D. Blair, The Crosshairs Trader: Hello. Thank you for your time and consideration today.

C. Nenner, President of Charles Nenner Research: Yes. Hello. Good.

D. Blair: In a recent interview with Tech Ticker, you stated that inflation will begin to pick up in the next 18 months and continue to rise for the next 30 years. That's obviously a very long-term call. Traders don't look out that far. Within these longer-term cycles, you look at shorter cycles as well. It sounds much like JM Hurst who focused on smaller cycles within larger channels or much like multiple timeframe trading. Is this an accurate assessment and could you explain further?

C. Nenner: Yes. That's a totally accurate assessment. I have his work at home – maybe you have it also. I never opened a lot of cassettes with the work of Mr. Hurst, as somebody who was selling it. I never listened to it. It's a lot of work. I also have a book. So I don't know what he exactly writes, but correct, the bigger and the smaller cycles.

It's not so complicated because what I do is I look at what the distance is in days, weeks, months, and the distance between two highs and two lows, and I look for the next high and next low. So, if you look for a yearly cycle, you look every year where there's the high for the last 200 years. If you look for monthly high or low, you look for monthly tops, weekly, daily, etc, etc.

So, of course, it can be that a yearly cycle is up and the monthly cycle is down, or a monthly cycle is up and a weekly cycle is down. And then it depends on your horizon how long you want to trade for. Let's say my average trades are like six, seven weeks, otherwise I don't take the trade. And it depends which side you're going to use, how short term, so you can have cycles of a day, you can have cycles of a week.

The best trading opportunities are when all the cycles are in sync. So let's say when daily, weekly, monthly cycle all top in a certain period or bottom in a certain period.

D. Blair: So, you can appeal to short-term traders, maybe even day traders to swing traders. It sounds like you're more of a swing trader with trades ranging from a six to eight-week cycle. Is that correct?

C. Nenner: That's correct. Most of my clients are changing a little bit where big institutions are not looking for moves of less than 7%-8%, and it turned out that they usually have a trade on for at least six weeks.

D. Blair: In the same interview with Tech Ticker, you said, and I quote, "I deal with what is going to happen and then I deal with why it is going to happen." Does this mean the technical indicators you look at ultimately drive your decision-making, kind of a “shoot first, ask questions” later scenario?

C. Nenner: Yes. I personally don't deal that much with why it's going to happen. Of course, in some interactions with clients, they always ask why. And I give a couple of examples.

In '87, I remember sitting in New York and I remember there was something going on in the equity markets in Europe and also on Globex, and I was buying before the market opened in New York. And, the markets I think were already down in Europe 25%-30%. So, everybody who talks about the crash of '87 in New York didn't look at that.

I'll give you another example. 9/11 brought the market down. Did it or didn't it? Now, the interesting thing is that I'm from Europe so I look at a lot of European markets and if I do something, mostly I do it in the European markets because I'm very familiar with them. The European markets were down like almost 20% before the terrorist attack happened. Most people don't know that. Most people say, "Well listen, there was a terrorist attack and the markets were scared, and they sold off." But there the other markets were already down 20%. That even led to some investigation by the FBI with what was going on in Europe, if they had a whole conspiracy over there.

So, the question is did the terrorist attack bring down the market or not. Now, the problem is if the other markets are down 20%, I would say no.

I'll give you another example. After numbers come out in the United States at 8:30 and markets react violently, and then they will say, "Well, the market liked the number." The interesting thing is if you see the numbers come out, CPI, PPI, whatever, it doesn't matter what, and the Dow goes up 100 points. If you calculate this in the 100 points, the European markets were already 100 up points before the number came out. So, that's a third example.

The question is: is it correct what they say, that the market went up because they liked the number? Probably not, because the European markets two or three hours before were also up an equivalent of 100 points.

So, there are a lot of examples that you can use to prove that actually they aren't clear that all the coincidences have a cause and result. Are what people talking about really a cause and result? So, since there's no end to cause and result, I try not to deal with that too much, and I try to just to tell clients what's going to happen.

D. Blair: I know you focus on larger markets, such as the commodities and I know you've been talking about copper lately and gold, currencies and bonds. You also analyze individual stocks. Correct?

C. Nenner: Correct.

D. Blair: Now, from what I've been reading and hearing, your individual stock analysis is usually driven by sectors, and you gave a recent example of following gold. You don't necessarily buy the metal or sell it; you look at mining stocks. Is that correct?

C. Nenner: Correct, but there's a reason for that. If you plot the gold price and you plot the gold stocks, and you look at the history, you see that gold stocks compared to the gold price are very undervalued. So in this case, that's the reason why I prefer to look at the gold stocks if I want to be profitable in gold, because I think they have a lot of catching up to do.

Most of the work is based on the lack of time, which means that I have to look at the indices, currencies like you mentioned, correctly, and then I have to look at a sector, and then if I have time, I can look at the stock at the sector. But already, I am running out of time. If I come up with stocks, usually it's because big hedge funds or big cap companies that work with me do fundamental analyses that say they look at IBM. They say, "We like IBM." But you know, the analyst writes the report and then it has to be published. It has to be sent to clients. So the moment that he decides that IBM is a buy doesn’t mean at that moment IBM is a buy.

So then they say, "What do you see at IBM, what is the cycle saying? We like it but it's not going up." In week, it could start going up in a half a year because what we do is fundamental work. So then, they come with the ideas and then I make it into a cycle, and I publish them for all the clients what the cycle shows me.

D. Blair: So, it's kind of a top down approach.

C. Nenner: Right. It's very top down. If people tell me they have a tip, they usually mean, do you have a stock that I can buy and I say, "No. I'll give you a tip where the market's going" and so, a lot of private investors have to get used to this because they’re not interested in the market. They're just interested in that one stock and then I say I'm not clever enough to find one stock that's going against the market direction, so I'll deal with market directions.

D. Blair: Right. Well you know, it's funny, and you've touched on this just a little bit in your last interview. You know, every day on the financial news stations, we hear commentary and ironically, at the very end of the day, we hear and read "Well, this is why the market's gone up, this is why the market's gone down," as if everyone got together and said, "Okay, we're going to buy today because of this" or "sell today because of this."

C. Nenner: If you ask the same people, they all agree in theory that the market looks ahead nine months. So, if the market looks ahead nine months, it's going up today based on the news that's going to be there in nine months, not the news of today. So, it's kind of a contradicting situation.

D. Blair: But yet, the very next day if the market's up 200 for, let’s say because oil is down that day, the next day oil could be down and the market could go the opposite direction. So it seems like the market finds a reason for a big up swing or a big down swing. Kind of like you said, a year ago, when we were worried about high interest rates and $70 oil killing the economy, and now, it doesn't matter. It doesn't seem to matter.

C. Nenner: The question is what they see as correlations. Are there any correlations or just the market doing what it has to do? So, my point of view is the market does what it has to do.

D. Blair: Yes. The market doesn't move because it wants to. It moves because it has to.

C. Nenner: Yes, correct. So, I totally agree.

D. Blair: Your policy is, and I quote, "to continue to believe in cycles until proven that they do not work anymore." Have you found any particular cycle or indicator recently that doesn't work anymore?

C. Nenner: No, although the cycle predicting the last low was a couple of weeks early. It showed me February, and then I went on CNBC. I said that soon, the cycle bottoms and then it has to go to 1,000, the S&P, and it actually started by I think the 9th of March. Interesting. I still have to take a look at it if it was because extreme situation, because then I have a problem with my philosophy that cycles don't change, so I have no opinion on it yet. But that's maybe 1 out of a 1,000 times that something was a couple of weeks early.

D. Blair: Right. So, you're looking at it having to give you a false signal many, many times before you consider it not a cycle anymore.

C. Nenner: Right. It's usually been working for many years and people say, "What if it doesn't work anymore?" I say, "Well, for the moment it works and let's assume…" and a lot of people have no clear view of what is true and what's not true in life.

So, would you go in an airplane? Will it always fly? Well, as long as airplanes fly, you have to assume they continue to fly and you cannot always challenge if it is going to fly tomorrow. That's actually what we do every day. If you drive on a highway at night and a car comes against you, you assume that the guy is not going to crash into you unless it happens a lot. You assume that this idea of yours is correct and it's going to continue until proven otherwise.

So, I'll stick with my work until proven otherwise. Maybe it will continue for hundreds of years, I don't know. But that's usually an answer I give to people who asks “what if it doesn't work anymore”. So, I assume that all the research I did is correct until proven differently, which is actually a very normal attitude, but in finance, not every normal attitude is the ongoing attitude.

I had this discussion when I used to give classes at Goldman Sachs for a couple of years twice a week. And I would have this discussion. All these clever guys would have PhDs from Harvard or whatever. They don't know too much about financial markets, so I had to teach them. And, they had a problem assuming that everything will continue like it was.

Well, because they're clever guys and they went to Harvard, they think they can come up with a new development. So I said, "Listen, there's two possibilities over here thinking everything continues like it has or we have new thing that makes sense. They could come from Harvard, and they thought, "every day is a new thing, and then the milkman or the baker could have the same assumption because you don't know what's going to happen."

So, there is that kind of dichotomy. They know somewhere in the back of their head that they learned things and they should go according to that, and they say, "Yes, but maybe this time it's going to be different." So I think very much that this time it's not going to be different. Everything is exactly the same as it was.

D. Blair: Well, it's just like human emotions. Human emotions never change. They've always been the same and they always will be.

C. Nenner: Right.

D. Blair: Well, you say that during the year, speaking of Goldman Sachs, during your years between work at I believe it was Morgan Stanley…

C. Nenner: I was with Merrill Lynch.

D. Blair: Merrill Lynch and Goldman Sachs, you didn't really see any advance in the area of technical analysis, because of the big jump from traditional analysis to deeper studies by like that of **Gann** and **Elliott**. You said their studies were hard to accept. Would you say they were before their time? Have you seen any improvement in technical analysis since you made these statements in '07?

C. Nenner: No. I think it's not, not even, before their time. It's that it's very esoteric work and that not everybody's built for it. Let's say most of humanity is not built for that, and they don't have the frame of mind so they have no clue to think in this direction, and it continues to be the same.

So, I still see this now new guy at Goldman Sachs that writes some stuff sometimes, very classical, very simple analysis, and I've seen no improvement at all.

D. Blair: I'm sure you hear a lot about how complicated your system is with your 200 indicators, cycles, waves, and even sunspot analysis. Yet for you, your system is simple and works.

How would you want a trader to use your analysis? Should it just be a piece of the puzzle? I mean, I know you want them to use their own judgment, so how would you want their system to fit into your system?

C. Nenner: Well, the major situations I always explain is don't go against the cycles. That means if the cycles – because I don't know who said it but we know the saying is a trend is your friend, so you have to know what the trend is - if the cycle bottoms, it goes up. Don't play I'm going long, take a profit and then I go a little bit short if it's a couple of bad days, and I pick it up again. The only thing you do is you go long and if you want to take a profit, then you wait until it comes down and go long again. Don't go against the cycle.

It's very hard to lose money if you go don't against the cycle. So, again, don't try – my partner David says it most of the time. You don't have to trade everything, right, and for traders, every trade is like the same probability, for us it's not.

So how do you use it as a trader? If your cycle bottoms, you're only going to have long trades on, and if it's up, you only have short trades on. And then the trend is your friend. You're going to be safe even if you made a mistake. But don't go against the cycle, not even for a couple of days because you're always going to be surprised.

D. Blair: Some things never change just like what we were talking about. Until there's a difference in trend and…

C. Nenner: I had talked to a very big fund. He says, "Well, what about this market?" And it's at 43, because that was actually my major point and already they were doubting it. The S&P was like down almost 10 points today, but by the end, it picked up again and now it's positive again. So, if he would have said, "You know what…it's going down, it's 10 points, let me go short a little bit," then the last half hour it moved up to the highs again, and that's only based on a cycle. So, what you should have done is say, listen, it's down 10 points, the cycle is still up, if you're going to play it on the down cycle but don't say, "Oh there's a correction for a couple of days. Let me play the short side," because that's going to kill you.

D. Blair: Correct. There's not a correction until there's a correction.

C. Nenner: Yes, until the cycle confirms it.

D. Blair: How do you factor in seasonal trends? In other words, the period that we're about to enter in the market, the August to October period, is really considered by many to be the scariest time in the market, because we've had some of the biggest crashes during this time. What do you foresee during this period this year?

C. Nenner: I don't do seasonals, because I know this but the people who do seasonals overlay. That means they look at the – they have a computer program that looks what was for the last 50 years going on in this week and this week. It has validity. I don't do it because it's not really necessary, because I'm very happy with my cycles.

So, I know that August, September, and October is usually a bad situation and also, in today, this year, it doesn't look different. It looks that there could be some serious correction going on.

D. Blair: So you think maybe we could possibly go back down to those March lows again?

C. Nenner: Yes, but it doesn't mean it has to happen before October. I think it will happen only in a year or so that we will reach it.

D. Blair: Right. You know, market scenarios are always changing, and that's been the case recently. Just seven or eight days ago, all you heard on CNBC and other news stations and on the Web was the Head and Shoulders formation, and then others were looking at, such as myself, the 200 period moving average on the S&P as a support area. That move has since turned into a rally taking us now into a year high.

Do scenarios such as this provide the impetus for huge momentum swings as traders find themselves on the wrong side of the trade? Or, do you actually think that not only are we seeing shorts have to cover, but do you believe that buyers are also stepping into the market?

C. Nenner: I think that what we saw the last week was mostly the shorts who were running for cover. And not talk about statistics and cycles. I already said that if everybody's focused on this Head and Shoulder, it's almost impossible, that it's going to happen. That will be too easy. So of course, it went the other way and everybody had to run to cover shorts.

So, I think it was mostly covering up shorts. Now again, I didn't have to – as far as cycles, so at certain times, certain things have to happen, bottom or top. But the other system I developed also says that something goes up and down with a surge in momentum. It doesn't stop in the middle, and you can calculate exactly what the target is. So reason says 870, that's the major point you have to watch and that's why I didn't really believe in this Head and Shoulders, and it was 870, it never closed below 870. So, that was a good way to deal with the rumors of the Head and Shoulders – 870 on the S&P I mean.

D. Blair: Yes. You had actually said that on CNBC. I believe you aid that was your near-term low for the cycle. Correct me if I'm wrong.

C. Nenner: I don't remember, but I really don't remember I have to say, so…

I was on three television stations and I don't really remember, but something around there, that's what I remember yes.

D. Blair: You also…

C. Nenner: You maybe recognize that I never said go short, because I didn't believe it would break down at that moment.

D. Blair: Correct, yes.

C. Nenner: Although there were a lot of requests, "I want to go short, I want to go short," and then my partner always says, "Well, you're entitled to do whatever you want. We just don't advise going short." So, we were okay. We didn't have to run for cover.

D. Blair: A question in some ways related to the market and in others, not, and you briefly mentioned this recently, that there are also "war and peace cycles", but did not elaborate. Can you tell us what you see here and the possible affects on the markets?

C. Nenner: There was a Mr. Wheeler who a long time ago, by hand, was looking at the cycles of war and peace, and he started with a Chinese Mandarin Government, because the Chinese, 3,000 years ago, already had very big wars. And, wars are actually proof of a new time. People say, "Well, there was a war and that's why there was a new time." It's the other way around. It's a new time and that's why there's a war.

For instance, it happens in elections in the United States and all over the world. We had the Carter period and then the cycle became more positive. You know, whatever Carter did in the 80's, he went wrong. It's partly his fault, because he was voted in, but whatever he did, the cycle was down so even when he tried to rescue people from Persia, they had a terrible time, everything was terrible.

Then the cycle bottomed, and because of the positive attitude, they voted for somebody like Reagan, and then whatever Reagan did, it was okay. You know, every mistake, whatever he did it was laughed away. Everything was okay. So it's not that Reagan came and he changed the attitudes. The attitudes had changed and that's why they voted for somebody like Reagan.

So, it's the same thing with war. It's not that there's a war and after the war, we have a new time. We have a new time and in order to break away from the old time, a war is sometimes needed. Now, as you know, I'm from Europe. There's more socialism in Europe than the States for the moment, so what we know is that the parents, if the parents are people who are conservatives, the children are you know, have socialistic ideas. And when they become parents, then the children go against the parents and they have less socialistic ideas. They go back to the conservative ideas.

So, these are ways that seem to have a span of half a life generation, it doesn't matter what it is, and those are very predictable. So if you have changes in moods, that usually accompanies a change in the time and it leads to a war. So, the last big crisis was in the late 70's and in the 80's, and now we have a president who more or less has ideas like President Carter, and that's not a coincidence.

So if he's lucky, and I wouldn't like to be president in this time, you have a very small chance of going into the history books as a good president. It's because cycles are down and he's going to have major trouble. And so, it's not a coincidence that then we have problems with Persia and now we have problems with Persia.

If you look at long history, you can see the pattern, so the patterns in war and peace as well as in what we're having now in Chicken Flu and Mexican Flu.

There's a cycle of 50 years in the Chicken – how do you call it – Chicken Flu I think. Right?

D. Blair: Swine Flu?

C. Nenner: The Bird Flu.

D. Blair: The Bird Flu.

C. Nenner: And, that probably has to do with how long it takes for a virus – as I talk to some specialists – a virus in order to change the DNA, as is in all nature. And how it exactly works we don't know, but we can time it and that's my profession, to time these things.

D. Blair: I listened to your Charles Nenner Website. I listened to your rendition of Young at Heart at the Special Olympics Connecticut concert. I believe David [Gurwitz] was a big part of that from June of this year. Have you received any recording contracts offers yet?

C. Nenner: No. I'm afraid I'm getting too old.

D. Blair: I figured maybe you and David Gurwitz would put an album together.

C. Nenner: Well, that's what we're going to do, definitely.

D. Blair: That would be a good idea.

C. Nenner: Yes. No, there are other things we do in life accept this. So, maybe…

D. Blair: You have to be well rounded, right?

C. Nenner: Right. You have to do some other things also.

D. Blair: One last question. Do you believe great traders are born or made?

C. Nenner: I'll tell you something, which might surprise you. I'm a good investor. I'm not a good trader. Trading has – there's something in the brain that's called amygdala and amygdala is a part in the brain that governs emotional responses like a cycle pass. And people who go into banking, they have a very not dominant amygdala so they don't feel fear, they don't feel emotions.

I seem to have an amygdala that is very potent, which means that I'm too emotional to be a trader. I can be an investor, but not a trader. So, I don't really know what traders are. For me – it's very hard to answer the question.

Whether I think a trader is either born or not, it has to do with his amygdala and how much you're an emotional person or not. So, I guess good traders are people who are not very emotional. That I would say.

And I try to explain sometimes to people who say, "Why don't you run a fund." I said, "Listen, there was the psychiatrist, Jung, contemporary of Freud, and he does "archetypes**,"** and he says you have kings and you've got advisors. And the king is the one who pulls the trigger; an advisor is the one who tells the king what to do. And if you make the advisor the king, he's going to screw up and if you make the king the advisor, he's going to screw up!" So, I'm not really a trader, so I can't answer the question very, very clearly.

D. Blair: Well, it sounds also like we have all these emotions when it comes to trading. I mean, we have emotions on what kind of clothes we're going to put on in the morning, and what we're going to eat.

C. Nenner: That I can handle.

D. Blair: Pardon.

C. Nenner: That I can handle - what I'm going to eat in the morning!

D. Blair: But it just – I think it just has all to do with learning to control them [the emotions], and right in line with what you're saying; possibly the best traders, there is something inside of them that allows them to control their emotions better than others. Maybe that's why some traders are good at day trading, others at swing trading, and others like yourself, who are good at longer-term investing.

C. Nenner: Yes. I just, because I'm a medical doctor, know this about the brain. I think it's also born in the attitude. There was one of the biggest partners of Goldman Sachs, who was one of the head of the prop traders, who started a hedge fund. And I worked him, as he started the fund, and he brought in some people. And I told him, based on how I looked at the people, those are not the right people for my work. Those are short-term traders, and that philosophy doesn't work well with my work. And that's exactly what happened. Those were the people that if I said the cycle is up, tried to squeeze in some short trades during the day, and that's not what we needed.

So, I can clearly see in other people the ones who can work with my work very well and then the people who are not born to use this work.

D. Blair: It's not for everybody. Crosshairs Trading is not for everybody and Charles Nenner's not for everybody. That's just the way it is.

C. Nenner: Yes. I tell you, I used to teach this in universities and I said, "If you don't understand this, it’s not a rational problem you have. It's an emotional problem, because I'm going to tell you that the world doesn't function like they taught you for the last 40 years." And not everybody can handle that.

If you are taught that there was a 9/11 attack and the markets came down, then if I'm going to prove to you that the markets came down and then was a 9/11 attack, a lot of people can't handle that. So, it's not for them.

So, it's an esoteric problem.

D. Blair: Correct. Well, then answer me this. Is there a particular book that you would recommend traders to read on the emotional part of trading?

C. Nenner: Yes. You probably know it, and if not, it's called *The Investor’s Quotient IQ.*

D. Blair: I'm sorry. You broke up on me. What did you say?

C. Nenner: Yes. I'm trying to say, because the English is not my language. It is *Investor's Quotient "* I don’t' know how you pronounce it.

D. Blair: *Investor's Quotient*.

C. Nenner: Yes. It's by Jack Bernstein and it is about the psychology of success while investing in commodities and stocks.

D. Blair: Very good.

C. Nenner: And that actually brought me also to the conclusion that I am not a trader. I'm an investor.

D. Blair: You owe a lot to this book and the one who wrote it then..

C. Nenner: It's an excellent book, an excellent, excellent book- from the psychological point of view, it's really an excellent book.

D. Blair: Well, I thank you for your time.

C. Nenner: Yes.

D. Blair: So, I really appreciate you taking time to talk with me.

C. Nenner: Okay. We'll do it again.

D. Blair: And I hope that you allow me to do this from time to time.

C. Nenner: Definitely.

D. Blair: All right. Thank you very much.

END TRANSCRIPT