

Weekly Financial Report with Scott Roulston

October 18, 2002

Scott Roulston, CEO of Fairport Asset Management, discusses the meteoric rise in the markets over the past week, the credibility of Republicans in congress on economic issues, and the role of the Cleveland Foundation in bringing more resources to bear on economic development.

April Baer – Irrational pessimism gave way to better numbers. The DOW posted its *fourth* triple digit gain in the past week yesterday, and we'll begin at 8275. The NASDAQ gained 40 points on Thursday and the S&P 500 was up 19.

Elsewhere in the news, election season continues to get a healthy share of U.S. leaders' attention. However, the economy seems to be picking up speed as a campaign issue.

With us this morning to discuss these and other news tidbits is Scott Roulston of Fairport Asset Management. Scott, good morning.

Scott Roulston – Good morning and Happy New Year!

April Baer – (Laughter) Same to you! The market – my goodness! Rising over 11%, I think, just in the past week? I don't want to jinx anything, of course, but what gives?

Scott Roulston – That's a great question. You know, there really was no catalyst when this was getting started last week. People were looking for a reason. Those who are very familiar with the market know there has been a lot of "shorts". There have been a lot of people selling stocks short. We won't get into what that means, but the evidence I've seen doesn't lead to us believing it's short-covering. It's mainly good earnings now, instead of hearing these negative surprises. We're becoming more focused on good earnings and earnings are up about 7%. The market is up 13% in the last week. I was especially impressed with yesterday's gains because when we were driving to work, we were listening to you talk about North Korea having the bomb. And that possibly – that didn't spook the market. But we have to keep in mind, April, if a stock is down 50% and then it's up 50%, it still isn't back where it started. And we still have a long ways to go from where we started this year.

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April Baer – The state of the economy, including Wall Street, seems to be working its way into a lot of the campaign rhetoric in this Congressional election year. Albeit belatedly, but there it is just the same. This week some prominent Republicans in Congress were apparently feeling pretty good about their credibility on economic issues. They have started arguing for even *more* tax cuts. Now, Democrats having been saying in stump speeches that tax cuts are part of why the economy is having so much trouble right now. Who do you think is getting the upper hand?

Scott Roulston – Neither. I don't think either side is really making a persuasive case on that argument. You know, the Republicans in this administration in particular just don't have anybody with real firepower. Treasury Secretary O'Neill and the Commerce Secretary really don't match up to instilling the investor confidence that Bob Rubin had in the prior administration. But on the other hand, the Democrats really haven't offered anything in the way of specifics and Daschle and Gephardt blaming the tax cuts for economic weakness – that really doesn't connect. So I think they thought with the Iraq War kind of – the vote out of the way, that folks would be on the economy. But instead right now we seem to be talking about North Korea and snipers and things like that.

April Baer – And two weeks left until Election Day. Scott, in other news I saw in Crain's Cleveland this week that the local firm, Advanced Lighting (a company that's had its share of problems in the past) is again in financial trouble. Have you been following this?

Scott Roulston – Oh, very much so. You know, it looks like they might go into bankruptcy again. This is a company out in Solon. The note holders are really in control in that situation. But this will be the second time that this management has lead a company into bankruptcy. And we've also heard about the loans to management from the company. I have to wonder what the board is thinking right now with where this company is going.

April Baer – Well, I was wondering about that. I remember we talked about this a year, maybe two years ago. I wonder if the *same* board is in place that let this happen twice or if there have been some changes at the top?

Scott Roulston – It is pretty much the same board. And I think the shareholders have very good reason to be upset with what's going on out there.

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April Baer – Here's one for you. There was a report this week indicating that the Cleveland Foundation is interested in putting more of its grant resources into economic development projects. Now *that* is a switch for a foundation that has historically concerned itself primarily with social welfare, neighborhoods, health care, the arts, and things like that. What do you make of this?

Scott Roulston – I think the Cleveland Foundation, at a time when other foundations are having a difficult time, has done an *excellent* job. They have great leadership down there. I give them a lot of credit, because they did not risk their endowment by over committing it to the stock market. They stayed diversified. That allows them to be in a much more solid economic position. They brought in a guy named Brad Whitehead and he has said now that the bandwagon has started, hey, we can't do it alone. But we're going to be in a better position to provide social services and services to the arts and education and other initiatives. If we focus on economic development, or to put it another way, if we *don't* focus on economic development, we can't possibly provide what we need to do for these other services. So, it's a very interesting turn that the Cleveland Foundation is going in. And I hope other organizations and other leaders really start paying attention to what they're doing.

April Baer – Is the Cleveland Foundation now doing what some of the more business-oriented groups have been unable to do with this new initiative?

Scott Roulston – Well, I don't know if I would go quite that far. But I think what they are doing is providing leadership and we really need it. Because we really haven't had that voice out there calling to task organizations, calling to task the process that we need to bring about change. And I really applaud the Cleveland Foundation for sticking their neck out on this. Because we *do* need to be bringing more resources to bear on economic development.

April Baer – Every Friday Scott Roulston of Fairport Asset Management joins us to talk business. Thanks, Scott!