Glenn Neely discusses Neely River Trading Technology and current market activity

To catch trends and improve your bottom line,
Mr. Neely advises traders to focus on zero risk and protecting capital – instead of trying to predict the future

Interviewer: Hello, everyone. This is Bud Fox from GreedAndMoney.com. Today, I have the privilege to have Glenn Neely with me, the expert in Neely River Trading Theory. Glenn, how are you doing?

Glenn Neely: I'm doing well. It has been a very chaotic month, though, with the wonderful government [regarding October 2013 government shut-down].

Interviewer: Every day the market is waiting for the news, and every day people react wildly about it, so we'll see. The deadline is only a couple more days, so they have to do something.

Glenn Neely: I don't know what's going to happen, actually. I definitely think it's time for the US government to start living within its income instead of beyond its income, but who knows how this is all going to pan out? We'll see.

Interviewer: Today, I'd like to discuss a little bit more in depth on the technology that you have worked on and perfected: Neely River Trading Technology. I'm still a little uncertain and confused about Neely River. We did have an interview about how Neely River helps a trader to trade, based on the market conditions, but today I really want to focus on why a trader should utilize Neely River Trading Technology. Glenn, would you mind elaborating on that a little bit?

Glenn Neely: The goal of River Theory was to do something very important. It has taken me over a decade to really get to that point, but the goal was to remove forecasting from the trading process as much as possible, if not completely.

For the first 15 years of my career, and maybe the first 20 years, going into that period, I began to realize that forecasting is the reason most people don't make money trading. They’re focused on this hope and dream of all the money they might make instead of focusing on how much money they might lose if they’re wrong.

When your focus is only what you might make, you tend to ignore losses. You’ll risk more, and a few really big losses will wipe out your account.

If you’re not focused on how much you’re losing and only on the hope you're going to become a millionaire over a few trades, then you’re not really focusing on what’s important to survive.

Survival is the name of the game. Every trade can’t work. You can’t be right about every trade. If someone is using an approach that happens to be wrong the first three, four or five times, and they’re risking 5%, 10% or 15% per trade, they’re going to wipe out their account pretty quickly and get to a point where they can’t trade anymore.

It started to dawn on me that the majority of the world focuses on the wrong thing, which is trying to predict what’s going to happen, which then gets them emotionally involved in this theoretical future of them making a lot of money.

They just ignore when things are going wrong. They’re not looking at the fact that the market is going down, against their position. They just keep saying, “It’s going to make it. It’s going to go back up,” or if they’re trading options, “I still have a month left, and anything could happen.”

They talk themselves into this belief system that creates a distraction from the real important issue, which is trying to protect your capital so that if you’re wrong this time, you can try again later.

It’s similar to the idea wherein you go into the business world. Not every business you start or investment you make is going to make money. It takes time and effort, and some ideas just don’t catch on. Sometimes the public doesn’t like a product or somebody comes along with something better that replaces it. Not every idea, not every investment strategy is going to work every time.

You can’t trade or invest as if the one time you decide to do it is going to be the time you make tons of money. If you put everything on the line and you’re wrong, it’s all gone.

The whole goal of Neely River is to get out of that forecasting, belief-driven, Las Vegas kind of mentality where you put up a little and make a lot. It has taken me more than a decade to devise a way of looking at markets, observing price action, and reacting to reality instead of anticipating the future. It’s a very different approach.

When you watch TV news or read papers, everything you hear about the markets is someone being asked what they think is going to happen. This means everyone believes that forecasting is the answer to making money trading or investing.

It’s my statement and belief, and, from actual practice, my certain position, that that is not correct. I’m trying to introduce an entirely different kind of philosophy or new paradigm to trading that I think has not existed before.

Interviewer: You were and still are the expert in Neely Wave. In the past, you have made numerous and astounding predictions or forecasts about the markets and how they move. How do you utilize Neely River now? Is Neely River a fully mechanical system that can just run by itself, where you buy and sell, something you can run in TradeStation?

Glenn Neely: I've been trying for 10 years to get to the point where Wave Theory could be automated and mechanical. The problem is that it's very difficult for a computer to actually implement any system that's not mathematical and number crunching.

Wave Theory is very fuzzy. It's like fuzzy logic based on fractals and chaos Theory. It just can't be programmed. Every attempt to do so has not yielded very good results over the last 20 or 30 years.

I've never attempted it because I think it's way too complicated and involves way too much human deduction and induction. Computers just can't handle it.

Neely River Trading Theory is not quite on the level of Wave Theory because you're not trying to predict what's going to happen. You're just dealing with the evidence that you have and deciding how to maneuver and position yourself, and move stocks based on concepts that are more observational than anticipatory.

It's similar to the analogy I gave during our previous interview on this. If you're in a boat on a river, you don't predict where the ocean is. You don't predict which way the water is flowing. You just observe. It's plain as day. You just look at it.

You observe the direction or flow of the market with River Theory just by looking at it. You know what the direction is. You don't necessarily know exactly how long it's going to take to go one direction or the other or how long it's going to take to get to wherever it's going to go.

You don't even necessarily know how far it's going to go, but you know how to manage yourself, just like you would know in a river how to manage the boat to avoid the side of the river, sandbars or rocks. You just know by looking how to manage and maneuver. That's what Neely River Trading Theory is about. It's how to manage and maneuver in a real-world trading environment, not with the assumption that you know where it's going or how much money you're going to make – but what to do until it gets where it's going. It's a completely opposite approach to the way most people deal with markets.

Interviewer: How do you adjust from a personal trading point of view? You were so focused in forecasting, and became very good at it. In fact *Timer Digest* has recognized you multiple times about your ability to forecast the market.

Now you deal with Neely River Theory, which is totally separate. How do you even take a trade, where you might look at the chart and say, "I believe, based on my NEoWave experience, that this market is going to go up," but somehow Neely River says the trend is down?

What percentage of weight do you give to NEoWave, and what percentage do you give the Neely River, or do you just use one or the other now?

Glenn Neely: It's not really a percentage. From my 30-plus years of doing this, I've never dealt with probabilities or mathematical formulas. I've never done markets in that kind of way, because I know that anything mathematically based just doesn't work long-term. There's always a failure point, especially if you're dealing with moving averages or any kind of prediction system that's mathematically based. It's going to predict really well in certain environments and really poorly in other environments.

It has nothing to do with probabilities or anything like that. It has to do more when Wave Theory goes through periods of clarity and certainty, and oscillation back and forth.

When you're near the beginning or end of important market trends, that's when the markets are much more predictable. You can expect with a relatively high degree of certainty what's going to happen, at least the direction the market is going to move, how long it might take and things like that.

When you're near the middle of patterns there's a lot of flexibility and a lot of uncertainty. You really just don't know what to do from a trading standpoint because the Wave Theory really is a top and bottom picking system.

Even though most people think it's sort of all encompassing, its primary capability is predicting market tops and bottoms, and then with that information for a short period of time you can predict what's going to happen very specifically into the future right after a major top or bottom.

How I integrated with River Theory is that Wave Theory just gives me a relatively good idea most of the time what the general trend is. For example, from the 2002-2003 period up to 2007, I knew under Wave Theory that the trend in the stock market was sideways to up and that it would eventually go back above the high in 2000, but I had absolutely no idea how it was going to get there. Virtually the entire time of the advance, I really wasn't sure what was going to happen day to day, week to week or sometimes even month to month. It was just generally clear that the trend was sideways or up.

With that information I wouldn't be focusing on shorting the market. I wouldn't focus on river trends that indicate the trend is down because every timeframe has its own trend and I tend to follow only trends that are multiples of five. If you start off with a daily chart, a week is five times of the daily timeframe. A month is approximately five times of a weekly timeframe.

If you're trading futures, going in the other direction, one-fifth of a day is about 288 minutes. That's my next lower timeframe, and then below that is basically 58 minutes or a 60-minute chart.

Those are the only charts I follow: the 60-minute, 288-minute, daily, weekly and monthly. Then for my personal Wave counting I've actually hired a programmer to create six-month high-low charts from monthly data, so I can go even longer term. I don't cover those in my updates, at least not generally.

Those are the timeframes that I follow. For example, if Wave Theory indicates that the trend in the stock market is up, then I'm only going to look for trends that are up on one of those five timeframes. I'm not going to take short positions if the market turns down on one of those timeframes. I'll just ignore it and try to focus on those timeframes that are in agreement with the larger relatively clear trend.

If the trend isn't clear at all, then I'll potentially trade any direction. If it's very obvious that a market top is happening and that a brand-new trend has just started, then I'll frequently shift over to Wave Theory and get a little more risky, because Wave Theory is really great at predicting tops and bottoms and really great at predicting the first quarter of a trend. If a trend lasts a year, it's really good at predicting the first three months of that trend, so you can be heavily invested and have a greater risk than normal and things like that. Once you pass that period, it gets riskier to trade again, you have to cut back on your positions and you have to trade in a fashion that doesn't risk as much money.

That's the way that I manage between the two because it is difficult going from almost 20 years of doing nothing but forecasting markets and trying to trade from those forecasts, which I learned over time didn't work so great even though it worked okay.

Then I made the transition to slowly moving into a trading paradigm where I now focus more on trading, risk management, getting risk to zero as quick as I can, trying to lock in profits as quick as I can, and not worry so much about what I think is going to happen but more about what I have control over. I don't have control over what's going to happen in the future, but I do have control over where I put my stop, when I can get risk to zero or when I want to put the stop at zero risk most of the time. Those are the things I can control. The rest of it you can't.

Interviewer: Let me just paraphrase what you said. NEoWave Theory is excellent at finding major top and bottoms, but the in-between way which actually takes most amount of time is really hard to predict. That's why Neely River actually complements your trading toolbox by allowing you to trade essentially the bulk amount of time and price action of the market.

Glenn Neely: Right. The difference is that most people have other techniques, but all of those other techniques are always forecasting-based techniques. It's important to realize that River Theory is the exact opposite of Wave Theory. It's the exact opposite of almost all systems of prediction that exist in the world today. It deals with markets from the opposite perspective that you don't know what's going on, that you're only dealing with what you can control and that you're not trying to predict what's going to happen. You're just managing risk and getting risk to zero. Things you can do and can control. So you're not worried about what you think is going to happen in the future. That's why they complement each other quite well.

If I had to pick one or the other I would definitely go with River Theory because I would much prefer to make money trading than predicting markets well.

Interviewer: Absolutely, especially when you're saying that it only happens 10% of the time. The other 90% you still need to figure out a way to make money.

Glenn Neely: With Wave Theory, if you have a prediction and that prediction turns out to be wrong, then your stop is going to be hidden, you're going to lose money, and you're maybe even going to move your stops and take more risk because you don't want to be wrong. You think your prediction is right and you give the market more room to be wrong, and then you just end up losing more money.

The prediction game is very dangerous, because it always tends to lead people to want to risk more money. They want to be right, they want to make the money they thought they should have made, and they do things that actually financially don't make sense: they risk more money as time progresses.

Interviewer: That's why the Neely River System removes the ego and emotion from the trading process. Essentially you just observe the market, and you take your trade based on what the market gives to you.

Glenn Neely: That's right. You're not getting emotionally involved. The minute you stop predicting, it dramatically reduces the pressure of trading, it dramatically enhances your comfort level because you don't have an ego to satisfy. You don't have people that are looking over your shoulder and saying, "You were wrong," or "Are you right?" You don't have that pressure of being right. You just have the necessity of trying not to lose money. It's a totally different focus. Believe me, the results are far better than the prediction game is able to produce.

Interviewer: Since we mentioned the results, let's discuss the results. How long have you been using this system now?

Glenn Neely: It took me almost 10 years to really get Neely River to a point where I think it's truly useful for trade. It was nice and it helped in the past, but the innovations I've made in the past few years have been quite dramatic and behaviorally based. This allows me to better understand the behavior of a market from an observational perspective.

Just like you might observe certain kinds of behavior in a river – you have eddies, whirlpools and currents – I've learned to observe the behavior of the market better and understand the characteristic differences between each kind of environment. This allows me to better use the concepts and produce better results.

Interviewer: Would you share a little bit about your performance track record regarding your trading performance? I believe you currently are managing a fund.

Glenn Neely: The fund has been coasting for a long time until recently because we didn't have anybody raising money. Basically, with most funds you have to establish a three- or four- and sometimes even a five-year track record before people will even pay attention to you, especially after 2008, 2009, and the Madoff situation. All of those problems made it much harder to raise capital. People are much more leery and they want to be more careful, so I basically just raised some money among a small group of people personally and just traded for about four years.

Finally, I have a person in Europe now who is out aggressively and regularly raising money for the fund, so things are starting to change quite dramatically.

We pulled in a decent amount of money just in the last month or so. That should continue, so the fund is now on a new course. The purpose, of course, is to get it up to a much higher level so I can transition into more of a fund-management company over time.

Interviewer: Right now you really cannot disclose much information regarding the fund because you have to be an accredited investor.

Glenn Neely: It's legally not allowed to go into detail here. I can say we have five main positions on at this time. Four out of the five are currently making money. Percentage wise, the one losing money is only about 10% of the total profit being made.

This is all theoretical positions based on what I recommended in my service, but based on what I've recommended and the way that I've mimicked trading for my fund for the people who trade the ETF Gold Market, GLD, on a 1,000 quantity short position, we currently have more than a $10,000 profit in that. We have more than a $5,700 profit in our short goal position. This is per contract, by the way and not total. We have $500 profit in the T-Note position. We have $146, which is pretty small, profit in the TLT, which is a T-Note ETF. Our losing position is in the S&P, which is currently $1,700.

If you add all that together, we have approximately a $17,000 profit against a $1,700 loss. Four of the five trades are making money. The ones that are making money are far outpacing the other ones.

Typically, my experience with Neely River Theory, even though there's nothing certain or perfect, the majority of our trades break even or make money. When we lose money, frequently it's less than originally planned, which is usually 1% or 2%. About maybe 10% or 15% of the time we actually lose the amount originally expected.

If we get in on a trade and risk 1% or 2% – 10% to 15% of the time – we probably end up losing that trade, and that's over with. Then another 30% or 40% of the time, we end up breaking even on the trade, or making or losing a little bit of money, and then 30% of the time we end up making money. The net result is that the fund is producing very good results over time, and it's dramatically reducing the amount of time I spend trading.

One of the things I learned from doing Wave analysis is that it's very easy to spend 5, 10, or 15 hours a day trying to predict what a market is going to do. Then you're only right about half the time.

With River Theory you're not trying to predict. You're not spending your time working on understanding the future. You're just observing the present and deciding how to behave in the present. It only takes 5, 10, or 15 minutes to decide what to do, what I should be in, where I should get in or out, or where I should move my stops.

The rest of the day, I can do other things and be calm about it. I don't have my ego connected to it. I'm not worried about what's going to happen more than just getting my risk to zero. That's where my focus is, and that's an unemotional and not ego-driven process, so it makes trading dramatically easier.

That's why I think it's a worthwhile endeavor, no matter what your approach is, for people listening. You want to try to start designing strategies around managing risk and getting risk to zero – rather than predictions.

If you do that, your bottom line will be much better off. You'll protect your capital. You'll survive in the game much longer. You'll have more time to catch good trends that happen just once in a while. The results are much better over time when you focus on getting risk to zero and focus on protecting capital instead of focusing on what you think is going to happen.

Interviewer: I believe that when I first started interviewing you, Neely River Technology was not complete or was not fully designed at the time. I remember that I asked, "Why do you only follow four markets?" which is Gold, Euro, S&P and Treasure notes? Your answer then was that it's extremely time consuming to count out Neely River analysis from the bigger timeframe to the small timeframe.

Now you have Neely River Technology. For you to manage portfolios or to provide trading service, does that make sense for you to even provide more diversification such as maybe adding other currency into the mix, things that Neely River Technology is supposed to tell you what to do with that market?

Glenn Neely: The chances are decently good that over time I'm going to slowing transition away from a forecasting service into a trading service and a money management company. It would be possible to start adding more markets, but I also realize from personal experience that a lot of markets are very similar.

Trading lots of different currencies, lots of different precious metals or lots of different stock indexes – they all behave relatively similarly. Until you have billions of dollars to manage, it doesn't really make that much difference if you pick the biggest one in the group and just trade that one until you have so much money that you're forced into sideline markets. That's the reason I don't.

The four markets I picked are pretty broadly diversified. The only major industries that I don't have would be crude oil and maybe something like an agricultural product, such as soybeans. That's something I could add later, but those would be the largest of each category.

I think that's the safest way to trade because patterns are better. Liquidity is better, and the way the patterns unfold are more reliable. The biggest of each main category are the markets I would prefer to stick with.

Interviewer: Well, Glenn, I really appreciate your time.