Gramercy Capital Management Corp.

# When 84% Agree About Any Investment, They're Wrong!

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Much of investing is about Mob Psychology. We all learned that in spades in the late 1990's when the best thing to do on the golf course was pick up hot stock tips. Eventually we learned that those ideas often splashed into the water hazards just as fast as a badly sliced 6 iron. You'd think that people would learn from their mistakes and know that following the crowd is a path to disaster. Think again!

**How Bear Markets Wind to a Close**

In my last article, I provided a chart showing the degree to which the Bears have been running out of steam since the big washout in July 2002. Even though the averages went on to make lower lows in October 2002, the emotional bottom was clearly on July 23rd. Our chart showed that the volume at the October low was half what it was in July. In early March, with the Iraqi War looming amid disappointing earnings and rising unemployment, the markets suffered another downward thrust, though with only a tiny fraction of the volume last July. What that shows is that the sellers are exhausted. Most of those who have held on until now are not willing to give up no matter what bad news is in the papers or on TV. All bear markets experience waves of sellers. First the most speculative people on margin receive margin calls and, if they can't meet them, are sold out of their holdings by the broker. The next wave occurs when earnings slump and individual stocks become problematic. The final wave takes place when the very best companies such as those in the Dow Industrials are tarred and feathered, too. Think of GE. Home Depot, Disney, Intel, Hewlett Packard, and other members of the esteemed Dow that dropped in half last year. Those collapsing stocks hurt even those who felt they weren't speculating but owning the very best American companies, not Internet fly-by-nights.

**Last July, 15% were bullish on stocks**

Consider these very interesting statistics: At the bottom of the bond market on 9/8/81 a puny 15% of investors were bullish on bonds. Nine months later, on 6/22/82, only 20% were bond bulls. Bonds began a twenty year bull cycle during which interest rates dropped from 15% on 10 year Treasury Bonds to less than 5% today. Over that 20-year period, stocks outperformed bonds in about fifteen of those years. But if you had bought bonds then and did nothing since, you were sitting in the catbird seat with a 15% annual return plus capital gains. On July 23, 2002 Market Vane measured **15%** of stock investors as bullish. On March 11, 2003, eight months later, that bull number had risen to 21%. History is repeating itself, in spades. It is offering a once in a generation opportunity to go against the grain and reposition your portfolio away from bonds and towards stocks.

**What about the 84% number in our title?** That is the percentage of those polled in March that were bullish on bonds. After 38 years on Wall Street I can assure you that the common wisdom is almost always wrong. That's why this is not an easy game to play. There is a lot of value in experience at turning points. You make the most money when you are willing to be a contrarian and then exercise patience. The key is to take positions before everybody else figures it out. You have a better purchase price and the stock runs when others figure out what you saw first.

Contrarian thinking has been the hallmark of my career. I have never found that following the crowd was a winning strategy for more than a very short time. This week I have had lunch twice with other professional investors. They are all shell-shocked. The only thing that has made them money for a couple of years was their short positions. They are afraid to own stocks lest they lose more clients than they already have. I spoke with an individual the other day who said she felt as if she had been driving an "investment car" that was slowly losing the air in all its tires. She was reflecting the pain and suffering of everyone with whom I talk. She wanted no part of stocks at this time. Everyone hopes I am right that the Bears are Exhausted but they are afraid to believe it.

**Conquer Your Fear**

There's nothing to fear but fear itself now. We see lots and lots of investment opportunities in the stock market. Notice I said "Investment Opportunities", not speculative risk taking. Many fine companies are in the bargain basement pile. Some pay very nice dividends that will exceed what you are getting with bonds and additionally offer the prospect of capital appreciation. Eventually, the economy will right itself. Companies that have not cut back on their Research and Development expenditures because they had the cash to keep spending will leap forward in the next business cycle. Intel never waivers in downturns and continually reinvents itself with new products and state of the art manufacturing facilities. There are enough Intels out there around which to construct a winning portfolio for the years ahead. The rising unemployment rate tells us that companies are now "mean and lean" on the personnel front, and so are their inventories. This is not an easy time. It requires skill to avoid the many landmines still out there. I believe it requires an investment advisor with a great long-term record and particularly one with gray hair who lived through the 1970's and understands how these horrible downturns play-out and recovery begins. Reread the statistics I have quoted above. If you don't find them convincing or if you missed the chart last month, give me a call and I will give you more reasons to be bullish.

**Joan E. Lappin CFA**
**Gramercy Capital Mgt. Corp.**
**212 935 6909**