

Weekly Financial Report with Scott Roulston

October 11, 2002

Scott Roulston, CEO of Fairport Asset Management, discusses the Bush Administration's invocation the Taft Hartley Act, the stellar performance of upstart airlines Southwest and Jet Blue, and the hits endowments have taken as the economy has stumbled.

April Baer – 10,000 West Coast dockworkers are back on the job today, using cranes to unload cargo that's been stacked on ships idled during a union contract dispute. Here in Ohio the impact of the work stoppage is still being felt. Our State House correspondent, Bill Cohen, has this report:

"Honda of America is pulling the plug on its Civic assembly line in East Liberty, Ohio. 2,500 workers have been told they can stay home without pay or come in and do jobs they usually don't do. But no cars will be put together for at least the next two days because key parts (engine components and standard transmissions from Japan) are stuck on ships that have yet to be unloaded. Ron Lidsky speaks for Honda:

' We have people working around the clock trying to figure out which ship will come in when, what parts it contains, which parts are critical and being ready to unload those parts and get them delivered as quickly as possible.'

Honda has been trying to get around what Lidsky calls 'a dried up pipeline of parts' that usually come by ship.

'By flying parts directly in from Japan and as the ports reopen and our ships get their turn to be unloaded, we have planes ready and expedited trucking ready, as well as rail, to take the critical parts first and get those delivered very quickly to these plants so they can get back into production.'

Honda assembly lines in Alabama and Ontario are also being unplugged for a day because of a shortage of parts. Bill Cohen at the Ohio Public Radio Statehouse News Bureau."

Every week at this time we talk about the business news of the week with Scott Roulston of Fairport Asset Management. And he joins us as usual this morning. Scott, good morning.

Scott Roulston – Good morning, April.

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April Baer – This week, as we just heard from Bill Cohen's report, something kind of unusual had to happen to bring the lockout dispute to an end. The Bush Administration invoked the Taft Hartley Act. That's kind of unusual, isn't it?

Scott Roulston – Extremely unusual. It hasn't been done since 1978. He felt, and had some political cover, to say that this protects other jobs as your storage is diluted. And also he had an affidavit from Defense Secretary Rumsfeld that said that it will also impair our ability to provide necessary supplies to our troops.

April Baer – It's so interesting watching essentially an old economy style dispute paralyze the country with its new economy. I guess this is proof positive, if anything, that moving things around is still important?

Scott Roulston – Not only that, the strategic importance of these docks – I mean, there's only 10 and a half thousand workers there but I think its been well publicized that they make on average over \$100,000. They have full medical benefits where they don't even have a co-pay. As a matter of fact, they have retiree benefits where there is zero out-of-pocket expense for the retirees. But most importantly, they have enough money put away (these longshoremen) to sustain a long strike. This is totally different than any kind of a plant strike, because if the workers at Ford strike, for example, customers at Ford can buy from GM or Chrysler. But if the West Coast longshoremen strike, there is no other port that can handle the traffic.

April Baer – Scott, one other development on the West Coast that I wanted to bring up. This week two companies that have been success stories sort of went on a collision course: Southwest Airlines (which serves Cleveland) and Jet Blue, which are small commercial carriers that have managed to tough out some of the problems in the airline industry. Now this week Jet Blue just started serving Long Beach. Why, you ask, would anyone in Cleveland care? Well, the thing is that Jet Blue is now in direct competition with Southwest's hub in L.A. – the first time that has happened. Any predictions for what we will see in the coming months in the airline industry?

Scott Roulston – Jet Blue is, along with Southwest - those are the only two profitable airlines that there are. Jet Blue is only two years old. I can't wait to fly on them (I haven't yet). But they are even more profitable than Southwest. They have close to 20% profit margins, which are unheard of in the industry. They are much different than any other airline. They have TV's in the back of every seat,

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they have all leather seats in their airplanes, and they are also non-union. The pilots actually help the flight attendants clean up the cabins in between flights.

April Baer – Good grief.

Scott Roulston – You wouldn't see that on Continental or United. But most importantly, I think, they treat their employees differently and they have very high job satisfaction. And that translates into very good service and happy customers. So I think they are going to be growing along with Southwest.

April Baer – A while ago, Scott, we learned that the Cleveland Clinic, like so many other non-profits in Northeast Ohio, has taken hits in its endowment as the economy has stumbled. Can we use the Clinic situation for just a moment to talk about what is happening to large non-profits and not-for-profits that contributes to the local economy?

Scott Roulston – You're right. Big institutions like the Clinic – I think it was publicized that they went from an endowment of over a billion and they lost about \$500 million or more. It's also been reported by The Wall Street Journal that the Cleveland Orchestra has a \$1.3 million deficit, so they are canceling their national radio broadcast, as an example. I think they lost about \$50 million in their endowment. So the boards of those institutions are dealing with the same issues that all of the rest of us investors are. You know, maybe we were too aggressive or what's the right asset allocation, how much stocks and bonds should we have to appropriately invest our nest egg.

April Baer – You know, speaking of non-profits, the National Trust for Historic Preservation is wrapping up a national conference in Cleveland this week. This kind of got me thinking – you're a guy with an eye for the local real estate scene. If some preservationist genie were to pop out of a bottle and pick one place in downtown Cleveland to wisk up and turn around and turn into something new and exciting, which one would you pick?

Scott Roulston – What building would we – well, I guess then the infield at Jacob's Field doesn't count! (Laughter) Ummm, and I can't pick Hopkins Airport! You know, I still think Burke Lakefront offers the greatest development opportunity in opening up the lake front, but if there was a building? Tough call. I love the Higbee Building and that's strategically located, but I'm not sure that



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retail is really the answer. Downtown housing or something like that would be my answer.

April Baer – Well, Scott, thanks very much for your time.

Scott Roulston – Talk to you next week!

April Baer – Scott Roulston with Fairport Asset Management joins us every Friday.