

# Creating Proper Charts for Accurate Wave Forecasts

**An Interview with Glenn Neely, NEOWave, Inc.**

Interviewer: Hello everyone. This is Bud Fox from GreedandMoney.com. It is again my privilege to speak with Glenn Neely, the expert in Wave analysis, Elliott Wave and NEOWave. Today we would like to talk about what types of charts and data are best for trading and for Wave analysis.

A lot of people have a problem with Wave analysis because, with most software available in the market today, the charting package doesn't show the type of chart that's suitable for Wave analysis. There are three types of charts commonly used: the line chart, the bar chart, and the Wave chart. Glenn, can you share with the audience the major differences between those three types of charts?

Glenn Neely: The primary reason I've been able to discover all the new things that I discovered in my book *Mastering Elliott Wave* were because I demanded a very specific kind of chart created from a very specific kind of data.

If you don't incorporate that type of chart and data, then you're not going to be able to see the things I talked about in my book. Most people, just for simplicity's sake and ease of use, tend to use bar charts and futures data for trading futures markets.

Obviously, if they are trading stocks there is no such thing as futures stock data. There is just the actual stock trading. The type of data and charts that you use make a great impact on whether you can do good Wave analysis or not – and whether you can do good trading analysis or not.

It took me many years to figure this out, but there are primarily three major categories of charts. Two of them have been around a long time. Wave charts began with the introduction of my book *Mastering Elliott Wave* in 1990. I was technically writing about it in 1987, but it officially became public knowledge in 1990.

### **Pros and Cons of Line Charts**

Glenn Neely: Most line charts I've seen are constructed from either futures or cash data. It's just showing the close of each market's bar on a daily, weekly or hourly basis over time. Sometimes you might have a line chart created just from the highs, just from the lows, or potentially both. They may be an average of the high and low, but generally it's just the close. That, of course, leaves out a lot of information. The market can go really high and really low before it gets to its close, so if you're only using the close, you will get a very inaccurate representation of reality. Of all types of charts, line charts distort reality the most and provide the least useful information.

### **Pros and Cons of Bar Charts**

Glenn Neely: Bar charts are where you have the high and low vertically occurring at the same point in time. Of course, this is a distortion of reality because never do the high and low occur at the same point in time. A bar chart presents a partial reality representation, but it's not completely accurate. Bar charts simply don't reveal Wave patterns well. It can be on a futures basis or a cash basis, but it's generally where the high and the low are covered in between with a solid black or a solid white line. Then the close and opener are separately marked to the right or the left.

### **Why Use Wave Charts for Elliott Wave Analysis?**

Glenn Neely: A Wave chart is my construct where you are actually plotting the highs and lows of a market in the order they actually occurred in real time. If the high occurs first, then you're going to plot that first. If the low occurs first,

then you're going to plot that first, then you plot the high. Then you connect them not with a vertical line but with a diagonal line showing the movement from the high to the low or the low to the high and which occurred first.

Then when you get to the next bar, you figure out which one came first in that time frame. You connect them in the sequence they occurred in with a straight line, then you connect the current bar's high and low backward in time to the previous bar's high or low.

Let's say the previous day's low came second. You'd draw a line from that second low to the point that came first the next day. Sometimes you might be going from a low to a low or from a low to a high as you connect one day to the next or one bar to the next.

*This creates a completely different type of chart that shows the fluid motion of the market. You can see it clearly starts to reveal Wave patterns. Wave charts provide a very accurate representation of the Wave movement of the market and allow for much better Wave analysis as a result.*

Interviewer: I think the major difference with you, Glenn, and with NEOWave is recognizing the order that the events actually happened and the strong emphasis on time. Most readers who have been reading your analysis know that time is something that you pay a lot of attention to when you provide your recommendations for trading strategies.

Glenn Neely: Yes. When you look at a bar chart, you never know which came first, a high or a low. A Wave chart makes it very clear immediately.

### **Cash Data Versus Futures Data**

Interviewer: Let's move on to the next topic. You mentioned briefly in the beginning the difference between using futures and cash data. Some people may not

be clear on this. Some of them may have only been trading equities and ETFs. Can you share with our readers some of the major differences between futures and cash data?

Glenn Neely:

Cash data is the currently recognized real-world exchange value for any commodity or product you're trying to buy or sell. There would be a cash price for gold. That would be what you can buy or sell gold at today in the real world from a broker, dealer or wholesaler.

Futures data is created by futures contracts, which are future-oriented devices initially designed to be used for hedging. If we go way back to the early agricultural era, those futures contracts were designed to protect the farmer from loss. He knew when he planted his crop that he could then sell a futures contract and know the price at which he would be selling his corn, wheat or soybeans in the future. He would know exactly how much it cost to plant and how much profit he was going to make. That locked in his profit.

He wouldn't have to worry about the wild fluctuations in the market over time if there was a drought or an excess amount of inventory. That was automatically a higher price, because they were looking to sell it at a higher price in the future. Over time, that futures contract would deteriorate toward the cash price. For example, in the gold market the difference between futures and cash is approximately \$20 to \$30 per month over time. It's been a long time since I looked at this, but in the past the approximate loss in value was about \$1 per day or 50 cents per day over time in a gold contract.

The same thing would happen in an agricultural market. I don't know what corn goes for, but let's say it is \$10 a bushel. If they would sell it for \$12 in the futures markets, they would know they would make \$2 per bushel. That would be locked in. It didn't matter what happened to the price afterward.

If the price of their actual crop went way up, they would lose money on their futures contract, which would be equal to the money they would be making in the actual cash market. If the price went down, then they would make up for the loss in the futures contract and would lose it in the actual cash market. The net result was they would make the same amount of money no matter what happened to the price after that.

Keep in mind that data always deteriorates with time. No matter where it starts, it eventually deteriorates to some future point in price that will converge toward the cash market. There's always a difference initially in any agricultural market and in most futures markets.

There are a few exceptions. Currencies don't tend to have much of a deteriorating effect, because there is no risk of deteriorating value. If you store corn over time, it will eventually be worthless. You don't have those problems with currency markets. Generally speaking, most futures markets have a deterioration effect, and they converge toward the cash market.

*The cash market is the true, real-world current value.* The futures prices are the expected future value down the road. They converge toward the cash value over time. This automatically means, with futures data, you have a downward distortion in value, whereas with cash data you don't.

Interviewer: Being a trader for some time now, I used to trade some ags and some interest rate products and currencies. Many of those had a different kind of rollover. Currencies and equities roll over every three months. Some of the ag products actually rolled over every month or every other month. It's fairly challenging to use the futures data to do Wave analysis.

Glenn Neely: When I started, it was a nightmare, because I didn't quite understand all these deterioration issues and how to deal with it. Most futures service providers offer some kind of formula that tries to connect one futures

contract to the next. They do some mathematical manipulation to create a current real-world price and a futures price. You never know what the current real-world price is. It's a very big problem and something that plagued me for quite some time until I realized that using cash data solved all those problems.

Interviewer: To do Wave analysis, sometimes the high highs or low lows are key components to find out what kind of structure the Wave is supposed to present to you. That's where the futures data potentially creates a problem. Is that correct, Glenn?

Glenn Neely: Here's the biggest problem – let's say you're looking at the gold market, and the June contract is coming to an end. Then all of a sudden it switches to August or October. You might see a \$5 or \$10 jump in the value all of a sudden on your chart if you try to connect the June to the August or October to December contracts. That is a distortion of reality. You can't really trust what you're looking at.

### **What is the Best Type of Chart to Use for Trading?**

Interviewer: We discussed the various types of charts and a couple different types of data: futures and cash. What type of chart is best for trading and forecasting?

Glenn Neely: If we go back to the line charts we mentioned first, they're pretty much useless in any kind of analysis because there is too much distortion of reality. You are missing too much of what occurred to make good decisions. Unless you are trading really long-term, line charts should be avoided. I don't think they should be used for either Wave analysis or trading.

If you're trading in a futures market, I think futures-based bar charts are the best vehicle for trading futures markets. You want to have a current contract, not a manipulated or adjusted contract to try to connect one

contract month to the next. For example, I'd look at purely the June contract, the September contract, or the October contract and not merge them together with any other futures contract.

Those are best for futures trading, because you'll be looking at the actual highs and lows and where you can really put a stop and count on it being a potentially good stop, good entry and good target. Channeling will be proper for that particular market in that particular timeframe. When I'm trading futures, I look at just futures charts and just the current contract month. I don't merge contracts together.

### **What is the Best Type of Chart to Use for Forecasting?**

Glenn Neely: Forecasting is a whole different world because forecasting requires, at least according to Wave theory, a very long string of completely accurate non-ending data. The only way you can get that is to use cash data. The only way you can create good charts for Wave analysis is to create what I call Wave charts, which is based on sequencing the highs and the lows in the order they occurred in real time.

*Using a cash chart plotted in Wave fashion with the highs and the lows in order provides the best environment for forecasting markets.*

### **Trading and Forecasting are not the Same Thing!**

Glenn Neely: A lot of people, especially beginners, assume that forecasting and trading are the same thing. They are two entirely different things. When it comes to trading, it's much more about where you're going to enter, where and how you're going to put your stops, how you're going to get your risk to zero as quickly as you can, and how to lock in profits when possible. The focus is on what you should be doing at any moment in time to protect your capital and enhance your return over time.

When it comes to forecasting, that's an entirely different thing where you're going to have to use a different type of process. In this case, I think Wave theory is best at the forecasting game.

You can use a different type of theory and approach to predict what's going to happen in the future. However, what's going to happen in the future is very separate from what you should be doing now as a trader to protect your capital. In my mind, those are totally different things.

Interviewer:

Absolutely. In fact, that's a conversation I constantly have with my own subscribers in my own chat room. Many of them always ask me where I think the market is going, especially the day traders. I tell them, "Don't worry about what's going to happen tomorrow, next week or later this week. Just focus on today. Your goal is to achieve your daily objective or the percentage you try to make. Just do the brick building every day. Don't worry about forecasting. If you hit something good, that's great, but the key is to be like a turtle. Quit being a rabbit or trying to hit a home run."

Trading and forecasting are very different. I think they are both important. That's why personally I use your service to guide me to see where the major trend of the market is based on Wave analysis. With day trading, I base on my rules every day, the profit target as well as the stops, to manage my trading.

Glenn Neely:

Keep in mind that Wave theory is most useful and accurate when you are approaching the end of a major trend. It can be extremely useful in knowing when a trend is coming to an end. When far from the top and the bottom of a trend, Wave analysis is not very useful for trading or forecasting. It becomes almost counterproductive to both.

Interviewer:

It's also interesting that, as you mentioned, the future-based bar chart is best for trading futures markets. It makes perfect sense from your point of



view. It also makes sense, because if you are ever going to trade futures, it's so highly leveraged anyway. Most likely, you don't need to analyze six months or a year from now the data to come out with a decision to make a trade. With the ES, which is the eMini S&P 500 contract, basically three months of data is plenty to do Wave analysis or some kind of analysis for trading. A future-based bar chart is best for trading.

Glenn Neely: You can't depend on the highs and lows of a cash market to tell you where to put your future stops or vice versa. When it comes to trading futures markets, you want to use the actual futures contract to decide where to place a stop. Generally, stops are best placed above previous highs and lows of previous bars, but you have to know which bar to pick based on whatever analysis you're using.

### **Using a Wave Chart with Cash Data Ensures More Accurate Wave Analysis**

Interviewer: Glenn, let's move on to why people have so much trouble with Wave analysis. You touched on this a bit when you discussed charts. Would you mind going into depth about this?

Glenn Neely: The primary problem is that cash data, while more available now than in the past due to technology, is still not readily available. If you're in the futures market, most services are providing futures data in a bar chart kind of fashion.

Getting cash data is the first goal to improve your Wave analysis. Then you need to make sure the data is accurate, and you're plotting those highs and lows in the order they occurred.

*That's the crucial first step and the primary reason why most people have so much trouble with their Wave analysis. They're not using cash data.*

Then, of course, they're not plotting those highs and lows in order, because they don't even know which came first or second. A lot of cash

data services don't tell you. It's just a bar or dot for one price of the day. You really don't have any idea what the range is for the day.

For the first 20 to 25 years of my career, I unfortunately had to plot all my charts by hand, because there was no cash data service that plotted the data in the order the data occurred in real time, on a cash basis. It was quite tedious, but I went to that trouble every single day, even during vacations. I'd go through and find out which came first. I'd look at a five-minute cash chart and figure out if the high or low came first, put the data in and plot it by hand.

I did that for virtually my entire career. Due to this day-to-day, hands-on process I was able to make all those additional new discoveries that I've made about Wave theory.

*This is clear to me now: Only by using cash data and plotting the data in the order the highs and lows occurred can you truly create good Wave analysis that, for the most part, is consistently accurate or accurate for long periods of time and can be relied upon.*

Bud, I'm sure you've seen services where they're constantly changing their counts, constantly turning from bullish to bearish, and moving their labeling all around. Or they have five or ten alternate scenarios.

Interviewer: Yes. Most of them have that problem. NEOWave makes things a lot more clear far more often.

Glenn Neely: If you want to consider that a theory has some scientific basis, then there's no way you can have five or ten scenarios, some bullish and some bearish. You can't constantly be changing your counts and your perspective. That's not science. That's just craziness.

The only way you can avoid that is by getting cash data, plotting the highs and lows in order, and then following a very rigid set of rules and applying

the theory to the charts. Unfortunately, the original Elliott Wave theory was missing a lot. There were a lot of patterns that weren't discussed because RN Elliot hadn't seen them in his lifetime.

There was a lot of logic missing from the theory, which NEOWave introduced to Wave analysis. The ideas of self-confirmation, self-defining price action and so forth simply did not exist. NEOWave dramatically improves Wave analysis to make it more scientific than it was before.

That was what I experienced and how I came about doing my charts by hand, because I finally realized this was the only way to do it and it had to be cash data.

Once I did that, then my Wave analysis started becoming much more stable. My forecasts became much more one-directional, not with multiple scenarios and multiple counts. This process substantially improves Wave analysis.

### **Instead of Charting Cash Data by Hand, Now You Can Use an Automated Service**

Interviewer: After all the hard work and frustration for 25 years of plotting data by hand, Glenn, recently you and your company have come out with a new service, the NEOWave Cash-Data Service. Would you share with all the readers what that service is about and what might be used to improve their trading and forecasting if they do subscribe to that?

Glenn Neely: Due to my incredible frustration of having to do this by hand for 25 years, I finally came across a programmer in Germany who began working with me on my Neely River project, which is programmed inside of TradeStation.

Over time, I realized he was a really good programmer and could do lots of things that most programmers couldn't. I brought up the idea to automate the collection of cash data in an Excel spreadsheet format, where

it would plot the charts very nicely and professionally, constantly extract the data and plot it on a daily, weekly, monthly and six-monthly basis.

We started that process several years ago. With a lot of trial and error, it slowly grew and became more and more automated. Now finally, for any of the people listening who receive my Trading service or Forecasting service, the charts in those services have been created using my NEOWave Cash-Data Service collection technology.

That's why my charts look so clean and consistent. There's not any deterioration in value. They're a totally different kind of chart than you see anywhere else, because they're actually Wave charts not bar charts.

This data collection process not only collects the cash data but plots it in the right order. It allows me to have very clean, accurate and reliable cash charts for all of my services that I provide to the public.

It's been only a few months since we decided to go public with what was basically a private, internal system for collecting data and creating charts for my services. We decided to actually make this a publicly downloadable service. That's when we created the NEOWave Cash-Data Service.

Now anyone who wants to do good Wave analysis or has the need for long-term, accurate cash data can access the data without having to do the plotting by hand. There was really no other way until this service came along. I don't know of any other service that does what this service does. I think it's very unique and provides really nice-looking charts. You have seen them, right?

Interviewer: Yes, I have. In fact, I have four S&P charts open right now. You have the daily, weekly, monthly and six months.

Glenn Neely: Bud, do you know of any other service that does this? Have you ever seen any other charts that are done the way the NEOWave charts are done?

Interviewer: No, I have not. To be honest with you, the first time I subscribed to your service, I actually thought the chart on your Forecasting or Trading service was just a line chart. But there's a huge difference between a Wave chart and a line chart.

Glenn Neely: My Wave charts are a lot more accurate, because they show the highs and the lows in order, not just one close connected to the next.

Interviewer: Yes. I'm looking at them. Also, the inside has some of the alternative patterns that you might think will happen.

Glenn Neely: Those are the counts I don't provide to the public who subscribe to the NEOWave Trading and Forecasting services. I basically look through all the different possible scenarios. I go through different timeframes and mark these different charts with what I think is the proper Wave structure.

Then after analyzing all of them, I apply some NEOWave concepts to reduce scenarios down to one and eliminate scenarios that aren't in agreement with the larger trend, using the different techniques that NEOWave involves. I narrow it down to one scenario.

This activity was invisible to the public until the NEOWave Cash-Data Service became available. It's through this process that I'm able to always have just one scenario for all of my Trading and Forecasting services. I would be willing to guess I'm probably the only Wave analyst in the world that only has always just one Wave count on the market.

Interviewer: Yes. In fact, it's interesting to see how in some ways by subscribing to this service, we get a glance at how you actually do Wave analysis. The timeframe is daily all the way up to six months of data.

Glenn Neely: The NEOWave Cash-Data service is not for people who just want to know what I think will happen in the market. The Cash-Data Service is much more for those who want to do their own Wave analysis – and learn how to do good Wave analysis using the proper kind of charts and data and plotting them the proper way. The Cash-Data Service allows you to experiment with counts on your own and then see what I'm thinking. It's a much more behind-the-scenes, deeply educational kind of service than I've ever offered before.

Interviewer: Glenn, I really appreciate your time today. Thank you very much. I'm looking forward to chatting with you next time on other trading and forecasting topics.

Glenn Neely: I appreciate you taking the time to interview me today about this.

## NEoWave Cash-Data Service

After extensive development and testing, NEoWave has released its Cash-Data Service to the public, so you can improve your own Wave analysis.

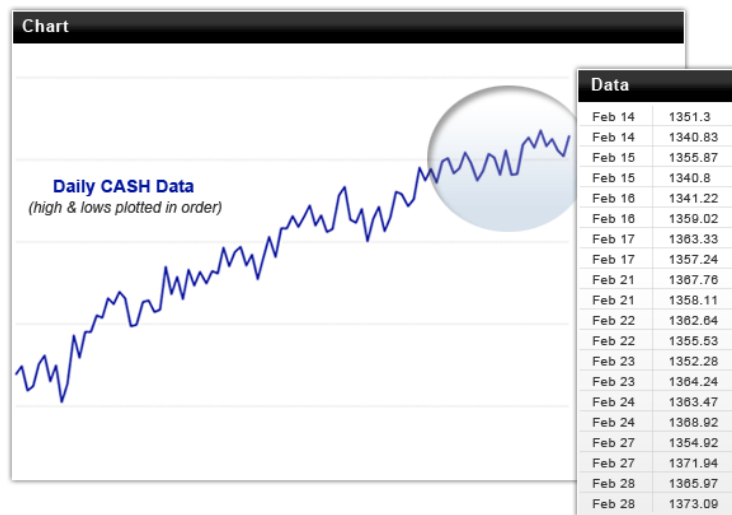
Markets	
S&P	Notes
Gold	Euro

Timeframes	
Daily	Monthly
Weekly	6 Months

### *Here's what you get...*

- You receive Excel spreadsheets with auto-updating cash data, which instantly plot a variety of charts. You receive a spreadsheet for the markets and timeframes shown at right.
- Armed with cash data and properly plotted charts, you have the ability to experiment with your own Wave counts, enabling you to produce more accurate Wave analysis.
- You gain access to Mr. Neely's private, "behind the scenes" wave counts, which are never seen in any NEoWave service. This information will allow you to view and understand the "secret" scenarios used to arrive at the single scenarios presented in Mr. Neely's NEoWave Trading and Forecasting Services.



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