The final furlong?

Legendary investor Sir John Templeton observed that bull markets experience four phases: pessimism, scepticism, optimism and euphoria. He posited that markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria. Put less politely by Barton Biggs, Morgan Stanley's erstwhile strategist: "A bull market is like sex. It feels best just before it ends."

More recently, Howard Marks, of Oaktree Capital, identified just three stages of a bull market: when a few forward-looking people begin to believe things will get better; when most investors realise improvement is under way; and when everyone's sure things will get better forever.

So how do we know when the market has peaked? A list of my favourite indicators is currently flashing amber and suggests we might be at the final stage of the bull market.

First, advertising is the so-called canary in the mine shaft, as companies can cut ad spend quickly and easily without incurring additional costs – unlike when reducing the workforce or closing factories. WPP, the world's largest ad group – and a bellwether for the marketing services sector – warned three times last year that revenues were slowing.

Second, stretched balance sheets are another indicator, as years of recovery and growth give management teams confidence for risk taking. It is especially relevant in this cycle because 'free money' – the lowest interest rates in history, compounded by quantitative easing and easy credit – has encouraged companies to grow by acquisition using cheap debt rather than equity. Services firm Carillion is the first zombie company to collapse under the weight of its debt pile.

Third, an unprecedented ninth year of expansion in the US economy

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means the 'animal spirits' are stirring. Mergers and acquisitions have gathered momentum; BroadCom's $142bn bid for Qualcomm was to be the largest tech deal in history until President Trump halted it on "national security grounds". He also halted the recent planned merger of AT&T with Time Warner, which is now being contested in court.

Fourth, the coffers of the private equity players are overflowing towards the top of the cycle and they are taking ever bigger bets. The latest example is Blackstone leveraging eight-fold to acquire a 55% stake in Thomson Reuters' Financial & Risk unit for $17bn. The majority sellers are the Thomson family, just as the Murdoch family are sellers of 21st Century Fox to Walt Disney, not to mention Richard Desmond's sale of the *Express* titles to Trinity Mirror, now renamed Reach. It is interesting that those with 'skin in the game' are sellers and, as Nassim Nicholas Taleb says in his latest tome, *Skin in the Game: Hidden Asymmetries in Daily Life*, we should always put our faith in people with something to lose.

Fifth, unique pieces of art play a high-profile role at the top of the market, as they are seen as a safe haven and a store of value. Companies can issue equity like confetti – in the same way as central banks have been printing money since the global financial crisis – but Da Vinci and Van Gogh can't pick up their paint brushes again. So just as the $82.5m sale of Van Gogh's *Portrait of Dr Gachet* marked the peak in May 1990, it could be the $450.3m sale of Da Vinci's *Salvator Mundi* in November 2017 this time.

Sixth, there is always a craze at the top of the market, from Dutch tulip mania to the dotcom boom to Bitcoin/crypto-currency madness.

It is impossible to know exactly when a market cycle will end, because the pendulum can swing too far in either direction. Markets are emotionally driven; remember Alan Greenspan, chairman of the Federal Reserve, warned of "irrational exuberance" as early as 1996, when the dotcom boom was still in its infancy.

Nasdaq did not peak until March 2000 and finally cracked in September 2001 with 9/11. Similarly, the Dow Jones peaked in October 2007, but only crashed and burned in September 2008 with the collapse of Lehman Brothers and the onset of the global financial crisis. The peak was marked in the UK by simultaneous events in April 2007 – the bid by RBS for ABN Amro; the warning of a slowdown in US classified revenues; and the leveraged £10bn buyout of Alliance Boots by KKR, the largest MBO recorded, which marked the top of the credit cycle.

Enjoy the ride while it lasts.

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