Transcript of Glenn Neely Interview

Essential Strategies for Successful, Long-Term Trading

Glenn Neely underscores the importance of capital preservation for long-term trading success – and details a step-by-step approach

Interviewer: Glenn, we're talking about trading today. It seems like it's such a guessing game. Plus, there's so much conflicting advice out there. Some advice is bullish, some is bearish, and some is downright doom-and-gloom. How do I know where the market is heading so I know how to invest?

Glenn Neely: A lot of people think that's the $64,000 question. Everything you read in the papers and magazines, everybody you see on television, and just about every service you can subscribe to, every computer software program – it all revolves around predicting the market, or knowing where it's going, it the key to making money in that market.

Unfortunately, that's not the way good trading is done. It's much more important to focus on risk. If you're in a car, you can either drive quickly or recklessly. You can have all kinds of thoughts in your head besides driving – while you are driving – which puts you at a greater risk.

But if your focus is to be very careful, look where you turn, and check the front and back mirrors – and make sure everything is safe – then you're more likely to survive as a driver and not have an accident.

Trading is the same thing. You have no control over what other people are doing. You have no control over what the markets are going to do.

The only thing you actually have control over is how much risk you take on the trade and whether you get in or don't get in. Everything else is up in the air.

To get into a position with the belief that you know what the future holds is the wrong focus. It's like looking at the end of the rainbow and not looking at the fact you're in a boat about to go over the edge of a waterfall! It's a daydreamer kind of process that is not relevant to how success is achieved in the trading world.

It's not necessarily exciting or something that most people quite understand. It took me at least 15, if not 20, years in the business to finally start to realize and understand the concept that *it's not about what I believe is going to happen*. *It's about what I can make sure I don't lose.* Because, simply put, you're never going to be right all the time when trading.

Interviewer: It's not about predicting a future and trying to beat where the market is heading. I like your car analogy. Where am I right now? I'm driving and looking around and being safe. Part of being safe is managing the risk. Glenn, what does "managing the risk" look like to you?

Glenn Neely: For the fund that I manage and for my personal account, I always try to keep risk at 1% per trade. Very rarely I might go to 1.5% to 2% in extremely rare circumstances and when I'm extremely certain about what's going to happen because the Wave structure is extremely clear, which doesn't happen too often.

Normally I keep risk at 1%. Let's say I position myself for a market advance. It's not necessarily whether I think it or not. It's just whether I'm positioned for an advance or a decline. If I'm positioned for an advance, that means I'm long the market, and I have a stop. Let's say that in a

$100,000 account I risk $1,000. If I get stopped out, then I just lost $1,000. If I immediately go short and take another 1% risk in the other direction and the trend is actually down, then I might make $3,000, $4,000, $5,000 or $10,000 if it really is a down trend. That makes up for the loss on the other trade. I didn't necessarily have to predict anything. I was just positioned one way that didn't work and another way that did work.

Interviewer: I like that you're taking about minimal risk. If I want to make a lot of money on a particular trade – and I risk too much and lose it – then that's a big deal.

Glenn Neely: It's extremely hard to make up for any big losses. Let's say you lose 50%. You have to make back 100% to get back to break even. Your primary focus needs to be on not losing a lot of money when you're wrong. Since you don't really control the direction the market goes, the only thing you do control is how much you risk on a trade.

Unfortunately, most people get into a market and believe it's going in a particular direction. Let's say you're bullish. You get in and the market goes down and stops you out. Then you buy back in again because you think the trend is up. You get in and it stops you out again.

You keep doing this over and over again. It's your *belief* that is causing you to lose over and over, not the market behavior, which is going the other direction. It's your belief in what the future holds that blinds you into ignoring reality.

Interviewer: When I get myself into that type of situation, it's almost like being in Las Vegas at the roulette wheel. It's not pretty. It's not an objective trade. At that point you're just spinning.

Glenn Neely: In Vegas, they depend on you to not pay attention to how much money you're losing, which is part of the reason they give you free drinks and so forth. You get reckless.

You're at a slot machine that pays $1 million and costs $1. You pull the lever and put in another dollar. You have maybe a whole bucket full of coins and you just get into it. You put your headset on and start singing along. And you keep playing. You might be drinking. You're not paying attention to the fact that every 5 seconds you're pulling out another $1 out of your bucket.

All of a sudden, $1,000 of coins in your bucket is all gone. You say, "Where did it all go?" It's like that. You're not paying attention to what you're losing. Most people just put their rose-colored glasses on and focus on what they hope will happen. They forget about the fact they're losing $1 a minute.

Interviewer: What I'm hearing is that if I start losing in my trades, then I lose confidence too. I can get lost in the emotion. I'm upset and unhappy. I've lost money, and my confidence is eroding. If I'm not winning, I'm losing. It seems like there's this emotion that kicks in. I'm not hearing emotion from you. I'm hearing words like "control."

Glenn Neely: That's right. Let's look at it from a different perspective. Let's say that on a typical trade you're taking 5% or 10% risk, or sometimes even 20%. You get in and lose two, three or four times. You've lost 20%, 30%, 40% or 50% of your money in just a few trades. You're practically wiped out financially – and emotionally. You can't take that loss emotionally too many times. Of course, financially you can't either.

Look at it from the other side. Let's say you risked only 1% and you lost five times in a row. Then you've only lost 5%. Each trade individually is a non-event emotionally. If you have $100 and you lose $1, oh well, it costs $3 just to take $100 out of the cash machine at the bank. It's a tiny amount.

You always adjust the amount you can lose based on the new amount you have. Let's say you went from $100,000 to $200,000. Now you're risking $2,000 (1%). If you go from $100,000 to $500,000, now you're risking $500 (still 1%).

The dollar amount you risk is always relative to how much you have in your account, so the feeling of loss is always emotionally the same. It's very minor, and it allows you to do the right thing.

When you get into a trade and you only risk 1%, it's boring and not exciting. It's easy to do the right thing because if you lose 1%, oh well. If you're risking 5% or 10%, your emotions are like a rollercoaster. Every time the market goes up, you get all excited if you're long. If it goes down, you get fearful and you want to get out. You're panicking, adjusting your positions, moving your stocks and increasing your risk. It can drive a person crazy.

Keeping risk at 1% is crucial from many perspectives. One of those is keeping your emotions in check and just doing the right thing and not being enslaved by the market oscillations.

Interviewer: If I'm managing the risk and only risking 1% at a time, how does that set me up so that I can actually advance and have successful trading over the long run?

Glenn Neely: Here's a good strategy, which I've learned over the years. Let's say that you get in at $1,000 and your stop is $990 in the Gold futures market. Ten points times 100 ounces is $1,000. That means you're risking 10 points or $1,000. In this case we're going to assume it's 1% of your total capital. You're risking that 1% on entry. If the market moves $10 in your favor, for every point that it moves in your favor after entry, you want to move your stop that one additional point upward. If it goes up five points, you've raised your stop five points. If it goes up 10 points, you're raising your stop 10 points *until you get to break even*.

This way, as long as you're even remotely correct for a short period of time about what the market is going to do, it gives you a chance 50%, 60% or 70% of the time to either reduce your risk or get it to zero before you get stopped out.

Emotionally, if you know your risk is zero, then you really don't care what happens. You can easily do the right thing after that. The market will almost always move in your favor at least a little bit. Very rarely do you get into a position in which it just goes straight down and stops you out immediately.

Most of the time it's going to move in your favor a little bit, allowing you to reduce the risk. The more you reduce your risk, the less emotional you'll be and the more comfortable you'll be.

As part of my service, my first-order priority whenever I take a trade is getting risk to zero as quickly as I can. Part of that is done the way that I just described. As long as you can do that, you can lose 10 times in a row. If you lose zero 10 times, you've lost nothing. It makes it easy to survive.

That one time out of 10 that you're right, you might make $10 or $20. If that's $1,000 or $2,000, you end up with a profit and you've done well. It's not about how often you're right or wrong. It's about how often you lose money when you're wrong. If you can get risk to zero every time, then you're not losing money so it doesn't matter if you're wrong.

Interviewer: It's fascinating in its simplicity. It's straightforward. It's not hype. It's simple.

Glenn Neely: It only took me 30 years to get to this point!

Interviewer: Some of the most profound things are actually the simplest. I'm hearing that the answer is not to try to predict the future but to stay in the reality and stay present, like your car metaphor. Be present with where we are and what's going on right now. That keeps you objective instead of trying to worry about what might or might not happen in the future.

Glenn Neely: You need to have a process to decide if you want to go long or short. I really don't care what process you use. You can use moving averages or forecasting systems. Whatever thing you want to use to decide whether you should be long or short is up to you.

But the minute you get in, you'd better make sure your risk is 1% or 2%, preferably 1% for beginners, and especially if you're not using some additional information help to reinforce your strategy. Preferably you risk 1% on entry, and then as quickly as possible get your risk to zero.

For every point the market moves in your favor, move your stop the same amount until you get risk to zero. Once you've done that, then either the trade works or it doesn't. If it doesn't work, then you've lost nothing. If it does work, you'll generally make way more than what you were originally risking. You'll probably make 2%, 3% or 4% on the trade as long as you follow this strategy.

Remember, it's not a matter of whether you're long or short and which the way the market is going. It's just getting in and using a strategy. If it turns out you're right about whatever direction you're in, you're going to make money.

The minute you get stopped out, you might consider going the opposite direction and using the same approach: risking 1% and letting it go the other way. You're not worried about the direction as much as the risk on entry, controlling it, and getting your risk to zero risk as quickly as you can.

Interviewer: I love the simplicity and the clarity. You said "don't worry about predicting the future – just pay attention to what's going on with your present." We just had a really nice discussion about managing risk. We also talked about keeping your emotions in check. You're going to be making wise, objective trading decisions that will lead to trading success versus playing the Las Vegas game.

Glenn Neely: That's right. Exactly.

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

Glenn Neely: You're welcome.