAN HOLIDAYS

- **United States:** CME & EUREX US Futures trading starts Sunday evening.
- **United States:** All exchanges closed.
- **Canada:** All exchanges closed.

EUROPEAN HOLIDAYS

- **Germany:** Eurex Exchange (EUREX) closed.
- **Europe:** Euronext (ENX) closed.
- **United Kingdom:** London Stock Exchange (LSE) closed.
- **Italy:** Italian Derivatives Exchange Market (IDEM) closed.
- **Spain:** Spanish Financial Futures & Options Exchange (MEFF) closed.
- **Switzerland:** Swiss Exchange (SIX) closed.

ASIA-PACIFIC HOLIDAYS

- **India:** National Stock Exchange of India (NSE) closed.
- **Japan:** Japan Exchange Group (JPX) closed.
- **Hong Kong:** Hong Kong Futures Exchange (HKFE) closed.
- **South Korea:** Korea Exchange (KRX) closed.
- **Singapore:** Singapore Exchange (SGX) closed.
- **Australia:** Australian Securities Exchange (ASX) closed.

WEEKEND: All exchanges closed.

CONTRACT EXPIRATIONS

- US & Canadian Options
- VIX Expiration Date
- Quarterly Expiration Date
- E-CBOT 10 Year Treasury Notes
- E-CBOT Mini-Sized Dow
- CME S&P 500 E-mini Futures
- Liffe FTSE 100 Index Futures
- HKFE Hang Seng Index Futures
- OSE Nikkei 225
- Dow Jones Euro Stoxx 50
- Euro BOBL Fixed Income Futures
- Deutsche Boerse DAX Index Futures
- KRX KOSPI 200 Index Futures
- ASX 200 Mini Futures

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