Gramercy Capital Management Corp.

This Picture Will Be Worth a Thousand Bucks!

(Prepared for Physicians Money Digest 3/25/03)

You know the old saying about a picture being worth a thousand words. We believe the chart on the following page is worth a thousand bucks, or many thousands of bucks! Nobody wants to believe that a turn is at hand because we have thought that several times since 9/11 and it hasn't been true yet. We feel beaten down by the longest stock market rout since the Great Depression. That pessimism is exactly what creates the psychology of a market bottom. In 1981, interest rates peaked at about 15% on 30-year Treasury bonds. Inflation was rampant. Times were tough and nobody wanted to own a T Bond no matter what! Market Vane provided us with some information last week that on September 8th, 1981 bond bulls numbered only **15%** of those surveyed. Nine months later, on June 22, 1982, bond bulls had barely improved to 20%. That was at the start of a twenty-year run for bonds in which interest rates dropped to about 3% and bond prices rose accordingly. For two consecutive weeks in early March 2003, bond bulls totaled **84%**; even as interest rates neared 50 year lows! Now when bonds are the most unattractive investment you could imagine, everybody wants them. If you believe there is safety in numbers, you couldn't have more company owning bonds!

You might be interested to learn that on July 23, 2002 (just as sellers finally capitulated and threw in the towel), stock market bulls were measured at the same paltry **15%** as the number of bond bulls in 1981. That number was 21% on October 9, 2002 and 21% again on March 11, 2003, the two subsequent selling panics. As a former history major, I always delight in seeing how history truly does repeat itself. Those who learn from the past can profit handsomely from its lessons.

Last week I attended a presentation sponsored by Wachovia Bank with Don R. Hays of Hays Advisory Group. You should pardon the expression but "embedded" in his 60-slide presentation was a slide contending that, in football parlance, "The Bears Had Been on the Field Too Long" and were becoming exhausted. His slide was very complicated but the idea was right on! I was sure I could find a better way to demonstrate his idea. Our chart and comments appears on the following page. Study them carefully.

Having lived through 1973-74 at The Dreyfus Corporation, I know that all bear markets eventually give way to better investment times. Skill, however, is required to spot that change and maximize the opportunity. Every investment advisor dreams of beginning a relationship with new clients at a time like this. Stocks are down. Opportunities abound. And, nobody believes it! That's why only **15%** were stock bulls in March.

LOWER VOLUME WITH EACH SUCCESSIVE DIP
SHOWS THE SELLERS ARE OUT OF AMMUNITION

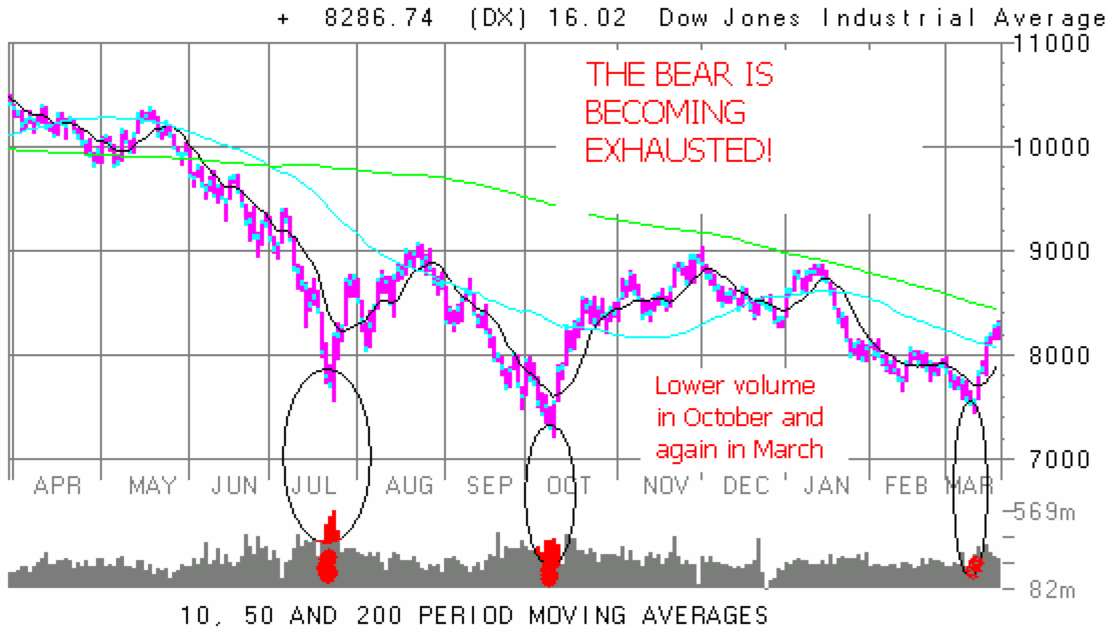

Chart courtesy of Bridge Trading, Annotated Observations by Gramercy Capital Mgt. Corp. 3/25/03

We believe this chart explains the exact events that have played out on the trading floors over the last few weeks. In a typical market bottom, the sellers just become exhausted. When the market indices move to new lows it is the result of an absence of buyers who are timid and afraid rather than a surfeit of sellers. The telltale sign of this phenomenon is the market moving lower but without the drama of a big selling climax. Once selling has run its course and everyone has given up on owning stocks (those 84% who now just want to own bonds), it doesn't take much buying interest to cause a dramatic turn to the upside. This is even truer when short interest levels are near record highs as they have been in recent years. Short sellers represent pent up demand for stocks, as they must cover their positions or risk losing their shirts in any rally as it develops.

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