Transcript of Interview with Glenn Neely and Stephen Cole
October 2014

Discussion with Glenn Neely, Manager of the NEoWave Equity Fund

Discussion topics include fund performance, Mr. Neely's use of Neely River Trading Technology and wave theory in his trading, plus his objectives as Fund Manager: control risk, protect capital, and grow the fund

Stephen Cole: Hello. This is Stephen Cole. I represent the NEoWave Equity Fund. My role in the organization is technical support and supporting investors in the fund with technical analysis, investment process, tax issues and so forth.

The fund has been running for a while and we have a great group of investors, professionals and traders. There are a number of questions that come up and repeat themselves. I thought it would be a great idea to get Glenn to answer some of those questions and get his perspective on the fund. Perhaps we can quickly do that.

Good morning, Glenn.

Glenn Neely: Hey, Steve.

Stephen Cole: I'd like to ask you a few questions regarding the fund in the format that I get them from potential and current investors. You've been very successful with NEoWave Forecasting. Everybody knows your quite incredible track record.

One of the questions that comes up though is how does Neely River theory complement that, and how does it affect the profitability of trading?

Glenn Neely: I've been in the business for about 32 years. When most people start in the business, they assume that forecasting is the answer to trading. It's the secret to success. It took me about 15 to 20 years to start to realize that that is an incorrect perspective on how markets and trading actually work. When someone has a forecast, it directs their mind and thought process away from what's actually happening, and instead they're focusing on what they hope will happen.

When you have a particular goal, price or time in mind instead of focusing on the bottom line, protecting capital and getting risk to zero, you tend to ignore bad things that happen or things that don't quite go the way you would like because you keep hoping and praying that the goal is going to be reached.

I realized over time that forecasting actually gets in the way of good trading and causes problems. It's sometimes useful when Wave structure is really clear, but frequently it's not useful or almost detrimental to the trading process when it isn't clear or when you hope you know what's going to happen but don't have enough evidence to back it up.

Neely River Trading theory came along as almost as the complete antithesis of Wave theory. It helps to focus not on what you think the market is going to do, but on a process of how to enter so that you're at the best possible entry point based on criteria that Neely River theory helps to visually present, along with very specific stock placement rules and a process of getting risk to zero as quickly as possible.

Your focus is never on how much you think you're going to make. Your focus is on getting your risk to zero as quickly as possible. That's a complete opposite perspective of the forecasting process. That's how it complements the Wave analysis process and how it helps to keep the risk in the fund so low and keep the draw-down so low.

Stephen Cole: That's very interesting. When I've done analysis of your trades over the last seven or 10 years that have been recorded, what I notice is that in periods when markets are moving fairly rapidly, like in 2008 and 2009, the trading results were quite amazing.

Forgive me, but not everybody is right all the time. Even when you're wrong, you don't seem to lose anybody any money. That's one of the key things I noticed in my analysis of your trading.

Do you think that those periods of high performance are going to happen again in the future?

Glenn Neely: Any time a market goes into a high predictability period under Wave theory, trading of the markets is going to be a lot better.

Generally when you're in B waves, second waves, fourth waves, X waves or D waves, those are the corrective phases of the pattern. It's always much more difficult to predict and trade. I think we've been in a B wave for the stock market ever since the low in 2009, which has made it extremely difficult to predict and trade the S&P for most of the last five years under Wave theory.

During 2009 and 2010, I was actually shorting repeatedly and actually making money from the short side even though the major trend was up. Being right about the direction is not necessarily the only way you can make money in a market. It just depends on how well you plan your entries and how well you manage your risk and get your risk to zero.

I had quite a few trades in the 2009 and 2010 period that either made money being short or broke even. Despite the fact my forecast was wrong, we actually made money on some of those trades. A lot of people find it very interesting that you can make money even if you're wrong about the direction of a market. That's more about timing, carefully planning your entries, and using strategies to get risk to zero. That's not based on forecasting or what you think the market is going to do. It's based on a completely different type of approach where your focus is trading methodology and technology, not expectations, forecasts and predictions.

Stephen Cole: In the NEoWave Institute updates, I know you show River Technology screens.

Glenn Neely: Let me make this clear. It's not very detailed. It's a very basic perspective on the River channels at a particular point in time for a particular market and the recommended stock. There's virtually nothing else shown because I don't want to reveal the technology behind it.

It's a visual, objective, logical process of entry, stop placement, stop movement, and aggressive stop exiting strategies that have nothing to do with predictions. It's very different and unique, but I don't reveal very much about that. I reveal just enough to give customers an idea of what we're doing.

Stephen Cole: Do you see the equity fund as the next progression of "Glenn Neely" for the future?

Glenn Neely: When I was in the business for the first 20 years, there was almost a paradox. My ability to forecast markets kept getting better almost on a logarithmic basis, but my ability to trade was only progressing at maybe an arithmetic level.

That was starting to irritate me quite a bit. I was thinking, "What in the world is going on? If prediction is the answer to trading and making money, as I get better at prediction, why is my trading not getting equally better?"

It was about 15 years in that I finally started to realize that it's because trading is a completely different endeavor than forecasting and that to be successful requires a different set of rules than forecasting.

A person could say the market is bottoming and it's going to go in a particular direction, but without any highly-specific details to that forecast, it's relatively worthless. A person could say that the gold market is going to go from $1,000 to $2,000. They go long at $1,000 and it stops at $990. Then the market goes to $989 and they get out, and then it goes to $2,000.

Did they make any money? No, not if they didn't get back in. A forecast is easy. Trading well and making money from it is a totally different thing. It involves emotions, expectations and risk management. There are all kinds of extra variables that come into play.

It's so different from just making a forecast and being "generally correct." It's easy to be generally correct about a market. It's much more difficult to actually make money from that prediction.

I started realizing about 15 years in that there was a difference and that if I didn't figure out what that difference was, it was going to be a total nightmare for me from around 2000 for the next 20 or 30 years because under Wave theory, I knew after the peak in 2000 that we were going to be going into about a 20- to 30-year bear or sideways market, which we're still in and will still go on for probably another 10 years.

If I didn't figure out a way to deal with corrective environments in a different way, I wouldn't be able to trade or predict it. You can't predict corrective environments very well under Wave theory and, as a result, you can't trade them either. If I didn't figure out something, I would be not able to predict or trade, which would be an awful situation.

I began this process of trying to develop a completely objective, almost automated (to some degree) visual, logical process of trading that has nothing to do with what you think the market is going to do but that specifically focuses on the trading process and how to get risk to zero as quickly as possible.

Stephen Cole: You mentioned the sideways move for 20 years or so. I know you once predicted the Dow at 100,000. Do you think that is still relevant?

Glenn Neely: Yes, absolutely. When I made that prediction, the Dow was at 1,900 or 1,800. It's gone up 1000% since then. Remember, markets progress logarithmically. They don't progress arithmetically. Going from 1,900 to current levels is not done on a 1,000% basis. Every time it goes up a certain amount, it doubles. You go from 2,000 to 4,000. That's a doubling. From 4,000 to 8,000 is a doubling. From 8,000 to 16,000 is a doubling. Markets can progress quite substantially just by doubling every five or 10 years.

It sounds incredible to get to 100,000, but if you double the current levels just a few more times, you're there. Yes, I do believe we will reach 100,000. It's probably going to be more like 200,000 or 300,000 if the Dow even exists. It's only 30 stocks. That's becoming a very microscopic part of the real business world nowadays. I don't know if it'll even be around 30 or 40 years from now. If it is and they still design it the way they do now, then it should easily reach that 100,000 level around the year 2055 approximately.

That hasn't changed. When I made the forecast in 1988, people thought I was utterly out of my mind. I can't even tell you the ridicule that I went through at that point in time. To be right on a magnitude of that kind of level, no one believes it.

Stephen Cole: We're halfway and you've been right so far.

Glenn Neely: When I made the prediction, the stock market crash of 1987 had just happened a few months earlier. The low was around 1,600 or so. We were just 200 or 300 points above the low. I specifically said the Dow is going to reach 100,000 before it dropped 200 points. You can just imagine how crazy they thought that was.

Stephen Cole: With the NEoWave Equity Fund, do you plan to have a NEoWave futures fund as well?

Glenn Neely: The goal of having a money management company has been something I've wanted for a long time. Unfortunately, for the first 15 to 20 years in the business, I realized I wasn't ready. Even though my forecasting was good, I knew that my trading wasn't. I didn't know why, so I started working on this new technology, Neely River Theory, to allow me to better trade.

It wasn't until that started getting perfected about five years ago that I started to think, "I really do know how to trade now, not just how to forecast. I can begin a fund and manage it properly. I know how to control risk, protect people's capital, enter positions, and move stops in a way that's objective and not opinion-based."

I finally realized that I had the tools I needed to be able to manage a fund, so I had the confidence to finally start one. In this business, if you blow up one, you're pretty much done. You don't get a good second chance. I knew if I started this fund I had to make sure it was a success the first time around. I waited for more than two decades before I decided it was time to start it.

Now that it's started, it's doing well and growing pretty fast, thanks to you. We're on the right track now. If this continues to go well, maybe sometime next year there'll be a good reason to start a futures-based fund and have that simultaneously operating with the equity-based fund.

Stephen Cole: That's interesting. Do you think that other markets would ever come into play in any of these?

Glenn Neely: It's a time issue. I am somewhat of a perfectionist about the things that I do. I want to make sure I do a good job and that I'm as accurate as I possibly can be. I want the trades to be as good as they can be. I'm very concerned about protecting people's capital. I don't want to lose their money and have a bad reputation. I want to grow the fund and their accounts.

If I start new projects, other projects may have to go. There's a chance that I'll begin to reduce some of my other obligations in order to pursue a futures fund, but that'll be a slow, gradual transition.

Stephen Cole: We have a lot of professional traders as investors. They all have the same sort of history that I did. You discover Elliott Wave. When you realize that's just not tradable, you then discover NEoWave Trading service and your book, which has almost become a Bible to most people who are trading NEoWave or other Wave technologies.

It seems to me there are other markets that it could be used in. Like you say, it is a time constraint.

Glenn Neely: That's right. There are some limitations. First of all, I picked the markets that I have Euro currency, Gold and T-Notes and the S&P because they're all vastly different from each other and pretty much the largest market in the area that they're in.

There's no reason to follow silver because it's a lot smaller than the gold market, and it's somewhat similar. If I were to add a market, it might be crude oil. I probably wouldn't be able to have any Wave theory-based analysis on crude oil because it's not likely to follow Wave theory well. It's a consumable item that's brought out of the ground, processed, consumed, and then it disappears.

For Wave theory to work, it's important that you have something that has a perpetual life and is more based on the opinions and feelings of people, not based on supply and demand.

Stephen Cole: One of the comments I get quite a lot is that people see NEoWave Equity Fund as a hedge with their other investments. What do you think of that?

Glenn: I definitely think that's true because most funds do not short the market. Some funds aren't even allowed to. They usually are buy and hold. They might move around to different stocks or industries.

With NEoWave Equity Fund, we can actually short markets and be completely out. I'm out a lot of the time. What makes our performance very different from the underlying markets themselves is that frequently I'm completely out if the market is doing nothing or not doing anything that I can either predict or safely trade.

It allows us to have a completely different performance profile than any of the markets that are actually being traded. There were periods of time from 2012 to 2013 where I virtually didn't trade the S&P at all for the fund because I didn't know what was going on. It was a unique situation.

If you have money in a market, it's at risk no matter what. If you don't have the money in a market, then it's not at risk. You may miss out on opportunities, but at least the money is not at risk. That's a distinct advantage.

The other advantage is that when I do get in, we can actually go short. If a market is declining, we can make money from the decline, not just from an advance.

Stephen Cole: That's interesting. I know your trading and the fund very well. What I've also noticed about the organization is that you've built a strong team of very good people. They all take their jobs very seriously. While we may not be a huge organization, we're lean, mean and efficient with very good people. I've made that comment about everyone actually. I was pleasantly surprised when I first joined.

Glenn: I appreciate that. Thank you. You're part of that team. Maybe I should ask you what interested you in doing this project (supporting NEoWave Equity Fund), what your background is and where you see this going.

Stephen Cole: I've been trading for many years. It's always been a passion and interest of mine. I've blown accounts, like all traders seem to. You sit and scratch your head and wonder what's next.

When I discovered your book, *Mastering Elliott Wave*, that was one of the things that turned corners for me. Since then, my trading has improved an enormous amount. Since then, I've not blown any accounts, thank goodness.

Glenn: Maybe you should take my Neely River Trading class.

Stephen Cole: Maybe I should! From that point of view, the NEoWave Equity Fund really fascinated me because I know the trading record. It seems an obvious project to be involved with because it's a fascination and a passion for me to be involved in the markets and, in particular, with somebody like you.

Knowing the team of people, structure of the organization and the determination that you have to make NEoWave Equity Fund a success, that made me think this is project I want to be invested in.

Hence, the last 12 months have been very interesting and fascinating for me. I've been meeting and talking to an awful lot of very interesting, nice people. That's the reason I really wanted to get involved.

We've said that the fund will start predominantly with people familiar with NEoWave, the Institute, and trading and so forth. We'll build the first to its first level from that. We've done that faster than I originally anticipated.

We will then go to the wider market, like the family offices, the professional markets, the hedge funds and so on. We're beginning to do that now and getting a very, very good reception. I can only see the fund getting much larger.

Glenn: Are you noticing a difference between the kinds of questions that you get from different types of investors?

Stephen Cole: The common questions do repeat. They're questions I asked while I was joining. It's things like security, trading methodology, results and all those good things. Those things will always come up no matter who you're talking to.

What you find with the professional market is that the questions tend to be much more in depth. They want to see a lot of analysis, whereas many investors don't necessarily want to go into that detail. They want to see the bottom line and that's good enough for them. Others want to see the bottom line and everything behind it. The objective is always the same.

With that, I ought to say thank you. I've taken a lot of your time this morning. If investors are listening to this, I'm very happy to take emails. They can always give me a call. I always publish my telephone number so people can get ahold of me. Some people don't know that I'm based in London. I sit halfway between the major time zones. We have investors from California all the way around the world to Hong Kong. I tend to work some very strange hours, but they are always welcome to give me a call any time. Thank you very much for your time, Glenn.

Glenn: I appreciate it, Steve. Thanks a lot.

If you have questions about the NEoWave Equity Fund, contact Stephen Cole:
Steve@NEoWave.com, +44 (0) 790 601 7380 (London Office)