# What Inning is it?

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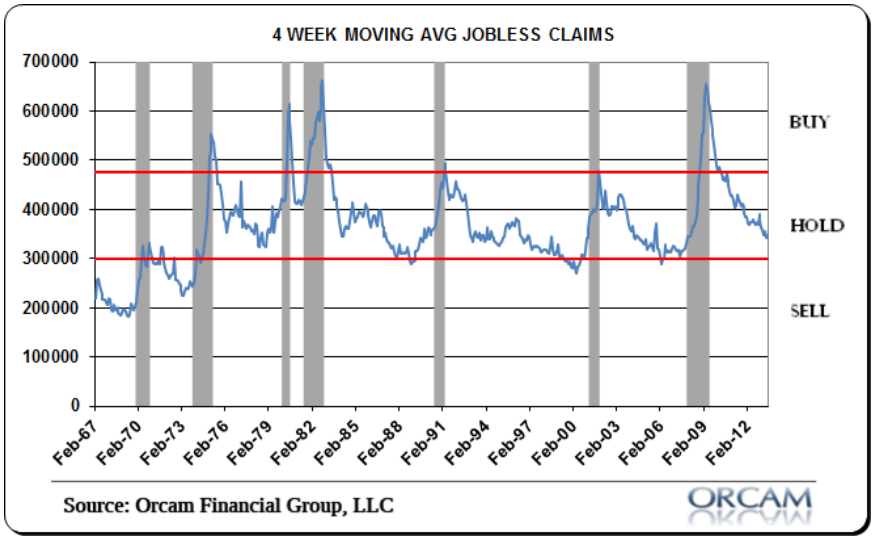
**Long story short—** This Cycle Isn't Over Yet….

There might be no question more important than "where are we in the cycle?" or, to make a baseball reference, "what inning is it"? After all, if we're in a true bull market then we should expect it to end at some point, right? And when they end they tend to result in years of poor returns. The current bull market in stocks appears truly unstoppable. But they never are unstoppable and they tend to react in ways that aren't all that dissimilar to past cycles. The past never repeats, but it sure does rhyme.

There are a few tools we can continue to gauge to see where we are in the cycle. I think recent economic data has further solidified my belief that recession is not on the horizon and while we might not be experiencing a strong growth environment we are in a growth environment. And as the equity market cycle gets in the latter stages we're beginning to see herd mentality take control and drive prices. That means we're driving less on fundamentals at this point and more on psychology and multiple expansion. But that doesn't mean the cycle is over. It just means it's getting older.

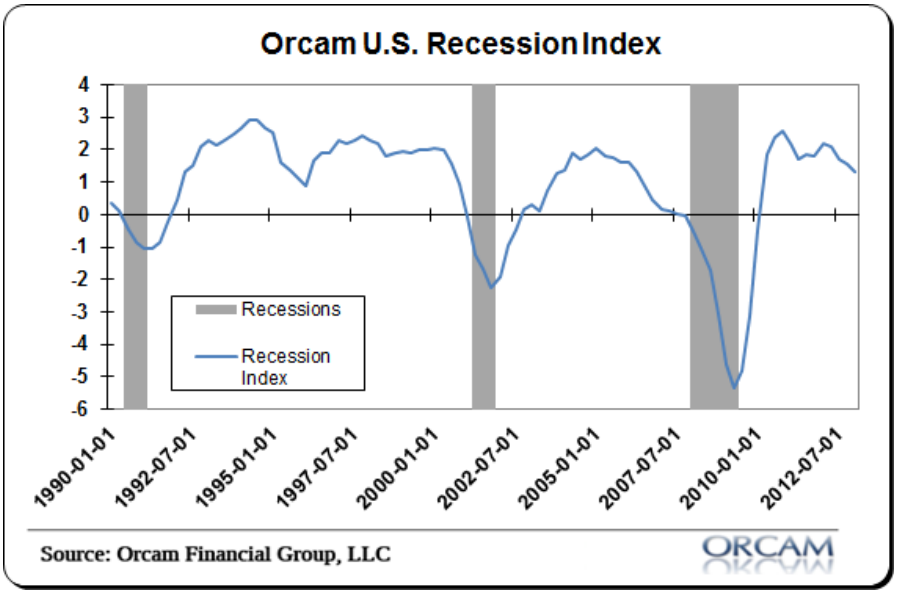



## A Look at the Indicators

That said, let's glance at some indicators to see where we might be. I like looking at the 4 week trend in jobless claims to gauge the cycle. Based on

this reading we can see that we're well off the cycle lows (where the bull market would have begun) and now nearing something that is closer to the home stretch. Historically, claims have dipped below 300K when the cycle is nearing its peak. This makes sense since we'd begin to see capacity used up near the end of the cycle. That is, things can't get much better once they've reached a point where no one else is entering the workforce. It's kind of like being #1—there's only one direction to go from there.

The latest reading of 341K is still well shy of the 300K level, but could be breached in the next year if the current trend continues. Given that the bull market has already lasted 4 years+ I think it's safe to say that this indicator is pointing to relief pitchers and something closely resembling the 7th or 8th inning.




The Orcam U.S. Recession Index is telling a slightly more optimistic story. Based on this indicator we could still be several years out from a recession unless things deteriorate rapidly for some reason. This index has treated us very well over the last 4 years and continues to point to a rather optimistic outcome for the macro economy. Based on this reading I think it's safe to say that we're somewhere in the 6th or 7th inning.

These two indices provide us with a pretty broad idea of where we are in the business cycle. I think inning 7 is a pretty good guess. Of course, we have to realize that it is a guess, albeit an educated one.

From a strategic position I think we need to remain fairly bullish in our positioning. I know we're getting to a point where nothing feels rational about the market's advance, but a core equity holding should continue to be the primary piece of an allocation here. I think the cyclical evidence supports this thinking.

**NB—**I mentioned in a previous note that I am trying to devise a model portfolio to make these thoughts more useful for subscribers. I realize how imprecise it can be to try to make this insights actionable so I am working on a simple model portfolio that will provide you with a very basic approach to allocating assets using the research. I'll keep you updated in the coming weeks as I finalize the model for this.

Thanks for your patience and I hope 2013 is treating you well! As always, feel free to reach out with any questions or concerns.

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