

# Why do we study market cycle

## It is hard to know about the macro market

- It is hard to know about the “macro future” and that’s why it is hard to get superior than other investors by being more knowledgeable in the macro future. Insightful and valuable as macro future prediction is, this piece of information does not serve the regular investors well. Like Warren Buffet said: “a desirable piece of information should be important and knowable”. In this definition, macro future is less a desirable information simply because it is not that “knowable”

## Then what are other ways to get insights in order to gain profit

- More knowledge: trying to know more than others about what I call “the knowable”, such as fundamentals
- Price and Value: being disciplined as to the appropriate price to pay for a participation in those fundamentals
- Know your environment: being disciplined as to the appropriate price to pay for a participation in those fundamentals

The first 2 altogether consist the realm of “security analysis and value investing”, which is to take advantage of discrepancies between price and value.

The traditional view is to assemble a highest return-risk ratio portfolio and use leverage to invest in it. This might be true in the long run, but we want to have a way to have the kind of investment insight that will come into effect in a year or less

So the 3rd idea comes into play, it is about positioning our portfolio in different points of time, decide being aggressive or defensive.

## This means we have to master: “tendency”

- Tendency means that: we have an opinion of what is going to happen
- Tendency means that: we have a probabilistic model on the likelihood of that happening

So is to say that “tendency” is about us understand the market and the world as a probabilistic model. To come up with such model, we need to:

- understand nature and importance of cycle
- live through many cycles to learn lessons from them
- notes the pattern and understand the reason behind
- know what cycle tells us to act

## The things to look at in tendency are

- Are we at beginning or the end: Warren Buffet says “the wise do in the beginning, the fool do in the end”
- Does investors being driven by greed or by fear: this will result in a misprice in the market
- Does investors being risk-averse or foolish risk-tolerant: this tells us how many opportunities are out there
- Should we act aggressive or defensive accordingly