Imagine you are a financial investor and you have a successful firm which has own capital-management over 40 years in the market. What would be the most frequently asked questions by your customers?

The author who is such an investor describes the market cycles as the most common questions. Above all, clients want to know their position in the current market cycle, the location they stand, and how to play it. Is the market doing well, whether the prices go up or decline?

Well, the purpose of this book to find an answer such questions. Cycles which are usually unrecognized and poorly understood are the basis for investment performance and they can be in a particular market or an entire economy. At the end of this summary, you should have an idea about their working and therefore, you should feel much closer to becoming a superior investor.

Investors want to buy assets which have a high value with a low price so they do their best.

If we start with a basic question, what is an investor? The answer is that his or her job is to invest in a range of assets, including a package known as a portfolio and s/he expects that the value of these assets will increase over the years.

Is there any possibility to know which investment will gain value? Well, there isn't. Although some estimates are more likely to be accurate in compared to others, an investor never truly knows the outcome of an investment. All s/he can do is discipline own self and learn the art of making an educated guess.

However, this is not an easy art to master. For beginners, it is almost impossible to predict the distant future with more accuracy than other investors. It is likely that they know as much as you know about developing large-scale economic, geopolitical or market-related events, such as wars, stock market crashes, or the emergence of new technologies because the same articles and data are probably used by them like you. As a result, it is not surprising their guesses about future events will be as yours.

So you don't have to remember long-term forecasting. It's much wiser to pay attention the author's calling as ''the knowable'' and base your short-term prediction off that knowledge.

The knowable means that all the information you can get about the real value of a given asset. For instance, you want to compare the real value of the company's assets and the value with the price of a share in that company, if you interested in investing in a company. There is a solid investment if the price undervalues the real value.

So there is a simple enough goal: Buy assets when they are cheap and wait for price increases in the market.

Imagine, for example, that the real estate market has fallen and developers have defaulted on debt and had to leave their building projects. You can snatch up structures which worth in materials alone exceeds the price at which you are buying.

Doing so will clearly increase the likelihood of your portfolio gaining value in the future.

Now, some investors say it requires all work - low purchase and high sales. However, the author claims that financial cycles which are the third component should be considered by the superior investor.

Although cycles are similar to natural patterns, they are not predictable.

So what's a cycle?

According to the author, it is a repetitive pattern. The natural world is an example of the cycle. Day becomes nights, in turn, becomes day again. Spring turns to summer, summer to autumn, autumn to winter, and winter, finally, leads back to spring.

We are lucky because these natural cycles repeat so regularly and we are able to plan our lives around them certainly. So, position ourselves within them is easy advantageously.

The cycles followed by markets and economies aren't predictable as the sunset or the seasons but that doesn't show they don't exist.

Let's imagine that the earth doesn't orbit around the sun at a predictable speed. The orbit sometimes accelerates and sometimes slows. Although it always completes its orbit, there was no way to know when the day would turn into the night or vice versa.

This is an example of a function of the market cycles. We cannot know when the day of a positive market upturn may turn to the night of a negative market downturn. In the long run, the pattern may seem clear, but there is a large amount of variance in the short term.

Although we cannot discuss economic and market cycles in terms of certainty, we can talk about them through tendencies which mean that the calculations of the degree of similarity, as well as anything that an informed investor thinks, may be possible.

As an example, after a market boom, prices may rise to unsustainable levels and investor optimism also increases. When there will almost certainly be a bust, prices may decrease severely and investors feel fear and depression. However, the time of the bust and its severity is not predictable. But that doesn’t mean when investor faced with a bubble, can’t situate his/her portfolio to estimate the bust.

The cycles of the markets are different in the long term and in the short term.

We can say financial cyclicality which Mark Twain proposed about history, to express working of the market cycles: It doesn’t repeat itself, but it does rhyme. In other words, any two cycles don’t follow in exactly the same way, but they all tend to follow the same repetitive pattern.

The best demonstration for this pattern may be an extreme example: The dot-com bubble and subsequent crash of 1995 to 2002, a boom-bust cycle was driven largely by the lack of attention of venture capitalists. Here’s what happened.

In the mid-1990s, the increase in internet usage in the US was an adventure that was expected to create great opportunities for financial gain. Soon, venture capitalists appeared like mushrooms and started to invest in online companies even there was a little prospect for profitable internet usage.

In the general excitement, stocks reached unprecedented heights and venture capital funds reported a return in the triple digits. This attracted more capital and there were established too many online companies soon enough. A bubble had formed.

Inevitably, most of these companies faced with failure. Many venture capital investors had lost %100 so stock prices plunged. The bubble had burst.

If you want to graph this event, its shape resembles a cathedral spire with a sudden increase in venture-capital investment which began in 1999, peaked in 2000 and then sharply decreased later that same year.

However, since then the investment in venture capital has improved greatly. Indeed, you can look at a graph and see that it’s reached half its 2000 height.

In other words, although the venture-capital market has grown in the last 20 years on average, wild variations with peaking prices in 2000 and dipping into a valley in 2002 were observed in the short term.

Overall, this pattern followed by almost all markets, economies, and companies even though it was on a less extreme scale. Their growth was on average and gradual. In this context, this average growth their secular growth can be called as ‘’secular’’ which means persisting over a long period of time.

However, the growth oscillates up and down around this secular trend in the short term. Why that happens will discuss in the next section.

It is difficult to resist investor psychology, which leads to short-term market fluctuations.

Emotional extremes are relatively rare in everyday life. Bad days and good days are there for people but the majority of people don't have sudden shifts from unbounded euphoria to bottomless despair.

Therefore, it may be surprising that one of the main reasons for the ups and downs of short-term markets is the fluctuation between human emotion which are euphoria-driven greed and despair-driven fear.

Here's how it plays out.

Investors are delusional during periods of significant growth such as the one was driven by venture-capital between 1995 and 2000 and believe that the growth will last forever. If they are too young to remember past cycles or if they rely too much on the potential of a new market, they tend to ignore the peak-valley model of the past cycles and euphorically claim that, this time will be different.

Then, the spread of this euphoria directs other investors to buy. Prices may have already exceeded the reasonable amount represented by the secular trend, but investors who are afraid of avoiding a boom or not aware of the possibility of a bust are still involved.

Then, at some point, their fear starts to appear because they realize that prices may have increased too high and they may soon drop. After that, they start to sell by driving own prices; as a result of this, other investors lose their faith until everyone sells and prices fall below the secular trend.

The point is here herd mentality and this is hard to resist. Even Isaac Newton, one of the foremost geniuses of all time, couldn't do it.

Newton was familiar with finance when he was a server in England's master of the mint in January of 1720. At the time, the South Sea Company's stock was £128 before its increase. Newton realized the reason for the rise as speculative investments and wisely sold his £7,000 stock.

In June, stock prices jumped to £ 1,050 and fell below £ 200 by September. I mean, he correctly predicted the impending cycle.

However, Newton was unable to stick to his guns. People around him made a ridiculous amount of money and then he bought his stocks again at the highest point and lost more than £20,000 in the subsequent crash.

The lesson here, when euphoric greed predominates, the resistance to herd mentality is paid. However, resisting despair-fueled fear isn't less important. That will be discussed next.

When the risk is high, it makes sense to invest and sell when the risk is low.

The media is controlled by numerous investors and attention is in the ups and downs of this market every day. However, only a few are paying attention to what they say about the position of the information they collect in the current investment environment.

In contrast, the superior investor gives these things his/her full attention.

This makes perfect sense. As a result of the investors' feeling of euphoric and greedy, the belief of risk disappear and they continue to buy even when prices have reached unreasonable levels and the chance of a crash is at its highest.

So statements like ''the market can't fail'' and ''this time it's different'' should direct you to be more careful.

On the other hand, the risk will become at its lowest when investors are hopeless and fearful in which the wake of a market crash or slump. All the investors who lost money will take part on the sidelines and believe the market is locked in an eternal decline now.

However, at this point, the risk premiums and the chance of a market upswing are highest!

In sum, investing is generally risk-free when investment seems most risky and investment is at least risky generally when it is considered being high risk.

In 2010, the author benefited from this reality. The house-building was almost at a standstill. Actually, the housing market is severely damaged since 1945 World War II and in 2010 US housing starts were the lowest since the war.

However, the population was creating a long-term housing demand because it was considerably higher in 2010 than it was in 1945.

So the ratio of housing starts to population was the key figure which in 2010 was roughly half the 1945 level.

Simply, the housing market was highly stagnant; however, an increase for demanding house was guaranteed by the population level.

Therefore, the author and his colleagues bought an investment in North America that would pay the largest private homebuilding company more than they ever paid despite information that the housing market would never recover.

The number of hours worked and productivity per working hour provide growth in the long-term economy.

Now, you have a general sense of short-term market cycles and the potential benefits of paying attention to your position with them. But what about that underlying secular trend? If the secular growth rate is always positive, could you profit from the gradual growth of the secular trend while investing and keeping your money there, couldn't you allow the short-term cycles to destroy each other?

Well, here's the problem: The secular trend goes through cycles even though they last longer.

To understand clearly, you need to look at the United States' secular trend of gross domestic product (GDP) which is calculated by multiplying the number of hours worked in a nation by the value of each hour's output.

As a result, there are two main ways to increase a country's GDP: Either increasing the number of hours worked or increasing the level of productivity per hour.

The one way to increase the number of hours worked in a country is to increase the number of workers, namely, increased GDP is associated with increasing population.

For instance, the baby boom represents an increased birth rate in the US after World War II. When the children born between the late 1940s and the early 1960s came to the working age, the US economy showed a significant development thanks to many people working and this resulted in economic growth.

Secondly, the one way to increase GDP in the long term is increasing productivity per hour that depends on technology.

An example which is resulted in economic growth is that steam and water-powered machines began to replace human workers in specific areas and perform their work with greater efficiency by the end of the 1700s and in the early 1800s. Meanwhile, the work done slowly in small shops before has changed place with the work done at breakneck speed in large factories.

Although US GDP tends to grow at a rate of between 2 and 3 percent per year, this is average growth. Don't think that there is no possibility for long-term economic downturns which can cause a recovering economy not years for decades.

There can be wars, unfavorable economic conditions and social trends such as the current propensity of young Americans to postpone forming a family and these may cause decreasing birth rates. In the long run, the reduction in the labor force can result in a large economic collapse.

Shortly, the superior investor should remain alert to short-term cycles and position himself/herself accordingly because someone who is superior does not trust bright future days that may never come.

Mastering the Market Cycle: Getting the Odds on Your Side by Howard Marks Book Review

There is a particular model followed by the cycles of markets, economies, and individual companies. This is, in the short term, a lot of fluctuations around the secular trend, while in the long term, is the tendency to grow following the secular trend. The superior investor pays attention to these cycles, adjusts his stance, and positions his portfolio so as to take advantage of them.

In the world of finance, a lot of people just look at the media and financial reports and rarely read books that fall outside their fields so they remain in a sort of bubble as a restricted. However, you can learn a lot about cycles by reading history books or even novels - just consider the massive cycle of the Roman Empire went through. Therefore, stop restricting yourself by a particular type and pay attention to all the applicable lessons!

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