**TRANSCRIPT**

**Interview with Glenn Neely**
**Elliott Wave Forecaster & NEoWave Trading Advisor**

# Avoid the Top 5 Elliott Wave Mistakes:
# Tips to Improve Your Wave Counts & Trading Results

*Elliott Wave Forecaster Glenn Neely steps through the 5 most common mistakes that Elliott Wave analysts make. In this educational discussion, Mr. Neely outlines each mistake. Plus, you'll hear sage advice and insight based on his 35 years as an internationally recognized Elliott Wave analyst and NEoWave trading advisor.*

Announcer: Welcome to Glenn Neely's quarterly interview series. He is the founder NEoWave Incorporated, which provides money managers and traders worldwide with detailed market strategies to enhance their trading results. Now, here is your host, Brandon Clay.

Brandon: Hello and welcome to our program. I am your host, Brandon Clay. And with us today is the founder of NEoWave, Glenn Neely. Glenn is an internationally regarded money manager, trading adviser, and Elliott Wave expert. He has devoted over 35 years to advancing trading strategy and Wave forecasting. Today we're here to discuss the top five Elliott Wave trading mistakes. Glenn Neely, it is a pleasure to chat with you again today.

Glenn Neely: Hey, Brandon. I appreciate you getting this put online for everyone to listen to.

Brandon: Glenn, it's a little treat to chat with you. And I don't know if the rest of our listeners know, but you've been doing something like this for over 30 years, with Elliott Wave and teaching other traders about Elliott Wave, other investors, analysts, and also developing your own Elliott Wave version, known as NEoWave, with a lot of enhancements. You know, for the benefit of those traders, investors that are not as familiar with Elliott Wave, it was started around the 1920s by Ralph Nelson Elliott. Correct?

Glenn Neely: The 1930s. After the crash of 1929, he lost a lot of money. And then he got really sick and got bedridden, maybe because he lost a lot of money. And he studied in bed for years and started to notice repetitive patterns in the markets, sort of fractally repetitive patterns on all timeframes.

Brandon: Thanks, Glenn. Yeah, that helps. So, Elliott proposed that these market cycles are resulting

from investors' reaction to outside influence, or really, the predominant psychology of the masses at the time. And he's finding these upward, these downward swings. They happen in repetitive patterns. And then he terms these patterns, Waves. Is that correct?

Glenn Neely: The various types of Wave patterns are a reflection of different types of mass psychology, which would be the same as individual psychology, but with just a lot of people acting together. It's pretty rare for a group of people to be manic or depressed, but it's very common for an individual to have those feelings, perhaps on a regular basis. So it's when the majority, all together reaches an extreme, that you create at the beginning or the end of a new Wave pattern, and you start some kind of new behavior after that. So Wave theory is about identifying the price behavior and structure that represents a certain stage or type of mass psychology, and when that stage is finished, a new stage starts. And the stage is following a specific kind of pattern, depending on whether you're moving impulsively with a trend or correctively against a trend.

Brandon: All right. So, Elliott Wave, pretty big topic, takes a lot of time to understand. In fact, you were telling me earlier in our previous conversation, that this is something that you have to master over years, not days, not months, not weeks. But there are some common mistakes that you've seen. And you sent me these common mistakes. In fact, these top mistakes that Elliott Wave traders, analysts make related to trading or analyzing Elliott Wave. And, you know, there's five of them. So let's walk through each of these, starting with the first error, the first mistake that traders and analysts make, and that is a price-degree error. And you mentioned that, "A smaller degree pattern should not consume more price than the larger degree patterns." What do you mean by that?

Glenn Neely: I look at the Wave counts that people send me over the years, and this, along with the time-degree error (time is probably even more common), but degree errors have to do with allowing patterns that are supposed to be a smaller degree to take more price than patterns that are supposed to be a bigger degree. So let's say that you're in a trend that takes 10 years. And in that trend, let's assume it's an impulsive pattern, so you're going five Waves up for 10 years. Anything inside of that five-Wave move on a lower scale, you know, moving down to the lower fractals, you don't want to have, say, Wave one of Wave three take more price than larger Wave one of the entire pattern. So Wave one is a year and 100 points. You don't want to have Wave one of Wave three taking a year and a half and 150 points. So it's very crucial. If you don't follow these rules, there's no way your count's going to be right. So it's very crucial that you make sure that anything's that's labelled a lower degree, because under Wave theory, everything's stratified under different degrees. So you have primary degree and cycle degree and intermediate degree and minor degree and so forth. So every degree that's higher needs to take as much price or more than any pattern labeled a lower degree. And on the other side, you can't have any lower degree pattern taking more price or time than a pattern that's labeled a larger degree. So that's... Sort of mixed it up there, but it's mostly we're dealing with price first. So specifically talking about price, you can't have a smaller degree take 10 points and a bigger degree take 9 points.

Brandon: Okay. So just so I understand this, this is important because if you have a price-degree error when you're analyzing a market and you're trying to trade it, this is going to be a problem when your count is off.

Glenn Neely: Absolutely. They're integrally related and essential. You can't have a good trade unless you have a good Wave count. You can't have a good Wave count if you disregard degree logic.

Brandon: Glenn, one more clarifying question: What we're talking about here is the top mistakes that

Elliott Wave traders make. And so this analysis is applicable to both Elliott Wave trading, Elliott Wave analysis, and also NEoWave trading, NEoWave analysis. Correct?

Glenn Neely: No, no. Unfortunately, it's not. No. Virtually everything that we're going to be talking about today are all things that I've added to Wave theory that make it much more scientific, logical, reliable. So, no. These are all advancements to Wave theory.

Brandon: All right. So the first error was price-degree error that NEoWave or Elliott Wave traders make. Now we have mistake number two, time-degree errors. And you put, "Smaller degree patterns should not consume more time than larger degree patterns." So walk us through that one, Glenn.

Glenn Neely: So this is in the same realm as what we just talked about, but this is from a time-consumption perspective. So if you have Wave one taking a year on a big degree, you can't have a smaller degree Wave one or a smaller degree Wave two taking more than a year. It has to be no more than a year, but preferably, comfortably less than that so that it actually qualifies as a lower degree. I'd say from the degree perspective, that proper adherence to this is almost more important than the price phenomenon, but they're both equally super important. But you just always need to make sure as you're structuring a pattern, that you don't have smaller degree patterns taking more time than larger degree patterns.

Brandon: So if I am an Elliott Wave analyst, Elliott Wave trader, working your system, Glenn, and I have one of these time-degree errors where my smaller degree pattern consumes more time than the larger degree patterns, what's the problem?

Glenn Neely: There's no chance your count's going to be right. There's no chance, and you shouldn't actually have the count right? But, really, that happens all the time. I see this all the time. It's probably the biggest mistake people make.

Brandon: Yeah, that's probably not very good. So, you know, break it down for us. What's the practical implication of having the wrong Wave count, Glenn?

Glenn Neely: You'll end up believing things are going to happen that won't happen. And so you end up either wasting your money on the trade or you lose a lot more than you expect or things just don't go the way you're assuming they're going to go because it's not going to happen the way you're assuming if your count is breaking these rules.

Brandon: All right. That's helpful. So we've chatted about the first two, the price-degree error and number two, the time-degree error. And for the moment, we'll skip over number three because I have a feeling that we want to talk about the time-consumption error next. And we'll get back to the other one in a bit. You said: "In a time-consumption error, in a standard impulsive pattern, Wave two should never consume less time than Wave one from beginning to end. And then Wave four should never consume less time than Wave three from beginning to end." Walk us through that one, Glenn.

Glenn Neely: Okay. So this is a super common problem. It's probably the most broken rule there is. It has to do with having Wave two, in a five-Wave move, take less time than Wave one, or having Wave four take less time than Wave three. I mean, the rule is broken so often that most people aren't even aware that this rule exists. A lot of it has been passed down over the decades from bad information sources, people just not understanding this degree issue, not understanding how corrections work.

Markets trend less often than they correct. They don't like to go somewhere for long periods of time, typically. They like to go somewhere quick and then hang around for a while. So when you're in an impulsive pattern, if Wave one takes 10 days, it's absolutely essential – no matter where the two Wave finishes (it could be higher, it could be lower, it could be sideways) – that Wave two takes at least 10 days, preferably more. So if you have Wave two take less time than Wave one, your count's either going to be wrong, or you're in what's called a very rare terminal pattern. That's sort of an exception which the listeners really shouldn't worry about. So just 95%, 99% of the time, if Wave two takes less time than Wave one, your count's going to be wrong. And the same thing applies to Wave four. If Wave four takes less time than Wave three, your count's going to be wrong 95% to 99% of the time.

Brandon: All right. So let's go back a step to mistake number three, and that is price-consumption errors. And you mentioned that, "In a standard impulsive pattern, that Wave two should not retrace more than 61.8% of Wave one, and Wave four should not retrace more than 61.8% percent of Wave three." Seems very specific. Walk us through that one now, Glenn.

Glenn Neely: Yeah. So I was dealing mostly with time-consumption, right. We sort of skipped this category. Okay. So in the consumption of price requirements, when you're comparing same degree patterns and in an impulsive formation, Wave two can't retrace too much of Wave one. Otherwise, you're not dealing with an impulsive pattern. So if Wave two retraces more than 61% of Wave one, the odds that you're dealing with a one-two setup are getting very low, like 5%, 10%,15%. And if it goes past, maybe, 70%, it's pretty much out. If you're dealing with Wave four in relation to Wave three, and this is vertical price consumption, so if you measure it and do a percentage retracement, and Wave four traces more than 61% of Wave three, for every percent lower, the odds of it being a real fourth Wave get logarithmically less. So if it's 62.8%, or 63% just to round it up, you know, it might drop to 25%. If it's 64%, it might drop to 10%. I mean, it just gets very quickly impossible.

Brandon: Now, Glenn, I mentioned before that these numbers were very specific. They actually have a root somewhere else. Aren't these Fibonacci numbers?

Glenn Neely: They are Fibonacci numbers. And that's the greatest and most useful application of Fibonacci, is to impulsive patterns and how much the corrections can retrace of the impulsive segments, and how the impulsive segments relate to the corrections in time. It's very common for the corrections to take 161% of the impulsive Waves. It's very common for the corrections to take 61% or 38% of the price movement of the impulsive Waves. It's very common for Wave three to be 161% of Wave one, or Wave five to be 161% of Wave one and so forth. So there's a lot of Fibonacci relationships that occur inside of impulsive patterns.

Brandon: Okay, that's helpful. Now, I want to back up for just a second related to Elliott Wave in general. And that is, my understanding of Elliott Wave is that you have a five/three pattern that always shows up in a standard Elliott Wave. Am I correct in assuming that, Glenn?

Glenn Neely: Well, this is another mistake people make because, all the books I've ever seen except for mine, they're always talking about this complete cycle nonsense. There's no such thing as a complete cycle unless you end it with a five-Wave move or you end it with a correction. You can't start it with an impulsive pattern and finish it with a correction because then that's going to be just one or two, or A or B of something and it's not the end of anything. So it has to be either the five Wave move is a cycle, you know, an impulsive pattern or the correction is a cycle, and that's if they're completely separate, and they can't be connected because then it doesn't make any sense. So that's a mistake that all of the other

books of Wave theory make. You should look at it as two phenomena. You either have the psychology in the market is that of a trending market, or it's that of a corrective, going nowhere kind of market. They're two separate phenomena and they should not be combined together. Because the minute you combine them together, then you only have two parts of what needs to be a three or five part whole.

Brandon: That's helpful. Thank you. Anything more to add to the time-consumption error discussion?

Glenn Neely: The time-consumption errors have to do with making sure the second Wave doesn't take less than the first Wave, and the fourth Wave doesn't take less time than the third Wave. And that's probably...well, these two are for sure the most common problems. But number four, in my opinion, is the most commonly broken rule of Wave theory. My approach is a logical extension of Wave theory, which is where NEoWave came from. It stands for Neely Extensions Of, N-E-O. NEo, Neely Extensions of Wave Theory.

So this is an advance that I've brought to the field, and it is absolutely essential. When you don't obey this rule, it's the primary reason why counts are so often wrong and have to be constantly revised and so forth. One of the significant differences between my Wave counts or my service and most people who do Wave analysis is that I'm not constantly changing my Wave counts. Like, I've had a similar count for the S&P now, I think since 2000. In general, we've been in a corrective environment since the high in 2000. Some of the label knew exactly where patterns finished and started and stopped hasn't been terribly clear. There has been a little bit of flexibility now. But I've been pretty adamant that since the high in 2000, we've been in a corrective environment and that it would last 20 to 30 years, which I predicted right in early 2000 or mid-2000 and through 2001.

So that whole thing has continued, and this is despite the fact we've made all-time new highs and the markets moved dramatically higher in the DOW. Some of the bigger indexes haven't been quite as dramatic. But we've been in a correction since 2000, and that's going to continue to go on until this correction is over. It'll end up finishing much higher than the 2009 low and it could be a few years from now. That's all not completely clear right now. But these rules are essential for good Wave counts that survive.

You know, it's very easy to constantly change your Wave counts. But if you're constantly changing Wave counts, that means you're constantly changing your mind, your changing your forecasts, you have to change your trades. It causes lots of disruption and problems, and probably a lot of losses. So it's better to apply all these rules and have no idea what's going on than it is to not apply and think you know and end up losing money. So, you know, my rules sometimes make it impossible to know what's happening because nothing agrees with all the rules, and so there was no way to arrive at a conclusion. And so you're left with just ignoring that market and doing something else. But that's good because that means you're not going to be losing money on something that you have no idea what's going to happen. More often, though, with orthodox Wave theory, the rule base is much smaller. It's much more flexible. It's not logical, in my opinion, at all.

So you start making all these mistakes everywhere. And you're thinking you know, and then you didn't know, and you're constantly revising your counts and... You know, I see most of the people in my industry who do Wave analysis, they're changing their counts all the time. I mean, I've had... Yeah, all the time. I mean, it's just relentless, endless.

So a good comprehensive rule base, which is what NEoWave is all about, NEoWave probably expands

the rule base of Elliott Wave by 200% or 300% at least. So that expanded rule base helps to eliminate the ability to make all kinds of personal judgments about what's going on, and it forces you to sort of deal with the reality that you may not know, or you do know and it's pretty clear what to do.

Brandon: Good, that's helpful. Want to back up for just a bit. Curious, is it ever unclear what the Wave count is to you, Glenn? You've been doing this a long time. Do you ever not know for sure?

Glenn: Oh, absolutely. Happens all the time. Now, of course, it depends on the timeframe. Like, if you go to down to daily or weekly, I haven't even had a count on the S&P on a daily basis...I can't even remember for how long that's been. Because structure has not been clear enough to produce daily Wave counts, not even really weekly Wave counts. I've pretty much have been forced to deal with monthly, which is still not good, and six monthly, which is sort of good. So Wave structure's been very difficult to figure out now for the last two or three years in the S&P. And that's because my rule base is, you know, extensive and it just...all the pieces don't come together, and all the rules aren't being met. So I really don't know what's going to happen. And it makes it very difficult to predict what's going to happen.

So I have to do other things and follow other markets to distract me until there's something that's more predictable. But I have had predominantly the same Wave count in the S&P since the year 2000. And before that, I wrote my book in 1988 (*Mastering Elliott Wave*). And I produced a Wave count in that book, that was more than 25 years ago, and that Wave count is still accurate and in effect for over 25 years. And it's still very bullish, by the way. It was not only the most bullish market forecast of all time, but it's been the most accurate for 25 years straight.

Brandon: Wow. 25 years, long time, man. Thank you for sharing the knowledge. And that's why we're talking to you, Glenn. But let's go on to these other errors that are affecting Elliott Wave traders. We went through price-degree errors, time-degree errors, price-consumption errors, time-consumption errors. And here we are, number five, the post-pattern behavior requirement. And you mentioned that it's logically derived from the other mistakes. "When an old pattern completes, a new trend begins. The new trend must start with a move that is larger and more time-consuming than the prior counter-trend corrective rally inside the last correction." A little technical. Walk us through that one, Glenn.

Glenn Neely: Okay. Well, this is a complete innovation of mine. It has nothing to do with original Wave theory. And most people are unaware of this – they don't apply it, don't use it, don't understand it. This has to do with a process of analysis in which you don't personally decide you're right, the market tells you if you're right. It's like the market is grading your paper in school.

So if you produce a Wave count, say, of a five-Wave move finishing over, you know, a year's time, NEoWave requirements tell you, based on the structure, time, price movement, everything of the actual five-Wave move, it'll describe the minimum future price-time behavior that the market must produce to confirm that that previous assumption was correct.

And if that doesn't happen, it means your analysis was wrong. So the market tells you if you did your homework properly. It doesn't depend on what you think. It depends on behavior confirming it or not confirming it. And that, to me, is the greatest innovation of technical analysis, probably ever, and especially with Wave theory. Because there's no other way to know, otherwise. It's just your opinion against somebody else's, right? So, if you can produce a Wave count and then the market produces the behavior, the post-behavior required to confirm that previous analysis, then you know you're right. And

it becomes not an opinion-based process, but it becomes a verified behavioral confirmation process.

Brandon: Okay, Glenn. Help me understand just a little bit more on this post-pattern behavior requirement. Say I'm an Elliott Wave trader and I'm looking at mistake number five, and I'm making sure that my trades have fit the Wave pattern or...? Walk me through that again.

Glenn Neely: Well, it depends on if you're talking about just from a forecasting perspective or a trading perspective. If it's a trading perspective, then you would enter before confirmation, and you would put in a stop based on where Wave theory tells you your stop should not be reached. And you wait for this confirmation event. And if it happens, then you can lower your stop to where you got in. If it doesn't happen, then you have to get out.

So let me explain the confirmation process so you understand because I don't think you're really quite getting how this works. It all has to do with logic and degree. So let's say that you're dealing with a primary degree pattern. And below primary would be intermediate, okay. The degrees are not important. It's just I'm giving you a name that we can use so we can structure the conversation.

So if you have a primary degree pattern, and in that primary degree advance, you have a five-Wave move. And the fourth Wave, which is a lower degree then the whole five Wave move together...the five-Wave move together is going to finish one pattern of a larger degree. So let's just assume this five-Wave move is going to finish Wave one of an even bigger five-Wave move. Okay? So inside of that Wave one, you're going to have your five Wave. And Wave four of that pattern is one lower degree than the entire five-Wave move, which we're calling Wave one. So the big Wave one, as it ends, is one degree bigger than the smaller Wave four inside of Wave one. Right? Okay. To confirm that that analysis is correct, the beginning of a new larger degree trend, by definition and based on rules number one, two, three and four that we talked about earlier, the beginning of a new trend has to be bigger and faster than any lower degree pattern to confirm that it's actually a bigger degree trend. So when Wave two begins of this large multi-year advance, so Wave one took a year, Wave two should take at least a year, maybe two or three, maximum. So as Wave two begins, the only way to know it really has started is that the kickoff to Wave two (big Wave two is a bigger degree than smaller Wave four), you have to have a move that's larger and faster than any movement during Wave four. And that's how you know you've started a bigger degree pattern. And if that bigger degree move doesn't happen, your analysis is wrong.

Brandon: So, Glenn, can you give me an example of that?

Glenn Neely: I can give you several examples, actually. But the most insane and incredible example was January 2008. So going into the high of 2007, I mean, that was one of the easiest calls of all time. It was so obvious that the market and the real estate business was so overextended. It was the most insane real estate market, probably in world history. Where they were giving away houses just by signing your name on a piece of paper, no job, no nothing. Right? So that was an obvious call, that that was coming to an end. But I didn't know when it ended until we got the confirmatory event. And that happened the first week or second week in January of 2008. All of a sudden, the market had a vertical collapse in price, bigger and faster than any decline we'd seen for years. That was the confirmation the previous advance was over. The new downtrend had started. So the minute that that happened, I now knew we were going to correct the entire move from 2002's low to 2007's high and that the decline was going to be similar in size to the 2000 to 2002 drop. So we're going to have a drop equal to the 2000 to 2002 bear market, starting from the 2007 high. So I had to wait for a nice drop to confirm that event, and the minute that it confirmed I then actually released a forecast within a week or so of that, that we were

now in the biggest, worst bear market that we will ever experience in our lifetime, and it would rival, but not exceed the damage done in 1929. And that was all specifically confirmable and predictable by waiting for that confirmatory event in early January that confirmed the whole prior structure from 2002 to 2007 already was done, and that we were now beginning a new bear phase that had to take at least a year, maybe up to two years. And it had to go all the way back down to 2002's low. And all that was predicted in January 2008, in extreme detail. And I mapped out the whole event. People thought I was completely out of my mind. But that was because I didn't *decide* that I was correct – the Market told me it was correct.

Brandon: Wow, yeah. That was a special time for those who were following you, Glenn. And you can make a lot over this Elliott Wave stuff, huh?

Glenn Neely: Oh, yeah. When Wave counts are clear, it absolutely works. And Wave theory, in those conditions, is bar-none the most advanced, sophisticated form of technical analysis and forecasting possible. Unfortunately, when you're not at the end or the beginning of something, the further away you are from that point, the less and less predictability it has. You stop getting confirmatory events. You have no idea what's going on. You have no idea whether you're right or you're wrong. And it gets extremely confusing, like where we are right now on the S&P.

So it's a matter of knowing when it's going to work and when it's not. It doesn't work in the middle of trends. It only works at the beginning and the end. A lot of people, unfortunately...I was included, probably for the first 15, 20 years of my career. I assumed Wave theory was the be-all, end-all answer to everything. What I've unfortunately learned over the last 10, 15 years is that Wave theory is mostly a top and bottom picking and forecasting technology. It's extremely good at that, but it's not necessarily great at the middle phases. And it's terrible for trading in the middle phases of patterns. So you need an alternate technology for that, and this is something I've come to realize over just the last few years. Because only for the first time in my 35-year career has Wave theory been almost useless for the last year or so on the S&P. It's forced me to look for other answers. And so I've come to realize that Wave theory is good at predicting the tops and the bottoms and the ends of trends, moving averages are best at following a trend. So when Wave theory isn't clear, you should depend more on moving averages. When Wave theory is clear, you should forget everything else.

Brandon: Glenn, a ton of value you brought today, talking about these five mistakes that most Elliott Wave analysts, traders, are making. You've got the price-degree errors, got those time-degree errors, got price-consumption errors, number three, and number four, time consumption-errors, and finally, that post-pattern behavior requirement at the very end to wrap things up. Now takeaways, what would be one thing that you'd want the Elliott Wave trader, the Elliott Wave analyst to take away from our conversation today, Glenn?

Glenn Neely: Like I said earlier, number four really is the most important one, that you have to get used to the idea that two Waves have to take the same amount of time or more than Wave one. And fourth Waves have to take the same amount of time or more than Wave three. If your count doesn't have that as part of the structure, it's almost always going to be wrong, 95% to 99% of the time. Again, the only exception is when you are at the end of major trend. And there exceptions to that particular rule regarding Wave two and Wave four, but it's only at the end of major trends, right before a massive change of conditions takes place. Otherwise, the majority of the time, you have to follow that rule. And if you don't, your counts will be wrong.

Brandon: Awesome. Thanks so much again for your time today, Glenn.

Glenn Neely: I appreciate it, Brandon.

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