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

An interview series with Glenn Neely, Part 3 of 3

Interviewer: Hello, this is Bud Fox from GreedAndMoney.com. Today I have the privilege to have Glenn Neely with me, an expert in NEoWave analysis as well as the Neely River theory. This is going to be our last of a three-part interview series to provide an introduction to Neely River theory. Glenn, would you like to provide a brief recap of what we discussed in the last couple interviews?

Glenn Neely: The goal of Neely River theory is to move away from the standard type of technical analysis and any kind of forecasting-based approach, because I realized over 30 years in following markets that the real reason people have problems with trading is because they get emotionally involved in their prediction of the future. Since they want to be right, they frequently will risk more capital than they should. Theyøll hold trades longer than they should in the hope that theyøre going to be right. The whole goal of Neely River theory is to remove that forecasting egocentric õIøm smarter than youö paradigm to make trading more objective, easier, unemotional and more successful.

That didnøt start off as the goal, but 10 or 15 years ago when I began this I knew that Wave theory wasnøt going to be as useful once the bear market began in 2000, and it probably wouldnøt be that useful for a significant portion of 10 to maybe even 20 years. I had to figure out some way to follow and trade markets and deal with them in an environment where Wave analysis wasnøt going to be as helpful. That was the beginning of

Neely River theory. Little did I know where it was going to exactly lead me, but it definitely has gotten me to a point where I designed a training technology thatøs independent of forecasting.

Neely River theory focuses on strategy and how the trader should behave, act, and maneuver more than based on what he thinks is going to happen into the future. What youøre doing here and now has nothing to do with where the market might be going, what you think might be happening or how much money youøre going to make. It has to do with surviving until the market does whatever itøs going to do.

Itøs the same concept that we talked about that if youøre in a boat in a river, youøre not worried about where the ocean is. Youøre worried about surviving in the river, rapids, and waterfalls until the river gets to the ocean, because youøre eventually going to get there, as long as you donøt hurt yourself before you get there.

The idea of Neely River theory is just survival in the here and now until the flow of the market takes you wherever itøs going to go. Thatøs a bit from our last discussion.

This is one of the last charts showing how money is the force thatøs driving markets up and down instead of gravity, such as in a river.

If you take some kind of object, such as a Ping-Pong ball or something that floated on top of the water, wherever you place it at the edge of the river, it will not go perfectly horizontal with the flow of the water. Itøs going to chop around and get caught in eddies, currents and everything else. We discussed how this movement could start to mimic the behavior you see in an impulsive Wave pattern, or potentially even corrective wave patterns, but in this case an impulsive wave pattern which starts to connect Neely River theory to Wave theory or Wave theory to Neely River theory. I almost think Neely River theory is a superset of Elliott Wave theory.

Wave theory is one portion of the equation of Neely River theory. Wave theory really doesnøt deal well with the middle of patterns or how to trade markets, specifically how to move stocks or how to exit. It only allows you to do that when the structureøs clear. Structure is only clear in a market maybe 10% or 20% of the time, so what do you do the other 80% to 90% of the time? Wave theory doesnøt really tell you what to do the majority of the time that you might be in a position. I just wait, hold and hope.

Interviewer: This is what we discussed toward the end of the discussion last time about how similar or how beneficial teaching the Neely River theory is. Obviously that was an impulse wave that you showed in the NEoWave or Elliott Wave chart.

Glenn Neely: Right. This happened when I was at a conference in Paris about 10 years ago talking to another well-known person in the industry. He had asked me what I had been doing lately. I said that I was working on a new technology to trade markets without forecasting. He looked at me as if that was the stupidest thing heød ever heard of in his life, because virtually the entire industry has this belief system that forecasting is the only valid approach to making money in the future. You have to know what the futureøs going to be to be able to make money. If you donøt, youøre not going to make money. If youøre not good at forecasting, youøre going to lose money.

He just didnøt get it at all. Thatøs pretty much the way most people behave and react when I talk about this, but the process has to begin in a different kind of way than the way most people get involved in markets. When most people come to a market and decide they want to invest or make money trading, they come with a belief system. That belief system might be that the moon and the stars, for those who believe in astrology, are the core

reason markets move. The timing of the moon and stars will tell you when youøre going to get market tops and bottoms.

They might believe in cycles or that interest rates are the primary driving force behind markets. They might believe that psychology and sentiment are the driving forces. They come in with a belief system. Then they try to force that belief onto the market and try to get the market to fit their belief system. Thatøs a backward way of approaching markets because, of course, the markets could care less what you believe. The markets are going to do whatever they want. Your goal shouldnøt be to try to get the market to fit your belief system. Your goal should be to try to understand what the motivating or foundational factors are relating to markets, not a connection to something else.

I always consider technical analysis, any kind of fundamental analysis or anything that uses something else to predict what a marketøs going to do to be sort of like a crutch. It would be similar to going to a doctor. Letøs say that youøre in a hospital, and youøre the patient lying in the bed. The doctor walks into the room and proceeds to ask your mother, father, brother, and sister, õHow does Johnny feel?ö Everybody gives his or her opinion of how you feel. Instead of asking you how you feel, heøs asking everybody else how you feel. Thatøs what most technical analysis is all about. Itøs trying to correlate something external to the market to tell the market how itøs supposed to feel and behave, which obviously on the surface is pretty preposterous.

The goal of Neely River theory was to start with a foundation that is so solid, logical and incontrovertible that it has nothing to do with opinion or philosophy. Itøs just a core fact and reality. This is the first time Iøve ever seen an approach done in this way. The whole River phenomenon builds off an indisputable and unchangeable foundation, which Iøll go to in a minute.

Interviewer: It makes sense because the majority of the analysis in the marketplace is essentially a derivative of the trader behind it.

Glenn Neely: Absolutely.

Interviewer: What youøre trying to do is go to the trader behind it whoøs dominating the market at the moment of the price actions to identify that entry accordingly based on their behavior. Obviously nobody else is doing that in the marketplace. Everybody is based on a secondary observation of the price action to identify how to enter and how to exit the market.

Glenn Neely: Letøs say that youøre long in the market and all of a sudden a bomb strikes New York City or Los Angeles and the market goes up. Youøre going to make money independent of whatever that bomb supposedly was supposed to do. The bomb is an external nonmarket event. It may have an impact, but the only thing that decides whether you make money is what happens to price action.

If youøre long and the market goes up, independent of any world news or any personal feelings about anything, youøre going to be in a more positive position. If youøre long and the market goes down, youøre going to be in a more negative position. The only determining factor whether you make or lose money is price action.

Neely River theory is strictly based on what prices are doing, nothing else. Iøm not interested in correlations, opinions, or sentiment. Iøm interested in what price has actually done.

The next big step with Neely River theory thatøs extremely different is I have no interest in what I think the futureøs going to be. I only have interest in what has actually been verified currently or historically. Itøs not what you think is going to happen but what you know has already

happened. Those are things that canøt be changed by the future or by opinion and canøt be interpreted. Theyøre fact, and thatøs it.

As part of this process and to make this concept work, I mentioned to you early on that Neely River theory does what no system Iøve ever seen does with markets. It divides it into three different types of traders.

Weøre not going to get a system that is following, bargain hunting or top and bottom picking. Weøre incorporating all three technologies and types of trading into one sort of all-encompassing approach.

A critical part of River theory is dividing the market into those different traders, the bargain hunters, trend followers and top and bottom pickers and their motivations, understanding how they behave and enter and exit markets, not necessarily what they believe about the future, but how they get in and how they actually get out.

It has to do with their entry style. If youøre a trend follower, youøre going buy into strength or sell into weakness. If youøre a bargain hunter, youøre going to buy on a pull-back or sell on a corrective rally against the downtrend. If youøre a top and bottom picker, youøre going to sell into strength and buy into weakness. Each of them has their own individual style.

You need to understand all of them if you want to be a good trader and make money consistently, not just one-third of the time by picking a system thatøs going to be one-third of the reality of markets.

Another thing that Iøve never seen any system address has to do with what I call financial capacity. If you come into a market with $5,000 or $10,000, itøs absolutely impossible to trade that market and keep risk at 1% or 2% per trade because the minute you get in, unless your stop is just

a few ticks away, youøre automatically going to be risking 10%, 15% or 20% on your trade.

The amount of money you have has a great deal to do with how you trade and how you can trade. Virtually no system Iøve ever seen takes into consideration that rich people trade differently than people with less money, because they can hold positions longer, have bigger stops and risk less percentage-wise.

Those are all ingredients in understanding how to work with the market in a way that reflects not perceptions or opinions about the future, but the current reality.

Letøs talk about what I call a forecasting paradigm. Then Iøll talk about what Neely River theory attempts to do. The forecasting paradigm has three steps. Most traders spend virtually all their time in the first stage of this process, which I call the forecasting process. As a neophyte myself the first almost 20 years in this business, my primary belief system was that forecasting was the road to riches in trading markets, just like virtually everyone believes when they first get involved.

Because of that I tried to perfect Wave theory, which led me to eventually creating a lot of new innovations for Wave theory and write my book, *Mastering Elliott Wave*. My book is about all those new discoveries about proper Wave analysis.

After 15 years of that process, I started to realize that my Wave analysis and ability to predict the future were getting better, but my trading was getting better at a much slower pace. It wasnøt nearly keeping up with my ability to predict markets. That started causing some problems for me. Why is this divergence happening between my ability to predict, trade and make money? They should go hand-in-hand like everyone believes, but they werenøt. Thatøs when I started to realize something was wrong with

this belief system or paradigm. That was the impetus for me to begin developing Neely River theory.

I spent probably 10 to 15 hours a day, sometimes seven days a week, looking at charts, applying Wave analysis and trying to figure out what the market was going to do ó to decide if I was going to buy or sell, move my stops or stay out. I spent an enormous amount of time in this area.

Once I decided that something was going to happen and I knew what it was going to be, then I had to worry about where I was going to enter, how much I was going to risk, how large of a position, how big of a stop and all that. If you get in, the next thing you have to worry about is where youøre going to exit, how much youøre going to exit and how often youøre going to raise your stop.

Thereøs a lot of stuff involved in this three-step process. If weøre generous, we might be right 50% of the time on our forecast and 50% of the time on our entry. If you have an entry of 400, the market goes to 401, youøre trying to go long and then it shoots up to 500, then you didnøt get in. Your entry was wrong. Letøs say youøre right about your entry half the time and youøre right about the exit. Maybe you get out way too soon, or your exit is to get out at 501 and it only makes it to 500, so you never get out and it goes back down to your stop. You break even or lose money.

If youøre lucky, you might be right on each one of those half the time. If you do the math with this three-step process, by the time you get to the end, youøre only going to be right 12% of the time.

This is the reason why the forecasting paradigm doesnøt work. You have to be right about too much too often. In the end, if youøre lucky to be right half the time in each one of them, youøre still only going to be right about 12% of the time. Bud, do you have any comments about that or any personal experience?

Interviewer: As a trader, thatøs how I trade, based on what you just said.

Glenn Neely: Pretty much 90% to 95% of the entire population trades based on this process.

Interviewer: Itøs challenging because, like you said, you have to be right all the time in those three processes to have a very profitable trade.

Glenn Neely: Letøs compare it to the river analogy again. Letøs suppose youøre standing next to a river. Youøre trying to decide which direction the ocean is. In that forecast, we have a 50/50 chance. It can be to the right or to the left. If youøre trying to forecast, you can just observe and see the water is moving one way, so you know that has to be the way the ocean is. Water canøt go contrary to the ocean, at least not in 90% to 95% of circumstances.

If there are manmade rivers, sometimes you can get reversed, but otherwise water always flows toward the ocean and the lake, not away from it. Instead of predicting the direction, you just observe the direction. You can wipe out this portion right away, because you donøt have to predict. You just observe.

As far as entry, it really doesnøt matter where you enter in a river. Youøre still going to get to wherever itøs going as long as you donøt crash, fall off the waterfall or whatever. The entry really doesnøt matter that much.

The exit would really be the goal, which is reaching the ocean, or in this case making a profit on the trade. Do you really have a choice on which way the water flows? No. It doesnøt matter what you believe about the river and what itøs going to do. If you get in a boat, itøs going to take you the direction the water is flowing.

If youøre worried about where youøre going to get in, does it really matter? Not really, because eventually youøre still going to get to the same place. As far as exiting, thatøs going to matter because it will determine whether

you actually get to the ocean, donøt get to the ocean, make it to your goal or donøt make it to your goal. The first two donøt really matter that much.

The goal of Neely River theory is to try to get rid of the first two in the equation. You certainly donøt have any control over number one, which is the direction the market or river is going.

You do have some control over where youøre going to get in, but thatøs being more dictated by the market than by you. Where youøre going to get out is to some degree up to you, but itøs also should be more dictated by the market or by circumstances.

Let me move on to the next diagram. First of all, Neely River theory completely gets rid of Step 1, so you donøt have any attempt to predict anything. Reaching your goal has nothing to do with what you think about the direction of the river or market, so that is completely ignored.

As far as entry and exit, there are many different places you can enter into a market and still make money. If itøs going from 400 to 500, you can get in at 410, 420, 440 or 450 and still eventually make money. The exact entry point is not critical, but the stop placement is critical.

In other words, thatøs similar to how youøre going to manage that boat in the river. Are you going to paddle to the right or left, avoid the sandbars or stay in the middle of the river? The things youøre going to do here and now matter to your survival until you reach your goal.

When it comes to market trading, what you do with your stops is really what decides whether you survive and whether your position stays in until the market reaches its destination. The way you behave matters, but specifically where you enter isnøt that important.

It reduces the importance of the exact entry point quite dramatically, but focuses much more on the exit which has to do with both the target, which

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is your goal to make money, and the stop, which is to control loss. When you hit a stop or get out of the boat, thatøs still an exit.

All of the focus of Neely River theory is on exactly how to exit, which means where yougre putting your stops and targets. Very little time is spent on this. Most of the time is spent on exactly the opposite of what everyone spends most of their time on.

My first 10 or 15, years I was worried about what the market was going to do before I got in. Then I would get in and just sit, wait, hope and pray, and not really pay much attention to where and how I was going to get out. That was probably the least of my concerns, because I was more focused on making a lot of money. I didnøt want to get out at any particular time. I wanted to just make a lot of money.

Neely River theory turns it all upside down. It puts most of the focus on what most people donøt spend any time thinking about, which is how theyøre going to manage their trade, which means in reality where youøre going to get out.

Interviewer: That makes total sense, because most new traders care so much about forecasting and catching that big wave. The number-one thing in successful trading is survival, money management and how you manage your exit. Itøs exactly focused on that.

Glenn Neely: Without knowing whoøs speaking or what the event is about, all you need to do is look at a transcript of any conference in the world and you can pretty much tell if itøs a conference for beginners, intermediate or professionals. The beginners are always going to be talking about systems, forecasting, making a lot of money, super leverage with options and all that kind of stuff. Then the professionals are always talking about risk management, trading technique, and capital preservation.

Thereøs one thing I wanted to say regarding the exit. I was saying that the entry isnøt important, but itøs the exit that decides everything. I could trade every market in the world and be virtually certain Iøm not going to lose money if I got in all of them right now and one second later got out of all of them. Itøs the exit that decides whether you make money or not. If I held all of them, then who knows whatøs going to happen? The exit is what controls your loss and profit. *All the power is on the exit.*

Letøs move to the next chart. Iøve mentioned this solid foundation earlier. Thatøs an indisputable, non-changeable market reality. Instead of trying to create a philosophy that we build market behavior around, weøre going to deal with market behavior first and then construct a trading technology around that reality.

Weøre going to focus on the facts, which I mentioned earlier. The fact is that price action is the only thing that determines whether you make or lose money. It doesnøt depend on the moon, stars, sentiment or the Fed. It only depends on what price action does after you get in. Thatøs a fact.

Neely River theory talks about a logical process of tracking the controlling elements in the market. The controlling elements are the three that Iøve mentioned already, which are trend traders, top-and-bottom pickers and bargain hunters. If the trend is up, one of those three has to make the most money. If the trend is down, one of those three will make the most money. Everyone else of that group of six will either make less money or lose money.

Thereøs always only one group making the most money. The goal of Neely River theory is to identify the group that is doing the right thing in the right way ó and managing trade in just the right way that they donøt get stopped up prematurely while theyøre waiting for the flow of the market to take them wherever the market decides itøs going to go.

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Neely River theory talks about where that control begins and ends and how you identify it. It shows a fluid process that constantly changes over time from one group to the next.

Thereøs never one group or strategy that always work the best. Trend following doesnøt always work the best, nor does bargain hunting or top-and-bottom picking. They all have their day. Each works better in a particular environment. The goal for you as a trader if you want to survive and really do well in trading is to be able to adjust the way you trade instead of trying to get the market to fit your belief system. Does that make sense?

Interviewer: Absolutely.

Glenn Neely: When it comes to market action, price is the only reality if youøre looking to trade and make money. Your goal should be to understand what is price doing and how does that affect what I should be doing?

When it comes to markets, if youøre dealing with a bar chart, there are only four realities that exist. You have up bars, down bars, inside bars and outside bars. Each one of these bars represents a financial reality that is indisputable.

If youøre looking at a bar chart, and it doesnøt matter if this is daily, weekly, monthly, hourly or for one minute, and the high of the current bar is higher than the previous and the low of the current bar is higher than the previous, by definition that means that retail buyers, those who are willing to buy near the highs, are willing to pay more this bar than the previous bar, and wholesale buyers are also willing to pay more with this bar than the previous bar.

Your retailers are near the higher end, because when youøre buying something youøre paying retail in most business transactions, but in the

market you have a wholesale end too, just like you do with people who warehouse products or manufacture products. We have the wholesale end, which is the lower end of the bar, and the retail end, which is the higher end of the bar. Then you might have a middleman where the transactions are done toward the center of the range.

Markets reflect that economic reality. If you have a bar in which all the players were willing to pay more this time than last time, then by definition it means that the buyers were in charge of the market for that one particular bar. You werenøt trying to predict that they were going to be in charge. You let it happen. Then you observe that itøs a fact. Do you follow me?

Interviewer: Yes.

Glenn Neely: Itøs just like looking at the river. You donøt determine and predict the trend of the flow of the river. You just observe and say, õThose are the facts. Itøs going that way.ö It may not be going that way five minutes from now as you turn the corner and the river starts going the other direction, but at this point, you can easily say buyers are in charge if you have an up bar. If the river flows to the right at that moment in time, itøs going a particular direction.

Up bars imply that buyers were in charge for that one moment in time, whether thatøs a day, week, month or year. When you get a down bar, to the contrary, it indicates that the sellers would have been in charge for that one moment in time. When you have an inside bar, the financial reality is that very few people are affected. Remember that when it comes to markets, most people place stops above previous highs or lows.

It doesnøt matter whether the highs and lows theyøre using are a one-minute, five-day or two-year chart, but they generally use the high or low of some timeframe that theyøve determined is important. In whatever

timeframe theyøre talking about, stops tend to start to congregate right above and right below previous bars going back in time. The further back you go, the more stops that might be accumulating near a certain high or low.

When you have an inside bar, the financial reality is that most people are not going to be stopped in or out or taking a new position because we havenøt broken to a new high or new low. When we have an inside bar, thatøs when we consider that nobody is in charge of this particular moment in time. Thereøs very minimal financial impact maybe to options traders, but virtually no one else is impacted. We just assume nobodyøs in charge of that bar.

When you have an outside bar, itøs a split reality. It could be that the buyers are in charge or that the sellers are in charge. You donøt know, so what do you do? When youøre in that environment, we use the laws of physics, physical motion and financial reality. Letøs say you have a billion dollars and youøre trying to buy something. You canøt buy all of it in one second. You have to buy it over time. It could be days, weeks or who knows what amount of time, but it takes time to move in a lot of money and to move it out.

When it comes to markets, you always want to assume inertia and momentum, which are laws of physics and laws of money in the market, and that inertia favors the direction that the market was already going.

Letøs say that youøre next to the river and you notice that the river is flowing to the right. If you close your eyes and step 10 steps to the right, you can probably assume itøs still flowing to the right because of inertia and momentum.

Itøs the same idea with markets and price action. If the trend of the market was already down before you got an outside bar, the probabilities are

pretty strong that the trend will continue to be down and that the sellers are actually in charge, even though the buyers are attempting to take control and will probably fail.

If the trend is already up, then youøre going to assume that the buyers are still in charge and that the sellers are just attempting to take control, but they probably wonøt succeed.

Those are the four different realities that you can have: up bars where buyers are in charge, down bars where sellers are in charge, inside bars where nobody is in charge, and outside bars where the group in charge favors not the future predicted momentum, but the prior established, confirmable momentum.

Those are the four realities of a bar chart. There will never be any new realities that occur. We know that weøre dealing with a very solid and logical foundation. Weøre not trying to have some grand philosophy. Weøre just starting with a solid foundation.

From this foundation, every concept of river theory is built. Itøs built on something thatøs incontrovertible, unchangeable and not based on opinion. Unfortunately, I canøt give you details on how thatøs done.

Interviewer: The $1 million question is how exactly that works. A few fortunate students of yours are receiving that knowledge as we speak and learning from you about how thatøs done. Itøs really interesting that you talk about the inside and outside bars. This interview is taking place on November 29. Yesterday we had a hammer candle in the S&P. Essentially, itøs almost like an outside bar. Then today we had somewhat of a breakout. Itøs really interesting how you talk about how the bar and the psychology work, and what kind of trader is inside those bars and how they work. What you just said makes sense.

Glenn Neely: Youøre managing each bar as it happens. Itøs just like youøre managing your boat as youøre in real-time experience and deciding whether to paddle to the right or left, or stop or whatever youøre going to do. Itøs all real-time based on current, real observations, not expectations of the future. I look at the market as being an object flowing through a river that has to do with how you should behave based on where you are in the river. The river channels are self-created by the market. Theyøre not determined by the analysts. Theyøre market defined. Itøs a scientific process on how thatøs done so that youøre always dealing with a very objective process of creating channels.

When most people look at charts, they just pick highs and lows, draw lines and decide that thatøs it. The problem of drawing channels on the chart that youøre looking at is itøs like being in the forest and trying to decide by looking at the trees what the perimeter of the forest is. You canøt decide the perimeter of the forest by looking at the individual trees as youøre walking through the forest.

River channels, and channeling in particular, has to be done on a larger scale to make sense and to contextualize market action. All channeling is always done in a larger degree, not the current timeframe, which gives context and a river environment to market action, which then starts to make all the concepts of Neely River theory really come to life.

The final piece of the puzzle for me was I discovering the individual components regarding price, time and bias, or what I call top-and-bottom picking, bargain hunting and trend following, how traders enter the market, when they enter, where they put their stops, how they exit and all that stuff. I didnøt understand how to contextualize it all and what it all meant for quite a long time. It took me probably five to seven years to come up with that idea. Then it all started making a lot more sense.

Interviewer: Glenn, I really appreciate your time. I hope those three segments of interviews regarding Neely River Technology have been beneficial to our audience. If there is any question, please contact www.NEoWave.com. Iøm sure the customer service representative will be more than happy to help you.

Glenn Neely: I appreciate it. Thanks for taking the time to do the interview. Hopefully my customers will find this interview useful in understanding better what Iøve been doing for the last five or so years in my trading service. This is integral to my trading service. I just wanted my customers to get a better idea of what Neely River theory is all about, so they understand what Iøm doing and why, and so it wouldnøt be such a mystery to them anymore.

Interviewer: In some ways it makes total sense, because in your trading service, you actually categorize based on hourly, daily and weekly. Now you mentioned your detailed analysis based on the bar. That makes sense that based on those timeframes you can actually chart the price action of a weekly bar, an hourly bar or a daily bar, and where the river is going and how itøs going to flow. Then it allows you to set stop and profit targets for different timeframe traders. What youøre doing makes total sense. Thank you very much, Glenn.

Glenn Neely: Thanks a lot.

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