Gramercy Capital Management Corp.

When the Dow is Down, Is YOUR Barber UP?

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Where do you get Your Investment Advice?

One of the practical realities of the late 1990's was that people were getting their investment advice in chat rooms, from taxi drivers, on the golf course, at the tennis court and when they went to the barber. It's important every now and then to evaluate where you are getting your investment advice and make sure the source is both an informed and an honest one.

Barbers Only Own Winners

One of the basics of human nature is that people love to tell you about their winners. Just as they love to brag about the fancy new car parked in the driveway, they aren't likely to tell you that they drove the previous one into a tree or had a serious fender-bender and it was hauled away to the junkyard. They will tell you about their great putt on the 18^{th} hole but fail to mention all the balls they hit into the water hazard on 15. They may tell you about the slot machine that paid them $150 but never mention that they dropped three times that amount playing blackjack in the same casino. That's why your barber will only report his winners. Think about it. If he were the world's best stock picker, he wouldn't be cutting hair! If he's got inside information, maybe he's a friend of Martha Stewart or used to cut Sam Waksal's hair (Martha's friend and the former chairman of Imclone, now in jail for insider trading). If so, you don't want to trade on the information he gives you or you might find the SEC banging on your door and asking where you got your information.

This Isn't a Bull Market

In case you haven't noticed, the averages are having a tough time of it in 2005, and 2004 wasn't a grand year either. The NASDAQ ended 2003 at exactly 2003. At present levels, it is flat over the last five quarters. The Dow hasn't done much better. That means most of your friends, if they are honest, are losing money on many of the stocks they own. Just remember that the averages bottomed in 2002 and came back down for a retest as George W. Bush was about to launch war in Iraq in March 2003. Everyone was terrified of the stock market then so the mutual fund companies and most brokers were pushing bonds and bond funds just when equities were most attractive. Coming off a bottom as solid as that one, most stocks did well.

Recently, Gains are Hard to Come By
More recently, that has not been the case. Gains have been neither widespread nor across the board. This year there has been a lot of rotation from one group to another creating a very choppy environment. A handful of industries have prospered and others have fallen by the wayside. Blue chips haven't been immune. Major drug companies such as Merck and Pfizer have lost 30-40% of their value. Technology and biotechnology have suffered too. Small stocks are punished for the slightest disappointment. Home builders, mortgage lenders, and financial institutions that prospered with low interest rates were big winners in the last year. However, as interest rates rise, companies that benefited from the very low rates are starting to come under pressure. Internet stocks that were flying in the 4th quarter are in the doghouse now.

The Smart Money is Lightening Up on Energy The energy sector has been strong reflecting record high prices for crude oil. With so many other stocks faltering, investors have been flocking to buy Exxon Mobil and other energy related securities just as they were flocking to technology at the end of 1999. Exxon actually surged past General Electric recently to become the largest market value stock in the United States. However, even as the commodity has soared higher in recent trading, many energy stocks have not been going up. Instead, the "smart money" seems to be taking profits and moving away from the energy group believing the price of oil at $57 is quite extended. Last summer the price of crude spiked up as many hedge funds, unable to make money in stocks, started speculating in commodities. The same thing appears to be happening now. Exxon Mobil said at its recent analyst day that it was using $40 oil as its price point for future planning. That's far below the current mid-50's price and reflects decades of experience through many up and down cycles.

Have realistic expectations
When times are tough, it is unfair to expect high returns on your portfolio. If the averages are flat or down, examine your statements to see if your advisor is protecting you by holding sufficient cash to cushion your portfolio for the bumpy ride. If you ride through down markets in a fully invested position, your portfolio will snap back faster if the market turns abruptly. However, you need to have the stomach for riding through the decline and not everybody does. Also, a good amount of cash allows you to take advantage of stocks that suffer unfairly in the downturn along with everything else, despite solid fundamentals. Also remember that most of the gains occur right at the turn so waiting for "the big pullback in the sky" is usually not an effective strategy. Timing the market is one of the most difficult of undertakings and is not often executed well. Remember it requires two correct decisions: when to get out and when to come back in! Not many people can do that well and your barber is not likely to be one of them!

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