Transcript of Interview with Glenn Neely and Ike Iossif
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Looking ahead to 2016: Glenn Neely presents his long-term market outlook for the S&P, Gold, Notes, and Euro

What's in store for these 4 markets? Will they be Bearish or Bullish? Glenn Neely – money manager, trading advisor and founder of NEoWave, Inc. – shares his long-term forecasts and valuable insights.

Ike Iossif: Good morning. I'm talking with my very good friend, Mr. Glenn Neely. It's been over two-and-a-half months since we talked last. The charts that we're showing for today are long-term charts.

Glenn Neely: Right, and I do these charts about once a quarter.

Ike Iossif: Yes. Let's start with the S&P.

Glenn Neely: I've actually moved away from this more bearish scenario, because the recovery in the S&P was all the way back within a few ticks of the all-time high. In late August or early September, I created three scenarios: the worst-case scenario, the most-likely scenario, and the best-case scenario.

Ike Iossif: Yes I remember.

Glenn Neely: Now I rarely ever do that. But because we were potentially at the beginning of a pretty prolonged period and there were some other options, I just had no other choice. I usually try to keep just one scenario but I couldn't do it in this case. The best-case scenario indicated we were just going to go sideways for three to six months minimum and maybe nine months or more and just go back and forth between the August high and the August low. What I thought was the most-likely scenario was assuming that this B-wave rally finished at the high in August. But if that had finished, we would not have retraced 95% or 99% of that decline. So this scenario is pretty much out.

The more likely scenario is that we're in a consolidation that will again take three to six months, maybe as much as twelve months. It'll just go back and forth between this year's high and maybe around this year's low or a little bit lower. Then eventually, probably before the U.S. presidential election next year, we're going to make some minor all-time new highs, and that will then complete the B-wave that I have on this chart. But it'll be moved forward in time, twelve months or more, and then maybe, it might get up to 2300, maybe 2400, but nothing real dramatic I don't think.

Then from there we would probably start a Bear market. Ike, I'm sure you're aware of the U.S. presidential election cycles and how markets tend to rally into presidential election years. So it looks like that's what's going to happen. It's frustrating because, structurally, this is probably the most complicated pattern I've ever had to deal with in 33 years of being in the business, and so the count that I'm showing you is just my best guess of what is happening. But I still can't prove it and so it's still flexible. As a general rule whenever a count is unconfirmed or not really clear, it means the pattern is not over.

So to be neutral to bullish is the most logical thing to be since the count isn't clear. If it was really clear we would be at the end. But since it's not we probably aren't. That's one of the reasons why I'm still not thinking the bull market's over for the S&P, even though I thought for sure in August it was. But now it looks like maybe the best we're going to get is just sideways for six or twelve months.

Ike Iossif: Next market we're going to talk about is the Notes Market.

Glenn Neely: Yeah, now realize that this chart, again, is two months old. So you can see on the chart that I was looking for a top and then a big selloff, and the selloff we've gotten is almost exactly the size that's listed. I'm going to pull up a weekly chart here just to double check it. We traced almost the exact amount shown by that red dashed line. That was again predicted two months ago. We bottomed close to 2.4% in the 10-year cash yield. This is an upside down chart of the cash yield market. So if this count's correct, it indicates that the Bull market in Notes and Bonds is over and that we've now begun for the first time in 10 years or more, maybe 20 years or more, the first time we've started a Bear market in the interest rate market.

And so we're going to be going down and sideways, which means higher interest rates over probably many years. I don't know how fast it's going to go down. But it should be able to reach somewhere in the 3 to 4% range fairly quickly, which will probably cause some pretty significant disruptions in all kinds of markets. Under NEoWave rules, the start of a new trend always needs to be as big and as fast – or bigger and faster – than the last counter-trend move before the end of the trend. So if you look on this chart, the long-term T-note chart, you can see the high in 2012 where there's a (C) in parentheses where we topped out around 1.5%.

Ike Iossif: Yes.

Glenn Neely: That decline is a counter-trend move within an up-trend. The up-trend would be in the direction of wave-A, wave-C and wave-E. So if we really started a new trend, the future down-trend needs to be quicker than the previous counter-trend decline, which is logical because that drop in 2013 was a drop against an up-trend.

So when we're moving down with the down-trend, we should move faster than when we move down during an up-trend. This is not a log scale, so the dimensions will be different. But that suggests we should see a drop of similar magnitude on a log scale between the high in 2012 and 2013 or 2014. But subtract it from the high that we saw just a month or two ago. That would project a move to about 4% over a year, year-and-a-half.

Ike Iossif: Yes.

Glenn Neely: So that's the minimum, it could be bigger but that would be the minimum. So that would be a very significant change to go from 2¼ or so to 4% in the next year, year-and-a-half. My biggest concern is that, the biggest borrower in the world I'm pretty sure is the U.S. government, and if interest rates are going up, it's not because there's necessarily problems in the economy or anything else. But I think it's going to be going up because the credit worthiness of the U.S. government is declining, and that's what I think is the real reason that this is going to happen.

Ike Iossif: Let's move on to the next subject, which is Gold.

Glenn Neely: Based on wave structure and the charts you can see, it's not clear on this chart because this is such a long-term chart. But on monthly and weekly charts, I have the decline from late 2012/early 2013 as probably an expanding environment. So that violent drop for wave-A would be the first phase in that expansion. I think the B-wave is over, and we're now in the C-wave. But only in this kind of environment will the market actually move slower as you go further down. Where the fastest move occurs first and then every time it drops after that, it drops slower, which makes people continue to think "it's getting close to a bottom" when it's really just working its way lower over a much longer period of time – and going to get much more downside progress, because people will perpetually doubt that the real trend is down. That's what I think's happening.

As you know, I've been bearish in Gold for years now. Even when it was extremely unfashionable and I think you were also near the 1900 high. I've been saying for years we were going to go through a period of deflation. It's becoming more and more obvious that deflation is happening in many areas, especially in the commodity sector. Crude oil broke $40 dollars a barrel today.

Ike Iossif: Yeah.

Glenn Neely: And Gold's been declining, Silver's been declining, Copper's been declining a lot. I think we still have a way to go and according to this wave-count, Gold's going to drop way below $1000 dollars. At some point, we're probably going to see some downward acceleration to really scare people and then get a massive rally, which is part of that red-dashed projection line and then everyone will think, "that's it, that's the bottom," and then it's going to start to decay again and start hanging low. This could take years to happen.

Ike Iossif: Let's talk about our last chart for the day: Euro.

Glenn Neely: Okay. Now keep in mind again this is two months old. But at the time, based on what I was seeing the speed of the drop that we had last year through early this year and the minuscule amount of recovery since then, and it's been less than 38% I think. So that suggests we've probably started a new Bear market in Euro. This initially surprised me, but after what's been going on in Europe and the strength of the dollar and so forth, it looks like it's starting to make a little more fundamental sense. So if this is correct, so far the Euro's bounced very little off the lows and the minimum time required by a correction, at least under NEoWave. The standard-value wave or orthodox Elliott Wave doesn't really make these requirements.

But from doing this for 33 years, I know these requirements are extremely important, and they're not flexible. It's not something that sometimes you can allow and sometimes not. A 2-wave in a 5-wave move or a standard 5-wave move always has to take as much time as wave-1 or more, if it's a normal trending impulsive pattern. So if we just started a new trend, it would have to be a standard impulsive trend. It couldn't be the end of a big trend if it's the very beginning of a new trend. Which is what this count implies.

So that means in wave-2, which would be the bounce we've had since this year's low, needs to take more time in the decline. You can see that red dotted line, that's approximately the minimum time required before we can end this bounce and start the new decline. Now the forecast has changed a little bit since I did this chart. It's still bearish but it's changed a little bit. Right now I think we're in the second-wave bounce. I think it'll finish in the next two or three months and then when that's finished we'll start another fairly large decline that'll be bigger than the first one.

So this means the Euro is going to probably move into the .7 range or lower in relation to the U.S. dollar. This would suggest either the U.S. dollar is getting very strong or the Euro is getting weaker. I don't know which one for sure, maybe a combination of both. But that's what it looks like is going to happen, and eventually we should get down almost to the .6 range and maybe even lower than that. So it doesn't look too good for the Euro based on this current wave-count.

Ike Iossif: Glenn, anything else you would like to add? Any other thoughts?

Glenn Neely: No, that's about it, Ike. I appreciate it.

Ike Iossif: Glenn, thank you and Happy Holidays.

Glenn Neely: You too!