Introducing Neely River Trading Technology: A Paradigm Shift in Market Trading

An interview series with Glenn Neely, Part 1 of 3

Interviewer: Hello, traders. My name is Bud Fox. I have a trading website called GreedandMoney.com. Today I have the privilege of speaking with NEoWave expert Glenn Neely, here to talk about something he has been working on in for years called Neely River Trading Technology.

This is the first time that he is ready to reveal some of the philosophical foundations of what this theory is based on. It is truly a privilege for us to hear this, because it has been challenging to find information online as a trader as to what this is about. It is time that he presents himself to give us some idea of what this theory is about. Glenn, would you mind giving an introduction about your Neely River theory, please?

Glenn Neely: I began my career 30 years ago in about 1982. For the first year or two I didnøt know anything about Wave theory, and I started investigating all kinds of different market technology and reading all of the books I could read.

I tried to develop some of my own techniques and concepts to help me predict what the markets were going to do. I came up with some interesting and cool things at that time, but nothing really carried me through to my ultimate target or goal.

Then I got wind of the Elliott Wave theory in 1982 or 1983, and I was reading a book called *The Commodity Futures Game*. Once I started

reading about that, I became obsessed with Wave theory for the next 10 to 15 years.

I taught classes to a lot of people during those first five years and took extensive notes. That was really the foundation for writing my book, *Mastering Elliott Wave*, which was basically a labor of love. It took a lot of time to put that together.

That was the early stages of my career, and it is typical of just about anyone who gets involved in the stock market. Initially they assume that if youøre going to make money from trading markets, you have to know what the market is going to do. So there is this whole paradigm, what I now call the forecasting paradigm, of markets. I didnøt ever realize that there was any other kind of paradigm for trading and dealing with markets.

I proceeded to study Wave theory. I assumed that if I understood it and could predict markets really well, I could make money. That was my assumption and that was my goal, so I started working on that for 10 or 15 years.

I noticed during the first few years, like just about everyone, my trading wasnøt very good, and it took a really long time to get better. As my forecasting got better, my trading got better. But I noticed that my forecasting capabilities were increasing almost on a logarithmic scale whereas my trading abilities were increasing on an arithmetic basis, so they were starting to diverge.

Getting better at forecasting and Wave theory didnøt necessarily correlate into better trading or making more money trading. After about 15 years of this, it started to really bother me. I thought, õWhatøs wrong? Why is this happening? Either my assumption is correct or my assumption isnøt correct.ö

The results kept diverging more and more, so I started to think, õMaybe thereøs something wrong with my original assumption, perspective, or paradigm about market forecasting being the foundation of good trading.ö

Thatøs when I began to realize the very beginning of separating the market into two paradigms, the trading paradigm and a forecasting paradigm, and realizing that they are two very different things. Just because youøre really good at forecasting doesnøt mean youøre good at trading. And just because youøre good at trading doesnøt mean youøre good at forecasting.

That set me on an entirely new path. This was around the year 2000. Because of my Wave theory knowledge, I knew the stock market was about to begin a 20- to 30-year bear market, that we were ready to go into a very prolonged sideways consolidation, and that Wave theory is terrible at dealing with trading and predicting huge sideways patterns.

I knew that if I didnøt come up with some new way of dealing with markets, in other words *a trading approach* and not a forecasting approach, I was going to be pretty much doomed in this business. I would lose all of my familyøs money, my money, my clientsø money and everything else.

Thatøs when I began this entirely new research in how to design an approach to markets that had nothing to do with forecasting and had a completely different way of looking at markets. That was the foundation of the beginning of Neely River Trading Technology. It has developed a great deal. It is pretty sophisticated now, but it is an approach to markets that has nothing to do with forecasting.

Interviewer: As a full-time trader myself, Iøm extremely excited to hear and learn as much as youøre willing to give of what your Neely River theory is.

Glenn Neely: Bud, whatøs your first response to what I said?

Interviewer: I think what you say is totally correct. As a trader, I have personally experienced that forecasting and trading are completely different things.

Trading is about position sizing, risk management, stop, entry, exit and preserving capital. Even if you can forecast 110% correctly and somehow you have too much or too little position sizing, you might not get the benefit you want.

Sometimes you ought to increase your position sizing with high confidence, and sometimes you might not even want to trade. I think even if you can predict the market, because itøs so choppy you donøt really want to enter the market there.

As a trader, Iøm really excited to know that there is actually something out there that is really focused on just trading alone. If you can combine that with decent forecasting, that can be extremely powerful.

Glenn Neely: I totally agree with you that the primary crux of successful trading, no matter what approach you use, is risk management. Without that, it doesnøt matter what system you use. Youøre doomed to failure.

You could have a system where youøre 90% right, but if you risk 100% per trade, it only takes one trade and youøve lost all of your money. Thatøs not what Neely River Trading Technology is about. Those are axioms of trade. Those are known quantities.

The biggest problem with the forecasting paradigm, which most people donøt even quite understand when they get involved with that process, is that the minute you make a forecast, that is your personal opinion and ego on the line either personally or if you say it to your friends, a group of people, in a newsletter or whatever.

Your reputation or ego is on the line, so you have a vested interest in trying to make sure that forecast becomes correct, so you get emotionally

involved in that forecast. That is the death for good trading, because that means youøre going to ignore warning signs and good practices.

Itøs the emotional element that forecasting brings to the table that is the real problem with forecasting. If you can remove that, your trading gets much better. Iøm going to get into that a little bit later.

Interviewer: Sure, because everybody likes to be right. Traders tend to come from a professional background. Sometimes people have an engineering or business degree and whatnot, so they have been successful in life by being right. Suddenly when you get into trading, itøs okay to be wrong. You just make sure that you respect the market and get all your positions.

Thatøs the thing a lot of traders need to learn when they are just starting. Youøre going to be wrong a lot of times, but you need to just respect that.

Glenn Neely: Thatøs why I called it Neely River Trading Technology. I call it Neely because thatøs me, but õRiverö has to do with the way markets have a connection to the behavior of water in a river.

Why are markets like rivers? Look at Page 2 of the presentation. Iøm going to move on to Page 3, and Iøm going to discuss it from two perspectives. Letøs first talk about water in a lake environment.

If youøre in a lake environment, that means you have all four walls or quadrants closed off, and you have this random movement that takes place in the water. You might have convection currents. You can have fish moving in the water, wind blowing across the top of the water, and leaves falling in. Everything is almost completely random, and you donøt know whatøs going to happen.

Move on to Page 4. Letøs say you were standing near the edge of this lake and had five ping-pong balls in your hand. If you throw those ping-pong balls in the air and ó right before they started coming down ó if you could

freeze time, thereøs pretty much no computer or person in the world who could tell you where those five ping-pong balls will end up being in five or 10 minutes, because itøs so random.

That would be a typical chaotic environment in a lake, which you can sometimes connect to market behavior when markets are going sideways in a random, up-and-down fashion as theyøve been doing for most of the last 12 years since 2000. Theyøve been going up and down, back and forth in the same range.

You might have random news events that come out. You might be buying and selling on a pretty much equal basis or not much interest in the market, so it produces random, chaotic, unpredictable behavior.

When you get back to the water analogy, the minute things change in a water environment from a lake to some other environment is when gravity begins to take over and one part of this lake breaks down.

Letøs say thereøs a dam on one side. If one part of that dam breaks, then you start to get a flow, and gravity will pull the water in one direction. Everything starts to change from that point, so the behavior becomes much more definable and predictable and involves fluid dynamics.

When youøre in a river environment, you have the water moving and gravity is the force pushing it. Near the perimeter of the river, youøll have turbulence of the oscillating action near the river as the water drags along the edge, creating friction and causing it to spin around both from the top and the bottom, or what I call the north bank and the south bank.

The quickest movement of water will occur toward the center of the river. You have quick movement in the middle and choppier, unpredictable random action near the top and the bottom.

In a river, this creates three zones of behavior. Two are similar. You have a range of turbulence near the north bank and the south bank, and you have more directional movement near the center of the river. Anybody can observe this in any river you want to stand near.

As we move on to markets, the force isnøt gravity. The force in markets is money. Money is what pushes the market up or down. Unlike gravity, which only goes one direction, in a market environment you can go up or down.

Money can be more on the buy side or more on the sell side, which actually doubles the potential complexity of a situation, but you generally have the same overall dynamics taking place.

You have the money pushing the market forward with time, either up or down. If thereøs more buying pressure, then prices will be going upward as time goes to the right. If you have more selling pressure, then prices will be going downward as time moves to the right, but the force is money instead of gravity.

The difference here is that you have a different force creating very similar kinds of behavior. Iøm sure youøve seen markets where youøve had channels above and below market and the market going back and forth inside that channel. If you were to create these channels in a very logical way, which I explain as the theory gets more advanced, it explains how to create these channels completely objectively.

Once you do that, then you can start to see the price movement of the market begin to move in the same manner as it moves inside of a river.

These channels will not always be sideways. They sometimes go up. They sometimes go down. They sometimes go way up, way down, or are perfectly horizontal.

The behavior inside of that channel will tend to mimic the behavior of water or any kind of object thatøs floating on the top of water in a river.

Thatøs the first step in Neely River theory. Itøs starting to realize that there is a connection between the behavior of water flowing through a river and the behavior of traders and money flowing through a market.

Interviewer: I have tons of questions, Glenn. I notice the market can only do two things. This is just from a traderøs perspective, so perhaps you can connect that with the Neely River theory.

The market is either trending or consolidating. A trending market obviously is the market that everybody loves to be in and ride the wave. Itøs similar to what you just said about the river. If you have a fast-moving, straight-line river from a higher place to a lower place, youød love to take that ride and make money. On the other hand, you have a consolidating area where I think itøs the trickiest part.

In my experience, three things can happen in a consolidating area. Itøs just consolidating, spending time there and working off of an overbought or oversold condition. The trend can continue from there, or a reversal point can be a major top or a major bottom where the money basically changes direction from there.

It can serve as just a minor retracement point. Retracement and consolidation are the two things that work off an overbought or oversold condition to make the trend continue to go forward.

Thatøs my experience of trading. You basically have two scenarios. One is trending. The other one is consolidating. Consolidating is the time where itøs tricky. If you believe that the trend is going to continue, itøs just working off overbought or oversold condition. Then obviously you want to continue to position yourself to get ready for the next trend.

Glenn Neely: You said the crucial word there. You said, õIf you believe.ö õBelieveö means your ego is involved. Forecasting is involved. Thatøs the problem. The Neely River theory completely removes this whole belief system about markets. It completely removes expectations about what the market is supposed to do.

Remember, you have absolutely no control over whether the marketøs going up or down, left or right, or consolidating or trending. All you have control over is when you get in and when you get out. Thatøs it, and of course whether you buy or sell and when youøre doing that. That is the only thing you have control over.

The most crucial thing is making sure your entries are well designed and independent of whatever the marketøs going to do, so that if it turns out the market doesnøt move in your favor, you can get out and hopefully break even. If it does move in your favor, then you make money. The goal is to not lose money as often as possible. That way, when the markets do go in your favor, youøre going to make money.

The primary goal of Neely River theory is to get risk to break even as soon as possible. That way it doesnøt matter what happens after that. There is no expectation of how the market is going to move, how far itøs going to go, or how long itøs going to last.

Most of the time when you take these trades that are based on Neely River theory, itøs very uncomfortable, because youøre doing exactly the opposite of what feels good and normal. Youøre just going on gut faith and hoping and praying that itøs going to do whatever itøs supposed to do. You actually have no idea and no expectation about the future event.

Let me give you a different example. This is from a traderøs perspective. If youøre in a boat or a raft in a river, do you worry about where the ocean is to decide which way youøre going to paddle?

Interviewer: Most likely, Iøm going to go downstream if Iøm in a river.

Glenn Neely: The river is going to take you to the ocean no matter what, as long as you survive until you get here. Your job in that boat is to survive until you finally get to the ocean.

Youøre going to get there as long as you donøt hit rocks, go over a waterfall, hit a sand bar or get a hole in your raft. As long as you just manage your environment in the here-and-now every second properly, eventually youøre going to get to the ocean.

Getting to the ocean isnøt something that requires effort. Itøs surviving until you get there that does. Neely River theory is about how to survive as a trader. What should you do every minute and with every new sand bar that appears? What should you be doing with your stock and target? Should you be staying in or getting out?

You shouldnøt be worrying about how far youøre going, how much money youøre going to make, or how long it can take. The goal is to survive until the market takes you wherever itøs ultimately going to go, because that part you have no control over.

The only thing you have control over is what youøre going to do right now. Neely River theory is all about what to do *right now* to survive until the market goes wherever itøs going to end up going.

Interviewer: It sounds quite different than most discretionary trading. Most discretionary traders use technical analysis or a sixth sense tend to have a feeling of where this market is going to go.

It sounds like Neely River theory is a higher up of a very good mechanical system, because it sounds almost like a system of trading except that most system traders are not very adaptable.

Glenn Neely: Neely River theory doesnøt involve any mathematics or any projections of future price action. It observes the behavior of three different types of traders. It has to do with dividing markets into three different categories of traders.

There are only three ways in the entire world you can trade as a trader. You can be as a trend follower, which means youøre generally buying into strength or selling into weakness. You can be a top and bottom picker, which means youøre trying to sell into the highs and buy into the lows. You can be a bargain hunter, which means youøre buying or selling near the middle. You let the high or low happen, wait for a reaction then get in on a pull-back.

As a trader you can only get in near the top, near the middle, or near the bottom. Thatøs it. That separates the market into three different trading styles. Each one of those trading styles works some of the time.

Ninety-nine or 100% of every system or every approach to markets Iøve ever seen in my entire 30-year career has always been one of those three.

In other words, if a person says, õIøm a trend follower,ö that means theyøre trying to make the market adhere to their belief system that the market trends most of the time.

Based on probabilities, if you have three different ways you can trade, the marketøs probably only going to trend about a third of the time. That means two-thirds of the time youøre trading in a manner thatøs inconsistent with reality.

For the most part with Wave theory, the top-and-bottom picking approach doesnøt work well in the middle. It works best at the beginning and end. If youøre using Wave theory, every time a market starts trending really well, youøre going to be tempted to try to predict the top of that uptrend, assuming itøs always going to finish going up some time real soon.

You might sell and get stopped out, or you sell and it goes up. You get stopped and you keep selling. Youøre attempting to trade a trending market with a top-and-bottom picking system.

You might be a bargain hunter like Warren Buffett. Maybe 90% of the time or whatever the percentage is, markets donøt come around and give you that 50% retracement. They give you that big bargain, and it goes up for a long time. You either got in or you didnøt.

Each one of them has its strong points and weak points. The crucial thing is you have to know which one applies to the current environment. Which group ó top-and-bottom pickers, bargain hunters, or trend followers ó is currently in charge of the market?

If you know which group is in charge, then youøre going to know how to trade. Youøre going to make the most money because all three of them canøt make the most money. Only one group can be doing the exact right thing at the right time to make the most money. Weøll be going into some of that in a future talk.

Interviewer: I was extremely impressed about what you just said about three types of trading. Iøve never heard anybody actually categorize that clearly. Personally, I belong to the retracement and top-and-bottom pickers. Iøm not very good at buying and selling the breakouts. That almost sounds like a system thatøs designed just for that where youøre breaking out a channel and decide to buy or sell.

Glenn Neely: There are really three types of trading. If you only focus on one, then youøre never going to be successful as a trader. Itøs extremely difficult unless you really manage your risk well.

The system that actually deals with all three and the inner changes and strategies, depending on the environment, is Neely River theory. This is the only approach Iøve ever seen in my life that actually does that.

Thatøs what I think makes it pretty much revolutionary, extremely unique, and far more effective. It completely removes the emotional element from trading. And itøs completely objective when it comes to whoøs in charge and what the trend is based on very clear observational criteria, not mathematical criteria. Thereøs no math involved at all. Itøs extremely unique and a new paradigm of market technology.

Interviewer: Glenn, I really appreciate this information. In fact, I cannot wait for my next interview with you to really dig into those three types of traders and how you used your knowledge and background to come up with a system that actually trades those three different markets. I really enjoyed our conversation.

Glenn Neely: We have our next interview scheduled in two weeks, and weøll go on with the next part of the introduction to Neely River theory. This will be a three-part interview series.

Interviewer: Thank you very much.

Glenn Neely: Thanks a lot, Bud. I appreciate it.