

Marks, Howard – Mastering the Market Cycle

Houghton Mifflin Harcourt, 2018 [Finance] Grade ★★★★★

The holy grail of investing is market timing and its realization is about as elusive. This is a guide on how to master the financial market cycle, which is something in a way related to market timing, but still very, very, very different. The master (that word again...) corporate bond investor and investment writer Howard Marks at Oaktree Capital Management is among those whom I admire most in financial markets and his first book *The Most Important Thing* ranks among my top five all time investment books. In a way this is a slight problem when it comes to *Mastering the Market Cycle*. A classical advice to companies reporting their financials is to “under-promise and over-deliver” – the thing is that Marks’ first book drives up expectations for this one to a level it cannot fully live up to. But it’s still a really inspiring book on an important and under-discussed area that I will put to good use immediately.

A fundamental cornerstone for the author is that financial markets cannot be predicted with any practically usable precision in the short to medium term. This doesn’t mean that all market outcomes are equally probable at all times. By looking to current conditions and by this forming an opinion on where we are in the market cycle an investor, according to Marks, can tilt his portfolio to take advantage of what is more likely to happen in the years ahead. It’s both about what one thinks will happen depending on where one is and about the probability of this happening compared to other scenarios. If an investor is good at this game it should pay off in the long run and he tilts the odds for success in his favor. Prepare, don’t predict. I think he is totally spot-on in this respect.

Another key basis in mastering the cycle is to understand that things don’t just happen one thing after another in – unfortunately irregular – cyclical patterns. What happens in one stage of a market cycle is instead causing it to move on to the next stage. Cycles are chains of cause-and-effect relationships. After a pair of introductory chapters

the main part of the book is devoted to describing a large set of interrelated and parallel such cycles: the economic cycle, the profit cycle, the risk attitude cycle, the credit cycle and so on. Underlying all these is the cyclical patterns in investor psychology – a topic clearly nearest to Marks’ heart. To a large extent Marks reads various psychological markers and positions himself in the cycle by these. Next comes one chapter that tries to assemble all the above cycle inputs into the full mosaic of the market cycle. The book finishes with a few concluding more practical chapters and a needlessly cut-and-paste type of summary.

It is honestly a luxury to have 50 years of hard won experience condensed in such a graspable format. Marks is a simply superb writer. Much like Warren Buffet the language can be deceptively simple, causing fairly complex issues to sound like child’s play. Make no mistake – this is investment thinking on the highest level. Still, compared to the high standards set by the author’s investment letters some passages of the book are a bit repetitive with their long and recurring chains of cause-and-effects and some newly written chapters that don’t build on previous investment letters, but are required to make an coherent story, are perhaps slightly less inspired than the others.

There are clearly others who have made contributions to the understanding of market cycles such as Hyman Minsky, various Austrian economists, the books from Marathon Asset Managed edited by Edward Chancellor plus many others. However, since Marks is so focused on reading non-fundamental and non-economic signposts I think the most complementary book might be *Big Debt Crisis* by the more Borg-ish Ray Dalio with his “economic machine”-concept, who obviously mostly zeros in on the central bank dominated cycle of monetary policy.

When it comes to books on market cycles this is a must read – but it could have been even better.

Mats Larsson, December 15, 2018