

CYCLICAL THEORISTS STILL OUTSIDE THE MAINSTREAM

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The constituent parts read like a discarded plot line from *The Da Vinci Code*: the ancient Greek mathematical principle of the golden ratio, elements of chaos theory and systems analysis, lunar cycles, and the mysterious interaction of human behaviour with the natural world.

Its adherents – inherently cagey, and as they see it, guardians of information that can hold the key to remarkable wealth – are not keen to let the outside world in on their secrets. Welcome to the shadowy world of cyclical analysis.

While the examples above are at the fringes of a discipline that is essentially nothing more than an attempt to read the patterns of market behaviour, they are representative of its general approach. Rumoured – and objectively, exceptionally successful – proponents of a correlation between markets and lunar cycle include both George Soros and John Templeton.

'As long as there is a logical link between natural life cycles and the markets then I think that sort of cycle analysis is valid,' says Murray Gunn of The Society of Technical Analysts.

'There has to be a link to natural cycles because as we are part of nature and mass human psychology drives the markets by exhibiting herding behaviour just like other natural animal forms. Nature has a rhythm and so it is not such a massive leap of faith to observe and believe the human-driven markets have a natural rhythm too.'

While little recognised in the UK, cyclical analysis is relatively commonplace in the US. Elliott Wave International, a proponent of one of the more popular cyclical disciples, claims 325,000 subscribers.

Popularised by 1980s market guru Robert Prechter, Elliott Wave analysts use numerical sequences to predict stock market cycles. These are loosely connected to the Greek concept of a Golden Ratio: a numerical sequence of proportions widely used in classical art and architecture, which some research suggests can be found in natural phenomenon ranging from tree growth to brain waves.

After predicting a long equity bull cycle in the early 1980s and the 1987 correction, Prechter became one of the most followed market analysts in the US, with 200,000 newsletter subscribers and CNBC crowning him Guru of the Decade.

His reputation took a beating, though, after he called a multi-year bear cycle in 1995. Today, even many cyclical investors dismiss his work, although others say that his failure was to amalgamate new information into his model.



Ian Williams: Used lunar cycle to underpin gold fund

Citywire A-rated Ian Williams of Charteris is among those highly critical of Prechter and Elliott Waves. However, his long-term gilt market modelling system incorporates several cyclical indicators, principally the 4.5-year lunar cycle.

'I did it in '95 when I worked at Kleinwort Benson – I haven't bothered to update it for a while, but it did work brilliantly.' He adds that the interest in esoteric short-run cycles tends to obscure long-run patterns. 'Cycles often run concurrently.' A structural 20-year gold cycle, for instance, from the 1980 record high through to the market low of 2000 and this decade's bull run, is one of the underpinnings of his gold fund.

Tony Plummer, director of investment consultancy Helmsman Economics, a former director of Hambros Bank and visiting professor at Queen Mary University, agreed.

'Looking at the US, which has the most data, it ended a long-term economic cycle in 2009,' he said. 'Each of these big 30-year cycles break down into smaller 10-year cycles and each of them break down further into smaller three-and-a-half year units. The early stages of a new big cycles are always very difficult.'

'It's basically an infrastructure cycle, to do with the creation of new technology: the cycle we have just finished was to do with the technology revolution, the next one will be about dealing with the bureaucratic structures of the economy – the opposition we see to the size of government is going to go on for a long time.'

'We are in the recovery stage of the first three-and-a-half year cycle coming out of the [2009] low and reaching the peak of that – I don't think we are going into a pronounced bear market yet, but it will certainly get more difficult.'

'We are also into a new long-term inflationary cycle that began in 2002/03. This is why inflation is an issue and why it will remain so.'