

Weekly Financial Report with Scott Roulston

November 8, 2002

Scott Roulston, CEO of Fairport Asset Management, discusses the possible economic impact from this week's elections, the Fed's decision to cut rates another, perhaps final, time, and the colossal fall of the OM Group's stock price this week.

April Baer – As Wall Street prepares to begin trading today, the major market averages are up for the week, but not by much. Analysts say that there are fears Wall Street's recent rally may have been too much, too soon. The DOW dropped more than 184 points (or 2.1%) to close at 8586. There are also growing worries about when the economy is going to get better, following Wednesday's half point interest rate cut from the Federal Reserve. Every Friday at this time, Scott Roulston of Fairport Asset Management joins us to enlighten and enliven the business news of the week. Hi, Scott.

Scott Roulston – Happy Friday!

April Baer – Thank you. Let's talk a little bit about the elections and their effect on the economy. A lot of people were waiting to see if the markets would react on Wednesday morning when the returns were announced. But there really wasn't much of a jump after the news about the Republican sweep. Now, traditionally the GOP has been pretty business-friendly, but I wanted to ask what were some of the major economic issues you'd expect to see Washington move on in the next session?

Scott Roulston – At the top of the list, probably tax cuts. I would think that President Bush would ask for a reduction of dividends – the so-called "double taxation". He may ask for complete elimination. I don't know if he'll get that, but I think some sort of investor-friendly tax cut is probably in the cards and at the top of the agenda. They are going to have to restrain spending. Social Security is on the list. And a couple of other things that might be interesting that I haven't heard people talking about – one being the Fed nominations. Greenspan's replacement comes up in the next couple of years. That will be interesting. I could also see some replacements in some of the cabinet positions, too. Again, it's still confidence in the markets and along with Harvey Pitt's replacement and Webster's possible replacement, those kinds of things will help investor confidence.

Weekly Financial Report with Scott Roulston

April Baer – Lots of big shoes to fill. It seems there are plenty of smiling Republicans at the state level, too. Not a lot of people noticed, among Ohio's gubernatorial election and the hot Supreme Court races, but the Ohio Republican Party actually got a stronger hold over the State Legislature, after the election results were announced. Speaker Larry Householder told us this week that State tax structure is likely to be a big priority, as the legislature gets back to work. How does that sound to you?

Scott Roulston – It would be wonderful if they would do it. You know, we have the same leadership though, that has been in place for the last couple of years. That remains to be seen. Tax receipts are going down and the school funding issue is a huge problem across this state. So we'll have to wait and see, but they do have some major issues down in Columbus to deal with.

April Baer – I saw an item the other day that said the Ohio Supreme Court hopes to resolve school funding by the end of the year, so I guess we'll wait and see if that happens. Real quickly, you mentioned Harvey Pitt's resignation. What a clever guy! I guess he thought he could sneak right past us by quitting on election day. Are you going to miss this guy, Scott?

Scott Roulston – (laughter) Hardly. And I don't think Harvey Pitt could sneak past anybody! But no, I don't think too many people are crying alligator tears over his departure.

April Baer – Listen, about the rate cut - Wednesday the Fed made the surprisingly aggressive move that unnerved the market, leaving investors unable to decide whether it was a sign of economic trouble or a positive step worth betting on. What did you think about it?

Scott Roulston – Once again, you're right. It was one of those "what do they know that we don't" or "are they just as clueless as we are" kind of questions. I think that did unnerve the market. Why 50 basis points? Have they seen something that isn't good? But if you go past that, what their comment said was that they signaled that this was it, which is a good thing. They signaled pretty clearly they are not going to lower rates again in December and that this big move is intended to kind of put a punctuation mark at the end of their significant rate reductions. I think it's going to help, but not that much. And we're still waiting (in terms of your question on the market) for some sort of tangible proof of economic growth: some proof of earnings growth; I think some resolution of the



Weekly Financial Report with Scott Roulston

Iraq situation is definitely going to impact the market; and also oil prices, which will help; and maybe, like we were saying before, some sort of tax cut would be helpful as well.

April Baer – One final note on the local front. This week a company that is based in Cleveland – the OM Group – announced some cutbacks in its production, especially in some reclamation and tungsten outfits that I believe are mostly out of state. They said they might even sell the tungsten business altogether. Did you see what the stock price did after that?

Scott Roulston – Well, enormous. Actually even prior to that they announced some huge inventory write-offs – they're in the cobalt business, as well as other specialty chemicals and metals. They announced an enormous write-off and the stock went from about \$60 a share to \$7 a share...

April Baer – Ouch!

Scott Roulston - ...and even more significantly, I think, the CEO, Jim Mooney, had his entire shareholdings of \$22 million wiped out because he evidently had margin fees. There are still a lot of questions about the stock and the company. They brought in a CFO, Tom Miklich, a while ago who is on the Board and also was the former CFO at Invacare and Sherwin-Williams - a solid CFO. But there are a lot of questions around the company and what happened with the margin; with the big inventory write-off; did they write-off even more than they had to. This is going to be a story that has some legs.

April Baer – Well Scott, thanks for joining us. Have a very relaxing weekend.

Scott Roulston – Talk to you next week!

April Baer – Scott Roulston of Fairport Asset Management chats with us about the economic news of the week every Friday.