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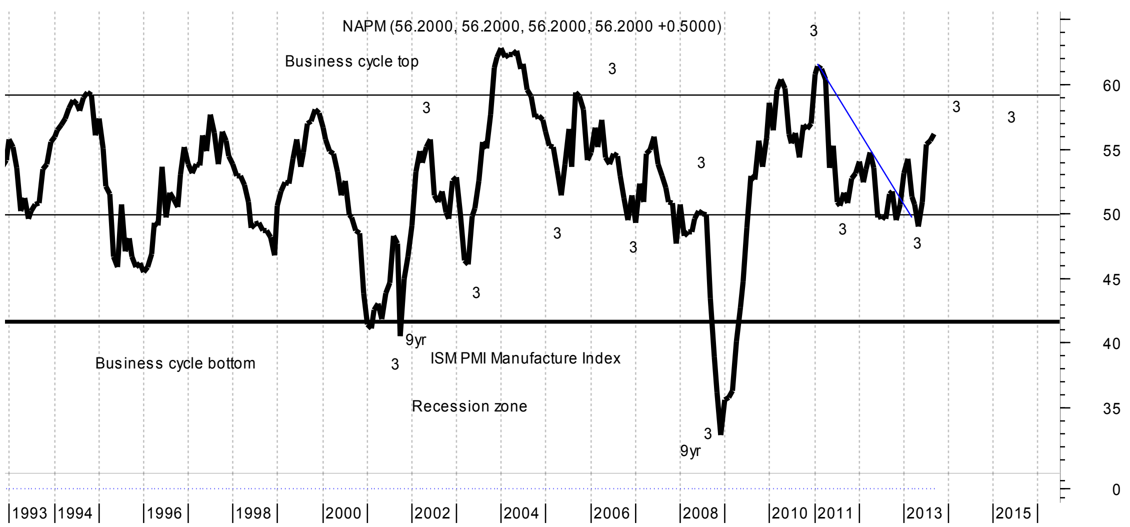
10/21/13

The Posson Business Cycle Report
By Rich Posson, assisted by Emily Posson

Notice: The Captura Wealth fund (CWL) was up +10.5% for recent 12 months.

October 2013 issue. Next publication will be in December.
Background-
Business cycle trends are a study of trends of business statistics, including prices, and when it is believed that trends end, begin, bottom or top, with a rhythm characteristic, which allows for trend following, and timing. A study such as this may increase odds for locating a bottom for prices and even of the economy. May assist for locating a top. May assist with risk management of business and investments. The 3yr business cycle will be discussed most often, and this cycle trend is believed to make or break a business or investment year performance. The 3yr cycle may be the equivalent of the famous Kitchin cycle used by economist Schumpeter in his model and mentioned in his Business Cycles book.

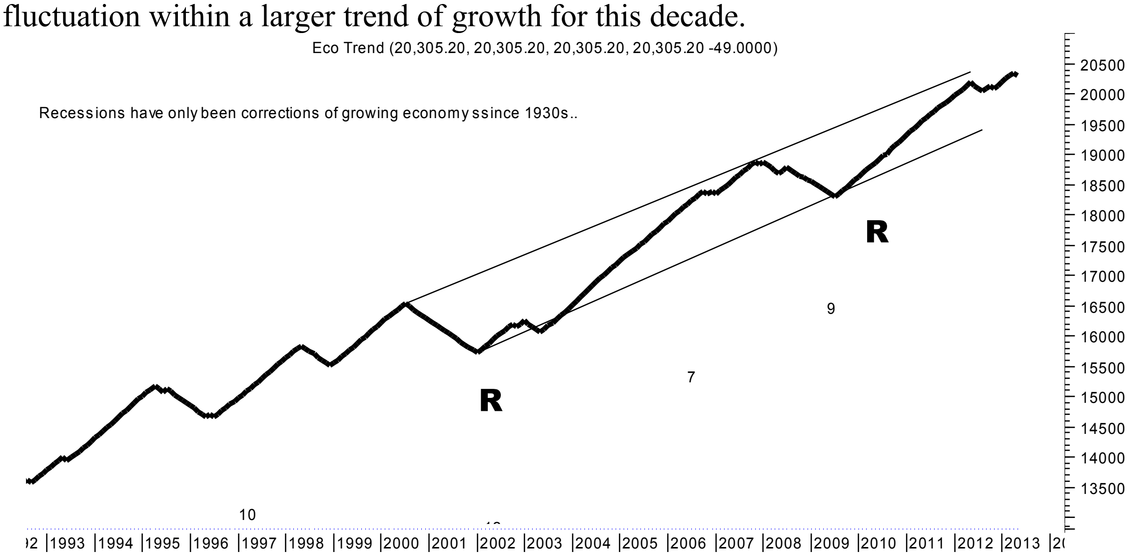


Economy/business activity-
The ISM manufacture index is considered to be a worthy indication of the economy. The recovery above 50 along with robust move higher during August was a sign the economy was growing. A rating below 50 would be a sign of contraction of the economy. From last update "The model script calls for a 3yr cycle bottom for the economy and PMI this year. Last bottom and a top occurred in 2011 for a strange pattern that created a 5 to 7 year cycle from 2009 and believed to bottom during 2013. A move back above 50 for the

PMI should be a sign of said bottom. The PMI suggests a growing economy at 50 or higher and a contracting economy below 50. The economy is likely in a recession when PMI is at 45 or lower."

A model script suggests the next top for the PMI may not arrive until 2015.
Bottom line is the that the business cycle model offers a growing economy late 2013 into 2014.

Still larger business cycle trends offer an economy that bottomed in 2009 and should grow until 2017, and I favor until 2019. Next recession should not occur until near end of this decade. The 3yr cycle will create a ratchet process of faster and slower economy fluctuation within a larger trend of growth for this decade.



In 2008, I created a cumulative study of PMI which filters out some of the shorter term fluctuation which makes it easier to focus upon the 9yr cycle that includes a recession once per decade. The economy normally grows for 7 to 12 years from a recession related to the 9yr cycle. Note the drop in May for PMI did not change the larger trend of a growing economy.

Nominal GDP seems to positively correlate with the cumulative study of PMI, and so, with positive cumulative PMI so far this year, nominal GDP likely will print a new record high this year.

http://www.youtube.com/watch?v=PHe0bXAIuk0 This link should lead to a YouTube video by billionaire fund manager Ray Dalio who warned president Bush of the coming financial crisis. This video is an explanation by Dalio as to how the economy works.

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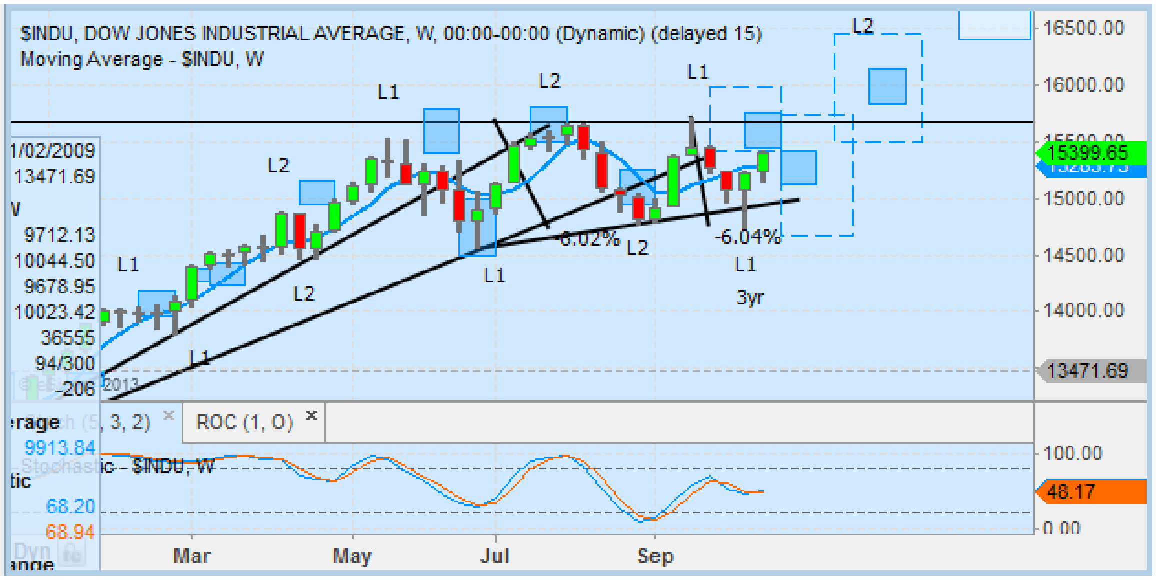
Monthly candle stick chart of the DOW stock index. (Dow Jones Industrials)

Stock Market-
Super cycle trends-
Up until some time years of 2030s, to no later than 2042. Potential for the DOW stock index to trade to 20,000 to 30,000. We should allow for as much as 20% corrections along the path of this trend. My guess is that such a correction will not occur until end of this decade, if then. Last bottoms for the combination of super cycles trends were 1932 and 2009.

Long term cycle trends-
A 9yr business cycle as timing component of the smallest super cycle, should be of a bullish trend for the stock market until near the year of 2019, and with potential for the DOW stock index to print 16,500 to 19,000. Support for this trend should be near 13,000 DOW. Last bottom was during 2009.

A 3yr business cycle is a component of the 9yr business cycle, and this trend is believed to be up from the low of 2011 and should last until early to mid 2014.

FED taper worries may have peaked. A FED taper should actually be a positive sign that a more stable economy is in place. Debt ceiling and government shutdowns can create moment of investor concern, but unless the US were to default on debt, the stock market and the economy should rise, concerns to be a short term price disruption.



Weekly chart of the DOW stock index with model based analysis.

The business cycle model was correct for June to be a down month, July up, and August down. September began as an expected up month and then the trend fell apart due to fear of US debt default. However, during week of 10/7, the business cycle model call was for an earlier than normal bottom. An assumption was made that we might see an analog price action to that of December 2012 when the government averted a fiscal crisis at end of the year. The market surged higher. A forecast was made during week of 10/7 for a similar surge higher. The best model script offers a strong stock market during the month of November.

Summary-
Bullish stocks for this decade. Bullish until early 2014 as one increment or leg of the trend for this decade. November should be an up month for the stock market, and I would consider chance for sharply higher.

Foreign stocks-
The model research is long term bullish. But so far, the US was the leader. Average investor should invest mostly in US stocks. China market improved. Euro zone markets act stronger. Euro zone recession probably came to an end this year. India market may not bottom to start of next year.

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Interest Rates relative the 10yr Tnote-

Last year, the best model long term script suggested rates would rise for 2013. 3% tops for the 10yr note rate? Rising rates suggest a growing economy and may relate to investors reducing bond positions and investing in real estate, stocks, and managed commodity products. A correct model call so far for the 10 year rate. But some in the stock market trade worry a rate rise may be too fast. Rates will likely rise some what this decade, and rise by a considerable amount next 20 years. Correct model forecast/script since last year. Although there is a forecast for lower rates during first half of 2014, I prefer an alternate script that states the recent peak was only opportunity number one for a 3yr long term cycle peak. I favor higher rates early 2014, but I do not see an aggressive hike. And I expect the FED to remain with low rate posture. No higher than 3.5% for 2014?

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Gasoline-

Although price met the minimum upside objective for 2013, demand was not as strong as previously forecast. Supply this year was rather high. Best model script suggests a long term 3yr cycle bottom should be forged this year, and this is a set up for higher prices until early to mid 2014. And this opens the door to once again to pay $4 at the pump.

I add 60 cents to the spot futures price shown on the chart in order to calculate my local pump price. $3.40 futures equate roughly to $4.00 at the pump. If futures were to rally to $3.60, the pump price would be $4.20. I visualize a struggle higher. What might go wrong or right. It would be normal for futures to rally after the first of the year as the cash trade makes forward purchase for the 2014 summer driving season.

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Real Estate
The model research continues to suggest to be bullish real estate. A variety of cash real estate indexes have improved. The DOW real estate investment trust index (REITs) shown above did turn down from an ideal time to peak for the 3yr cycle, and is due to bottom for same cycle this year. Best model script calls for the index to rally from a set back this year and rally until 2015.

You may investigate regional and national real estate performance by searching the internet for Case Shiller housing index. Watch performance shown on sites like Zillow.com.

The super cycle for real estate was due to turn down late 2000s, and we now know the model was correct with evidence as the crash from 2007 to 2009, and for some regions until 2012. The super cycle forecast offers higher real estate prices for the next 20 years. But at what percent return.

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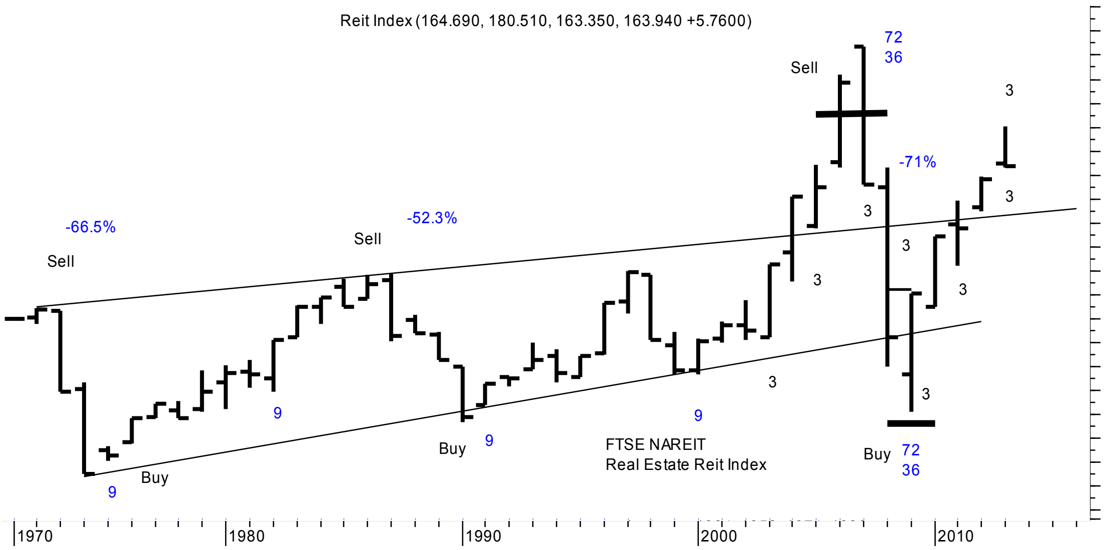
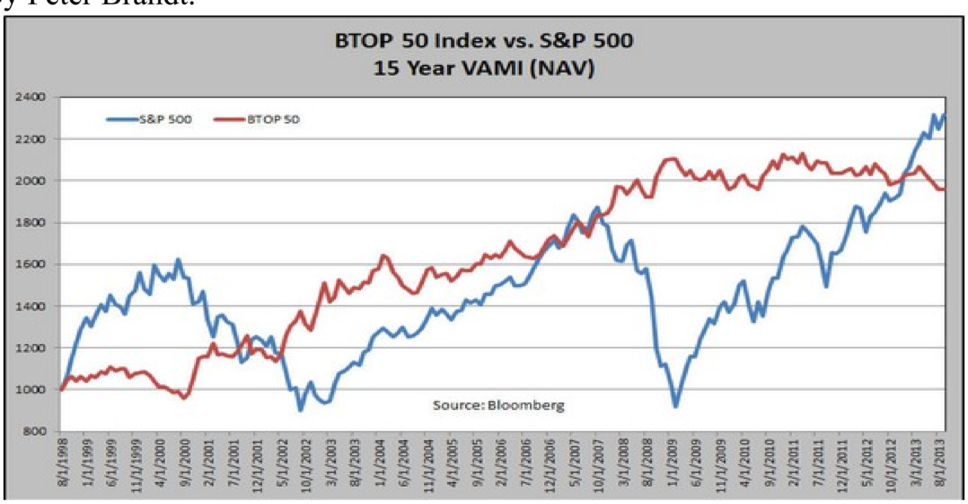


The NAREIT index of real estate REITs with long term business cycle model script. Real estate declines every 18 years or so, and collapsed last decade into a cycle as large as 72 years. I found that last decade some real estate soared and then crashed as much as 90%. The history of the 72yr cycle is one of 70% to 90% crash. I correctly forecast that we would not see such a crash for the economy and stock market due to government/FED intervention. But some market sectors experienced the same or nearly the same historical impact. Some countries like Spain experienced a depression – a 72yr cycle phenomenon.

The index is forecast to continue higher to later this decade, but not necessarily to a new record high. The index should be of a bullish posture until 2030s. A super cycle perspective.

Alternative Investment
Chart by Peter Brandt.



Some in the investment industry have put down alternative investment like managed futures. The chart shown on the previous page (8) does show a recent under performance of the stock market. But note the amount of time during the 15 year period shown on the chart that is an example of theoretical investment of a $1,000 in a basket of managed futures funds or individual accounts compared to a basket of stocks represented by the SP500 index. Note that during 2008, the stock index lost 50% while the group of managed futures products showed a gain, and hedge funds lost.

CWL an alternative investment fund that I manage made a return of +10.5%. for 12 months as of August.

Several university endowment funds and pension funds invest in hedge funds and managed funds alongside standard stock and bond investments. Some financial planners believe 20% of a portfolio should be in alternative investments. Some of those endowment funds were close to 50% at times.

Today's standard stock funds are so large that if the market is going down, it is likely most if not all standard stocks funds will decline as well. Hedge funds and managed futures funds take a more active trading strategy and may be able to reduce the amount of risk relative the stock market, and may enhance profits.

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Notice: Posson Report
I use the model based research to manage CWL fund (Captura Wealth), but also sell some of this research at a website at www.ag-financial.com. A subscriber will find video, PDF model chart books, and a blog. A subscriber will find that I discuss model script opinion for stocks, dollar, rates, energy, metals, agriculture, macro (economy), real estate, alternative investments, and climate. We offer a 1 week free trial. Please let businesses, cooperatives, organizations, government entities, and investors know of our new site and service. I am told we are priced on the low end of competitor range. Professional brokers have told me the site and analysis is of high quality.

Thank you for your time and consideration,
Richard Posson, CMT
CWL fund manager

President Ag Financial Strategies.

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CWL is on record with Florida State, IRS, and the federal regulators of managed futures fund. Mr Posson has 30 years experience with markets, 16 years as former broker and price risk management consultant. Mr Posson is on record with the regulators of the futures industry with no complaints from regulators and no complaints from customers/clients.