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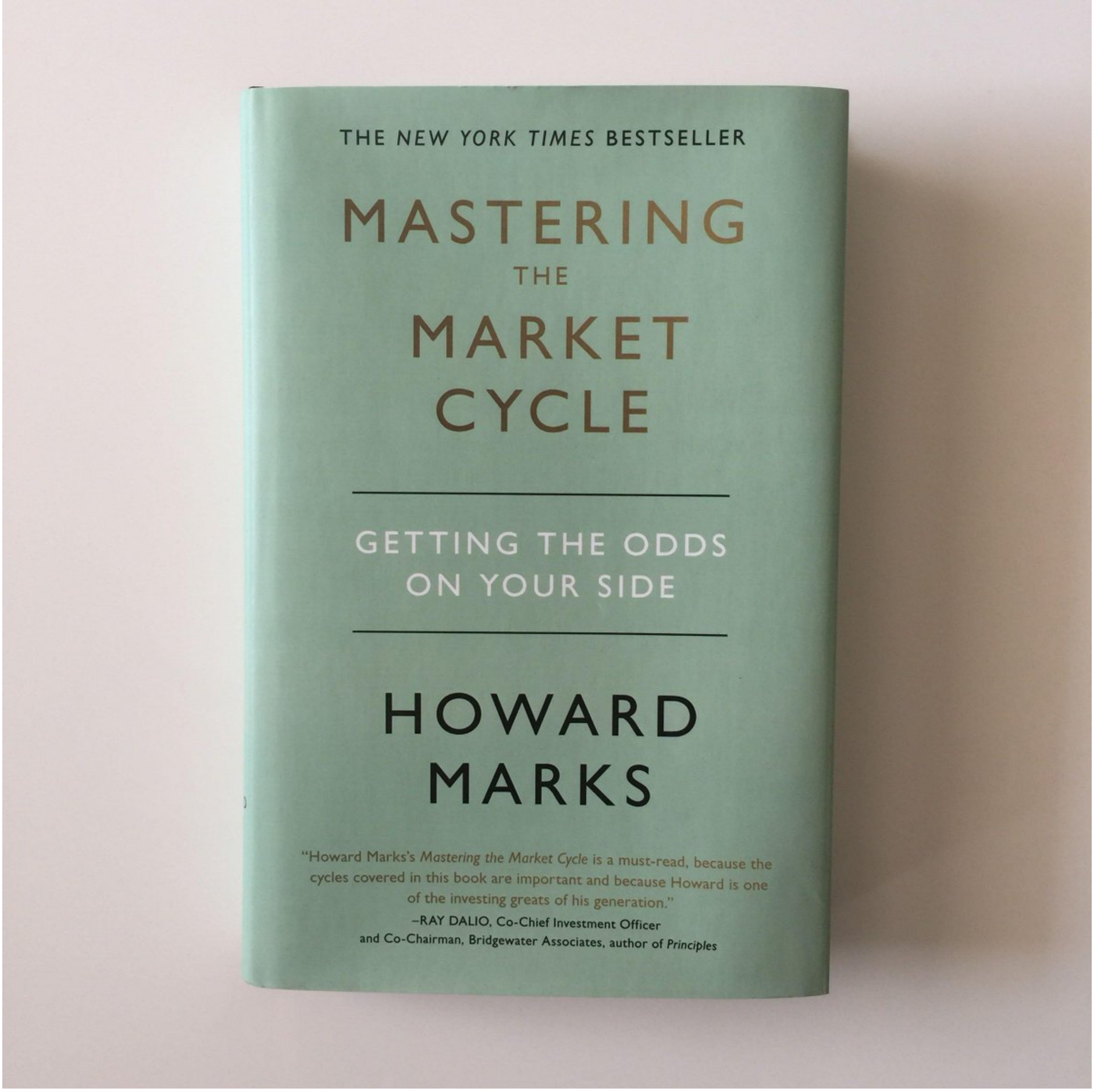
Knowledge sharing initiative Book 1 : "Mastering the market cycle" by @HowardMarksBook

This incredible book focuses on understanding why periods of recessions & growth occur frequently wearing lenses of all mkt participants-the economists, the investors & the regulators.

(1/n)



The book tries to explain the human tendency of extrapolating the recent past and the imbalance in defining risk at the time of bear & bull markets. It is this tendency that drives booms & busts.

Here are the Important learnings from the book: ■

(2/n)

1. Every Asset class goes through a cycle - Up & Down this book teaches why such Up & down occur how to spot them & how investors can improve their returns.

(3/n)

2. Its extremely difficult to forecast Macroeconomic variables like interest rate, inflation, GDP etc there's a reason even Central bankers & Presidents of the country fail consistently at the same

(4/n)

3. In down cycle as prices fall odds are in favor of investors & hence we should invest more & Vice Versa
4. Experienced investors–like everyone else–don’t know exactly what the future holds but they do have an above-average understanding of future tendencies & probabilities(5/n)

5. Cycles are self correcting-In good periods investors buy at any price due to recent good returns (termed as bull mkt) which causes lot of losses in future & when investors are having losses they get gripped by fear & keep on selling & prices get cheaper & cheaper.

(6/n)

6. The Economic Cycle
a) Growth of economy = output of an economy = product of hours worked * output per hour
b) These factors usually change relatively less from year to year, and only gradually from decade to decade

(7/n)

7 Prices fluctuate due to:
a)profits & cash flows of the company &
b)investor's psychology towards risk & optimism
c)Sometimes even when a company has bad performance but investors are too excited about the future the price of that business might increase a lot & vice versa(8/n)

8. Events affect psychology which affects Events

9. Rising asset prices make investors feel good,

Investors feeling good➡■spending more➡■increased earnings for businesses ➡■higher asset prices➡■Less cost of capital➡■increased profitability for the businesses

(9/n)

10. The cycle stops when some investors realize people have expected too much from current economy simply put if a company can make total profits of 1000 rs in coming 10 years people are willing to pay that 1000 rs today.

(10/n)

11. TO DETECT MARKET CYCLES look at how other investors are behaving. The key though is to do this dispassionately
12. Investors needs to balance between two risk:
a) The risk of losing money and
b) The risk of missing opportunity

(11/n)

13. No one knows when the bottom has been made in times of declining prices since it is defined as the day before the recovery begins

14. The tendency of people to go to excess will never end & since those excesses eventually have to correct-mkt cycles occurs frequently

(12/n)

15. Economies and markets have never moved in a straight line in the past, and neither will they do so in the future and that means investors with the ability to understand cycles will find opportunities for profit.

(13/n)

You may love the book too if you loved the thread :)

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Credits: @FinnacleAcademy

Let us know your thoughts or point of view on the same.

(14/n)