Looking Back: Review of 2008 and 2009

Glenn Neely *(founder of NEoWave Institute)* discusses his January 2008 forecast for a 4- to 6-year Bear market

Interview held November 12, 2009

Transcript

Interviewer: Welcome. We're speaking with Glenn Neely, founder of NEoWave Institute. Glenn is internationally regarded as the premier Elliott Wave analyst. Welcome, Glenn.

Glenn Neely: Hi. Thanks for having me.

Interviewer: I wanted to talk to you today about a January 2008 forecast that you made that was fairly controversial at the time and has proven to be extraordinarily on the spot. In January 2008, you sent out an international release stating, with three exclamation points, "The Bull Market is Over!!!"

Now, here we are in November 2009. It's been an incredibly treacherous bear market in the nearly two years since that announcement. I wanted to see if you could explain a bit more about why you made that controversial forecast, why it was controversial at the time, and how it has played out.

Glenn Neely: That notice was sent out to everyone that we have in our database a little over two weeks into the beginning of 2008. This was after a very nice five-year bull market from 2002 to the high in 2007.

The event I was waiting for, based on my NEoWave additions to Elliott Wave theory, was a market decline that was bigger and faster than all previous declines that had occurred during the entire bull market from 2002 to 2007. With the drop in mid-January, that event finally took place.

From my perspective, it wasn't as much of a *prediction* as it was a *fact*. It was an observational event. It happened, and the minute it did, I knew that was it. *The bull market was over.*

Even though it was controversial at the time and it sounds somewhat incredible, it was really just following the rules that I've added to Wave theory over the last 25 years. They allow me to make very dogmatic forecasts at times. Those forecasts pretty often turn out to be quite right.

The big break that we saw into mid-January was the event I'd been waiting for for a long time. It finally happened. The minute it happened, I knew that was it. The bull market was over.

In that [January 2008] update, I went on to say it was the beginning of a four- to six-year bear market. This wasn't just a temporary sell-off. It was the beginning of a very long, drawn-out change in economic conditions for the U.S. I indicated in that update that I thought it was reasonable to assume the U.S. would be going into a protracted recession. Multiple financial bubbles that had been in progress for a decade or two would be coming to an end, which would have a serious impact on our economy.

I indicated that it would be better to know this than to not know it, so our customers could prepare for what was coming.

Interviewer: Before we talk about what has happened since that interesting call you made, let's talk about why it was considered controversial at the time.

You mentioned the bull market had a very strong run from 2002 to 2007. Your call that the bull market was over was on January 18, 2008. What were people feeling at that time about the market, and why was this call really considered controversial?

Glenn Neely: The rally from 2002 to 2007 was, under Wave theory, called a B Wave. Those typically are the most emotional, exciting periods of correction. It draws the

public in quite substantially and gets them to do things they wouldn't normally do. There's a lot of media coverage and frenzied excitement in the air.

A significant portion of the public got involved in the stock market during that advance and got trapped into that period. The psychology present at the time was so optimistic that people got used to a market that pretty much went sideways and up almost non-stop for five years.

They got so used to that, that any big decline they always saw as just a buying opportunity. I can remember back then, every time the market declined, they'd think, "This is just another great buying opportunity. They're giving us bargains now. It's time to jump in." We heard this almost non-stop for most of 2008.

That finally stopped in September and October when the market had really taken a huge plunge and the psychology started to change.

It was that initial assumption that every big decline is a buying opportunity – that's why people doubted what I was saying. They were very suspicious of it, and they didn't want to hear what I had to say.

Interviewer: When they were thinking it was a buying opportunity, that really indicates how optimistic they were that the market was going to keep climbing. If there was a little dip, they thought, "Great! We're going to buy now, because we know the market is going to keep climbing and rallying."

Glenn Neely: Right. People got well trained. Pretty much from 1982 all the way up to 2000, the market climbed almost relentlessly – except for the '87 crash – for almost 20 years. Then we went through the very short-term bear market through 2002. Then we, once again, had a perpetual and almost non-ending, consistent, upward climb in the stock market.

For most of 25 years, the stock market always recovered after big corrections. People just started to assume that's the way it always is. This is the first time since 1982 that a big drop hasn't been quickly retraced, the economy is substantially worse, and things aren't getting back to normal as quickly as they had in the past.

Interviewer: On January 18, 2008, a fairly significant event was held in the S&P stock market where the S&P dropped significantly enough for you to say, "Yes, indeed the bull market is over." Turning the clock back, you were predicting that we were going to have a protracted recession with a serious impact on our economy.

Now, here we are in November 2009. Again, it's been a treacherous bear market in the last nearly two years. Can you talk about what you were seeing at the time that really put you in a position to see that we would be having such difficult times?

Glenn Neely: If we start from the 2000 high and under Wave theory – actually NEoWave, since some Elliott Wave people might disagree with me – but under NEoWave, the drop to 2002 was Wave A of what I think will be about a 20-year corrective environment. I've said this ever since the drop in 2000 started.

I indicated at the high in 2000, when I was very bearish, that the stock market was going to drop 50% in the Dow, 60% in the S&P, and 70% in the NASDAQ – which all came to pass over that two-year timeframe – that would be the first phase of a 20-year consolidation correction in the stock market.

It's becoming more and more obvious that we've gone for almost 10 years and that's going to be correct. That was what I initially said. There was huge disbelief, much more then than there was in 2008, that the bear market was actually beginning when I said it was.

That decline to 2002's low was Wave A. After an A Wave, obviously you get a B Wave. In this case, the B Wave retraced all of Wave A, which is what I

predicted in 2002 would happen. We'd get a five- to eight-year bull market, and it would go all the way back above the highs of 2000, which was the internet boom high. That happened.

As that event was coming to an end, that's when I started realizing that, based on behavior and Wave structure, the B Wave was going to come to an end, and the bear market was going to begin sometime in the near future.

The event I was waiting for was a large vertical drop in price that was larger than all the previous drops from 2002's low, all the way up to 2007's high. The minute that happened, I knew Wave B was now over.

Under Wave theory, then you have to have a C Wave that is similar to the A Wave, which was the drop from 2000 to 2002. I knew that was coming once Wave B was over.

The minute I could confirm Wave B was over based on the size of the drop we had in January 2008, then I knew what Wave C needed to do. It needed to go all the way back down to the lows of 2002, and it had to happen in a relatively short period of time.

I actually produced a pretty long-term market forecast on the S&P, just a few days after the announcement when I said the bull market was over, that mapped out the entire bear market for the next four to six years. I'm not sure if you have a copy of that, but I'm hoping we can let the listeners get a copy of that, too.

Interviewer: Yes, we will provide that.

Glenn Neely: That scenario, where I mapped out the S&P's behavior for the next four to six years, shows exactly what I thought would happen. The red scenario was the worst-case scenario, and the green scenario was the best-case scenario. It became very obvious by March, April and May of 2008 that the worst-case scenario was happening.

You can see, if you look at that chart, that it was projecting a drop in the stock market between early 2009 and mid to early 2010. Between those dates, the S&P would drop below the 2002 low and go as low as about 550 with an ideal target around 650 and an ideal date somewhere in mid to late 2009. As we all know now, it reached that 650 level in approximately March 2009.

It was well within the timeframe, but a little earlier than the absolute ideal target shown. Then we've had this huge, massive recovery, just like I listed on the chart. It's actually gone slightly higher than shown on the chart there. I think at this point it's about 1100. Let me take a quick look at my charts on the S&P. The last I show in the future is 1088. The highest it's actually gone recently was about 1103. It just recently exceeded 1100, so the rally is even larger than what's shown here. It's gone about 50 points higher.

That whole thing was mapped out [in the NEoWave Forecasting chart dated January 21, 2008]. This is only late 2009 now. You'll see on the chart that it goes all the way into late 2011 or early 2012. If you go from 2007's high and you add four to six years, you're talking about 2011 to 2013.

Interviewer: What I find fascinating about this chart is that it's dated Monday, January 21, 2008, and you have a prediction that goes forward through January 2012. Based on the discussion we were just having and the knowledge of how the S&P market has indeed played out in the last year and a half to two years, your prediction is astoundingly accurate.

What I find a little startling is that we're enjoying this rally, but according to this prediction, we're going to be heading south again.

Glenn Neely: Yes. There's almost no doubt that's going to happen because the Wave structure is incomplete. The most important thing to realize, and one of my additions to Wave theory, is time prediction that's possible based on the Wave patterns themselves.

Look at the high in 2000 all the way through the low in 2002 and back up to the high in 2008. It's an extremely reliable phenomenon I discovered about ABC patterns: Wave C will almost always be equal to A plus B, if the B Wave takes a lot longer time than the A Wave. So if there are dramatic time differences between those two – in this case, Wave B is about twice the time consumption of Wave A from the lowest point to the highest point of each – you add those two together and divide by two, and that gives you the ideal and extremely reliable future time target for the C Wave's conclusion.

You'll notice that I have the C Wave finishing at a higher point, but it still won't be technically finished until that time period has run its course.

This brings up a very interesting discussion. This is an almost metaphysical or astrological discussion regarding the 2012 phenomenon that we're starting to hear about. There's a movie coming out about it. The Mayan calendar apparently concludes in 2012. That's going to be probably the most interesting and scary year of our lives because of how much bad media there's going to be. It's almost going to be like a self-fulfilling prophecy how people are going to work themselves into a frenzy as the economy gets worse and things continue to slow down. And there will be a media barrage reminding us every day how bad things are, so people are going to be even more scared to spend money. It's going to be self-fulfilling because of it.

Interviewer: Glenn, talk about Elliott Wave and, in particular, NEoWave because NEoWave are a more advanced version of Elliott Waves. Talk about how the psychology of the market has played out in Wave theory.

Glenn Neely: It's been pretty standard and typical. If you look at the high in 2000, there was an incredible euphoria, there where the number 3 is listed. That's typical third-Wave psychology.

The drop-down to Wave A is that first phase of a fourth Wave that creates disappointment but not depression and not the belief that it's all over. You're just sad that it didn't get as good as you thought it was going to get.

If you remember the internet boom period, that was the most euphoric economic period I've ever experienced in my lifetime. You just thought of an idea, and you were a millionaire overnight.

Interviewer: It was dot-com, dot-bomb, unfortunately.

Glenn Neely: That was the disappointment phase but not the end of the positive psychology. The B Wave resurrected the psychology and even carried it, in some cases, further than we had at the high in 2000, for different reasons. That period then sets up a rally where the fundamentals aren't as good, but the market is going up anyway. It's more flimsy. It's like someone living high on the hog on a credit card, and things are great. And you still have credit on your credit card, but the minute it runs out the party is over. The B Wave rally was more like a credit card or financial binge where people were just spending money because they could. Once they no longer were allowed to do that, then the party came to an end really fast. That's why the decline was even faster and more nasty than the A Wave decline.

What we're seeing now is we're moving either toward the end or at least toward the center – I think it's technically toward the center – of this 20-year correction. The psychology has finally started to change, where there's not this perpetual, "It's bad, but it's going to get better," kind of optimism or hopeful thinking. Now it's more like, "It doesn't look so good, and it's going to get worse." Now, the focus is more downward than upward. It's not hopeful but pessimistic and concerned. That's the change that we're going to experience and continue to experience for the next few years.

The C Wave psychology is going to finally bring home the fact that we're in a bear market. It started at the high in 2000. We've been in it for 10 years.

We're finally starting to accept it as a reality that the boom period, for 20 years from 1982 to the highs in 2000 and 2007, is now finished. The glory days, economically speaking, are finished for awhile.

It's going to be a re-assessment of the way people think about the future. They're going to be much more concerned about spending, hoarding money, trying to keep the jobs they have, and cutting back on all kinds of luxury spending like vacations, cars, boats, trips, houses, and everything else. It will be much more survival-oriented.

Unfortunately, that's going to get even worse as 2020 comes around. This is just the beginning of the bad psychology that's going to be unfolding for a long time.

Interviewer: It's interesting that you're talking out to 2020 because in your January 14, 2008 forecast, you said we were beginning a new four- to six-year bear market. You actually see that bear market continuing outward. Here in your note, you say, "As multiple financial bubbles of the last one to two decades unwind, it will seriously impact our economy."

Glenn Neely: What you're confusing here is that, under Wave theory, there are different levels of bear markets. The whole big-picture bear market started at the high in 2000. That's going to go on for about 20 years. The smaller bear market, within this larger bear market, began at the high in 2000, and that will go on for about four to six years.

In other words, after we realize we've survived 2012, we'll probably get a really nice rebound, and the stock market may even go back toward the highs of 2007.

Economically speaking, things still aren't going to be great for a long time. I suspect the only way the stock market is going to be able to recover back to the highs of 2007 is because of inflation. The actual values are less, even though it appears that we're at the same level.

The government has been spending a lot of money for quite awhile, and that's essentially reducing the value of the dollar. It might allow over time, after what I think will be a period of deflation through 2012, that we go through a period of inflation from that point forward. That will bring the market back toward the old highs, possibly, but it won't be as valuable.

Interviewer: It's an inflationary period.

Glenn Neely: Right. I think we're going to go through a deflationary period, which we can go into some other time. We'll be in a deflationary period for probably the next two to three years. After that, we may have some mild inflation that occurs that will allow the market to go back to the same highs numerically, but the value will actually be less.

It's the idea that $100 now buys only one-tenth of an ounce of gold, whereas 50 or 100 years ago it bought three ounces of gold. It's the same numerical value, but it's worth less.

Interviewer: We need to wrap up, but I'm wondering if there's any way we can end this conversation on a high note. I'm thinking that for the next four to six years, in particular, and the next 20 years, in general, we need to hunker down, save our money, watch our pennies, and be careful in this bear market. Is there any good news? A silver lining?

Glenn Neely: With proper investment and investment timing a person can protect a great deal of their capital during this period. I did have a lot of customers who actually either benefited from or avoided loss during the 2008 to 2009 bear market, because they were properly hedged or they were out of the market.

Just because things are bad or the stock market has dropped doesn't mean you have to do poorly in the stock market. There are things you can do to protect yourself, if you know these events in advance.

That's probably the only positive note I can say about that from an economic survival standpoint. Having strategies to take advantage of market action and avoiding bad market conditions are good ways to preserve capital.

Interviewer: Great. Thank you very much for your time today, Glenn.

Glenn Neely: Thanks.

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