

Profiting in Bull or Bear Markets

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Foreword

This book had to be written—eventually! And that time is now! In this new age of universal, instantaneous financial information, with virtually no limits on who gets it and how they act on it, someone had to make sense out of the mostly unexplained rhetoric on the financial networks and nightly business news. The “secret codes” for business and financial cycles have eluded too many people for too long. *Profiting in Bull or Bear Markets* cracks that code, heretofore reserved exclusively for the financial elite.

Economists have long tried to forecast the future by explaining the relationships among economic indicators and business cycles; *investors* have extolled the virtues of price/earnings ratios and company growth dynamics; *futures traders* the merits of technical analysis and systems strategy back-testing; and *politicians* the importance of monetary and fiscal interventions. All of these disciplines make sense individually, but the results of these individual efforts often give us less than adequate results. For example, “buy and hold” and dollar cost averaging, sacred mantras within an investing community that nobody—repeat—nobody, until now, has brought these various disciplines and disparate viewpoints together into a coherent, logical, and practical understanding of how markets work. George Dagnino, however, has finally accomplished this elusive goal.

If there is a Holy Grail in financial investing and trading, it is “Following the Market.” Using his 20-plus years in studying the business and financial cycles, and drawing on his proven track record as a profitable market timer, Dr. Dagnino leads the reader through a step-by-step analysis of dynamic market forces. Market forces that many try to control, but few understand. He demonstrates which economic indicators are important and why, how these indicators determine the current and future phases in the cycles, and most importantly, what action should be taken by the individual investor or trader to gain a strategic advantage no matter what phase of the economic cycles we are dealing with. In short, how to become a beneficiary of the current economic cycle phase rather than a helpless victim.

Profiting in Bull or Bear Markets is break-through work. This book is an important contribution to the vast body of financial literature. It is a

valuable resource for the professional financial manager and amateur investor alike. Business and financial cycles have been explained before, but never from the practical viewpoint and unique perspective that Dr. Dagnino brings to the party. He is a master market weaver. This work spins complex market elements into an easy-to-understand market whole.

As an investor, trader, or consumer, you should care how business and financial cycles affect you, and what actions you can take within this framework to positively change your economic life for the better. You should constantly question whether your spending, savings and investment patterns are in sync, or in conflict with the business and financial cycles. Only by understanding the cause and effect relationships in each phase of these cycles can you make profitable financial decisions within your own level of risk tolerance. In this context, *Profiting in Bull or Bear Markets* gives you the tools necessary to increase your odds of winning. The markets can be timed, and Dr. Dagnino shows you how in this historic work.

Ronald M. Brandt
Private Investor and Trader

Preface

This book is the result of more than 20 years of studying the behavior of business and financial cycles and their impact on investment management. My viewpoint has been influenced by my graduate work at Case-Western Reserve in Cleveland, Ohio, where I received a Ph.D.

Case was well known for its advanced studies and research in the field of management science, information systems, and artificial intelligence. For several years after graduation I reflected on the meaning and implications of what I learned. Finally I realized that the entire program was about “the engineering of thinking.” It was about the logical, structured thought process that is typical in the field of artificial intelligence.

The main assumption of this branch of computer sciences is that human thinking can be duplicated. Anything produced by the mind is the outcome of a sequence of logical steps that, when taken all together, can be recognized as thought.

As I was investigating the forces acting on the financial markets and asset prices, some relationships turned out to be more reliable than others. The most reliable ones were those relating turning points and trends. The use of levels (such as, sell if indicator A rises to 50) made my conclusions and the resulting strategy less reliable. However, relationships between trends (such as, rising interest rates have a negative impact on stock prices) have crucial strategic value.

The main concept of this book is presented in a step-by-step process. At the same time I tried to keep everything tied together. As I added new ideas, I made sure they improved the logical model of the previous pages and made it more understandable. My challenge was to identify dependable and profitable patterns. The next step was to tie all of them together in a way that would provide only one answer for each configuration of patterns. In order to do so, I had to reach conclusions that do not reflect conventional wisdom. For example, the Federal Reserve does not control interest rates; the markets do. Interest rates rise because the markets force the price of money to go higher. The markets have the same effect on the price of burlap, aluminum, and most other commodities. The Fed has an impact on interest rates, but the process is not as direct as commentators would lead you to believe.

The same can be said about the price of crude oil, which is also driven by the markets. OPEC, like the Fed, is a cartel. One impacts the price of oil and the other the price of money. Cartels only add to the volatility of prices; they do not establish a rising or declining trend. The markets do.

I fully realize these statements are unconventional. But I believe strategists and investors have to be open-minded. If the issue is to forecast interest rates, investors have to find the true causes of their cyclical movement. These causes may eventually be the Federal Reserve itself, but not in the way conventional wisdom approaches the issue of predicting interest rates and stock market trends. The same can be said about crude oil and other asset prices.

This book provides a logical framework, based on the relationships between patterns of data involving many economic and financial variables. It is the result of a lifetime of research, studies, successes, and failures in predicting financial markets.

This is not a theoretical book. It is based on more than 20 years of editing *The Peter Dag Portfolio Strategy and Management*, an investment advisory that has gained national and international recognition.

My experience with the top management of the Goodyear Tire and Rubber Company also allowed me to formalize the concept of strategy. My role was to advise the treasurer and the CFO on the optimum fixed-to-floating ratio for the company's debt, and manage 3 billion dollars in interest rates derivatives and 1 billion dollars in currency hedges.

These experiences provided me with a great opportunity to test my ideas and learn from the challenges of developing investment strategies required to deal with sophisticated and complex markets. Managing money for clients and facing the markets every day remain a continuing learning endeavor. More information can be found on my website, www.peterdag.com.

George Dagnino

Acknowledgments

Baldwin-Wallace in Cleveland, Ohio, a liberal arts college, offered me the opportunity to teach without constraints. I was very lucky. The college let me teach economics and financial markets for management using my experience in business—practical experience and very little theory. My students were challenged with hands-on assignments and made to think on their own, to make sense out of all the information they were exposed to.

They liked my approach and my pragmatism. In fact, many months after the completion of the course, they would come to me and tell me how much it all made sense. They thanked me, even though my tests were extremely complicated. What else can I ask? My thanks goes to them for their exchange of ideas and their enthusiastic appreciation of the subject.

I am grateful to the administration of Baldwin-Wallace for allowing me to exercise my intellectual freedom. The way the information is presented in this book reflects many years of teaching at Baldwin-Wallace College.

Teaching assignments at Kent State University and Ashland College further stimulated my desire to communicate my ideas and to improve them. These ideas have also been shared with many audiences in the United States and Europe. Wherever I went, I was pleased to find that my work was accepted.

As I grew professionally, I had unique mentors like Jack Klingel, Jack Higgins, and Jim Boyazis. They were very patient with me every time I asked for advice and guidance. I would like to thank them and all the people who listened and shared their valuable time with me.

Warm thanks go to Jan Shillingburg for typing the manuscript with its numerous revisions and for her dedication in assisting me and recognizing the importance of this effort.

Special thanks go to Susan Baun, who was instrumental in organizing my work and helping me meet my schedule. She was a reliable sounding board and provided the important feedback I needed to help me focus on the essential ideas of the book and their practical use.

Finally, my deep appreciation goes to my wife, Kathi, for her patience and support. And to my children, Simone and Barbara, thank you for giving me the inspiration to achieve.

About the Author

GEORGE DAGNINO, PH.D., is chairman of Peter Dag Strategic Money Management, a lecturer at Kent State University, and a former professor at Baldwin-Wallace College. He was chief economist and risk manager for The Goodyear Tire & Rubber Company. Dr. Dagnino has been an invited lecturer at over 150 organizations and universities on how business and financial cycles impact investment and business strategies. He is regularly quoted in newspapers and magazines from *Barron's* to *Investor's Business Daily*, on news services including Reuters, and on financial TV networks including CNBC and CNN.