

## What people are saying about *Beating The Business Cycle:*



"This easy-to-read book tells you how the respected ECRI calls turning points, and how you can, too."

—Jane Bryant Quinn, Newsweek columnist

"Shows just how far the state of the art in cycle forecasting has advanced, and how investors can profit from it."

—Jon Markman, award-winning CNBC/MSN financial columnist

"Read this jewel of a book and enter your own personal cyclical upswing."

—James Grant, editor, Grant's Interest Rate Observer

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### Review: *Beating the Business Cycle*

Predicting the course of the economy is a national sport and usually a most imperfect one, when practiced by so-called stock market experts of every persuasion--amateur economists, politicians and especially cable television pundits. Sometimes, though, there are thoughtful professional observers who scientifically collect all the facts available and then some--to make as informed a prognosis as possible.

Such is the case of Lakshman Achuthan and Anirvan Banerji, managing directors at the Economic Cycle Research Institute (ECRI). These serious students' economic statistics inform their extraordinarily useful handbook on how to measure and forecast turning points in the US economy. *Beating the Business Cycle* (Currency, \$24.95) is as clear and concise as to be useful to investors or businessmen eager to get behind the piecemeal instant commentaries in the papers or on television.

ECRI employs about 100 objective indexes, such as IT spending, inventories and housing starts, to tell the world that the economy will turn good or bad before the economy actually does take a turn for the better or the worse. This work comes from a great tradition—former U.S. Federal Reserve Chairman Arthur Burns' classic 1938 study *Statistical Indicators of Cyclical Revivals*. Following in Burns' steps was economist Geoffrey Moore, who developed data in order to understand the key drivers of business cycles. His National Bureau of Economic Research at Columbia University earned respect for reliable and accurate indicators of the economy's path.

Achuthan and Banerji have taken that concept of measurement much further. As they write, simple models "oversimplify the real world and fail to capture the complexity that produces economic fluctuations."

So the authors have sought to capture the economy's complexity by combining statistics on many indexes--construction, manufacturing, services, exports, trade balance, imports and foreign trade. Their primary leading indicators are sensitive commodity prices, average manufacturing workweek,

commercial and industrial building contracts, new incorporations, new orders, housing starts, stock price indexes and business failure liabilities. In other words you have to add together a mix of gritty facts and numbers to develop a solid prediction.

This approach works like a charm sometimes. In 1990, ECRI's Leading Employment Index forecast a sharp recessionary rise in the jobless rate five months before the 1990-91 recession hit--a solid lead time for bond buyers to increase their positions in fixed-income securities and for equity investors to reduce their holdings in common stocks. Another ECRI index, the Leading Services Index, predicted the recovery in 1991 even though the jobless figures kept rising. "Those who prepared for the upturn enjoyed a significant competitive advantage," the authors assert.

In the summer of 2000 "there was a pervasive downturn in all twelve of our leading indexes" that measured the strength of the U.S. economy. This confluence of signals warned that a recession was coming, one that began long before the terrorist strike of Sept. 11, 2001. The dream that the new economy of technological innovation would even out the economy was not to be. As the authors write conclusively; "It is impossible to remove the cycle from a free-market economy. But by understanding the nature of business cycles and employing a cyclical view in your decision making you can protect yourself from falling prey to prevailing wisdom the next time the cycle turns."

What about today, as we approach Election Day and the price of oil is passing \$50 per barrel, suggesting a drag on the world economy?

Achuthan believes robust economic growth won't return even if oil prices ease. "Regardless of month-to-month gyrations in the data, the U.S. economy is clearly experiencing a cyclical downturn in growth," he told subscribers to his monthly service on August 18. "Growth will continue to ease through year-end, making a quick return to robust high growth highly unlikely." Don't despair, though. Achuthan is not going whole hog on predicting a return to recession. On Sept. 3, ECRI's U.S. Future Inflation Gauge increased due to faster growth in real estate loans and the industrial price index.

*Beating the Business Cycle* is about as fine a primer on how to read the economy as you can find in a short, punchy book that's easy to follow.

—Review by Robert Lenzner, national editor *Forbes*, October 7, 2004

## **The Revenge of the Business Cycle**

No commission of inquiry has convened to ask why the (2001) recession went so widely unpredicted. After all, if genius economists (like Alan Greenspan) and businessmen with their fingers on the economy's pulse (like Cisco CEO John Chambers) couldn't see it coming, then perhaps recessions simply can't be predicted. Hooey, say Lakshman Achuthan and Anirvan Banerji of the independent Economic Cycle Research Institute (ECRI), co-authors of the slim, highly readable *Beating the Business Cycle*. They say cycles can be predicted with relative precision. ECRI first warned of the possibility of recession in September 2000, and declared one inevitable in March 2001; it also accurately foresaw the recession in 1990. "To my knowledge, no other group called the last two recessions with no false calls in between," boasts Banerji.

The 20,000-copy first printing of *Beating the Business Cycle*, which says individuals and small businesses can use ECRI's leading indicators to make decisions about, say, buying a house or

whether to open a bar, quickly sold out ... The ECRI cyclists chalk up their success to an attribute economists don't often cite: faith. They let themselves be steered by what their guidance system says will happen, not what they think will happen. ECRI refers to its system as the dashboard. In the mystifying climate of the past few years, it has enabled ECRI to make counterintuitive calls. When a global recession hits, for example, experience and common sense dictate that housing prices will fall. But ECRI's leading housing price index showed that U.S. housing prices would continue to rise ... Despite their recent successes, Banerji and Achuthan have been careful not to become smug. After all, once the current expansion gets its legs under it, they know people will stop listening.

—Fortune, July 12, 2004

Directors of the Economic Cycle Research Institute (ECRI), a New York-based think tank specializing in cyclical research, the authors (of *Beating the Business Cycle*) stress their affiliation with this "secret weapon" of corporate America throughout the text. But given the track record of most economic prognosticators—in March 2001, for example, 95 percent of American economists thought there would not be a recession, although one had already begun—some crowing about ECRI's success in predicting recessions and recoveries may be justified. Numbers could easily overwhelm the message here, but Achuthan and Banerji avoid a statistical tar pit. They use numbers judiciously and effectively and write in a style accessible to professionals and amateurs alike. They also exhibit a surprising sensitivity to the real consequences of business cycles. "Wile E. Coyote," they write, "after scraping himself off the canyon floor, again gives chase, heedless of the dangers ahead, oblivious to any lessons he might learn. Because he is only a cartoon character, no matter how many times he gets splattered, he never really gets hurt. But life is not a cartoon. And if you are the one to take a nose dive when the economy makes an unexpected turn, the pain is real. It may not be so easy to peel yourself off the canyon floor."

—Publishers Weekly

## On the Bookshelf

*Beating the Business Cycle*, Lakshman Achuthan, Anirvan Banerji (Currency/Doubleday)

This book, subtitled *How to Predict and Profit from Turning Points in the Economy*, lays out how the Economic Cycle Research Institute predicts shifts in the economy. Of course, history is littered with "perfect prediction" systems that "always worked" - until they didn't - so it's easy and probably healthy to be skeptical of this book title's claims.

But the serious, comprehensive approach to assembling and weighing data that the book outlines is worth studying, and makes it possible to see why this institute does have a good record at making such predictions.

—The Kansas City Star, June 16, 2004

The "economy, stupid" has always been of concern to most Americans. But now as never before ... (t)he economy and financial markets are ... topics commonly discussed at the corner coffee shop the way sports and weather used to dominate the conversation.

With this new-found obsession with the condition of the economy, America has been slowly educated in the realities of the business cycle. Many fell victim to the heavy downturn, first in the stock market

and later in the economy, in 2000-2002 without knowing what hit them until after the fact. Had they known that the ... business cycle was one of the main culprits, they would have perhaps been better prepared to deal with the contraction of business conditions.

To that end, Lakshman Achuthan and Anirvan Banerji of the Economic Cycle Research Institute (ECRI) have made an important contribution to a broader understanding of the business cycle and its effects on the U.S. economy and financial markets. In their recently published book, *Beating the Business Cycle* (Doubleday, 198 pages, hardcover), these renowned business cycle forecasters reveal some of the methods that has enabled ECRI to accurately forecast the last several recessions in the U.S. before most other economists. The book discusses the importance of being able to correctly anticipate downturns and upturns in the economy and in various economic sectors (depending on your profession) and how an individual or business can make these forecasts using ECRI's time-tested methods.

The authors begin with a discussion of recent periods of inflation and deflation, recessions and booms in the U.S. economy and what led to the common failure of classical econometricians to predict these rises and falls in business activity. They also explain how ECRI, through its unique and extensive series of indicators, was able to call the turns in business activity before they happened. They detail the enviable track record of the institute over the past decade as well as the true underlying causes of each recession and boom, causes which mainstream economics wasn't able to isolate.

The real meat between the cover, so to speak, is the explanation of two of ECRI's main proprietary indicators, the Weekly Leading Index (WLI) and the Future Inflation Gauge (FIG). WLI predicts upswings and downswings in U.S. economic activity, while FIG shows the rate of change in inflationary pressures. Both indicators have an impressive track record and are the main staples the institute's so-called "economic dashboard" of indicators that enable them to accurately forecast economic turns in the U.S. economy ... ECRI also makes (the WLI), along with FIG, available at its web site at [www.businesscycle.com](http://www.businesscycle.com).

WLI and FIG have been known to consistently outperform the other leading economic indexes, and a long-term comparison of WLI versus the Conference Board leading indicator was made in the book. WLI won hands down, predicting several downturns in economic performance before the Conference Board indicator did on several occasions. A comparative analysis of FIG versus the CPI Inflation index showed a similar result.

The authors emphasize the importance of using the "three P's" when it comes to making economic forecast. In *Beating the Business Cycle*, they explain that in order to get a correct reading on a shift in the economy (from up to down, or from down to up) the change in the indicators must be Pronounced, Persistent, and Pervasive. See page 138 for an explanation of this important concept.

The authors cover at length the fallacies of the "New Era" economy of the mid-to-late '90s and show, using ECRI's own indicators from that time, why the dot.com bubble was doomed to burst and why the so-called "New Era" was likewise unsustainable. If for no other reason, it makes for an enlightening perspective of recent market history.

The authors do not seem to rely on economic cycles with fixed durations (e.g., the 4-year cycle). Instead they maintain that broad economic cycles are dynamic and must be treated as such. They assert that the central failing of today's economists is that they treat economic as a science much like physics, where a theory is posited and then an attempt is made to prove it using mathematical and scientific formulae. They insist that such attempts to treat economics as a rigid science will always fail, and that instead of the rigid approach econometricians must base theories on observation first and foremost and must be ready at any time to be flexible in their approach since the economy is always changing. This evidently is what distinguishes the ECRI approach from most other mainstream economic analysts.

One of the most valuable contributions the book makes, in my opinion, is found in Chapter 9, titled "What Do I Do? Real Life Scenarios." The authors go down a list of occupations and personal economic situations that ordinary individuals and small business owners might face in today's world. They show how using WLI and FIG in tandem can be used for profitable application of a variety of personal economic problems. This chapter is worth the cost of the book.

I would recommend *Beating the Business Cycle* to serious students of economics, business owners, stock market traders, or for individuals who want an extra leg-up on surviving and prospering in today's fast-paced economy. The authors have done a fairly good job of tailoring the book so that it can be applied by a person of almost any profession or level of education. Definitely one of the more readable books in modern economic literature. *Beating the Business Cycle* is available at your local book store or from online book retailers such as Amazon.com.

—Safehaven.com, June 25, 2004

## Books in Brief

Like the guy who never stopped wearing narrow ties, the Economic Cycle Research Institute can justify a certain smugness now that business cycles are back in fashion. The institute, which sells its macroeconomic reports to business clients, called the last two recessions and the current weak recovery months ahead of the economic pack. It did so by recognizing that the U.S. economy in the 1990s actually followed fairly normal dynamics. The supposed new economy, the authors argue, resulted more from a balanced combination of growth and contraction overseas than from an extraordinary rise in domestic productivity. The book's second half instructs readers in using the institute's publicly available index of leading economic indicators to make business and personal decisions, such as whether the time is ripe to merge with IBM or open a second Laundromat.

—Harvard Business Review, April 2004

## Toss Those Trashy Romances: Invest in These Beach Reads

Memorial Day is around the corner and that means a nice, long weekend to catch up on your reading.

If you're feeling too productive for Tom Clancy and you don't care that "The Devil Wears Prada," consider boning up on ways to boost your portfolio. We polled some Wall Street pros to find out what's on their nightstands, and combed through the bestseller lists for tomes that stand a head above the competition.

## Good Timing

The first pick is hot off the presses. *Beating the Business Cycle*, by Lakshman Achuthan and Anirvan Banerji, was released this past week, and it had an excellent debut at No. 2 on Amazon.com's business bestsellers list; overall, it was the day's 20th best-selling book on Amazon.

Mr. Achuthan is the managing director of the Economic Cycle Research Institute in New York, and Mr. Banerji is the director of research there. They're worth listening to: when investors were still gleefully snapping up overpriced tech stocks in late 2000, ECRI warned that a recession was nigh.

Sameer Bhasin, director of research at Okumus Capital in New York, is reading the book because he says ECRI has the "best track record in the industry for forecasting business cycles."

The slim volume, which the authors took care to write in "plain English" instead of mind-boggling business jargon, aims to help investors learn how to adjust their financial strategies as the business cycle contracts and expands, and how to know when a change is coming.

While the book is useful for professional investors or business owners (When to merge? When to expand?), it's not only for pros.

"We all have a plan. Maybe you're going to switch jobs, ask for a raise or buy or sell a house. You may also make a few shifts in your investments," says Mr. Achuthan. "People have a lot of common sense and think through those things, but the element that is a critical part of successful decision making is the timing. It's not that people are dumb, they just don't have the timing part of it."

—Wall Street Journal, May 22, 2004