

Weekly Financial Report with Scott Roulston

September 20, 2002

Scott Roulston, CEO of Fairport Asset Management, discusses the impact that the potential war with Iraq is having on the stock markets, the little discussed economic term “deflation”, and the influence of corporate political contributions in the upcoming elections.

April Baer – The stock market’s most familiar index stands below 8,000 for the first time in nearly two months. The Dow Jones Industrial Average plunged 230 points to 7,942. The NASDAQ Composite fell by 35 points. The S&P 500 tumbled to 26. Some economic indicators are still fairly strong, but it looks like the bears’ sentiment won out yesterday. We’re waiting to see what will happen at the opening of trading this morning. On the national front, the country is still waiting to see if Congress will grant the Bush administration request for support against Iraq. Scott Roulston of Fairport Asset Management joins us every Friday morning to review the week’s news through the business lens. Scott, nice to have you back.

Scott Roulston – Thanks, April.

April Baer – Now, the top of the news this week was unquestionably U.S. policy towards Iraq. The President is now advocating military action whether or not Saddam Hussein lets weapons inspectors in. Talk to me about what kind of impact the tug-of-war is having on the economy.

Scott Roulston – Well, no doubt it is not positive. I mean, earlier this week when Iraq said they would agree to the weapons inspectors, the market went way up. Initially it was almost as if traders said wait a second, we’ve seen this before. And that hope of something positive happening quickly evaporated, but that’s short-term. Longer term, if you look at the effect of war or threat of war on market performance, there are several factors. One is that oil prices generally do spike up. And you generally have initially a depressed stock market. Companies tend to hold off on spending and hiring. They operate much more cautiously. And consumer confidence is down. None of those are especially positive things. But if you look back in history at investment returns over wars (with the exception of the Vietnam conflict), World War II, the Korean War and the Gulf War – the market was up all during those wars.

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April Baer – The word ‘deflation’ seems to be making a lot of movement this week. What does deflation mean for the average consumer?

Scott Roulston – Well, pricing is going down. You know, you’re absolutely right. The CPI, which is probably the most closely watched measure of inflation, actually has 28% of that component as rent. Well, if you’re a homeowner, you aren’t paying rent. So if you take the rent out, we’re actually having zero inflation – maybe even deflation. And prices are coming down for everything across the board. Now as I mentioned before, oil prices might stay up or even increase, but prices of food, clothing, things like that, generally speaking are staying flat or going down.

April Baer – We have spoken previously about the way the housing market has an effect on the economy. And obviously it’s been a pretty good couple of months for homeowners who are interested in refinancing. I’m curious about all that refinancing – has it finally made a dent yet? Are we seeing any of the results?

Scott Roulston – Rates are going even lower, which is kind of hard to believe. But there is a lag effect, April. One of the things our research has turned up in the last couple of weeks is that the pace at which the banks can handle all this refinancing has slowed down. It’s now about a 60-day lag period for people to actually have their refinancing hit. And what that means is that these lower home mortgage payments aren’t going to have an effect until probably mid-November or just going into the holiday season.

April Baer – Hey, speaking of November (I can hardly believe we’re at the end of September already), the mid-term elections are coming up for both Ohio and Congress. Scott, can I assume that this is the time of year when businesses are starting to delve into their pockets, thinking about making campaign donations?

Scott Roulston – I think that’s kind of overstated, to tell you the truth. You know, there’s a lot of talk about corporate political contributions, but if you were to poll businesses and business people, I’d say in general more people don’t give than do give. But what they will do is spend a fair amount of time on issues that are important to them with lobbyists and consultants. I’ll give you an example. I work with a couple of groups that are working on early-stage business development (venture capital-type things) and we’re working with state legislators to try and increase the amount of funding for early-stage companies. We hire consultants and lobbyists to help us get our message across with folks down in



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Columbus because they don't understand how our business works. So there is about ten times more spending on lobbyists than on campaign contributions.

April Baer – I noticed that Microsoft made an announcement on Thursday that computers would soon be able to share information between cars, offices and telephones through a common Internet programming language. Just what we need - all the computers talking to each other and not talking to us! It seems like this would be a great way to stimulate sales by making people upgrade their systems and it really got me thinking. We haven't really had a major technology rollover since the Y2K scare, have we?

Scott Roulston – No, and in general you would think – or what we heard was – technology gets upgraded every two or three years. Well, you know there was that big build-up in 1999 anticipating Y2K. We aren't seeing that kind of technology turnover right now. It's kind of puzzling.

April Baer – Scott, thanks very much. I guess we'll catch up with you next Friday.

Scott Roulston – Okay. Take care, April.

April Baer – Scott Roulston of Fairport Asset Management joins us to talk about the news of the week every Friday morning at this time.