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One part talent, three parts ego

Madonna, the sly singer, is America's top-earning performing artist this year. Normally reveling in publicity, in 1987 she refused to pose for the cover of our annual listing of America's highest-paid entertainers. Why? Because she wanted to control her image. Grasping? Greedy? No way. Sexy, naughty, an artiste. (An agency supplied our cover photo.)

By contrast, staffer Peter Newcomb reports, many big-money entertainers can't resist flaunting their loot. Says Newcomb, who supervises the rankings and wrote the accompanying article: "This year for the first time we received phone calls from press agents asking whether their clients would be on the list. And, if so, where in the rankings. Singer Rod Stewart's entourage was dismayed to learn they were dropping him from the list. Why? Well, Stewart was close, but we figured Guns N' Roses would nose him out for the 40th spot.

There were frustrations in the reporting but amusing moments as well. Matt Schiffrin, who wrote the Madonna piece, recalls a typical interview: "We had scheduled an off-the-record breakfast at the Beverly Wilshire with a fairly important music industry executive. We expected a middle-aged corporate type to show up, but in walks this Michael Jackson look-alike, long hair, dark Ray-Ban sunglasses, a business suit, tuxedo shirt with no tie, and white socks. He sat down, removed his sunglasses to reveal bloodshot eyes and launched into a lot of bragging about the rock stars he had known." The chap produced some useful information but only after subjecting Schiffrin and Newcomb to seemingly endless name-dropping. Show business is still show business. One part talent, two parts marketing, three parts ego.

Watchdogs that didn't bark and other sagas

The public was shocked two years ago when Texas' biggest bank system—the $3 billion First RepublicBank Corp.—failed. Why did the collapse take so many people by surprise? After careful digging in the record, William Barrett has produced a disturbing tale about seemingly deliberate suppression of inconvenient information. "Less than due diligence?" starts page 38.

"The takeover game isn't dead; it's just gone private." Tatiana Pouschine reports on dealmaking in the post-junk-bond era, when smart money must now deal with other smart money. Page 63.

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Follow-Through

Edited by Edward Giltinan

One penalty the 49ers will gladly accept

Football furor

Forbes caused a furor five months ago by uncovering a hidden reason behind the dominance of professional football’s San Francisco 49ers, winners of four Super Bowls in the last decade. Put simply, the Niners were buying up high-priced talent, with a payroll 30% higher than the league average. But it was the source of the Niners’ funds that irked other NFL team owners. In late 1986, Forbes wrote, Niners owner Eddie DeBartolo Jr. violated NFL rules by shifting ownership of the team into his father’s $1.4 billion real estate empire, the Edward J. DeBartolo Corp.; this created tax savings that could be used to pay more for top players. But league rules prohibit ownership of a team by a corporation with major nonfootball operations.

Now NFL Commissioner Paul Tagliabue has slapped the Niners with a $500,000 fine for its violation. But he refused to make the team forfeit draft picks, claiming it enjoyed no “competitive advantage.” DeBartolo Corp. retains ownership, at least until next March. That’s when NFL owners will vote on whether to keep the present ownership rules or allow all teams to be owned by major corporations, as the Niners are.

Down but not out

In an October cover story last year, Britain’s Reuters Holdings Plc. was heralded as the future nervous system of the world’s financial markets. In the following nine months the company’s market value increased 40%. Then, late in July, Reuters disclosed that some New York and London customers were cutting back subscriptions to the company’s information service, apparently because of the financial markets’ dire straits. Analysts quickly shaved earnings estimates. By mid-September Reuters’ American Depositary Receipts had descended well below $50 each, more than giving back the advance since last fall.

The selling seems overdone. Even after the cancellations, Reuters says it is showing a net gain in orders, thanks to new business in Japan, Germany and the U.S. The company also insists that its much delayed automatic trading service will be every bit as revolutionary as promised. Reuters now declines to set a firm launch date.

Another point worth reflection: Saddam Hussein has amply demonstrated that the end of the Cold War will not mean the end of foreign exchange or financial market volatility, the stuff on which trading fortunes are won and lost. In the long run, the demand for Reuters’ instantaneous global market information should continue robust.—John Marcom Jr.

Scrap paper

Shrinking, says James River Corp. Chairman Brenton Halsey, is “not as much fun” as growing. But shrink Halsey must. Forbes in 1984 christened James River “the best little paper company in America.” Halsey and President Robert Williams had built it into a leading specialty papermaker by buying small mills from big, less agile companies. Unfortunately, James River expanded out of specialty papers, paying $1.6 billion for Crown Zellerbach in 1986. That made it the second-biggest paper company in America—but no longer the best.

In November 1988 Forbes argued that the company had gotten too complex, but Halsey disagreed. Now he’s changed his tune. In August he announced that James River would sell operations accounting for almost a quarter of its $6 billion in sales. Halsey wants Richmond, Va.-based James River to concentrate on three businesses: consumer products, including Dixie brand cups and plates; food and consumer packaging; and items such as copier paper. He hopes to buy back some stock, reduce debt and raise the company’s 10% return on equity to 16%. All of which will take time.—Janet Novack
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Okay, this is a performance luxury sedan.

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To find out more about or test drive the Infiniti Q45 performance luxury sedan, call 1-800-826-6500 for the name of your nearest Infiniti dealer.
Hey, buddy, can you spare $200 million?

For a look at what "deep pockets" means when the chips are down, keep an eye on Cineplex Odeon Corp., North America's second-largest movie theater chain, and its two biggest investors, MCA Inc. and Canadian billionaire Charles Bronfman. The Wall Street Journal's Heard On The Street column detected "signs of a rebound" in late August. Not likely. Cineplex may have to pry at least $100 million out of its two deep-pocketed investors before the end of the year just to stay afloat.

Hard to see why either one would relish coughing up that much additional cash. The company's cash flow failed to cover interest costs of $29 million during the first six months of the year. Cineplex has been using some of the proceeds of its asset sales ($128 million worth in the first six months) for working capital. Worse: The theater assets fetched only 65 cents on the dollar. Which means, in a badly softening economy, that the market value of Cineplex' assets might barely cover its debt ($545 million at June 30).

MCA and a group led by Bronfman together control nearly 66% of the voting stock. The partners have already promised Bank of America and seven other bank creditors that they'll kick in up to $50 million each, if necessary.

Fine, but it's probably not enough. "We could live with that. It would be nice if it were $150 million to $200 million," says Cineplex President Allen Karp. The banks have demanded that Cineplex raise $200 million from asset sales by year's end. But Karp insists there is no pressure to sell the Cineplex "gems"—theaters in Canada, New York, Chicago, Seattle and Los Angeles—or even lesser markets at fire-sale prices. Still, most competitors think the company is in a real bind; so do the short-sellers, who have amassed positions amounting to nearly one-third of the company's public float.—Kathryn Harris

Running aground

Billionaire Ted Arison, founder of Carnival Cruise Lines, was negotiating to bail out his $1.8 billion (assets) Ensign Bank before it was taken over by the feds in late August. Arison had already invested around $20 million in the bank, and Ensign officials were telling regulators he would throw in as much as another $100 million.

Turns out there was a bit less than more to Arison's offer. No hard cash, for example. According to a spokesman for the Office of Thrift Supervision, Arison wanted to kick in some private companies that he said were worth $100 million. After several weeks of negotiations that preceded their takeover, the feds were obviously unimpressed, especially when Arison failed to produce certified appraisals proving the companies were worth that much. Arison's people have filed suit against OTS to get off the hook for notes they had pledged in creating Ensign. Ensign sports an astounding 22% of total assets listed as substandard or worse, much of it from bad real estate loans in New York and Florida.

Investing in Elvis?
The pitch was wild: For a $10,000 deposit, you can be a distributor of previously unreleased Elvis Presley videotapes and other so-called exclusive products. No one would put down ten grand up front for such a thing, right? Wrong, of course. A Dallas-based outfit called TV Millions is being sued by a flock of painfully naive people who say they were fleeced of $8 million. The couple who filed the suit, Dwayne and Sandy Bolin of California, Mo., say they and at least 140 other babes in the woods were hooked by an ad in USA Today and other publications promising "six figures the first year."

Surprise, the Bolins say all they got was one cheap Elvis video and a sinking feeling.

The FBI, IRS and Postal Service are all supposedly on the case now. But they shouldn't have any trouble finding TV Millions, since it is now running a similar operation in Dallas, as Tyro Inc. Charles Cole, one of its three principals, was convicted with his wife, Delores, on fraud charges in the early 1980s for similar schemes involving diet aids and vitamins for smokers. Back then, the two sheltered their booty in something called the Action Revival Church of Mobile, Ala., where Mrs. Cole was listed as pastor.—Claire Poole

Pepsi's sweet little deal

An Akron-based outfit called American Business Computers Corp. has been bubbling lately. The company, which develops high-tech soft-drink dispensers—not computers—has seen its Nasdaq-traded shares rise from 1% just over a year ago to a recent 6%
bid. With 13.5 million shares outstanding, that gives ABC a market cap of over $90 million. Not bad, considering it lost $1.6 million on sales of $3.7 million in its latest fiscal year.

The market is probably excited about a licensing deal ABC amended with Pepsi-Cola Co. in July. Pepsi gets exclusive rights to ABC’s soda dispensing technology, in exchange for minimum royalty payments of $1 million a year. Thanks to Pepsi, ABC eked out a $125,000 profit, worth a penny a share, in the quarter just ended.

With the amended Pepsi agreement in hand, several investors, including Pepsi, can now run for the door. Some three dozen holders are registered to sell 6.4 million shares to the public. Pepsi is registered to sell its entire 2-million-share holding, bought for a buck a share in 1986.

**Betting on Fidel’s fall**

The collapse of communist governments and economies in Eastern Europe has pundits wondering how long Fidel Castro can continue in Cuba.

That’s prompted the Council for Inter-American Security to sponsor a Predict the Fall of Fidel contest. It is, in effect, a geopolitical office pool for anyone with a touch-tone phone. It costs about $5 to play if you call, though mail-ins are also accepted.

Some 300 predictions have come in so far, including ones from Texas oilman Nelson Bunker Hunt (who guessed Oct. 5, 1993) and former U.N. Ambassador Jeane Kirkpatrick (who predicted “by the end of 1991”).

The winner gets three nights in free Havana, the runner-up a trip to Washington for a briefing on Cuba’s transition to democracy. Contest deadline is Dec. 31. The council’s address is 122 C Street N.W., Suite 710, Washington, D.C. 20001.—Joel Millman

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FORBES, OCTOBER 1, 1990
**Readers Say**

**Good sports?**
Sir: In “Throw a tantrum, sign a contract” (Aug 20) you said that bad and ugly was the way to make big money in men's professional tennis. Volvo has been sponsoring men's tennis since 1973, and we would contend that a sponsor can expect to pay as heavy a price for exemplary sportsmen like Rod Laver, Bjorn Borg or Stefan Edberg as it would for any malcontent. Corporations committed to sports marketing are concerned with the economic harm they might suffer through association with boorish acts or contemptible demeanor.
—William P. Mergler
Vice President
Volvo North America Corp.
Rockleigh, N.J.

Sir: In your column entitled “Throw a tantrum, sign a contract,” you called tennis players “malcontent.” I don't think you know what you’re talking about. Tennis players are the epitome of the professional athlete. They work hard, are dedicated, and try to be the best at their craft. And if you look at the careers of some of the greats, you'll find that they've been successful on the court and in the business world. So don't call them “malcontent.”
—Don't Call Them Malcontent
San Francisco

**Pyramid scheme**
Sir: If Julian Simon tried solving his personal economic problems in the same way he wants to solve our nation’s, he would be arrested (“The more the merrier,” Apr 2). What he is suggesting—that we deliberately increase our population in order to increase productivity—is a pyramid scheme, plain and simple. He would destroy our nation’s long-term ability to support its people in exchange for some short-term benefits.
—Daniel R. Lindsay
Bellerive, Wash.

**Don't have a cow**
Sir: Peter Huber contends that with use of steroids in cows we would need fewer cows since we would get more cow per cow, hence saving the rain forest (Aug 6). Why further contaminate our already overly contaminated bodies? The logical solution is simply eat less cow.
—David MacNair
Forest Hills, N.Y.

**Square roots**
Sir: Michael Novak stigmatizes both coasts and lauds the Midwest for being square (Sept 3). Novak revels in stereotypes. These days, when people go home to Mom’s meat loaf, their sisters bring their girlfriends, their nephews look like Bart Simpson, their younger brother is a commodities broker and convicted felon, and great-aunt Lily defends a woman’s right to an abortion.
—Daniel D’Arezzo
New York, N.Y.

**Power co-ops**
Sir: Your article about Northern Virginia Electric Cooperative, “Nobody here but us farmers” (Aug 20), failed to mention that all electric utilities receive some form of federal assis-
Subsidized competition

Sir: Re What's Ahead for Business (Aug. 20). Forbes would have us believe that the transition to an information-based economy can be managed only through the subsidized capital which the Baby Bell seven command. You ignore the cable industry's sizable commitment to fiber-optics as we build, without subsidies or guarantees of any sort, an unsurpassed video delivery system.

—Charles F. Dolan
Chairman
Cablevision
Woodbury, N.Y.

Sir: It is virtually impossible to prevent cross-subsidization within a company from a regulated business (such as telephone) into an unregulated one (like cable tv). Bring on the competitors—but real competitors.

—James M. Hoak
Chairman
Heritage Communications, Inc.
Des Moines, Iowa

Wooden ships

Sir: I enjoyed your article on the pleasures of wooden boats (“And all the boards did shrink,” July 23), to which, being the gratified owner of a Concordia yawl, I can legitimately attest. It is marvelous, in this age of high-tech materials and science, that the undeniable qualities of wood can so stubbornly assert themselves. Awl-grip and roller-furling be damned!

—James Maroney
Leicester, Vt.

Free Forbes

Sir: Re your mutual funds issue telling investors at least a dozen times not to pay fees or loads for mutual funds (Sept. 3). I don’t believe 4% to 5% is too much for professional financial advice. After all, why pay newsstand prices for Forbes? You can read it at the public library.

—Bill Smith
San Diego, Calif.
"With all thy getting get understanding"

Fact and Comment
By Malcolm S. Forbes Jr., Editor-in-Chief

WHAT GOOD IS A CAR WITHOUT FUEL?

His hand forced by Russian President Boris Yeltsin and a collapsing economy, Mikhail Gorbachev is ready to move ahead with a radical, free-market economic program. In 500 days, according to the Yeltsin blueprint, the central-ized, ossified Soviet economy will be shattered—there will be privately owned housing, land and factories, as well as stock exchanges and slashed subsidies. Alas, a critical part is missing: turning the near-worthless ruble into a hard currency.

Without a real ruble the Gorbachev-Yeltsin revolution will falter. How can you have a functioning economy without money? It’s like trying to have a restaurant without food, an army without ammunition, a body without blood.

Too many economic experts fail to appreciate that money reforms must come simultaneously with or before other economic changes. After the devastation of World War II, Japan, Germany and Italy shored up their currencies before their respective economic miracles.

How can the ruble rapidly undergo a metamorphosis from play money to real money? The Kremlin has between $20 billion and $30 billion worth of gold and could raise $10 billion to $20 billion more in borrowings from the West. With a war chest like that, it could issue ruble bonds backed by gold or hard currencies. Such a move would immediately give value to the ruble, providing the basis for a reformed banking system and the beginnings of a credit economy. In the bold spirit of Yeltsin, Moscow should make the ruble convertible into foreign money or gold at a rate above the black market. If people saw that the government was determined to revalue, not devalue, the ruble, the black market value of the money would shoot up. Why? Because the current rate discounts future inflation.

Without a revived ruble, the Gorbachev-Yeltsin program will flounder, discrediting free-market ideas and giving dictatorial-minded political forces a new lease on life.

HOW DO WE PREVENT

a repetition of Iraqi aggression in the Middle East? After all, that country tried to seize Kuwait 30 years ago and waged a war of aggression against Iran 10 years ago.

Answer: After the fall of Saddam Hussein, award northern Iraq to Turkey. That’s where Iraq has most of its oil. Democratic, secular Turkey, with a population several times that of Iraq’s, could make good use of the oil money. Unlike Iraq, it wouldn’t use the dough to go on arms-buying binges in order to commit acts of aggression against its neighbors.

That solution would not be punitive. The vast majority of people in northern Iraq are Kurds, not Arabs. This territory was given to Iraq under the auspices of the League of Nations after World War I with the understanding that the Kurdish population be provided substantial autonomy. That pledge hasn’t been kept for decades (Hussein has killed thousands of Kurds with poison gas). The area should thus revert to Turkey, whence it was taken, on the condition of fulfilling the promise of home rule for the Kurds. (Turkey’s treatment of
its Kurdish population is vastly better than that of Iraq’s.)
As Middle East expert J.B. Kelly put it in the National Review: “A transfer of ownership would deprive the Iraqi state of the revenues which, to date, have been largely devoted to mischief-making. By a happy chance, the Iraqi dictator himself declared that the invasion of Kuwait was prompted by the noble aim of wiping out the artificial frontiers imposed upon the Arab world by the imperial powers. Good enough: Let’s begin with the frontiers of Iraq.” Amen.

**GINGRICH GUNG HO TO GET ECONOMY—AND GOP—GROWING**

House minority whip Newt Gingrich (R-Ga.) has become as welcome at the budget summit between Congress and the White House as a skunk at a garden party. His confidantes want to raise taxes to help reduce the deficit. Gingrich disagrees vehemently. He’s right. Increasing America’s tax burden will depress the economy even more. Gingrich advocates cutting the destructively high, revenue-killing capital gains levy and, less vociferously, reducing the Social Security payroll tax. The White House and congressional Republicans should follow his cue.

Gingrich recognizes that his party must aggressively advocate its own agenda, such as cutting taxes. Otherwise, Democrats will maintain the political initiative, and the GOP will remain in the minority.

**DELIGHTFUL DESSERT**

With this issue, **Forbes** subscribers get a special treat: FYI, the first lifestyle publication for executives. FYI will be sent exclusively to **Forbes** subscribers with regular issues of **Forbes** several times a year.

With pith, wit and a bit of whimsy, FYI delivers insights and advice on how best to enrich your nonbusiness life. Nowhere else will you find such an alive array of articles so full of information on so many topics packaged so imaginatively. FYI appeals to mind and eye.

It grew out of **Forbes’** Personal Affairs section. When bestselling author and playwright Christopher Buckley came on board late last year as editor, he said, “**Forbes FYI** will combine the gentlemanly sophistication of the old *Esquire*, the eye appeal of the *Sports Illustrated* annual swimsuit issue, and the high-tech hipness—and the fast access to the goods—of the *Sharper Image*. It will seek to be a reader friendly (and reader fast) clearinghouse of information.”

Chris and his crew have succeeded admirably on all counts.

Overseeing this effort on both the editorial and advertising fronts is President's brother Bob. He did such a superb job that I’m now suffering a bit of sibling envy.

**DON’T MISS THIS**

Mark your calendars: Beginning on Sunday, Sept. 23, PBS will air for five consecutive evenings the best documentary yet on the Civil War. This 11-hour epic series, the work of filmmaker Ken Burns, brilliantly makes use of thousands of period photographs, paintings, lithographs and newspaper headlines. These are skillfully interwoven with interviews of notable historians and with first-person quotes from figures of those times, ranging from Lincoln to private soldiers, voiced by actors such as Sam Waterston and Jason Robards. The series is wholly authentic, moving, educational.

As an American, you owe it to yourself to watch it, and you should get your family and friends to do so as well.* As producer and director Burns rightly points out, “The Civil War was the most important event in the life of our nation, and its importance continues today. Whether we know it or not, we’re still walking around in the shadow of that war.”

*If you can’t watch it and your VCR doesn’t work, then spring for the money to buy this nine-part series at: PBS Video, 1320 Braddock Place, Alexandria, VA 22314. You should also buy the companion book, *The Civil War—An Illustrated History* by Geoffrey Ward with Ric Burns and Ken Burns (Knopf, $50). It is far superior to any other such “made-for-TV” volume.
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Other Comments

The New Saladin?
Someone ought to remind Saddam Hussein that Saladin, the great "Arab" hero, was in fact a Kurd.
—Ali Massoud Ansari, in the Economist's letters column

Riding High
Five years ago, turned off by the Capitol and frustrated by the legislative process, [Senator Warren Rudman] made it quite clear he was going to quit. And he almost did, until Howard Baker, then the Senate majority leader, sat down with Rudman to persuade him not to leave.

The combative New Hampshire Republican these days is savoring his latest coup. Once just a label on the deficit-busting Gramm-Rudman-Hollings bill, more recently the bulldog vice chairman of the Senate ethics committee that wrestled Republican Senator Dave Durenberger of Minnesota to denouncement, Rudman now is the man who pushed [Supreme Court nominee David] Souter to the brink of the nation's highest court.

Rudman is riding a wave of bipartisan popularity at home that surprises even him.
—Cathryn Donohoe, Insight

A Hug Says It
My son went off to college last week. We had a long drive ahead of us—425 miles—and, in anticipation, I had tried to prepare a few uplifting and inspiring remarks. Not a lecture, but an attempt to convey that I was proud of his being accepted, that I hoped he would take full advantage of it, that a tendency to laziness can be conquered. On the whole, it was a sermon best left undelivered. In fact, there was not much of anything to say. He was facing an unfamiliar place with several thousand inhabitants, every one of them a stranger. In moments like that, a hug has to convey a lot. Again and again, on the way home, I found myself hoping that it had.
—"The Talk of the Town," New Yorker Magazine

Proper Put-Down
He can compress the most words into the smallest ideas better than any man I ever met.
—Abraham Lincoln, responding to a vitriolic critic

Iraqi Edge
Iraq received its first order, 200 GC-45 guns, in 1985. The guns were manufactured under license by Austria's state munitions company. The GC-45 can fire a shell about 25 miles and has a throw weight twice that of the biggest guns used by the West's armies. "In terms of range and accuracy, the [GC-45] will outdo anything the U.S. Army has got," says Christopher F. Foss, editor of Jane's Armour and Artillery, a British annual that surveys weapons systems around the world. "It is going to give the Iraqi the edge," Andrew Duncan, a weapons analyst of the Institute of Strategic Studies in London, says simply "It's a bloody good gun."
—Kevin Toolis, reporter to London's Sunday Correspondent in the New York Times Magazine

When choosing between two evils, I always like to take the one I've never tried before.
—Mae West, The Book of Quotes by Barbara Rowen

Achtung! Achtung! Rules and regulations encumber German society. There are laws against squeezing the tomatoes at the grocery store, laws telling you where to clip your hedge, laws on how to hang your window curtains. When you move in Germany, you must register with the police.

Today, as Germany sweeps toward unity, people fear that things are happening too fast, too efficiently. It's hard not to respect a people who can stand calmly in the rain, waiting for the light to cross a street on which no traffic passes. But sometimes you feel like a friend who recently took a vacation in Italy. "God, it was wonderful," she said. "Everybody was driving the wrong way down one-way streets."
—Michael and Jennifer Meyer, Newsweek

Defl Deflator
During our chat President Lyndon Johnson scrawled a few words on a piece of memo paper and sent it to his outer office. A few minutes later his secretary brought him back a message on a small piece of paper. Johnson looked at it, crumpled it, and threw it in a wastebasket. A reporter who knew me happened to be idling in Johnson's outer office during this exchange of messages, so knew what it was about and told me as we walked away from the office together.

"Do you know what was in that message Johnson sent out while you were in there?"

"No. What did it say?"

"It said, 'Who is this I'm talking to?'"

—Russell Baker, The Good Times
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Over the last half century, Jaguar has introduced some truly remarkable automobiles. Indeed, legendary Jaguars such as the XK120 and XKE helped to define the term "classic motorcar." For 1990, we would like to introduce you to the Jaguar Sovereign.

With its dramatic styling, aerodynamic headlights and regal grille, it is destined to be yet another Jaguar classic.

But it takes more than style to create a classic Jaguar. Which is why every Sovereign is powered by a 223-horsepower, four-liter, 24-valve, six-cylinder engine, mated to an electronically controlled, four-speed automatic transmission that features "sport" and "normal" shift capabilities. The Sovereign is also equipped with anti-lock disc brakes, automatic ride leveling and Jaguar's renowned four-wheel independent suspension.

Of course, no Jaguar would be complete without a host of luxurious amenities. The Sovereign cabin is fitted with hand-polished, inlaid burl walnut, supple leather, an electrically operated sunroof and the convenience of computerized climate control.

We invite you to test drive the 1990 Jaguar Sovereign. For your nearest dealer, call 1-800-4-JAGUAR. Discover the joy of driving the car that is destined to be the next great Jaguar classic.
MEANWHILE, WHAT OF THE PACIFIC?

With most of the world’s attention focused on the Persian Gulf, it is important for us to remember—indeed, superpowers can never forget—that there are other parts of the world that cannot be ignored. As for example, the Pacific Rim.

The 1989 figures on our trade with the Pacific are now out, and they confirm the continuation of a trend that began ten years ago: The dollar value of U.S. trade with the Pacific exceeds that of our trade with Europe, and the margin of difference continues to grow. Last year our trade with the Pacific amounted to over $300 billion, while our trade with Europe was under $250 billion.

This is not to say that we can, or should, ignore Europe. Its importance to us politically, militarily and economically is, or should be, self-evident. But those trade figures show that we must have many priorities, and that the future of U.S.-Pacific relations has to be high on every agenda of our government, as well as of our private planners.

We have substantial deployment of our troops in Japan and Korea and on vitally important bases in the Philippines, even though only about 6% of our total forces are stationed in the Pacific. Also, our joint military activities in Australia have benefited both countries. Now, some critics are saying that such deployments were justified only as a deterrent to Soviet ambitions in the Pacific and, since these no longer exist, we must bring our forces home and rely on our Asian allies to maintain peace and freedom in the Pacific by themselves.

These are much the same arguments used to justify demands that we bring home a large part of our NATO forces: There is no longer any Soviet threat, and our allies should contribute more to their own defense.

These arguments overlook the key fact that it is enormously to our advantage, militarily and strategically, to have our forces forward deployed both in Europe and the Pacific. The best place, militarily, to defend the United States is not within the continental boundaries but by troops that are forward deployed.

There should be no conflict with most allied leaders on this point because it is also the best place to defend the freedoms of our allies. But nationalist sentiments are increasing in many Asian nations and there is a growing desire for a political union along the lines of the European Community. It would be easy for demagogues to take advantage of those emotions as they demand, with increasing hysteria, that the “U.S. must go.”

But since the Soviet threat, in the Pacific at least, is far from over, and because no other country except the United States can provide the regional stability and security that continuing prosperity there requires, it seems clear, as the Defense Department’s report “A Strategic Framework for the Asian-Pacific Rim” says, that “with a total two-way Pacific trade exceeding $300 billion, appreciably more than our transatlantic trade, it is now in our own best interest to help preserve peace and stability” there. And, I repeat, it certainly is far better militarily to defend the U.S. there than attempt to do so from within our borders.

If our defense-budget cutters forget these factors in their eagerness to bring our troops home, we really will have cause to worry about our economy, and our country, and it will not be because Japan is “getting too powerful.”
When drivers drink, car insurance rates get high.

It can't be denied that drunk driving is one of the most serious and tragic social problems of our times. It takes a devastating toll on human lives. But the economic costs run high as well.

Drunk drivers are involved in nearly 40% of all fatal traffic crashes. And, a sizeable portion of every insurance dollar goes to pay for the damage they do. They also cost society billions of dollars a year in lost productivity and property.

We want them off the road. "'s what Allstate is doing to help.

Since 1968, we've been calling the public's attention to the drunk driving problem. As far as we're concerned, it's not enough can be said. To that end, we're diligently working with lawmakers to pass tougher drunk driving laws. We are also providing funds and services to Mothers Against Drunk Driving to help them with their important mission.

We're lending a hand to the National Commission Against Drunk Driving. And, with government agencies and various sports organizations, we've helped form TEAM (Techniques for Effective Alcohol Management)—asking people to think responsibly when drinking at sporting events. If you'd like to find out how you can get involved as well, just write to: Allstate Consumer Information Center, Public Issue Department 200, P.O. Box 7660, Mount Prospect, IL 60056-9961.

Choosing not to drink and drive is how you personally can do something to help fight the rise in insurance costs. But that, alone won't solve the problem. The car insurance system is due for a change. We're working to see it become a reality.

We're committed to building a car insurance system everyone can live with.
What's Ahead for Business

Edited by Howard Banks

A TRADE BOOM TO RESCUE THE DOLLAR?

The mid-September betting in Washington is now 60/40 that there will be a budget deal, and that a major plank in it will be an increase in energy taxes. The new tax will probably be equivalent to a 12-cent-a-gallon hike in gasoline prices—but rather than being applied at the pump, the levy would be applied as a wholesale tax on oil companies, refiners and utilities (thereby catching coal and nuclear, as well as oil).

Such a tax is intended to raise around $12 billion a year and be the largest contributor to a deficit cut that is now targeted at only $30 billion or so in fiscal 1991. Much of the rest of the cut called for by President Bush ($500 billion over five years) will likely be attributed to anticipated lower interest rates over the period.

Yes, lower short rates, even if the Federal Reserve does not act. Raising taxes (or cutting government spending) will slow an already weak-kneed economy. The National Association of Manufacturers reckons that each extra dollar of energy tax will cut roughly two dollars out of gross national product. The result should be reduced demand for money, and hence lower rates.

Recent downward pressure on the dollar would, of course, be intensified by lower interest rates. The dollar would be particularly vulnerable against the tight money policies of West Germany and Japan, and both are pushing up interest rates.

But U.S. exporters stand to benefit from a soft dollar. [European manufacturers are already complaining that the U.S. is deliberately pushing the dollar down to improve U.S. competitiveness.] It could be, however, that the worst of the dollar-selling may already be over. The Fed said recently it has not supported the dollar since 1988 and has made no foreign exchange trades at all since the first quarter of this year, despite repeated rumors to the contrary in the exchange markets.

The prospect, then, is for more good news on the trade front. Slow U.S. growth will reduce demand for imports, while faster growth in Europe and Asia will help U.S. exporters. In the second quarter, the merchandise goods trade deficit of $96 billion was offset by a surplus of $69 billion on trade in services, giving a net national trade deficit of just 0.3% of GNP—although the current account deficit, which includes interest payments to our foreign creditors, will most likely be around $70 billion for 1990. The National Association of Manufacturers is now forecasting a 10% increase in net exports in 1991.

Despite higher oil prices, the trend is clearly headed for an overall U.S. merchandise goods trade balance, perhaps as soon as the end of 1991. Today the dollar is around 30% below its purchasing power (or what it will actually buy) against most European currencies and against the yen. When will the dollar rebound? A reasonable guess would be the second half of 1991, when booming exports and relatively low real interest rates begin to drag the U.S. economy back into top gear.
With all but one component reporting, the July Forbes Index is unchanged. The great American job-creation machine seems to be slowing down. The August unemployment rate rose to 5.6% of the eligible work force, while nonfarm payrolls fell 75,000, to a seasonally adjusted 110.7 million workers. This drop, small but disconcerting, follows a decline of 89,000 in July. The last time the work force declined for two consecutive months was from November to December 1982, just when the economy was emerging from a recession. Will we be so lucky this time?

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<td>Auto sales year to date vs. 1989¹</td>
<td>Ward’s Automotive</td>
<td>-5.5%</td>
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<tr>
<td>Index of leading indicators July vs. June</td>
<td>Dept of Commerce</td>
<td>0.0%</td>
</tr>
<tr>
<td>Trade balance 12 months ended June 1990</td>
<td>Dept of Commerce</td>
<td>-101 bil</td>
</tr>
<tr>
<td>Producer price index July vs. 1989²</td>
<td>Dept of Labor</td>
<td>3.4%</td>
</tr>
<tr>
<td>GNP 2nd quarter vs. 1st—annualized growth</td>
<td>Dept of Commerce</td>
<td>1.2%</td>
</tr>
<tr>
<td>NBER Experimental Recession Probability Index²</td>
<td>Natl Bureau of Economic Research</td>
<td>3.0%</td>
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¹U.S.- based manufacturers, excludes imports, as of 8/31/90. ²Finished goods. ³July 1990

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers’ inventories, personal income, total consumer installment credit.

To measure these 8 elements, Forbes monitors 10 series of U.S. government data. The last 14 months’ data for each series are presented below.
IN THE RACE FOR 1992, WHO'LL PUT YOU FIRST ON-LINE?

In today's Europe—and tomorrow's—no telecommunications company can put you on-line with more competitive advantages than France Telecom. We're situated at the geographical heart of the European community. But even more important, we have a track record of translating telecommunications breakthroughs into practical, accessible, affordable customer benefits.

Connecting with France Telecom means accessing some of today's most advanced technology. And it also means connecting with one of the world's largest telecommunications firms, with over 150,000 employees on five continents and more than $15 billion in annual revenues.

To learn more about how we can put you first on-line in Europe, connect with France Telecom at (212) 977-8630.
THE FUTURE: CAN WE REALLY GET THERE FROM HERE?
The future used to be so much fun. It had allure. It had enchantment. It had verve. But sadly, it had very little to do with reality. The future of today needs a little more focus. Especially when it comes to business and computing systems. Novell networking software can unite your past with your future. So you keep the equipment you have. Buy different kinds of computers if you want. And they'll all work together. More powerfully and more productively. We planned it that way. If linking your future with your past seems like a good idea today, just imagine how good it will sound ten years from now.

NOVELL

The Past, Present, and Future of Network Computing.
The 1988 failure of Dallas-based First RepublicBank cost investors and the FDIC maybe $4 billion. Yet just the year before, two top Wall Street houses had blessed the merger creating it.

Less than due diligence?

By William P. Barrett

How could it have happened? A seemingly solid Texas bank holding company merges with a smaller, weaker competitor in a deal sanctioned by two of Wall Street’s elite investment houses. Barely a year later, the whole thing goes bust. How could so many smart people have been so dead wrong?

Or were their eyes closed? Officially called Plaintiffs Exhibit 7-A, a thin pack of internal bank documents sits in a public file in a Houston courthouse as part of a lawsuit over the disastrous June 1987 merger of long-time Dallas banking rivals Republic-Bank Corp. and InterFirst Corp. The exhibit is pretty unsettling.

This potential smoking gun shows that prior to the merger, InterFirst and its investment bankers, Goldman, Sachs & Co., had specific information—which they didn’t share with investors—that Republic was wildly overvaluing more than $1 billion of its loan portfolio, and thus itself. Effect: Republic was actually far weaker than it appeared. There’s lots of other evidence that this information was shared with Morgan Stanley & Co., Republic’s investment banker. But Morgan, too, stayed mum while the public markets were being tapped for what became First RepublicBank Corp.

For work connected with the ill-fated merger, Wall Street firms charged an estimated $13 million in fees, commissions and expenses. About $6.5 million of that was split by Goldman, Sachs and Morgan Stanley for rendering fairness opinions. Nevertheless, the merged company, First RepublicBank, failed on July 29, 1988—a mere 14 months after the deal that the two Wall Street firms midwived. An out-of-state holding company, NCNB Corp., of Charlotte, N.C., quickly acquired the corpse of the nation’s 12th-largest bank holding company (assets, $33 billion) and the largest in Texas.

Left holding the bag were First RepublicBank shareholders, bondholders and the Federal Deposit Insurance Corp., which looks to have been hung for close to $3 billion—a record bank bailout nearly three times its estimated net tab for the 1984 Continental Illinois collapse. Holders of First RepublicBank common and preferred might get about 3 cents a share when what’s left of the company emerges from a Chapter 11 bankruptcy proceeding, possibly this year.

Forbes has pieced together the sorry tale from interviews and from recent public filings in bankruptcy cases and a series of shareholder lawsuits winding their way through state and federal courts in Texas. Besides Morgan Stanley and Goldman, Sachs, the defendants include Salomon Brothers and about ten of the failed company’s executives and directors.

First RepublicBank’s failure leaves the deep pockets of the Wall Street firms quite exposed. Thanks to the bankrupt-

OCTOBER 1, 1990

FORBES, OCTOBER 1, 1990
The investment banking firms deny that they withheld any required disclosures, did anything wrong or bear any liability. They defend their actions as reasonable at the time and say they are being unfairly second-guessed for unforeseeable declines in the Texas economy. They have even declared under oath that their duties generally did not include determining whether the merged entity could survive. In a recent sworn statement for the lawsuits, Morgan Stanley President Richard Fisher said his team “did the level of work that we expect of Morgan Stanley” and from that point of view the merger was “successful.”

The dealmakers will try to lay any blame on Republic’s auditors, Arthur Young, now Ernst & Young, which just before the merger certified crucial 1986 loan loss reserves with a clean opinion. A defendant in some of the shareholder suits, Ernst & Young also denies any liability, saying the lawsuits merely contain “garden-variety-type” allegations.

Today it seems pretty clear that the two banks, whether separately or together, were doomed to fail. Each was wracked by imprudent lending and crippling loan writeoffs from the sick Texas economy of the mid-1980s. InterFirst, led by Dallas banking veteran Robert H. Stewart III, was much more honest about its problems. Republic, which portrayed itself as healthy, was really the far more troubled bank. This was partly the result of Republic's making more and more risky loans to developers—and booking high profits—as other Texas banks were pulling back.

The court documents and interviews encourage the view that Republic, under the leadership of Chairman and Chief Executive Gerald W. Fronterhouse—who also headed First RepublicBank—was playing somewhat fast and loose. How? By taking unrealistically low loan-loss reserves, artifically inflating the appraisals on which the quality of real estate loans was judged and employing other questionable accounting practices.

But, says Fronterhouse lawyer John A. Gilliam in denying any wrongdoing, “I don’t think anybody realized the severity of the conditions they were dealing with.” He says the collapse cost Republic executives millions of dollars in the value of their own First RepublicBank holdings, adding: “They were not like the s&l defrauders.”

Had the full truth been told up front, the InterFirst-Republic merger would have fallen through, and both banks would have failed on their own. That wouldn’t have done much good for existing shareholders of the two institutions. But full disclosure would have spared those investors who either bought First RepublicBank shares because of the merger hoopla or who bought $200 million in new merger-related issues of preferred stock and notes.

The primary public filings that described the merger, its conditions and the then-current status of the two companies are three prospectuses issued during April and May 1987 before shareholder meetings held in late May. Goldman, Sachs and Morgan Stanley negotiated the deal for the two banks, signed the fairness opinions and, with Salomon Brothers, were underwriters in various issues.

The prospectuses contained all the standard boilerplate warnings. Take this pearl: “The merger could ultimately prove to have been disadvantageous to the stockholders of either company. What merger couldn’t?”

Consider Exhibit 7-A, which has been on the public record since early September in one of the many shareholder lawsuits. It was written by James R. Erwin, then president of InterFirst’s lead bank in Dallas, a few weeks before the merger was announced in December 1986. Exhibit 7-A contains an internal evaluation by InterFirst of 24 large Republic real estate borrowers in Texas, major developers such as Vantage and Midway Development. They held $1.6 billion in loans and loan commit-
looking at the other 89% of the loan portfolio, much of it parked in troubled energy and foreign loans as well as real estate. Copies of this part of Exhibit 7-A went to members of the Goldman, Sachs team working with InterFirst. According to sworn testimony and other sources, the numbers were also shared with Morgan Stanley. Ernst & Young, Republic’s auditor, now says neither Goldman, Sachs nor InterFirst told it of any doubts about Republic loans.

The prospectuses issued four months later contain no mention of these crucial data or any indication that one bank had information suggesting the other was dogmated. How did the investment bankers, the banks and their lawyers finesse the stark fact that the two sides differed on loan quality by more than a cool billion? This was the language inserted in the prospectuses: “InterFirst believes that its provision for loan losses in 1987 will be less than 1986 and Republic believes that its provision for loan losses in 1987 will be no more than 1986.” Nothing about what each bank thought of the other’s numbers.

What else had Goldman, Sachs been told before the merger by InterFirst? Republic’s projected loan loss provision for 1987 would be nearly $100 million higher than that for 1986—which contradicts the prospectuses. Moreover, Republic’s asset base, one internal Goldman, Sachs memo said, “turns out to be significantly worse” than InterFirst’s.

Why would Goldman, Sachs and InterFirst knowingly enter a deal with such a troubled partner? Call it a shotgun wedding. InterFirst was a goner anyhow. Losing big money from bad loans, the bank had no way to come up with the $125 million needed to refinance its own borrowings. With the merger, the combined holding company would have access to capital markets—-for a while, anyway.

The Goldman, Sachs brain trusters had considered trying to put InterFirst’s bad assets into a separate, so-called bad bank to create a smaller but healthy InterFirst. According to testimony, they abandoned the effort after realizing the loan writedowns would be so severe and broad that insufficient equity would have been left in the so-called good bank.

This is not specifically mentioned in the prospectuses. As a potential investor in First RepublicBank, would you have considered knowledge of any of this important?

Morgan Stanley certainly had a clear view about InterFirst. One prememo merger, dated Sept. 3, 1986 and quoted in publicly filed depositions, described InterFirst as “a heavily troubled banking organization without prospects for recovering anywhere in the near future.” This specifically pessimistic but wholly accurate view escaped inclusion in the offering documents. Another memo, dated Apr. 6, 1987, a week before the first prospectus, said of Texas, “Real estate has deteriorated faster than originally expected.”

Even with the prospectuses softpedaling the specifics of the bad stuff, raising the $200 million in fresh capital regulators required for the deal proved difficult. The underwriters had to sweeten the terms on $100 million of preferred stock, and even then it was a tough sell. How tough? In one lawsuit, Davoil Inc. of Fort Worth says Goldman, Sachs bought $625,000 of the preferred for a Davoil account in violation of standing orders not to buy securities that Goldman, Sachs itself was underwriting. The Wall Street firm says it received Davoil’s approval before the purchase.

Where were the regulators here? The federal Office of the Comptroller of the Currency monitored Republic, InterFirst and then First RepublicBank. In the months before the merger, its examiners on the scene—whose reports are secret by law—had to have known that Republic’s financial statements did not reflect reality, and the prospects for failure were good. Still, the agency—which declines comment—sounded no warning and approved the merger.

Clearly, some of the due diligence in the InterFirst-Republic deal was questionable. Salomon Brothers, which collected about $1.2 million for helping to underwrite the preferred stock offering, basically relied on the efforts of Goldman, Sachs and Morgan Stanley. There’s evidence that the representatives of these two firms did surprisingly little on their own in the way of basic grunt work and analysis besides chatting with top management, especially after the December 1986 merger announcement. It’s not even certain the dealmakers ever examined a single loan file, contacted a single big borrower or talked
with any appraiser. The firms say such checks were not required.

Probably the best that can be said about the involvement of the Wall Street firms is that they ignored storm warnings. Several weeks before the vote and issuance of two prospectuses, an ominous Republic memo by the head of its real estate division said the bank had decided to "restructure" $1.1 billion in loans that were in actual or near default rather than foreclose. Again, no public disclosure.

Meanwhile, both before and after the merger, Republic's employees were employing a colorful variety of techniques to prop up the values of the loan portfolio. Among the practices described in court filings: They understated the costs of upgrading commercial buildings for new tenants. They used above-market rents, below-average vacancy rates and a low discount factor to produce falsely high estimates of future cash flows. For troubled borrowers, they advanced new funds so interest could be paid and the loans marked as current.

The easiest tactic of all: Republic simply failed to update appraisals—in Texas markets where real estate values were falling 10% to 15% a year for several years running. By the time of the merger, some properties hadn't been appraised in two years.

After the merger, First Republic-Bank management intensified efforts to stem those loan losses. According to public filings and interviews, top managers marked up the quality of $150 million of loans that had been downgraded by a credit-review committee now populated with InterFirst people. For a time, some First RepublicBank appraisers felt pressured to keep their valuations high.

Of course, the dam could be plugged only so long. Sometime in early October 1987—a bare four months after the merger—regulators insisted that troubled loans be properly recognized. First RepublicBank put $706 million on nonperforming status—one of the largest such single-quarter hits in American banking history. Almost all came from the Republic side. As investors who had bought the new securities just four months earlier cried foul, First Republic officials tried to blame the hit on real estate deterioration occurring during the three months since the merger vote. That simply wasn't true.

It was a dog that wouldn't hunt. In March 1988—merger plus nine months—federal regulators pumped in $1 billion. The formal failure came four months later.

New apartment starts around the country are rapidly drying up. That's good news for rental housing investments.

Playing the recovery in rentals

By Howard Rudnitsky

SPURRED BY liberal tax benefits, American builders threw up nearly 1.3 million rental apartments between 1984 and 1986. Too much, too soon. By early 1988 apartment vacancy rates nationally shot to a three-decade high of 11.8%, as against rates of about 6% to 7% in the early 1980s. In Houston vacancies hit 25%. In Denver and Dallas vacancy rates climbed into double digits. Later, vacancy problems hit Atlanta, Jacksonville and Phoenix.

But markets eventually adjust. Now the building of new rental units has slowed to a crawl. And as supply has decreased sharply, demand has increased a bit. Though home prices are down, many people in high-priced home markets still can't afford to buy and are renting instead—at least until housing prices bottom out. In many of these markets right now, rents look attractive compared to the costs of owning a home. This combination of forces—much lower supply coupled with a modest increase in demand—has pushed the national vacancy rate down to around 9%, even Houston is at 11%. Some smart investors feel that over the next five years apartments could rise in value faster than all other real estate.

The pros are moving in. A number of institutional investment funds have been formed in the past year or so, seeking to raise well over $1 billion to buy apartments. One such is the Bear Stearns Realty Partners Apartment Fund I. It has $270 million available and intends to invest in luxury rental apartments in Portland and Seattle as well as in Washington, D.C., Chicago and Atlanta. Prudential Realty Group, since 1987, has invested $500 million in apartment projects. The California Public Employees Retirement System (assets: $56 billion) is investing at least $200 million in apartments around the U.S.

Of their $100-billion-plus of real estate holdings, pension funds currently have about 8% invested in apartments. But that's expected to rise over

Prudential-owned garden apartment complex in Carlsbad, Calif.

Fewer new apartment projects mean higher occupancy rates.
Intestinal fortitude

Richard Campo, chairman of Centeq Holdings, admits he was a bit nervous when he entered into a contract to buy a 200-unit Houston apartment building back in the summer of 1988. The city's oil economy was deeply depressed, occupancy rates were low, and the risk seemed high. One thing Campo and his partner, Centeq President Keith Oden, had going for them: a low acquisition price. They paid about $20,000 per apartment, less than half replacement cost. To test the market, Campo spruced up and sold off the building within nine months, generating a hefty 35% return.

Since then Campo, his investors and a new partner, former Salomon Brothers Vice Chairman Lewis Ranieri, have bought 2,500 apartments in Houston and are under contract to buy another 2,000.

Another early investor was Maxwell Drever, head of San Francisco's Drever Partners, Inc. He made his first plunge into the depressed Houston market back in mid-1987—at a time when the vacancy rates were still sky-high. A few years earlier Drever had sold several thousand apartments he and his partners had owned in various areas of the country for $177 million in cash. Although his colleagues urged him to jump into Houston immediately, he waited. When he sensed Houston was turning around in 1987, he pounced. Today Drever's firm, through joint ventures with other investors, owns some 6,500 apartments in Houston. "I saw opportunity. Businesses and people were starting to come back to Houston, which was an incredibly cheap place to live. I would rather sell apartments at $50,000 a unit in a fully rented market and be a buyer at $25,000 in an underrented one that's poised to recover."

Even more contrarian is Robert Sheridan, head of Chicago's Robert Sheridan & Partners. In June he bought four apartment complexes with a total of 1,100 units in Phoenix, one of the country's most depressed markets. Rents today do carry the project, but the returns are low. "We have the patience and the staying power to wait for the turn, which will come in a few years," says Sheridan. "That's when we'll make our money."—H.R.

the next four to five years, say real estate investment advisers. They expect pension funds to be particularly attracted to housing markets where the cost of buying a house is high compared with the cost of renting.

Paul Sack is a principal at the REEF Funds, an advisory firm that manages some $4 billion in real estate assets for pension funds. Sack has been recommending that his clients put well over 20% of their real estate assets in apartments.

To George Marcus, chairman of Palo Alto-based investment real estate broker Marcus & Millichap, the West Coast looks attractive: the San Francisco Bay area, Orange County, San Diego and Seattle.

Won't new building soon overwhelm demand? Not likely. The supply of new apartments will be curtailed over the next few years as traditional lenders like s&l's and banks shy away from real estate lending, particularly apartment development. These days the life insurance companies, pension funds and big finance companies that are lending are doing so on tougher terms. Some lenders, for example, are demanding that apartment developers lay down 25% of the purchase price in upfront equity and perhaps another 4% to 5% in a reserve fund for property maintenance. This will help limit the number of new apartments coming on the market.

There are some markets that few investors will touch for now. One problem area is the depressed Northeast, plagued with overbuilding, declining employment prospects and a stagnant population. Other overbuilt areas include Oklahoma City and Phoenix, though some investors are bargain-hunting in these two cities.

Sooner or later, as the overall apartment market improves, don't be surprised if the promoters start flogging new limited partnerships to small investors to get them to put money into apartments. If they do, "stay away from them," warns Martin Cohen, president of Cohen & Steers Capital Management, a New York-based real estate securities adviser. "I wouldn't trust broker/syndicators with my money. Partnerships are illiquid investments, and I suspect they'll find a way to screw things up again."

How, then, can individual investors get a piece of this action? One of the few vehicles that make sense today is Virginia's United Dominion Realty Trust. The trust, recently trading on the NYSE at 14 1/2, owns 8,400 apartments from Virginia to Georgia, they account for 75% of United's assets. United is run conservatively and now yields a respectable 8.5%.

Occupancy has been slow to build in some of United's recently acquired units, but that situation is gradually improving. Bruce Garrison, research director of Houston's Lovett Underwood Neuhaus & Webb, expects United Dominion's overall occupancy rates to rise by next year to the low 90s from a current 89%. Over the next five years, he figures, United Dominion can produce an investment return of 13% to 15% a year. That won't make investors rich, but at least they'll be able to sleep at night. Thousands who put their money in syndicated apartment deals in the early to mid-1980s can't say the same.
The bad news for ABC: It may not overtake NBC in the ratings race this year. The good news: It doesn’t matter.

The ratings game

Bad news, good news

All three networks have had declines in viewership since 1985, but among key demographic groups ABC has declined the least. Result: In most parts of the day, ABC has become the most attractive to advertisers. Since the networks still deliver millions of desirable consumers, they remain the principal medium of mass marketing.

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*First and second quarters.

Source: Nielsen Television Index

The real battle among the networks is over, and ABC has won this round. No, ABC does not garner the highest audience ratings in prime time. But in today’s tough TV competition, it is not so important how many people watch a network’s programs. What matters is whether the viewers are the kinds of people who buy advertisers’ products. The ratings make the headlines, but it is the demographics that advertisers buy.

Lost in the generalizations of the Nielsen ratings is the fact that ABC programs have been scoring highest among the viewers that advertisers most want to reach: women between the ages of 18 and 49. ABC has also been winning the contest for male viewers in the same age group. Women in this broad age group, closely followed by men in the group, are the nation’s big spenders for cars, dish-
 washing detergent and clothing.

Take the prime-time news "magazine" shows, CBS' 60 Minutes and ABC's 20/20. CBS wins in the Nielsen ratings, but ABC walks off with the cream of the audience. In the final week of the 1989-90 season, which ended on April 15, 60 Minutes ranked 17th in the overall ratings, while 20/20 was 26th. But among women aged 18 to 49, 60 Minutes ranked 45th, while 20/20 was 28th. For an advertiser trying to reach women, 20/20 is clearly the better buy. And advertisers do in fact pay more for 20/20 than for 60 Minutes, according to ABC.

ABC now leads the other two networks in reaching the big spenders in virtually every part of the day (see charts p. 43). In daytime viewing, for example, CBS leads in the overall ratings but ABC attracts the most women 18 to 49. In the early-morning market, ABC overtook NBC in the battle for women in 1988. That may explain in part NBC's unceremonious dumping of Jane Pauley from the Today Show last December, but the gap has only widened under Pauley's replacement, Deborah Norville.

In the evening news race, ABC's Peter Jennings leads the other two networks by a wide margin among women. (NBC's Tom Brokaw leads by a nose among men, with CBS' Dan Rather last in both categories.)

What about prime time, the hours between 8 p.m. and 11 p.m.? Here ABC pulled ahead of NBC in the second quarter of 1990 among both women and men 18 to 49. ABC accomplished this largely on the strength of its new spring shows, including America's Funniest Home Videos and Twin Peaks. Of course, viewership is low in the second quarter, but ABC has narrowed the gap since the 1988-89 season began.

What happened to NBC in prime time? In part the network is a victim of its own past successes. NBC's long-running successes, such as The Cosby Show and Cheers, are now more than five years old. "It is a truism of television that as shows grow old, their audience grows older," NBC entertainment chief Brandon Tartikoff recently conceded. With each passing year, more of NBC's viewers slip past age 50 and out of what mass marketers regard as the prime spending years.

Even as it has gained strength among the young and early middle-aged, so has ABC gained ground among the moppets. ABC's most dramatic gains have come in the Saturday morning time period, where the prime audience is made up of children between 6 and 11. In 1985 ABC lagged far behind NBC and CBS among the
cartoon set. But then ABC came out with shows like Beetlejuice and Slimer and the Real Ghostbusters, erasing the deficit. While not as desirable as young and middle-aged adults, these kids are spending more than ever (FORBES, June 11); advertisers will pay handsomely to reach them.

Brown Brothers Harriman & Co. analyst Jay Nelson estimates the ABC network will make $390 million in profits this year, 50% more than 1989's $257 million, and about what the NBC network will earn in 1990. No surprise, then, that the shares of Capital Cities/ABC, ABC's parent company, more than doubled since Capital Cities bought ABC in January 1986. Lately the shares have dropped from over 600 to below 500, but the decline has merely reflected that of the market as a whole. Once the orphan among networks, ABC is today the pacesetter.

Nelson Peltz and Peter May made a fortune peddling most of the U.S. can business to foreigners. Thanks to a Florida real estate deal, the pair of dealsters may have to give some of it back.

A choice sinkhole

By Seth Lubove

NELSON PELTZ, formerly a small-time dealmaker, arrived on Florida's Gold Coast about three years ago flush with success and loaded with cash. He bought an estate in Palm Beach for $18 million—the highest price ever paid for a residential property in the wealthy enclave. Before long, Peltz had added to his fortune by acquiring American National Can's assets and

Nelson Peltz, former chairman of Triangle Industries

First a Palm Beach mansion, then $900 million in Florida property.
A young author achieves true glory: his work has just been chosen by the most respected literary editor in the entire 6th grade! It will appear in the next issue of the school magazine—an extremely cool and rad looking "desktop" publication.

In its pages, professional quality printing in a wide variety of type styles and sizes enhances each story or poem individually—just the way stories in national news magazines are enhanced. And at Canon, we feel proud. Our Laser Beam Printing technology has expanded the forms of written communication as dramatically as anything since Gutenberg's press. Making simple, affordable desktop publishing the reality it is today. Transforming everyday business documents with exquisite printing. Which shows companies to advantage every bit as brilliantly as the author of "The Werewo
There's more to Canon's story than this. Much, much more, in fact.

For instance, did you know that American manufacturers are using highly advanced Canon technology in semiconductor chip production? Or that Canon metal optics are helping save the vision of glaucoma and cataract patients? Or that the range of Canon's involvement today extends from business to biotechnology—and beyond?

Yet in one way, all our work is the same. Canon still has just one goal in striving for great technological breakthroughs. And that's to make the small human ones possible.
then selling them to France’s Pechiney Corp.

At that point Peltz apparently fell victim to hubris. Now accustomed to dealing on a vast scale, he and fellow investors paid $300 million in 1988 to acquire one of the last great holdings of southern Florida real estate. The sellers were the feuding Horvitz family, who made their fortune from real estate and newspapers (Forbes, June 29, 1987). Joining Peltz in the deal were his old partner from the can company deal, Peter May, as well as Shearson Lehman Hutton Holdings, Inc. and Washington, D.C. lawyer/developer Michael Swerdlow. Financing was provided by Miami-based Southeast Bank, N.A. and Citicorp.

The real estate includes a 278-acre piece of undeveloped waterfront land that is adjacent to the Fort Lauderdale-Hollywood International Airport, as well as about 3,000 acres of other land in the area. Already built were 2 million square feet of existing office, retail and industrial space.

Though it involved prime property, the deal would work only if some of the land could be sold at a profit or further developed. On optimistic assumptions, the existing commercial space might today be throwing off as much as $15 million a year in rental income to the partners. Against that, the partnership must pay an estimated $23 million a year in interest, plus taxes of perhaps $7 million. Peltz, Swerdlow and Shearson say everything is fine. But from the outside, it looks like the project could be running $15 million in the hole annually.

Peltz and his partners can’t do much about south Florida’s overbuilt real estate market, which has slumped badly, with property values falling and little hope that things will get better soon.

The fellow who put the land and the investors together and is the project’s managing partner is Swerdlow. A Bronx-born lawyer, Swerdlow made a name for himself in the early 1980s by selling the leases for properties housing stores of bankrupt retail firms such as Korvette and Wickes. Swerdlow has $10 million invested in the Hollywood project, as against $30 million for Peltz and May together and $30 million from Shearson.

Swerdlow has been trying to attract joint venture partners to develop the properties, but to date has no takers. A proposed $154 million development on a parcel in Hollywood is now on hold. It was to include 550,000 square feet of office and retail space, a 150-room hotel and 400 homes.

According to mortgage documents, Citibank has agreed to lend as much as $187 million to the partnership; $93.5 million has already been disbursed. The loan could be one more piece of bad news for Citibank, and it could turn out badly for Miami-based Southeast Bank, too (assets: $17 billion). Mortgage documents indicate the Florida bank has pledged up to $93 million to the real estate partnership. That would make the deal one of the largest credit exposures in the bank’s loan portfolio. Southeast is already ailing from a raft of sour real estate loans. Fortunately for both banks, however, the deal is fairly well secured in the event of foreclosure or default, with May and his friends having committed $70 million in equity money on a limited recourse basis.

Swerdlow insists the banks “couldn’t be happier” with the Hollywood project. Before cutting short a phone conversation with Forbes by hanging up, he adds that he is “very annoyed” by any suggestion otherwise. Two weeks earlier Swerdlow had backed out of an interview scheduled with Forbes.

Peltz and May, through a lawyer, say from London that they, too, are “annoyed” by talk that the deal is hurting. Well they and Swerdlow might be annoyed, with close to $40 million of their money tied up in a deal that could be bleeding cash at the rate of over $1 million a month.

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Numbers Game

Bank loan disclosure is so bad no one knows what the banks are really worth. Here’s an idea whose time has come.

Separating the sheep from the goats

By Dana Wechsler Linden

If necessity is the mother of invention, the banking industry may finally be ready to tell the outside world about the quality of its loan portfolios. That’s a substantial change on the part of executives who have traditionally viewed their loans and lending practices as closely guarded secrets.

The necessity for change is undeniable. Failures are near a record high among the nation’s 13,000 commercial banks. So are loan losses. In the last four years banks charged off $75 billion of bad loans, compared with only $28 billion between 1948 and
WHERE ever yearlings race the wind, yearly auctions raise excitement. Now, sometimes, PEOPLE are on the road when the horse they want is on the block. Fortunately, Centel, with telephone and cellular communications systems, helps them CONNECT with where they are going before what they're going after is gone.

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1981, according to a study by management consultants McKinsey & Co. And that's without a recession.

To survive, let alone prosper, most banks will need to tap Wall Street for new equity capital. But Wall Street puts little faith in what the banks say publicly about the loans on their books; most banks trade substantially below book value these days. As a group, the U.S. banks trade at a 45% discount to the market as a whole—and that discount has been widening.

“The key negative dampening the price/earnings multiple is that investors have a huge degree of skepticism regarding banks' loan portfolios," says James J. McDermott Jr., banking analyst at New York's Keefe, Bruyette & Woods Inc. This skepticism, he adds, "comes out of a decade-long experience of ever increasing writeoffs." The data clearly show that in recent years bank earnings have varied almost entirely as a result of loan losses and loss provisions. So it's not unreasonable for investors to want to know whether their banks' portfolios contain risky loans that are likely to translate into future losses. But that isn't what the banks tell them.

The banks disclose lots of historical information—how much they set aside last quarter as a provision for loan losses, how much they have classified as "nonperforming loans," how much they were left with in the way of reserves, and so on. But, as investors have painfully learned, the historical information doesn't prevent surprise writeoffs. Witness Bank of New England's unexpected $1.4 billion provision for loan losses in December 1989, or Valley National's $348 million provision for loan losses during 1989. Nor does it help investors assess the probability of further charge-offs this year or next.

Kept in the dark and having been burned in the past, investors naturally assume the worst, with the result that many bank stocks are probably overly discounted. Says Thomas Hanley, a Salomon Brothers managing director and banking analyst: "Even bad news correctly reported would raise the

banks' multiples."

Viewing this sorry state of affairs, a growing group of banking industry leaders, among them Thomas Theobald, chairman of Continental Bank, support improving the banks' disclosure of their loan portfolios' quality. Christopher Snyder, president of New York's Loan Pricing Corp., a research firm specializing in banking, is pushing a plan that would do just that.

Snyder plans to ask the country's largest banks to rank the loans they have outstanding along a standardized nine-point scale of riskiness. Snyder will then compare the way the banks rank identical loans—to see if what is

market's more accurately assess an individual bank's financial standing. Suppose, for example, a bank has a growing pipeline of problem loans. That will become evident from a comparison of the bank's internal credit assessment scores for a few quarters. Investors could reasonably expect the bank's future loan losses to rise. Conversely, loan portfolio improvements could be detected earlier.

Say a bank is holding a portfolio with far greater risk than average, while it is earning only an average rate of return. That, too, will become apparent by making bank-to-bank comparisons.

Why would the bankers go along? For the simple reason that they have the most to gain. Odd as it may seem, only a minority of the nation's banks use such a rigorous credit scoring system for tracking and pricing loans now—ever—internally. One, Bankers Trust, instituted a similar system five years ago. Before then, the bank set interest rates for new loans primarily on the basis of what competitors were bidding. Now, new loans are priced based on estimates of their riskiness. The bank's loss experience has improved tremendously, and the rate of return on its loans rated high-risk has nearly doubled.

"The banks' ability to manage their loan portfolios would be tremendously improved by having to systematically grade loans like this," says a top executive at a leading New York bank, who supports Snyder's plan but asks to remain nameless. "We'd get much more honesty about the loans we have, and much sharper about the risk-reward relationship."

The Federal Reserve, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency have agreed that the country's commercial banks should raise their capital to 8% of assets. To reach that target, many of the banks will have to raise new equity—and therein lies the importance of better disclosure. "If we can publish this [loan ranking] information," says Snyder, "investors will be able to separate the sheep from the goats."
IT HAS BEEN SAID THAT A CAR MAKES A STATEMENT ABOUT THE PERSON WHO DRIVES IT.
THIS ONE MAKES A STATEMENT ABOUT THE PEOPLE WHO BUILD IT.
Upon its unveiling, the vehicle you see before you will no doubt be referred to in many ways: as exotic, breakthrough, even history in the making.

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A sculpted aluminum, hand-built testament to the vision that is an automotive division called Acura. Personal performance automobiles that cater to the driver's emotions and intelligence instead of his ego. Built by people who measure the quality of their products, not to mention their own talent and abilities, against a simple three-word slogan.

Precision Crafted Performance.

A full six years from concept to the showroom floor, the Acura NSX is the proverbial dream car come true.

Not a car buyer's dream, mind you...but a car maker's dream.

While other manufacturers were fantasizing about record sales or greater profits, the engineers and designers who conceived the NSX dreamed of one thing only: building an automobile that could take on the very best the world had to offer.

A new breed of sports car. A new benchmark. An automobile that, like every Acura, would not simply improve upon what is, but would prove what could be.

Five years ago, Acura revolutionized the way the world looked at an entire class of automobiles. With the introduction of the NSX, the revolution begins again.
SPEND FIVE YEARS AT 200 MILES PER HOUR AND YOU LOOK AT THE WORLD A LITTLE DIFFERENTLY.
Balance.
The trademark of a World Champion Formula One race car. And, if we've done our job, the trademark of the Acura NSX. The theory behind both vehicles is the same. A lightweight chassis coupled with an engine that can provide quickness and performance without overpowering the car's responsiveness and road feel.

The all-aluminum, twin-cam V-6 engine that rides amidship in the NSX, for example, may seem like an atypical choice for a car of this stature. In fact, it is the perfect choice. Compact, lightweight, high-rpm and, with the right technology, able to produce the horsepower of larger, heavier V-8 engines.

That "right technology" comes in the shape of ideas like variable valve timing, or VTEC. Through a unique camshaft and rocker arm design, VTEC literally changes valve timing and lift over the course of the power band, making for optimum low-end torque and high-end performance. A first for a production automobile in the U.S. As are the power plant's titanium connecting rods that increase engine rpm by 700.

With its mid-engine chassis configuration and forged aluminum, double-wishbone suspension, the NSX was targeted to offer more Formula One technology than any production automobile ever had.

A goal that, for the engineers responsible for the last four Formula One Constructors' World Championship titles, seemed not only reasonable, but reachable.
Allow us to make one thing perfectly clear: the NSX has some of the most advanced technology ever built into an automobile. Sports car or otherwise.

For starters, the NSX is the first production car ever with an all-aluminum unit body and chassis; 40% lighter than a comparable steel chassis, it's also stronger, thanks to stress analysis done on a Cray II supercomputer.

Under this chassis sit a few hundred other breakthroughs, including a revolutionary Traction Control System (TCS) that actually detects slippery road surfaces and adjusts power output accordingly, limiting tire slippage. And while past traction systems have often operated at the expense of their cars' cornering ability, the NSX system maintains a high regard for handling performance.

Another "first" on the NSX is its 4-Channel Anti-Lock Braking System, the most effective braking system ever designed for a rear-wheel drive car. With four separate channels, each wheel can be independently controlled, for optimal performance on even the worst road surfaces.

All of which is just what we had in mind when we set out to build the NSX. An automobile that would define the word "revolutionary." And redefine the term "sports car."

HORSEPOWER/TORQUE: 270 hp @ 7100 rpm; 210 lbs.-ft. @ 5300 rpm (5-speed).
INDUCTION SYSTEM: Computer programmed fuel injection with Variable Volume Induction System.
IT HAS REVOLUTIONARY WRITTEN ALL OVER IT, UNDER IT AND INSIDE IT.
Speed and handling, handling and speed. Those seem to be the key elements built into today's world-class sports cars. But, the way we see it, an automobile designed with only those elements in mind leaves out the most critical element of all.

You.

From its mid-engine design allowing generous leg room, to its F-16 jet-fighter inspired glass canopy providing 312 degrees of visibility (unheard of in a mid-engine car), to its trunk that's actually big enough to deserve to be called a trunk, everything about the NSX puts the needs of the driver first. Without sacrificing anything in performance.

Rigid, lightweight aluminum seat frames that are covered in supple leather hold the body firmly in place. A leather-clad tilt and telescoping steering wheel provides the proper positioning and grip.

Even the adjustments for the Automatic Climate Control System are placed high on the center console, well within the driver's line of sight and reach.

All of which means the Acura NSX is the first exotic designed not simply to accommodate the driver and his passenger, but to actually be hospitable towards them.

**NSX STANDARD EQUIPMENT FEATURES:**
- Traction Control System
- Four-Channel Anti-Lock Braking System
- Driver's Side Air Bag/SRS
- Acura/Bose® 4-Speaker Music System
- Theft Deterrent System
THE TERM ‘SPORTS CAR’ IS NO EXCUSE FOR BUILDING AN INCOMPLETE AUTOMOBILE.
NSX. IT'S WHAT HAPPENS WHEN YOU CHASE YOUR DREAMS INSTEAD OF THE COMPETITION.
Six years ago, a group of engineers and designers dreamed of building a new kind of sports car. A sports car that would offer uncompromising performance, not demand it.

With that dream in mind, the success of every theory, every decision and every component that went into the Acura NSX was measured, not only in the clinical terms of things like output and performance, but how it affected the overall driving experience.

No expense was spared, no idea was left unexplored.

As a result, the NSX will establish a new goal for makers of exotic sports cars.

It's an automobile that possesses all of the power and handling of a thoroughbred with none of the eccentricities so long associated with such breeds.

An automobile that can satisfy the exacting standards of a driver with the skill and experience of Ayrton Senna and yet recognize that not everyone is a Formula One World Champion.

Seventy-odd years ago, someone, somewhere, was inspired enough by a driving experience to coin the term "sports car."

The Acura NSX just may be the ultimate expression of that inspiration.

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*Manufacturer's Suggested Retail Price has not been determined at time of printing. Limited availability at your dealer beginning mid-September.
Smart money needed dumb money to earn 100% annual returns in the leveraged buyout game. Now that the junk bond buyers have wised up, the smart money has to deal with other smart money. But the game goes on.

The takeover game isn't dead, it's just gone private

By Tatiana Pouschine, Phyllis Berman and Mary Beth Grover

Despite what you read in the newspaper, the corporate deal business is alive and kicking. Dealmakers on Wall Street and elsewhere continue to buy and sell companies at a fast pace. These are not the megadeals of 1988 and 1989 but are big ones all the same, involving in total tens of billions of dollars. Drexel Burnham Lambert's junk bond machine no longer churns out financing for the dealmakers, but the private market has stepped in to fill the gap. That's why the deals rarely make headlines. Increasingly they are done quietly between private parties.

According to the authoritative IDD Information Services, in the first two quarters there were 182 deals closed in the $100-million-and-up class, compared with 231 deals in the same period in 1989—not such a sharp drop. Of these 1990 deals, more than half were private transactions. Some investment bankers are predicting that once the situation in the Persian Gulf calms down, the deal flow will pick up sharply, now that prices have dropped.

Take New York-based Jay Jordan, 42. His firm has been doing leveraged deals since 1982, but today he is financing them differently than during the heyday of Drexel Burnham and Michael Milken, when dealmakers tapped the markets for $200 billion in junk bond money.

Jay Jordan sorely misses the junk bond market. "It was so much easier to go to the public markets. It was cheaper and there were very few covenants. It was like 'Whoopee,'" he says. "It was great."

Jordan fondly recalls his dealings

Jay Jordan, New York-based buyout artist

The junk bond market? "It was like Whoopee."
with Drexel. "The last couple of years they raised $400 million to $500 million for us. It was fantasy. I'm sorry they're out of business."

Jordan is sorry about Drexel's demise because as long as the junk bond market existed, smart money like his was able to raise dumb money from passive investors—money that would accept high risks for skimpy rewards.

Jordan may miss Drexel, but he's as busy as ever. The Missouri-born investor, who got his start at Carl Marks & Co. in 1972, has been involved in over 60 deals, ranging from $2.5 million to over $100 million. These have included American Safety Razor, Allied International and Jones Plumbing Systems. This year alone the firm has done three leveraged deals.

But now that he can no longer count on dumb money to finance his deals, where is a dealmaker like Jordan turning? To private lenders who demand far tougher terms than junk bond buyers ever did. They insist on getting a bigger piece of the equity action in exchange for less financing. If the deal pays off big, they will share in the profits.

When the junk bond market collapsed, it spelled the temporary end of mezzanine financing. Mezzanine financing is the junior-most debt level in a leveraged transaction.

First you have the senior debt, usually secured by physical assets. Then you have the subordinated or mezzanine debt, supplied in Drexel's prime by a vast army of junk bond buyers—dumb money that took big risks for scant rewards. Finally, equity supplied by the dealmakers themselves. Since equity holders often put in as little as 10% of the cost of the deal, there was very little protection for the mezzanine debtors and relatively small risk for the dealmakers who had little of their own money in the deals.

Heads, the equity dealmakers won tails, the junk bond holders lost.

Where do smart dealmakers go now for mezzanine financing? Clayton & Dubilier, which has a $1.2 billion equity pool, is negotiating to buy the typewriter division of IBM for between $2 billion and $2.5 billion. It will have to turn to traditional mezzanine lenders. Among the biggest of these are Prudential Insurance, Equitable Life Assurance Society and Teachers Insurance & Annuity. But these lenders won't settle for just junk paper. They will agree to lower interest rates but will want substantial equity sweeteners.

Or dealmakers can go to people like Thomas Lee, who set up his own leveraged buyout firm in 1974 and now operates several limited partnerships, including two mezzanine partnerships, with Merrill Lynch. Among his big winners: Sterling, Inc., a jewelry retailer, and Guilford Industries, a manufacturer of textiles. The two mezzanine funds primarily finance deals he manages, like the $1 billion buyout of Playtex. Those funds also provide financing for other people's deals in return for around 15% interest with equity sweeteners. Lee's firm provided part of the mezzanine financing for the $140 million buyout of Filene's Basement; a small part of the subordinated financing got his firm 2% of the equity.

Recently one of Lee's funds invested $23 million in Anchor Advanced Products, the world's largest toothbrush maker, and $21.5 million in Csr Office Products, the third-largest provider of stock computer forms to the resale market. In each case he received 15% interest and a 27.5% and 38% piece of the equity, respectively.

New York's Forstmann Little & Co., which steadfastly refused to use the public junk bond market when it was hot, is now back doing big deals using its own mezzanine funds. Starting in 1978, the outfit raised approximately $5 billion for its subordinated debt and equity partnerships, whose investors include the pension funds of GE, IBM and AT&T. For senior debt Forstmann Little has turned to Manufacturers Hanover and other banks; the banks are happy to be senior lenders on deals where their loans are protected by plenty of equity and junior capital.

This year Forstmann Little bought Chrysler's Gulfstream aircraft division for $825 million. Half the money was provided by banks as senior loans.
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Being at home where you are.
Familiarity with regional situations is the precondition for offering the right insurance cover for every risk. Allianz is at home in 39 countries all over the world. For 100 years comprehensive technical and financial resources have made Allianz a proven partner for business. Chance has played no role in making us the leader in the demanding European market. Nowadays, Allianz insures major industrial and technical projects all over the world.

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Until the stock market cracked in late summer, initial public offerings of shares in firms that had been bought out were booming. Over the past 12 months, the volume reached nearly $1 billion, according to IDD Information Services.

Good news for the leveraged buyout crowd. They’ve had an opportunity to offload on the public companies acquired with easy money during the takeover craze. Leveraged buyout players such as First Chicago, Kohlberg Kravis Roberts, Odyssey Partners, Richard Rainwater, to name a few, have taken advantage of the situation. These owners aren’t bringing whole companies back to the exchanges—at least not yet. They are just selling pieces.

These folks are extremely rational investors. They will sell where they get the best prices. As an alternative they could have sold most of the business to other companies, but so long as people are willing to pay fancy prices for initial public offerings, initial public offerings will be.

By definition, leveraged buyout artists are skilled at arbitraging different forms of capital. Brian Wruble, who manages Equitable Life’s $38 billion portfolio, explains: “An arbitragist will tell you you can make money by buying cheap assets and selling expensive ones. That was what a leveraged buyout in 1983 was all about. You bought cheap stock and retired cheap high-quality debt of those same companies. How did you finance your purchase? By selling... high-yield debt.” He’s saying that they could buy whole companies relatively cheaply and finance with junk debt. But now junk debt is onerously expensive, so it’s smarter to sell equity interest and retire debt.

KKR was early to recognize a cheap source of capital. In 1986 it bought Safeway Inc. for nearly $6 billion, putting in a thin $135 million in equity. In April the company made an initial public offering of 10 million shares at $11.25 a share. These new shares represented only 13% of the equity yet brought in almost as much as KKR had originally invested. This established a theoretical market capitalization for KKR’s remaining 87% of about $750 million.

John Canning, head of First Chicago’s venture capital subsidiary, who has been a leveraged buyout player since the mid-1970s, typically prefers to sell companies privately but looks carefully at the public markets, too. Says Canning: “We’ve been making meaningful money in this [new offerings] market.”

For instance, in August 1989 First Chicago, along with an Odyssey Partners limited partnership, Allen & Co. and a Drexel limited partnership, did an initial public offering of Air & Water Technologies Corp. They raised $68 million but still owned about two-thirds of the fully diluted equity of the pollution control outfit. Thus the original owners still own $111 million worth of stock based on the initial offering price. Original investment: $10 million.

In December First Boston, Metropolitan Life Insurance and Manufacturers Hanover sold the public one-quarter of their shares in First Brands Corp. while issuing 1.5 million new shares. The company was part of Union Carbide until 1986. When First Boston and the other investors sold a quarter of the stock to the public for $95 million, they created a theoretical market value of $285 million for the shares they still hold. With the stock recently trading at 22 per share, the partners’ equity has a market capitalization of $334 million. Original investment: $80 million.

So, as Wruble said, it’s an arbitrage game. Dealers sell debt when equity is cheap and sell equity when borrowing is dear. Either way they are following the classic advice of buying low and selling high. And the public is invited to sell cheap and buy dear. Thanks a lot, fellas.—T.P.

the other half came from Forstmann Little’s mezzanine and equity funds. Forstmann Little gave 37% to the investors in its debt fund: The mezzanine investors were getting a piece of the action in return for assuming the risks of providing junior money; public junk bond holders, by contrast, most often took the risks without the additional rewards.

In a similar deal Forstmann Little this year bought out a public company, General Instrument, for $1.5 billion. Why had Forstmann Little hung back from junk bond financing? Simple. Because bidders, using plentiful public money, were bidding prices into the stratosphere. Even with cheap money, the deals wouldn’t work in the long run, Forstmann Little felt. And they were right. Consider the RJR Nabisco deal. Bidding for the company started at $75 a share and ended up at $109. Forstmann Little, an early suitor, dropped out when the bidding got overheated. Its conservatism has since been vindicated: The winning bidder, Kohlberg Kravis Roberts, has had to throw in an extra $1.9 billion in equity capital to hold on to the company.

Says Forstmann Little partner Brian Little: “Pricing, from a buyer’s standpoint, is improving.” The $1.5 billion that his firm is paying for General Instrument translates into 6.5 times free cash flow, compared with the 10 times cash flow or higher that investors paid at the height of the auction frenzy between 1986 and 1989.

In short, the market’s near 15% drop and the utter collapse of the junk
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Investment Profile

Investment Style
What are your financial goals? (check all that apply)
- Maintain or improve lifestyle
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- Reduce current taxes

Which statement comes closest to describing your current approach to investing? (check only one)
- "I'll take large risks on a portion of my investment for the potential to make the highest return."
- "I'll take a moderate risk if I can have a chance to make a somewhat bigger return."
- "I'll take a small risk to get a slightly higher return."
- "I'll only invest in safe, secure investments with guaranteed returns."

Investments

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Personal Information

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Single □ □ Self-Employed □ □

Date of Birth ________________
Ages of children living at home ____________________

What is your total annual household income?
- Under $35,000 □ □ $75,000 to $99,999 □ □
- $35,000 to $49,999 □ □ $100,000 to $250,000 □ □
- $50,000 to $74,999 □ □ Over $250,000 □ □

Approximately how much money do you plan to invest over the next 12 months?
- Under $10,000 □ □ $25,000 to $50,000 □ □
- $10,000 to $24,999 □ □ Over $50,000 □ □

Excluding real estate, please estimate the total value of your savings and investments.
- Under $25,000 □ □ $100,000 to $249,999 □ □
- $25,000 to $49,999 □ □ $250,000 to $1,000,000 □ □
- $50,000 to $99,999 □ □ Over $1,000,000 □ □

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bond market has reduced sellers' expectations and made deals possible with more conservative financing.

It was only recently, for example, that Clayton & Dubilier found something that may be priced to its satisfaction. The firm sat on the sidelines looking at deals for many months before making its move to acquire the typewriter division of IBM. Says Martin Dubilier, "We like to do two deals a year. But they must be good deals.

William Simon and Gerald Parsky of WSCP Partners are highly visible in the deal market these days. They plan to raise a total of $400 million from more than ten institutions worldwide. Their investors will "have the right to take on debt as well as the equity in any deal the group does," says Parsky. The partners plan to negotiate deals ranging from $100 million to $1 billion and capitalize them with 20% to 30% in equity, the rest with debt.

Simon realizes that today the harder job is raising debt. Equity money comes knocking at the door, attracted by the super returns of the mid- and late 1980s. In a Simon deal, the fund itself might provide 10% of the equity investment, while his ten investors would supply the remaining equity and debt. It seems probable that Simon and Parsky's acceptance of investors will depend, in great part, on their willingness to take on debt. Simon understands that he must make it worthwhile while to take risks—risks that junk bond holders naively took for nothing more than a few hundred basis points over the prime rate.

Simon knows these markets well. He's the one who put leveraged buyouts on the map when he made over 300% in three years on Gibson Greetings, which he bought way back in 1982.

In short, the subordinated lenders these days know the score. They are not asking for their equity returns and will not be bidding on the terms of the leveraged buyout. Where both private and institutional investors had been happy to buy junk bonds yielding in the 12%-to-16% range, the new smarter lenders are demanding 25% to 30% in a mix of interest and equity kicker. They are also asking that buyers provide a 20%-to-30% equity
Natural gas. A fuel to stop growing foreign oil dependence in its tracks.

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With $10 billion in revenues and backed by $9 billion in assets, Enron Corp. operates the nation's largest natural gas transmission system and markets gas and liquid fuels nationally and worldwide. We also are a large independent producer of natural gas through Enron Oil & Gas Company and are active in cogeneration and independent power production.

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cushion, not the 10% or even less that was acceptable as recently as 12 months ago.

James Burke, head of Merrill Lynch Capital Partners, notes the irony: At today's fallen prices, public junk bonds, many of which trade around 50 cents on the dollar, are effectively yielding the traditional returns of privately placed high-yield bonds. The risk/reward calculus, which had been all in the dealmaker's favor, has shifted to a more even balance between lender and dealmaker.

That previous imbalance enabled dealmaker Michael Milken to make over a billion dollars in the 1980s. Milken created a broad market for junk bonds, and so the dealstas no longer needed to do business with sophisticated private lenders. Drexel Burnham would get them all the money they needed quickly and with few restrictive covenants attached.

Of course, the old crew at Drexel knew they were doing the dealmakers a favor by selling their junk bonds. Which is why Drexel and its partners usually demanded and got a piece of the equity in addition to its tremendous fees.

Between 1983 and 1989 Drexel and Milken and their competitors foisted about $200 billion in junk bonds on investors. Not that the victims were entirely unschooled investors; most of the money came from institutions. And, attracted by the potential of high fees, investment banks rushed in to provide bridge financing that made many of the deals possible. Today junkholders are sitting with at least $40 billion in paper losses. And many investment banks are stuck with loans, tying up precious capital. Even as the junkholders count their losses, a new breed of dealmakers, the bondsmakers (Forbes, Aug 6), are cashing in. As a result, you couldn't sell a public junk bond issue today at any affordable interest rate.

A lot of deals that seemed to work when junk bond money was available don't work today. Thus, there are fewer targets. Rather than fight potential rivals for available deals, some firms are taking minority stakes with management, and negotiating to have some say in the firm. Corporate Partners, the equity fund of Lazard Freres, is one such. Lester Pollack, who runs Corporate Partners, says the idea is to be involved in as many good deals as possible, rather than to compete to control one deal. British-based Electra Investment Trust Plc. is following a similar strategy of teaming up. The firm used to take positions as a limited partner in several U.S. funds—including those of Kohlberg Kravis Roberts and of Acadia Partners (headed by Peter Joseph) and Odyssey Partners. Electra opened a New York office two years ago under Peter Carnwath to start playing a more direct role.

With $900 million in equity and easy access to borrowed money, Electra has put money into a number of recent deals. They include Esmark Apparel, which makes Danskin tights and Round-the-Clock pantry hose; Act III Cinemas, which owns movie theaters; and Caldor, the discount department store chain.

The $500 million Caldor deal was led by New York's Odyssey Partners—Leon Levy and Jack Nash—which, along with Equitable Life Assurance's Donaldson, Lufkin & Jenrette subsidiary, provided portions of the equity.

In short, the buyout operators are starting to network. The aim, as the president of Equitable Capital Management Corp., Brian Wruble, explained in a speech in March, is to escape the efficient public auction market and "work in an inefficient negotiated market to acquire control positions in corporations." In other words, to buy companies cheaper.

In the 1990s, the game of leveraged takeovers has reversioned to an earlier stage. When the leveraged buyout phenomenon first emerged in the early 1970s, the takeovers artists had to deal with private lenders who very much demanded a piece of the action in one way or another.

So, the takeover business has revived, nourished by lower asking prices and the advent of the junk bond market. As a result, billowing debt has been used instead of traditional bank loans.
When the city of Los Angeles wanted to give more power to the people, who did they turn to?

ABB invented and pioneered the first High Voltage Direct Current (HVDC) system; an advanced method of transmitting electric power over long distances.

The Pacific HVDC Intertie, for which ABB designed and constructed converter stations, is one of the largest power transmission systems in the world. It carries power between the Bonneville Power Administration and several Southern California utilities, helping make more efficient use of the Pacific Northwest's power surplus. In summer, Californians get the electricity they need for their air conditioners. And on cold winter days, consumers in the Northwest can get extra power for heating.

When it comes to transmitting and distributing electric power, ABB offers as advanced and complete a line of products and services as any in the world: everything from the generating station to the meter on the home. That's why our T&D business segment has earned the trust of power producers all across America.
prices for companies and by expensive but available equity financing and subordinated financing. In fact, many leveraged buyout funds are under great pressure to do deals. Under terms of their deals with their investors, if the funds fail to invest the money within a certain period—typically three to five years—the limited partners have a right to pull their money. Since much of the estimated $50 billion to $70 billion in new leveraged buyout money was raised in the last two years, general partners of leveraged buyout funds will soon either have to move or have to give the money back. No dealmaker likes to do the latter.

Thus, Coniston Partners, though more of a greenmailer than a true leveraged buyout firm (it never intended to own and run the companies in which it bought stakes) reportedly turned back $200 million.

Loaded with cash and with good deals scarce, the remaining leveraged buyout players are also putting their abundant cash to work playing the deleveraging game. These financiers view capital in terms of supply and demand: With equity plentiful, but credit scarce, it's the moment to substitute equity for some debt—to make the deals less highly leveraged. By putting fresh equity into distressed situations, the dealsters can negotiate with lenders and get them to accept lower interest rates, postpone maturities or scale back their principal. Some buyout firms are using their equity to releverage their companies at favorable terms. New York's Kelso & Co., the firm that pioneered the use of employee stock ownership plans to help finance buyouts, in May put $14 million, via a Kelso partnership, in additional equity into the recapitalization of Mosler, a manufacturer of security systems it bought in 1986. In the process it got bankers to put back in $80 million of scarce senior debt Mosler had already paid off.

Other dealmakers with plenty of capital are taking advantage of the depressed junk bond market to grab control of companies by making deals with the senior debt holders. Legendary dealmaker Richard Rainwater of Fort Worth, Tex., is playing this game. By May 1990 Rainwater had approached the senior bankers of Penrod Drilling, a remnant of the Hunts' oil and gas empire, who over several months sold him $150 million, or 40%, of Penrod's senior debt for an average of 75 cents on the dollar. As a sweetener Rainwater asked for and got 40% of Penrod's equity. He got the deal, allegedly beating out New York money man Laurence Tisch and his family, who were keen on buying the property.

Such deals go under the name of "restructuring." The term is ambiguous, but in these cases the meaning is clear: Someone comes in with new money, knocks heads and makes creditors and equity holders alike give up some of their claims to him. Many dealmakers have been raising money specifically for restructurings. These include Magen Asset Management ($500 million), Morgen, Waterfall & Vintadias ($240 million) and Oppenheim ($175 million).

Infusion of equity capital into existing deals and doing new deals with higher equity proportions inevitably means lower returns. In September of last year the total return on an investment in leveraged buyout funds was 785%, or 135% a year, according to a study by Harvard Business School's Professor Michael Jensen. Those returns will fall sharply as the leverage lessens and more equity is required. But even at the lower returns, there are few other investment opportunities that reward managers so richly.

Why do the profits in restructuring and takeovers remain high? In part because the federal tax code subsidizes debt by making interest deductible but dividends not deductible, nearly all leveraged takeover deals involve substituting debt for equity. Many companies that pay substantial amounts of federal income taxes are vulnerable to a takeover.

Also ripe for buyouts are family companies of all sorts, driven to give up their independence either by the threat of estate taxes or by a founder's desire to retire.

But today the investing public has less opportunity to share in these deals. Many of the profitable deals are done between private dealmakers and large institutional investors. Buyout specialist Thomas Lee puts it this way: "There is a tremendously fluid and immense private capital market out there." Lee estimates that the private market—corporate ownership in private hands rather than in public companies—now runs at about $700 billion. This figure is roughly one-fourth the value of all the equities listed on the New York Stock Exchange. Since many of the privately owned entities were formerly publicly owned corporations, the public market is shrinking, the private market is growing.

There are many advantages to being private. With leverage you generally pay lower federal income taxes, you worry less about quarter-to-quarter earnings and less about what Wall Street thinks. Privately owned businesses, in short, can better concentrate on long-term wealth building.

After nearly a century of going public, the ownership of U.S. industry and participation in the capital markets are going private again.
When Kansas Power and Light wanted to make sure the Great Plains stayed great, who did they turn to?

All across America, ABB is building systems to protect our environment. Kansas Power and Light Company, for example, has relied on ABB for years to supply the systems that significantly reduce emissions linked to acid rain and which virtually eliminate airborne ash.

Other regional power producers like Montana-Dakota Utilities, Orlando Utilities Commission, and the City Public Service Board of San Antonio also look to ABB to supply them with advanced emission control systems.

ABB equipment also removes paint solvents from process air exhaust in automotive plants, turning them into harmless gases. And ABB is involved in the clean up of toxic and medical wastes, and in the conversion of garbage into a valuable source of energy.

ABB is pioneering solutions to bridge the gap between the growing demand for energy and the need to actively protect our environment.
A decade after Lee Iacocca and the U.S. Treasury saved it, Chrysler is again hemorrhaging. But things are different this time.

The new team's plans for moving iron

By Jerry Flint

Scene: Chrysler Corp.'s styling center 4 miles from downtown Detroit. On display: tomorrow's Chryslers, midsize models, code name LH, set to roll off the assembly line in two years. The striking luxury version, LH+, borrows from the classic 1950s Jaguar, complete with a bubble-ed out rear window. Next to these sleek wedge-shaped bullets, Ford's Taurus will seem old hat. Nearby stands the ZJ, a new heavy-duty Jeep that in 1992 will challenge Ford's muscular Explorer as King of the Hill.

This is handsome stuff, the kind that could make Chrysler a winner again. But these cars are in the studio, not the showroom. It will be two hard years before the critical midsize LH wedges are in production, and probably four years before the full impact of the new lines will be felt. Meantime, Chrysler's car sales are slumping.

Chrysler's retail car sales will probably slip 15%, to 850,000 units, this year; minivans, Jeeps and pickups could push total volume to nearly 1.8 million units. Fierce price-cutting has speeded Chrysler's break-even point to around 1.9 million units, from 1.4 million. Chrysler will probably report earnings of nearly $200 million this year, maybe 75 cents a share. Problem is, after subtracting capital spending, Chrysler expects cash flow to run at negative $800 million this year. Then next year's plan calls for cash flow to run "neutral" after the big capital budget program. That can be done only by wringing more profits from both minivans and cars, a difficult chore given the likelihood of a slow economy next year.

The next few years will be cruel for all U.S. automakers. There is too much capacity and too many Japanese cars being made in nonunionized U.S. plants. On top of that, the industry must also worry about new fuel efficiency and emission rules coming from Washington, about fuel prices, and about the faltering economy.

Navigating Chrysler through these shoals will fall to Robert Lutz and Robert S. [Steve] Miller Jr. Lee Iacocca, 65, is still chairman, but Lutz and Miller will do the grunt work of saving Chrysler this time. These are their cars. Iacocca is Chrysler's symbol; they are its flesh.

Lutz, 58, president of Chrysler Motors, is the car man. He grew up in Europe, worked at GM and BMW and became a superstar running European operations at Ford. He joined Chrysler in 1986.

Miller, 48, is vice chairman of Chrysler Corp. and works as the money man. He, too, is a Ford veteran who came over in 1979 and made his bones holding off the banks. A good team: super marketer and financial expert.

What if the bottom falls out of the automotive business tomorrow, as it did a decade ago? "This time we have the resources to tough it out, while in 1980 we chopped the company to ribbons," replies Miller. "We'll be ready.

In 1980 I had to tell the operating guys I didn't have enough money for the programs. I said I was never going to do that again, and I intend to keep my word."
When Kodak wanted to ensure the film base for their photographic film is manufactured with the best quality. It's just one of many important companies that have placed their trust in ABB advanced process automation technology.

ABB control systems serve as manufacturing guides, monitoring and directing the flow and combination of materials throughout a production process. They assemble, interpret and coordinate the flow of information between production and other related disciplines within a company.

Because of the confidence shown in ABB by Kodak and other companies like Huntsman Chemical Corporation and Chevron Chemical, our process automation business has become the largest supplier of distributed control systems in the world.

ABB
ASEA BROWN BOVERI
Chrysler isn’t broke this time. Far from it. To Iacocca’s credit, he put aside some of the money Chrysler coined in the mid-1980s for the inevitable rainy day. Now it’s raining, and the company had, on June 30, some $4.3 billion in cash and marketable securities. Chief Financial Officer Jerome York says he can sell off additional unwanted pieces of the company for a further $2 billion and—in a pinch—hold back $1 billion in pension contributions.

“Take the worst-case scenario,” says Lutz in his husky whisper. “We hemorrhage $3 billion of cash a year over the next two years, okay? That’s $6 billion.” He points at finance man Miller. “He can cover that.”

Responds Miller: “Having $4 billion in the bank means never having to say you’re sorry.”

Assuming the new models due in a few years are successful, how will Chrysler bridge the gap from here to there? Lutz:

“You see Chrysler from the inside. You see our current products, our current market share, and that we pay heavy discounts [rebates average $1,200 per unit] to move the iron. What you don’t see is the internal transformation, the way we have learned to do things cheaper, faster and better with less bureaucracy, which reduces a lot of the cost.”

Chrysler now brags that it can get a new car out, from drawing board to the street, in a fast 42 months. And in this business, time is money. Lutz vows that his new small pl car will come in at a third the cost of the $2 billion Ford says it spent creating its new Escort. Chrysler has shifted much more responsibility onto its suppliers, and that keeps its own capital costs down. For example, the 11, the little Jeep due out in 1994, will be built in large part from preassembled modules to be delivered to Chrysler from subcontractors like Budd Co. Likewise, suppliers are engineering much of the Viper, Chrysler’s two-seat V-10 racer, a Lutz favorite, due early in 1992 (see photo, p. 126).

Ten years ago it took 6,000 workers to build 1,000 cars a day. Now Chrysler needs about half that many workers to achieve the same output.

“But the biggest impact on break-even is the level of incentives, and that’s anybody’s guess where it’s going,” says Miller. “Our philosophy is, if the market is going to yield these lousy margins, then we’ll work the cost side to stay break-even, stay viable, stay in business and manage our way through this lousy time. It’s a cyclical business.”

The survival strategy, in short, boils down to this: Hunker down and live off the cash—and profits from the successful minivan—until the economy turns and the new models are ready. And whatever happens, don’t let costs run away. “Steve and I would much prefer to be a highly profitable 1.8 million car company than a marginally profitable 2.2-million company,” says Lutz. It may not be an original strategy, but it is sensible.

“There are two types of errors in this business,” says Lutz, amplifying his point. “Type one is to do a dynamite product which is sold out. You haven’t built enough capacity. That error is terribly easy to fix. A no-risk decision of putting in another plant or running full overtime. Type two error, which is potentially fatal, is to bet big and then fall short.”

Part of the Lutz-Miller strategy for Chrysler’s survival calls for some-thing known in the industry as “3-2-120,” meaning three crews, two shifts, 120 hours a week. The idea is to run the plants 120 hours a week, instead of the usual 80. Each crew works a four-day week, 10 hours a day. That way Chrysler could get extra production for its hot products—as many as 50,000 additional vehicles per plant—without boosting capital spending on plant and line additions. So far the auto workers union has balked at the 3-2-120 idea, but probably will eventually agree to try it at Chrysler’s minivan plant in St. Louis.

In the past, when senior Chrysler executives got together, there seemed to be a bit of an edge, a tenseness. Iacocca’s idea of management, it’s been said, is to put four tigers in a sack, then open it in six months to see who’s left. Gerald Greenwald, who recently resigned to work on the United Airlines buyout, was Lee’s anointed successor. Had he not resigned, a power struggle might well have broken out.

With Greenwald gone, Miller and Lutz seem likely to work as a team, more in the spirit of Don Petersen’s Ford Motor [Forbes, Aug. 20]. Who will be Chrysler’s next chairman? “We don’t know how long Lee is going to be around,” says Miller. “He’s young, he’s vigorous, he’s still very much interested in the business. But if he got run over by a truck tomorrow, it would make damn little difference to me how that issue got resolved. Bob and I have complementary skills and similar business policy fundamental goals.” “With different areas of specialization,” says Lutz. The fact is, Lutz the car man

### Worse than it looks

For 1990, Chrysler is expected to earn nearly $200 million. But after subtracting the big capital spending bill, there will be $800 million negative cash flow. Chrysler makes a fortune selling minivans but loses it on the cars. Fortunately there’s cash in the till, nearly $20 a share, to see Chrysler through the next couple years.

![Graph showing Chrysler's financial performance](image-url)

- **1980**: $170
- **1981**: $701
- **1982**: $2,373
- **1983**: $1,273
- **1984**: $1,389
- **1985**: $1,290
- **1986**: $1,050
- **1987**: $359
- **1988**: $175

- Adjusted for splits
- *Estimate.

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**Stock Price**

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**NET INCOME** (Millions)

- **1980**: $476
- **1981**: $1,710
- **1982**: $1,170
- **1983**: $1,273
- **1984**: $1,389
- **1985**: $1,290
- **1986**: $1,050
- **1987**: $359
- **1988**: $175

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**A Chrysler minivan**

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**Forbes, October 1, 1990**
When Florida Power & Light faced the unexpected failure of a generator capable of providing light to a million people, ABB engineers helped devise a plan to make sure the lights stayed on.

Normally, loss of this capacity would cause power reserve shortages for a full year while the equipment is repaired on site. Instead, by installing a "loaner" and taking the existing generator in for repair, ABB reduced the reserve shortage to only ten weeks. It is this type of innovative solution that has earned ABB the trust of America's most respected power producers.

ABB subsidiaries are primary suppliers to the power industry, providing steam and gas turbines, nuclear systems, Combustion Engineering boilers and all related services. If needed, we can also furnish complete turnkey operations. ABB has been a pioneer in providing the most efficient, safest and cleanest means of power generation for over a century.
For those still not familiar with one of the world's leading electrical-engineering companies, we offer these three letters of introduction:
With over 35,000 employees at facilities in nearly every state, we are in a position to address many America's most important needs: greater supplies of electricity, optimization of industrial processes, improved mass transportation, and environmental protection.

In addition to our U.S. strengths, we're able to draw on our global resources, with $25 billion in sales and 215,000 employees in 140 countries. These resources also include a $1.3 billion investment in researching and developing environmentally sound and cost-efficient technology.

* Power Generation • Power Transmission & Distribution • Mass Transportation • Environmental Control
  • Industrial Automation & Engineering • Financial Services
needs Miller the financial man, and vice versa.

"I would feel comfortable with Steve being chairman. I know that I would have great latitude in running the hard part of the car business, and Steve would have trust in my sense of fiscal responsibility. And I think Steve would feel comfortable with me being chairman, knowing that I would not make any major move without consulting him in the financing," says Lutz.

They seem to mean it.

How did Chrysler, the automotive success story of the early 1980s, get into trouble by 1990?

Mass market cars, the small subcompacts and the big rear-wheel-drive models, went unimproved for years and died, costing Chrysler several hundred thousand units of annual sales. Engine development lagged. The old K car and the variations that saved the company stayed on too many years, there was no new family of midsize, midpriced cars to rival the Taurus or the Honda Accord. When new Chrysler models like the Spirit and Acclaim were brought out in 1988, they were ultraconservative in styling. This, then, explains why Lutz and Miller are so interested in what's going on in Chrysler's styling shop. And both vow there's enough money to carry out the new programs.

Chrysler's lackluster performance in family cars in the late 1980s was accompanied by a wild foray into specialty niches: three-two-seaters, two convertibles and three coupes with small backseats. Meanwhile, billions of dollars went into a research center, stock buybacks and diversification into business jets. At the same time, efforts to build a solid alliance in Europe stumbled. Some lay the blame at Lee Iacocca's door, claiming that after saving Chrysler Iacocca became an absentee manager, diverted by success, by the Statue of Liberty campaign, by his bestselling books.

In fact, Iacocca has continued to look for some way to forge a strategic alliance with Fiat. The potential economics of such an alliance are compelling. Consider minivans. Demand is expected to grow in Europe, and Chrysler will start production in Austria next fall. Without a European partner, Chrysler men figure they can sell 50,000 vans a year in Europe. But if they could tie into Fiat's European distribution, the pair could be selling 200,000 minivans annually in five years.

Still, Miller says a European alliance is not central to their plans. "This company can stand on its own two feet," he says. "If nobody wants to dance with us, we're going to do just fine."

A decade ago, Chrysler had become a dirty word on Wall Street. Its stock, on a split-adjusted basis, was at 4, working its way down to 2. Within six years it rose above 30, and has since fallen back to a recent 12%. Lots of folks got rich on the bounce. Many of those who missed out are wondering if they now have a second chance. The answer is probably yes, but there is no need to hurry.

The company figures the current sales slump will level off at the end of this year, and next year will match 1990 as the company muddles through the recession.

Beyond that, in 1992, 1993 and 1994, earnings should start to build again. Yes, the company could once again earn the $6 a share it reported five years ago.

"When supply and demand get back into balance, much of the discounting will disappear," says Lutz. "That's averaging $1,200 a unit on two million units, and that's $2.5 billion. That should tell you there's one hell of a lot of upside potential as the market tightens up and gets in balance."

Robert Lutz and Steve Miller are betting their own money on another Chrysler renaissance. "I bought a lot of stock in this company in May," volunteers Miller. Interjects Lutz, who earned about $550,000 last year: "I bought an annual salary's worth." Rejoins Miller: "I look pretty stupid today because the stock's gone down. But call me again in three or four years."
For young Carol McCory and John Casey, stock performance isn't exactly at the top of their list of concerns. But because their parents and grandparents are CoreStates shareholders, their futures look just a little bit brighter.

At CoreStates, our first concern is always the future of our shareholders and employees and our customers and their families. Not just for tomorrow, but for a lifetime. Our focus isn't on short-term margins and financial fads, but on long-term relationships and banking strategies that touch people in wonderful ways. And from a decade that has beleaguered other financial companies, CoreStates has emerged with record earnings.

One reason is the devoted practice we bring to the art of risk management. Risk isn't avoided, it's just that we "drive defensively." We emphasize earning power and asset quality over growth for the sake of getting bigger. And we never forget that making loans is tantamount to investing our shareholder's hard-earned money.

In so doing, CoreStates has paid dividends to our shareholders every year since 1844.

The turbulent 1980's taught the financial community a lesson that CoreStates learned a long time ago: It's all too easy to forget the really important things. At CoreStates, we always remember that our customers have hopes and plans and children with bright futures.

Because we put customers like Carol and John first, we deliver lasting performance.

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Airborne Express chose Hyundai PCs for the long haul.

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Airborne Express is the world's fastest growing overnight air express company. As experts in moving documents and packages they had strong ideas about what they needed when it came to moving information.

Airborne Express examined a number of different PCs to see how they weighed up. Hyundai came through with flying colors. Airborne installed Hyundai computers at their private airport and central sorting facility in Wilmington, Ohio. They also specified Hyundai for the Libra II computerized shipping system they offer to high-volume users.

Hyundai has the broadest line of PC-compatible computers and peripherals available. From powerful desktop machines to the latest portable technology. All competitively priced. All with an 18-month warranty. And all available from a first-class, nationwide network of dealers, who also provide comprehensive product support, including a 24-hour "Service-on-Site" option.

If your company needs information systems for the long haul, take a look at Hyundai. They carry a lot of weight with Airborne Express.

Hyundai Electronics America, 166 Baypointe Parkway, San Jose, CA 95134
On the Docket

Good news for heirs: New legal guidelines give trustees freedom to diversify investments and improve portfolio performance.

By James Lyons

IT MAY BE HARD to believe, but a bunch of academics and lawyers have actually come up with something that will curb litigation, lower costs, and make life—and death—a little easier for everyone.

It's the American Law Institute's new restatement of the law on trust administration. The institute is a group of lawyers, professors and judges who periodically issue statements on various laws. The institute's views aren't binding on courts. But the old standards governing how trustees can manage funds are so outmoded—the last restatement was in 1959—that judges are likely to jump at the chance to cement the new rules into law.

Essentially, the new rules bring trust management into the 20th century by recognizing that even what appear to be the safest investments have risks. Think, for example, of all the supposedly safe Treasury bills that were eroded in the inflationary Seventies.

Rather than prohibiting trustees from putting money into so-called "speculative" investments such as second mortgages, the American Law Institute's new guidelines allow trustees greater freedom to diversify investments across the entire spectrum of possibilities. Now the relevant questions are whether the risk outweighs the opportunity for gain, and whether the investment fits the purposes of the trust.

Nor should individual investments be considered in isolation. Buying a stock index future may sound risky, but if it represents only 1% of your portfolio, it might be a wise choice—especially if used as an intelligent way to hedge a portfolio.

What all this gets down to is the venerable "prudent investor rule." Derived from an 1830 Massachusetts court ruling, this rule and its variants have dominated the trust management field ever since. For the last 30 years trustees have been sued for making a single bad investment, even though the entire portfolio has done well. The new rule changes would allow trustees to make honest mistakes in single investments—as long as the investment is part of a prudent diversification strategy.

With greater freedom comes greater accountability. The new guidelines urge a trustee to delegate authority for investment strategy if he or she isn't an expert. You may think your brother Charlie is a swell guy, but what does he really know about convertible debenture strategies and the T bill futures market?

"If you put assets in a broadly diversified portfolio aimed at cutting [transaction] costs, you'll do fine," says Yale Law School Professor John Langbein, who was an adviser on the American Law Institute rules. "But if you're a trustee doing old-fashioned, small-portfolio, individual stock picking, you'll be creamed under these standards—and rightly so."

One potential beneficiary of the new rules will be the more alert bank trust departments. The simplest and cheapest way to diversify a portfolio is to put assets into some sort of mutual fund or even a stock index fund. Banks have run common trust funds for years. Now the better banks will get the chance to diversify them and perhaps attract business from trustees who don't feel sufficiently expert to manage the money themselves.

Some of the stickiest inheritance problems involve those where family businesses are the primary asset of the trust. Under the old rules, trustees were expressly forbidden to hold on to a family business without explicit authorization in the trust documents. The new rules are more flexible: They allow trustees to hold on to the business, provided the trustee also weighs the decision against the objectives of diversification and aiding the beneficiaries. But above all else, clarity is essential.

"The bottom line is that the documents should empower the trustee to retain an asset and relieve the trustee of the obligation to diversify," says trust and estates lawyer Sherwin Simmons of Tampa, Fla.'s Trenam, Simmons, Kemker, Scharf, Barkin, Frye & O'Neill.

Even if you don't want your business preserved, the trustee can still encounter a formidable obstacle when trying to dispose of it: your heirs. The typical entrepreneur understands the difference between creating wealth and preserving it, but heirs usually have sentimental attachments to the family business, notes J. Timothy Ritchie, trust counsel for Chicago's Northern Trust Co.

So perhaps the wisest part of estate planning starts not by conferring with your lawyer, accountant or investment adviser. It's talking things over with your spouse and kids.
California is the process of converting sunshine into old. Think of the water cycle: when the sun draws water from the sea, clouds carry the moisture over and where it falls as rain, joins rivers and eventually returns to where it came from.

In California the sun draws people. They come to visit, enjoy the sunshine and beaches and go home. They tell their friends about California; their friends, in turn, come to visit and go back to tell others.

Many stay. This cycle is the formula for California's phenomenal growth. With 30 million people, California is America's most populated state. But it is the relative pace of its growth that is breathtaking. It surpassed New York in population in 1964, and is expected to reach 33 million by the year 2000. That influx of people has created opportunities that have made many people very wealthy.

But drawing people from all over the world and making a good number of them rich is not what makes California a catalyst. The state transforms those who come here, and it is influential far beyond its borders. California customs, mores, lifestyles, entertainment, inventions, ideas and businesses have affected people worldwide.

It makes more sense to compare California with countries than with other states. According to the California Department of Commerce, California has a gross state product of $675 billion which ranks in size among the major industrialized countries in the world.

How can Californians be so productive? Could it be the sun? The people who come to California have to be optimists to begin with — to leave home and start a new life. But once here, the good weather and opportunities change them into Californians — optimistic and industrious. They press forward toward the new, the modern, always directed toward the future.

Because Californians value the new, and because they have the highest personal and disposable income in the country, the state is the perfect place to test market anything. No matter what it is, someone in California will give it a try.

California has had international impact because it fosters daring and creative people. This creativity can be seen in everything Californians do — from irrigating the deserts of the Imperial Valley, to making movies in Hollywood, to devising high-tech marvels in Silicon Valley.

Creative people are drawn to California, half from other states and half from other countries. It's the quintessential American melting pot — with a twist. The Eastern seacoast was the gateway for European immigrants. California is too, but it's also home to six million Hispanics and one million Canadians. California also has many immigrants from Japan, China, Korea, Thailand and Vietnam who give California the inside track in dealing with the $3 trillion Pacific Rim Market. California is also considered the place for economic and social mobility.

“What counts out here is not what family you
were born into, but your character, your hard work and perseverance," observes Duncan Knowles, vice president and director of organizational communications for the Bank of America. "People are not restrained by generations of social or class structure. There is the feeling in California that you can make something of yourself here."

The founder of the Bank of America is a prime example. A.P. Giannini launched the Bank of Italy in San Francisco in 1904 to help immigrants and other newcomers have a safe place to invest their money and get the credit they needed to have a start in life. From that humble beginning came the Bank of America, which was the world's biggest bank at the end of World War II, and remains the second biggest bank in the country with assets topping $100 billion.

The bank grew and prospered because of Giannini's faith and optimism. When the great earthquake of 1906 leveled San Francisco, most bankers wanted to stay closed for six months to see whether the city would be rebuilt. Not Giannini. With piles of smoldering rubble on either side and the San Francisco Bay at his back, he set up two barrels and a plank at Fisherman's Wharf and lent the bank's money to those who would rebuild.

Those two barrels and a plank, incidentally, were the birth of branch banking. Giannini could see the advantages of operating in more than one location, and by 1907 had a branch in the Mission District and in 1909 opened the first out-of-town branch in San Jose.

With a system of statewide branches, cash from a peach harvest in one part of California financed home building or logging in another. This innovation in the movement of capital from points of surplus to those of maximum opportunity helped transform California, and ultimately the world.

Another mega-innovation associated with the Bank of America was the credit card. The BankAmericard — that eventually became VISA — was the first bank credit card to be licensed to other banks across the country. It put credit in the hands of the people and helped fuel the enormous expansion of the American consumer economy.

The bank's investment in California innovations has helped transform world culture. When the motion picture industry was young and unproven, Giannini saw potential. The Bank of America has financed more than 500 films, including such Disney classics as "Snow White," "Cinderella" and "Fantasia." The bank also financed Disneyland.

Even such California symbols as the Golden Gate Bridge were made possible by Giannini who approved sale of the bonds not only because he saw the value of the bridge, but also because he foresaw work for many Californians during the Depression.

Another home-grown California firm is the Pacific Mutual Life Insurance Company and its five subsidiary investment operations. In 1868 some Californians felt East Coast insurance companies were not giving them the service they needed. The company they formed, Pacific Mutual, is California's oldest insurance company, now operating in 49 states. The firm offers all kinds of insurance, including life and health. Some 2.4 million people have group life insurance through it, and another 150,000 have individual whole life policies.
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In typical California fashion, Pacific Mutual looked at its investment arm with creative eyes, and spun off its investment management activities into five separate subsidiaries. Altogether, these investment firms manage $35 billion in assets, primarily for pension funds. That total makes Pacific Mutual the 34th largest investment firm in the nation.

The success of its investment activities has helped make Pacific Mutual the 27th largest insurance firm in the country. Along the way, it also has helped to fund a wide variety of borrowers. Since Pacific Mutual led the way in diversification, many other insurance companies have followed.

California seems to attract money. The state is home to 20% of all foreign banks operating in the U.S., and more than that proportion of all U.S. assets from foreign operations are here. Money to build businesses or invest is easier to find in California than any other state. Financial assets have grown almost twice as fast as New York's, making California second only to New York as a financial center.

California attracts companies as well as individuals. Franklin Asset Management moved from New York to the San Francisco Bay Area in 1947, and in 1973 merged with the California-based Winfield Funds.

“Most money managers in New York or Boston in the '60s and '70s thought of California as the 'Wild West,'” says Gregory E. Johnson, vice president of marketing at Franklin. Wild West or not, it was in California that Franklin came up with the idea in 1983 to create the first fund composed of securities with government guarantees, and to make it double tax-free by exempting it from Federal and state income taxes. In New York City, where there is also a city income tax, the fund is triple tax free.

This innovation is helping government bodies finance schools, highways and hospitals. Franklin’s California fund alone has $11 billion — 10% of all

California’s outstanding municipal bonds, and is three times larger than any other California municipal bond fund. Meanwhile, those who invest receive an attractive, tax-free return on their investment.

Johnson says it takes more than a good idea to succeed in the competitive world of finance. “There are no patents on ideas. People can copy them, so you have to provide service. Lipper/Dalber Inc., an independent research group, rates Franklin as the number one mutual fund in service,” he notes. “Being early is also critical.” Because of the size of the asset pool Franklin manages — $42 billion — it can operate with expenses of less than one half of 1% which allows it to offer higher yields.

Another East Coast firm drawn to California is ARCO. “When ARCO discovered the Prudhoe Bay oil field in Alaska in 1968, we decided the Pacific Rim is where the future would be,” says Albert Greenstein, manager of media relations. When the oil was found, it was worth $3 per barrel; by the time they got it out in 1977, it was worth $20. That increase helped propel ARCO to the rank of eighth largest oil company and the 15th largest industrial firm in the U.S.

By 1972 it had built the ARCO Plaza, a 52-story skyscraper that set the trend for development in downtown Los Angeles. “None of this was here when we came in,” says Greenstein, pointing to a gleaming L.A. skyline. “We were one of the first major companies to move to Los Angeles from New York,” he notes. By 1985 ARCO had liquidated its holdings in the East. ARCO now operates exclusively in five Western states.

ARCO may be big because of Prudhoe Bay, but it is profitable because it is creative. It went from fourth place in gas sales to first place in 1982 with an 18% market share when it took the bold move of dispensing with credit cards and going all cash. Its $1.9 billion in profit last year made ARCO the most profitable company in California and the
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The Golden Gate Bridge, photographed by Michael Kenna.

Bank of America
third most profitable oil company in the U.S.

“We saw early on that price was the driving factor in gasoline sales,” Greenstein says, and eliminating credit allowed ARCO to sell for less than the competition. ARCO also came up with the AM/PM Mini Mart, a marriage of gasoline and convenience store. ARCO introduced them in 1980 when it became apparent that the $1 million investment in land and building for a gas station could not be justified with gasoline sales alone.

“We designed bright, modern stores that are as much an attraction as the gas pumps,” Greenstein says. “Selling fast, hot food helps maximize our investment.” It also transformed the way gas is sold not only in the U.S., but also in such countries as Taiwan, Japan, Portugal, Spain and Canada — countries where AM/PM is operating.

Because ARCO is based in Los Angeles, air quality is one of its primary concerns. Last year the company introduced EC1, a “reformulated gasoline” that reduces emissions. Because the issue of clean air

is so important to ARCO, the company gave away the formula to whoever wanted it. Today, virtually every major oil company has reformulated gasolines, which are being considered in Mexico and Europe as well.

“It wasn’t even on the national agenda to make a gasoline that is substantially cleaner,” says Greenstein. “We replaced regular leaded fuel first, because we wanted to hit the highest polluting market first.” ARCO’s fuel reduces sulphur emissions by 80% and benzene by 50%, cutting back emissions by 120 tons per day.

ARCO’s effort is one more indication that California has a handle on its problems — both in the private and public sectors. Californians’ passage of three ballot measures to spend $20 billion over the next 10 years to build rail, light rail and highway systems to ease traffic is an example of their determination.

California has already gone a long way toward

managing growth during the past eight years of the administration of Gov. George Deukmejian. Eight years ago unemployment in California was at 11%. Today it is at 5%. Eight years ago housing units were built at the rate of 80,000 per year. Today new housing is built at the rate of 250,000 units per year, and there are 2 million more places to live in California than there were eight years ago.

Those homes are being filled by people coming to California to work. During the past eight years the state has created 3 million new jobs — a substantial portion of all new jobs created in this country, and more jobs than were created in all of Western Europe in the same period.

With all the real estate activity, it’s small wonder the highly innovative Century 21 system was born in California’s fast growing Orange County. There had been other national real estate firms in the past, but Century 21 was the first to start out as a franchise company.

When Art Bartless and Marsch Fischer launched Century 21, they broke new ground by dividing the country into 25 independently owned regions and selling all rights to develop local offices to the regional owners. The operator of the South Florida region, for example, sold hundreds of franchises and made millions. The franchisees seek out established, independent offices that also want to be part of an international team. There are 7,000 Century 21 offices in the U.S., Canada, Mexico, Great Britain, France, Japan, Australia and
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New Zealand. People who use Century 21 to sell their homes can also use that system to relocate. Century 21 is typical of the new California companies that sell services, information and ideas.

By 1980 more than half of all California workers — 56% — were involved in the creation, processing, storage, retrieval and analysis of information. In effect California has developed a “mental economy.” The same creative process involved in music, movies and other arts for which California is famous is also at work in the creation of a new business idea or Silicon Valley software.

California competes by quickly transforming ideas and concepts into better products and services. Many ideas come from California’s academic community, comprised of the nine campuses of the University of California system, 28 state universities, 94 private colleges and universities and 106 community colleges. There are more scientists and engineers in California than the second and third-ranked states combined. California has 1,500 research laboratories, including such well-known ones as the Jet Propulsion Lab at Pasadena and the Ames Research Center.

It is in California’s interest to turn its ideas into cash as quickly as possible, according to Ken Gibson, director of the California Department of Commerce. The state introduced its Competitive Technology Program in 1988 to promote further research and development of technologies that show potential for commercialization.

An example of such a transformation is how Lockheed turned a computerized information retrieval system for its employees into Dialog, a data-base information service that now has 400 employees, serving 100,000 customers in 100 countries — including the Soviet Union.

“Businesses, academics, scientists or private citizens can use their PCs with modems to do on-line information retrieval at home or in the office, any time of night or day,” says Rick DeTurck, a marketing manager at Dialog.

Dialog has assembled a vast data bank that clients can tap into through a toll-free line. There are 800 publications such as magazines, newspapers and trade journals on-line from which articles can be downloaded. Also available are documents from the Library of Congress, government publications such as research documents and abstracts of scientific research.

For business, Dialog offers Dun & Bradstreet, Standard & Poor’s, Moody’s and Knight Ridder News Service — which now owns Dialog. Businesses can keep track of their competitors through PR Newswire and Businesswire, which offer news releases of new products and developments. Brand managers and trademark lawyers can find out who has similar symbols for anything from beer to cars, download them and print them out.

“This service makes information so much more retrievable than going to the library or writing to the government,” says DeTurck. Dialog helps users make better decisions. For example, one company was about to launch a product, but after research, found too many similar products already on the market. Further research introduced it to a firm that could make its product competitive — proving that access to information is more than a convenience. It promises to accelerate growth and change exponentially. Such a thing is rightfully born in California, where companies set the pace for innovation as well as change intangible ideas — and sunshine — into wealth.

Gary Eisler is a business writer and public relations consultant based in Portland, Oregon. This supplement was designed by David November.
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Cemex Chief Executive Lorenzo Zambrano

"Some of our competitors thought we were rather a weak neighbor. When we grew, they didn’t like it."

Lorenzo Zambrano warned his U.S. competitors that he would invade their turf. They ignored him. Pity.

## Cement wars

By Claire Poole

THINK THE TIME has come for us to get to know each other better.” With those words, spoken five years ago at the International Cement Seminar in Chicago, Mexican cement king Lorenzo Zambrano warned his U.S. competitors that his company, Cemex, was on the move.

Apparently, several U.S. producers slept through Zambrano’s speech. Since then, Zambrano, 46, has spent nearly $1 billion on acquisitions. A big chunk of that went to buy Empresas Tolteca, his biggest competitor in Mexico. But he also spent heavily to acquire cement marketing facilities “all over the southwestern U.S.” Zambrano now has nearly 5% of the U.S. cement market.

At home Cemex accounts for 66% of Mexico’s cement market. With sales likely to reach $1.2 billion this year, Monterrey-based Cemex is now the largest cement producer in the Northern Hemisphere. It is Mexico’s fifth-largest publicly held, non-state-operated company in terms of market capitalization. Says Randolph Wintgens, a vice president at Lone Star Industries in Stamford, Conn.: “He’s risen like a phoenix, from a small Mexican cementmaker to an industry power.”

When they finally awoke to the Zambrano threat, U.S. producers sicked their lawyers on him. Last year eight U.S. cement companies, plus two labor unions, filed an antidumping suit against Cemex and at least three other Mexican producers, claiming they had unfairly deflated cement prices and hurt the American companies’ expansion plans in the Southwest and Florida.

Three years earlier, in 1986, the International Trade Commission had been confronted with a similar antidumping complaint against cement producers from eight countries, in-
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cluding Mexico. The commission found no injury to the U.S. producers. But in August the ruling went the other way, against the Mexican producers and Zambrano. With only three of its six members sitting, the ITC ruled that the U.S. cement producers had been materially injured by the prices Cemex and other Mexican producers were charging. Zambrano was slapped with a 58% countervailing duty.

Zambrano thinks the ruling is unfair. Cement in Arizona and California, for example, was selling for around $58 a ton and declining. Zambrano says Cemex also offered its cement for $58, but as much as 25% of that price, or nearly $15, went to the cost of transporting it from plants at least 150 miles south of the border. The ITC, ignoring Zambrano’s actual price and shipping costs, deducted the $15 and declared that he was “dumping” cement at $43 because it was then selling in Mexico for around $46 a ton.

Zambrano is planning to appeal to the Justice Department’s Court of International Trade. He claims the whole affair amounts to an effort by his competitors to halt his U.S. expansion drive. “Some of our competitors thought we were rather a weak neighbor,” he says. “And it just so happens that we grew, and they didn’t like it.”

Meanwhile, Zambrano plans to reduce his exports to the U.S. this year by 30%, or 1.8 million metric tons, mainly because he can’t make money in some states like Texas or Florida with a 58% import duty. Besides, Zambrano is now making a lot of money back home, where Mexico’s President Carlos Salinas de Gortari has initiated many public works programs, and demand for cement is growing at around 10% a year. Salinas has also allowed government-controlled cement prices to rise somewhat. Just after the ITC ruling, Mexico raised the government-set price of cement 16%, to $61 per metric ton—up 40% from just a year ago.

But no one should think Zambrano plans to abandon the U.S. market. While Cemex did exit Florida altogether after the ruling, Zambrano plans to continue exporting into areas like California and Arizona, where prices are higher, to hold on to his market share, he says he’ll do this even if he just breaks even. And Cemex is about to sign agreements to ship to growing overseas markets like the Far East and Europe. He just signed one with C. Itoh & Co. Ltd. to start shipping to Japan.

Zambrano is one of Mexico’s wealthiest citizens and most eligible bachelors; his family owns an estimated 40% of the company, a stake worth around $400 million. Like most Mexican businessmen, Zambrano has long-standing ties to the U.S. As a teenager, he was sent to Missouri Military Academy in Mexico, Mo., and later earned an industrial engineering degree from the Instituto Tecnológico in Monterrey, Mexico’s version of MIT. He topped off that with an M.B.A. from Stanford. Returning to Monterrey in 1968, Zambrano went to work for Cemex, where his uncle, Marcelo Zambrano, sat on the board. In 1985, when he was 41, Zambrano was named chief executive. (His uncle remains as chairman.)

Disappointed but not defeated by the International Trade Commission ruling, Zambrano vows to resume his charge into the U.S. “So many people think we don’t know what we’re doing, that we’ll do something stupid, that we’re not very smart people from south of the border,” says Zambrano. “Well, we might not know about other industries. The thing we do know how to do is make cement.”
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JC 9077
Los Angeles’ Dick Riordan is working as hard giving his $100 million away as he worked at making it in the first place.

Getting the politicians off their . . .

By John H. Taylor

O n this sunny Friday before Labor Day weekend, Richard Riordan is sneaking out of the office early for a quick round of golf. Riordan’s playing partners at Los Angeles Country Club aren’t your run-of-the-mill foursome: former President Ronald Reagan, Atlantic Richfield Chief Executive Lodwrick Cook and California Supreme Court Chief Justice Malcolm Lucas.

Dick Riordan, an affable Easterner turned Californian, is your quintessential power broker: You need the power to get something done, he can pick up the telephone and put you in touch with someone who has that power. Though virtually unknown outside Los Angeles, the 60-year-old lawyer-investor is one of the city’s most powerful figures and one of the state’s biggest Republican fundraisers. People turn to him for everything from legal and political advice to help securing federal judicial appointments. Riordan’s friends include Cook, Los Angeles Mayor Tom Bradley, Kaufman and Broad Chairman Eli Broad and Korn/Ferry International President Richard Ferry. He remains close to Michael Milken, with whom he shares a passion for improving American education.

Riordan’s investment acumen and high-level contacts helped him amass a $100 million fortune, but he devotes his power brokering these days to helping him give the money away, not to making more. He devotes his ample energies and works his extensive contacts toward overhauling Los Angeles’ dilapidated school system. Riordan currently gives away about $3 million a year, both personally and through his Riordan Foundation, and plans to leave his entire fortune to charity upon his death.

Riordan grew up one of eight children in a Catholic family in Westchester County, outside New York City. He got a philosophy degree from Princeton in 1952, a law degree from the University of Michigan. In 1956 he moved to Los Angeles and with an $80,000 family inheritance began dabbling in investments, mostly venture capital deals and technology stocks.

For many years he has thrown himself into his work and his good works with such zeal and concentration that he would sometimes come to work . . .
ears shoes that didn’t match. Says Richard Riordan’s investment partner, J. Christopher Lewis: “Dick is the kind of guy that if he didn’t have so much money, people would call a nut. As it is, he’s eccentric.”

A darned smart eccentric. Riordan made his fortune investing in technology companies and California real estate and doing leveraged buyouts. In 1979 he was one of three original investors in Convergent Technologies, Santa Clara-based computer manufacturer that was one of the first companies to develop a highly sophisticated workstation. By the time he sold the last of his stock in 1988, Riordan’s $600,000 investment had grown to $40 million.

Riordan also made $18 million in 1983 when he sold a block of property in the heart of downtown Los Angeles that he’d quietly acquired, one piece at a time, over 15 years. That same year, he founded a leveraged buyout firm, then made $35 million on the acquisition and subsequent sale in 1988 of P&C Food Markets, a Syracuse supermarket chain, and then exited the business of doing large buyouts, sensing that prices and fees were getting out of hand.

“All of a sudden,” he says, “I was asked to join a lot of boards and civic groups. I was happy to do it, but what I found out was that my skills as a problem solver and my contacts in the business community enabled me to get a lot done that others might not have been able to.”

Soon, improving education became his passion. In 1985, for instance, Catholic Archbishop Roger Mahony sought Riordan’s help straightening out his archdiocese’s finances after its financial director died suddenly. Riordan helped form a diocesan finance council and now heads the Archdiocesan Education Foundation, which is trying to raise $100 million for parochial schools. Riordan has already raised $43 million just from the foundation’s board members.

Amarie and unfailingly courteous, Riordan is a master negotiator. Mahony tells the story about the time he and Riordan met with a wealthy builder and philanthropist they hoped to talk into donating a couple of computers to the inner city parochial schools. Riordan’s nose for negotiating told him that the builder could be persuaded to do a lot more. The devel-

“...from Northwestern Mutual Life. The Quiet Company...that’s ranked first in dividend performance more times than any other company over the last 50 years.
operator left the meeting having promised to build 28 kindergartens, complete with computer labs, for the archdiocese. “Dick can influence people to make commitments they hadn’t planned on,” Mahony chuckles.

Like when Hollywood producer Aaron Spelling and some of his neighbors recently sought Riordan’s help getting the street in front of their palatial homes closed to outside traffic. Okay, but Spelling and neighbors would have to agree to donate $1 million to several inner city programs.

Riordan’s current passion is overhauling Los Angeles’ troubled school system. His interest in education was piqued when he read a 1983 Carnegie foundation report that said if children didn’t learn to read by the fourth grade at the latest, there was very little chance they ever would.

Riordan felt that computers, which he knew about from his years as a venture capitalist, could be part of the answer. He is now a major promoter of IBM’s Writing to Read program, which teaches children to spell out words phonetically on a computer screen and then teaches them the correct spelling.

Over the last three years, he has donated more than 4,500 personal computers to schools in Los Angeles, New York, Kansas City, Trenton, N.J., and throughout Mississippi. He has also convinced others, like Atlantic Richfield’s Cook and Mattel Chief Executive John Amerman, to get involved in education as well. “When you do something with Dick Riordan,” says Cook, “you know going in that Dick has made the commitment in time and money before he ever approaches you.”

Riordan manages a staff of five who follow his donations, make sure the schools’ teachers get the proper training and that they continue to use the systems properly. If they don’t, Riordan yanks his computers out of the schools.

A strong believer in individual initiative, Riordan is forming a coalition among the teachers union, neighborhood activists and the business community to try to force officials of the Los Angeles Unified School District to shift most budget decisions and administrative responsibility to the local schools.

Much of the educational establishment hates Riordan. How dare a businessman tell them how to run their affairs? Los Angeles School Board President Jackie Goldberg told the Los Angeles Times that Riordan wants “to be czar of education, with him alone having the ability to decide what’s best for education.”

Riordan’s reply to this criticism is that the educational bureaucrats have made an obvious mess of things. “I’m not an ideologue,” he says. “I simply know we need a total restructuring. I’m trying to use my contacts to get some experts in here who can bring about that restructuring. Lord knows the people in there now won’t do it.”

He has no ambition for political office. “I’m just trying to get the politicians to get off their asses,” he says.

For all his good works, Riordan is not much loved by the liberals. Riordan blames the deterioration of inner city schools on the liberal social programs of the 1960s. “Those programs fostered a permissiveness in the schools that was unbelievable,” Riordan says. “Today schools don’t expel a kid for bringing a loaded pistol to school. That’s crazy.”

Another of Riordan’s pet peeves is the permissive legal system. In 1986 Riordan led the successful campaign to oust leftist California Supreme Court Chief Justice Rose Bird, whose business-bashing decisions were clearly costing California jobs and tax revenues.

“The difference between me and a bleeding-heart liberal,” he says, “is that I believe it’s better that someone learn to fish, rather than just being given fish.”

Richard Riordan, the quintessential power broker

“He can influence people to make commitments they hadn’t planned on.”
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Helmut Maucher transformed Nestlé S.A. from a demoralized multinational under siege by radicals into a tough, muscular global food marketer.

Feed the world

By John Marcom Jr.

Niklaus Meyer, a Swiss farmer's son who works for Nestlé S.A., is helping farmers in eastern Java learn the dairy business. Meyer is a long way from home in more ways than one. There aren't many pastures in Indonesia; the few cows that produce milk subsist on a spare diet of tropical grasses and copra cakes. Village farmers bring the milk, one can at a time, twice a day, to collection stations. Trucking it to the plant involves an hour's bone-rattling trip down to the Indonesian coastal plain. Once processed into Nestlé powdered milk, the product sells slowly, mostly through marketplace stalls.

This year all of Indonesia will probably add but one-third of 1% to Nestlé's global sales of $37 billion. Why, then, do Meyer and his employer bother with Javanese milk?

The answer is simple. Sixty-two-year-old Helmut Maucher, Nestlé's chief executive since 1981, doesn't believe the world's fifth most populous country can be ignored. He's reckoning that before long a nation of 200 million people will have at least 50 million consumers with money to spend on Nestlé products.

A similar story involves Pakistan. On a flight to Asia some years ago, Maucher looked down in surprise at the sprawl of lights below in Karachi. He remembers wondering, "What are we doing in Pakistan?" Nothing, it turned out. Soon Nestlé was at work building a factory in Lahore. A country of 100 million, Maucher reasoned, cannot help but develop—taking Nestlé along with it. If that takes some time, well, 124-year-old Nestlé is in no great hurry.

Such is the kind of long-term thinking that shapes the extraordinarily broad ambitions of the world's largest food company. Larger in sales than either Philip Morris Unilever, its nearest European-based competitor, Nestlé has more than 400 plants in 60 countries, with 195,000 employees. Last year Nestlé boosted its global advertising budget 18%, to $1.5 billion.

This is the most multinational of the world's multinational food giants. On most every aisle, in most every supermarket, in most every major country, you now find something Nestlé makes. The Nestlé name the U.S. goes on chocolate: Quik, Toll House chips, and candy bars such as Baby Ruth and Butterfinger, bought this year for $370 million.
coffee in the U.S., Nestlé is number three, behind Philip Morris' Maxwell House and Procter & Gamble's Folgers. Nestlé sells Taster's Choice, Hills Bros., MJB and Chase & Sanborn.

In frozen foods, the Stouffer's brand has belonged to Nestlé since 1973, as have Stouffer hotels. Also from Nestlé: Crosse & Blackwell condiments from Britain, Beringer wines from California, Vittel mineral water from France, Perugina candy from Italy. "You'd have a hard time finding someone we don't compete with," says James M. Biggar, one of the company's two U.S. market heads.

In terms of its managerial cadres, too, Nestlé is a kind of corporate United Nations. An American sells pet food to the Japanese. An Indian sells coffee to Australians. A Scotsman sells yogurt to the French. Among 14 market heads in Nestlé's Asia-Pacific territory, zone manager Rudolf Tschan, a Swiss, counts ten nationalities.

They spend years in the countries they're assigned to, and rarely leave the company. What keeps them so loyal? Partly the breadth of opportunity afforded by the company's scale—and partly, it seems, a European way of treating people that may be kinder and gentler than the prevailing American attitude. Heads at Nestlé don't roll in public. The floundering Nestlé executive is quietly reassigned. People deserve a break, Maucher says, "as long as they are trying to do their best. I do not like for people to get sleepy, but I do not like to be unfair."

The style gets results. Under Maucher, Nestlé has been moving aggressively over the past decade to strengthen its core businesses in nearly every major market. Over the past ten years sales have doubled, profits tripled (to $1.9 billion, converting the Swiss franc at its recent rate of 1.30 to the dollar). Even in the current global bear market, Nestlé's recent market capitalization was over $20 billion, ten times estimated 1990 earnings. That multiple makes Nestlé among the cheapest of the world's big consumer-goods companies; it's AD/X (recent price, $57) trade over-the-counter in the U.S.

As the world has grown smaller, the job of running a successful multinational corporation like Nestlé has grown tougher. For early multinationals like Standard Oil, profitability lay in harnessing a few technicians and a lot of capital to a natural resource concession. For Ford Motor, IBM and other mostly American manufacturers that opened foreign plants after World War II, the primary ingredients were still production knowhow and capital.

Success across many countries is much more complex for a consumer goods company like Nestlé. It doesn't pump crude oil, nor does it make things people can drive or compute with. Nestlé makes and markets things people of many different ethnic and cultural backgrounds put in their stomachs. Central to its success is understanding local tastes and customs, and carefully nurturing relationships around the world. To accomplish this, Nestlé plant and marketing managers stay in a country for years, rather than being moved in and out in quick rotation, as is the custom with many U.S. multinationals.

"That's where Nestlé wins hands down," says Joel M. Glasser, a vice president of rival Philip Morris' food unit in Japan, where Nestlé wields far more clout than any other foreign food company. "The value of having veterans working on and on in a marketplace is just incredible."

Here's an interesting problem. The Japanese traditionally eat fish and rice for breakfast. How do you sell breakfast cereal in Japan? For years Nestlé rival Kellogg Co. sold the Japanese the same kind of Corn Flakes and Sugar Pops sold in U.S. supermarkets; kids ate them mostly as snacks.

Nestlé took a different tack. It developed cereals that taste like seaweed, carrots and zucchini, and coconuts and papaya—tastes the Japanese like. Nestlé spent months flying samples back and forth between Japan and the research labs in Switzerland. "This is a classic example of Nestlé’s decentralized strategy," says Michael Garrett, who runs the Japanese unit.

The result: After only three years in the business, Nestlé claims 12% of a market that, with the spurt from Nestlé’s heavily promoted entry, has more than tripled over the period.

There are dozens of such examples. With 20 research units scattered around the world, Nestlé’s far-flung operatives often meld traditional diets with modern knowhow. There are instant noodles in Southeast Asia, instant shark’s fin soup in Japan, instant fondu (a traditional dish made of dried yam flakes) in West Africa.

Helmut Maucher's ties to Nestlé go back a generation: His father was a midlevel manager in a Nestlé factory just over the Swiss-German border in
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the Allgäu region. When Maucher finished university just after World War II, signing on as an apprentice at Nestlé was an obvious move. He rose through the managerial ranks in Germany, Nestlé’s third-largest market.

In the late 1970s Nestlé was besieged by activists who claimed that its infant formula was killing Third World babies. Scientifically, the assertions were rubbish, but the media jumped on the story and the radicals got what they wanted: Nestlé was smeared as an evil multinational and a symbol of capitalism’s ills.

Making matters worse, the company had grown complacent and bureaucratic, and was making little of its legacy. Its mature cash cows—such as Nescafé instant coffee and Quik powdered chocolate drink—weren’t being used to fund new growth areas.

In 1980, at the height of the infant formula furor, a demoralized Nestlé board brought Maucher to Vevey, Nestlé’s idyllic hometown on Lake Geneva. To rekindle the company’s self-confidence, Maucher says he only did the “obvious,” refocusing on the basics: research, advertising, cash flow. But he also moved quickly to dampen the infant formula controversy. By 1984 Nestlé agreed to implement the World Health Organization’s new marketing code calling for curbs on promotional practices. It took time, but Maucher ultimately reduced the radicals to a trivial, though continuing, nuisance.

Maucher worked hard to cut cash balances in Nestlé’s far-flung units and make the most efficient use of marketing funds. By 1985 cash flow had doubled from its 1980 level, and cash was piling up. Thus armed, Maucher roared. He bid $3 billion—a big sum then, but peanuts in the merger mania to come—for Los Angeles-based Carnation Co., a diversified dairy and food company, with brands such as Coffee-mate creamer and Friskies pet foods. Three years later he spent $6 billion to buy British candy maker Rowntree Plc. and Italian pasta king Buitoni SpA. Late last year Nestlé formed a joint venture with General Mills to help the Minneapolis company market cereals such as Cheerios outside North America. In July the venture got a headstart in Britain by buying for nearly $180 million the ready-to-eat cereal business of Rank Hovis McDougall. The partnership gained a number three position in the lucrative British cereal market [behind Kellogg and Weetabix], tops in global per capita consumption.

“Before, we were a company with some specialties,” Maucher says. “Now we are a real food company.”

Does Maucher sometimes overpay? So it appeared in 1987, when Nestlé paid $56 million for Pasta & Cheese Inc. The price was 55 times earnings for the small New York-area pasta
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Nestlé's James Bigger

Competing with almost everyone.

the competition, argues Maucher, "This acquisition proved that the most expensive acquisitions are sometimes the cheapest."

While on the lookout for acquisitions, Maucher leaned hard on the companies he already had—many of them solid brand names that had gone a bit stale. Stouffer's frozen macaroni and-cheese casserole had been a steady bestseller ever since the Stouffers themselves began selling it in the 1950s. But under Maucher, Stouffer extended its lead in entrees through rapid development of its Lean Cuisine line of low-calorie meals. The products have also been transferred successfully to Nestlé's other frozen food units in Europe and Australia.

Having doubled Nestlé's overall sales, in Swiss franc terms, since 1980, Maucher vows to double them again in the current decade. This year, though, sales may shrink as reported in rapidly strengthening Swiss francs. But in the future, Eastern Europe will probably help Maucher meet his goal. Last fall the first Nestlé candy bars made in the Eastern bloc (under li-
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And if we may draw a conclusion from five generations of experience, it will be this: a Patek Philippe doesn't just tell you the time, it tells you something about yourself.
Arm-breaking in Japan

Nescafé is the closest thing Nestlé has to a single “mega-brand” like Coca-Cola or Marlboro. Nestlé believes in instant coffee the way IBM believes in mainframe computers, and well it might: Coffee, most of it instant, accounts for around 20% of Nestlé’s sales and even more of its profits. To retain its iron grip on the world’s instant coffee market, Nestlé, which buys around 15% of world coffee production, has made huge investments in high-tech plants in country after country. These form a considerable barrier against would-be competitors.

Nestlé developed what it says was the first drinkable instant coffee in the 1930s, when Brazil asked for help in storing huge surpluses. Over the years Nestlé’s researchers have developed a host of different blends to suit the varying palates of the world’s consumers, some of whom [like young Japanese “office ladies”) like it mild and some of whom [like continental Europeans] like it very strong indeed.

In Japan, traditionally one of Nestlé’s strongest coffee markets, Nescafé’s cachet stems from the Occupation, when the brand was a prized black-market item. The Japanese now give each other 10 million Nescafé gift boxes a year. With a 70%-plus market share, Nestlé long ago trounced a joint venture between General Foods [now Philip Morris] and Ajinomoto. By the mid-1980s it was a $1 billion business, by far Japan’s most profitable major food company—with after-taxes margins some years as high as 9%, versus the typical 1%.

But now there’s trouble in Japan. The Japanese are discovering what consumers in other markets found out years ago: the appeal of buying a drip coffeemaker and brewing their own coffee from roast-and-ground beans. Meanwhile, new drinks are being introduced at a frenetic pace. Coke sells canned coffee. Kirin Beer sells tea.

Nestlé’s sales of instant dipped slightly last year, a worrying sign. Prices have fallen some 40% at the retail level, but sales have not responded. Nestlé’s reported yen profit fell 30%.

In what outsiders saw as an unusual sign of distress, in April Michael Garrett moved from Sydney to Tokyo to head up Nestlé Japan. Repositioning Nescafé by emphasizing the overall appeal of coffee as a beverage, instead of merely selling Nescafé as the best instant, “is a very big psychological problem,” says Garrett. “I have been doing some tweaking, but I’ve got to break some arms. We’ve got to appeal to the consumer of today rather than the consumer of World War II.” —J.M.

Nescafé, a household word in Japan
Suddenly becoming a tougher drink to sell.
Business Travel Stress: You *Can* Go Home Without It

by: Peter G. Hanson, M.D.

Few of us forget the thrill of our first big business trip: The awesome sense of responsibility, the nerves at the airport and the glamour of a big-city hotel. All too often, with a more frequent travel schedule, this excitement gives way to a jaundiced sense of nothing new to anticipate, just the fatigue of being on the road and away from loved ones.

### The Five Finesse Points of Business Travel

While you may not often feel like a glamorous jet-setter, rest assured you’re not in this alone. The travel industry is actively working to provide new programs and services that return business travel to an enviable status. It’s up to you, though, to plan wisely and take advantage of the resources offered. The following action tips, my five-step process, can get you back in the swing in no time:

#### Beat jet lag lethargy.

When changing time zones, use light to wake up your body and reset your internal “clock.” Don’t wear sunglasses for the first few days of a trip if you are trying to stay awake. If you are trying to sleep, dim the lights and wear sunglasses or use an eyemask.

Eat smart. High carbohydrate foods, such as pasta, fruit and desserts give an energy boost for about an hour, then leave you drowsy. Eat these in your new time zone’s evening hours. In your new morning, eat high protein items for sustained stimulation and energy.

#### Choose the right hotel.

The right hotel can decrease stress, increase comfort and provide peace-of-mind for the harried business traveler. Look for hotels that understand the demands you face. For example, Hilton offers a special guide, “BounceBack at Breakfast, Lunch and Dinner,” which helps hard-working guests fight stress through nutritious meal choices. Hilton also offers an excellent frequent guest program, Hilton HHonors, where guests can combine points with their spouses through its “Mutual Fund” program.

#### Pamper yourself with a high-quality room.

Many hotels have “concierge level” rooms, such as Hilton Hotels’ Towers accommodations. These often include a special breakfast room, morning papers at your door, complimentary afternoon and evening snacks, and a hotel representative for extra services as required.

#### Treat yourself as a client.

You may schedule six client meetings a day and be proud of your productivity. But to avoid burnout, consider yourself a client and schedule time for yourself.

### Broaden your horizons.

Make it a priority to try new things, see new sights. When I travel, I like to do something that I never get to do at home—go horseback riding. Each time is a treat and I know I have something to anticipate. Call your hotel concierge in advance for suggestions.

While business travel often means hard work, it’s also an invaluable chance to cement business relationships while exploring new cities and all they have to offer. With the right approach, it can be an exciting experience!

Dr. Hanson is the author of the best-selling books, *The Joy of Stress* and *Stress for Success* and a busy public speaker who logs up to 50,000 air miles per month.
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George Lindemann made a fortune in high-flying businesses like cable television and cellular phones. So what's he doing buying propane distributors?

**Mystery mechanism**

By Christopher Palmeri

George Lindemann collects vintage Cartier products. The famed Cartier "mystery clocks" are highlights of his collection, their hands seeming to float in a face of clear rock crystal. In fact, the hands are driven by conventional gears hidden below.

Lindemann's serious investments are a lot like his Cartier clocks—something of a mystery at first glance but underneath, a standard mechanism. One that's helped the 54-year-old financier build a fortune now estimated at over $300 million.

Lindemann is best known for his highly successful cellular telephone ventures. He's founder and chairman of Metro Mobile CTS, Inc., the nation's 13th-largest cellular telephone company, which also serves as one of his investment vehicles. But if you think of Metro Mobile as simply an operator in high-tech communications businesses, you are wrong. Metro Mobile is, like everything else Lindemann is involved in, a cash flow play.

Lindemann started on the road to great fortune in his father's cosmetics company, Nestle-LeMur, which he joined just after getting an undergraduate degree from Wharton in 1958. Young Lindemann ran the firm's ophthalmological research division until it was sold to Cooper Laboratories in 1971 for $60 million.

By then, Lindemann had become interested in the cable television business, largely because he didn't have to put up much money to get into it. All that was required was an application. "You went out and you got a franchise, and you just financed it as you went," he explains. He built his cable business in clusters, first in New Jersey and Pennsylvania, then elsewhere along the East Coast and in the South. After ten years, Lindemann sold his company, Vision Cable, to the Newhouse family's Advance Publications for about $220 million in cash and debt. Meanwhile, he was also looking for something more adventurous than cable television.

He knew the cellular phone business through a paging operation his cable company owned. It appealed to him. In 1980 he founded Metro Mobile CTS and later went into partnership with Fort Worth's Bass brothers, the billionaire investors. Lindemann put up $4.5 million, and the Basses $6 million. Most of that went for legal fees in applying for licenses in markets across the country.

Over the next six years, Metro Mobile traded or purchased a number of...
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small properties to establish control of three regional clusters, Massachusetts/Connecticut/Rhode Island, the Carolinas and Arizona/New Mexico. Lindemann made sure the operations shared everything from subscriber credit administration to switching stations, saving on operating costs and overhead.

In 1988, however, Metro Mobile began to look like those mystery clocks. It bought stakes in two Connecticut water companies and made a run with raider Asher Edelman at Centel, the billion-dollar Chicago-based telephone company. Why these mundane businesses for a company called Metro Mobile? "These are guaranteed cash flow businesses," Lindemann told Forbes recently. "And I understand cash flow. From a back-office standpoint, operating a water company, a telephone company, a cable company or any company servicing a home is the same. The billing operation is exactly the same."

Lindemann's bid for Centel was rejected by shareholders, but Metro Mobile spent $65 million last year acquiring nine propane distributors in the Great Lakes area and Florida—another business with regular service and similar billing procedures.

Following his formula, Lindemann strung together several businesses in his two geographical regions to save on bulk propane purchases and share capital expenses like new tanks and trucks. Metro's Vision Energy division is already the nation's tenth-largest propane distributor.

Armed with an $850 million loan agreement, Metro Mobile went shopping again last February and bought Southern Union Co., a publicly traded natural gas utility based in Austin, Tex., for $175 million. Lindemann

**Lindemann's bankers are gambling that he can repeat his past magic and build revenues to the point where cash flow will again turn positive. Just as he did in cable television.**

immediately distributed Southern Union's stock to Metro Mobile shareholders, both as a dividend and to keep the utility separately traded. Lindemann plans to acquire neighboring utility businesses.

Rich as Lindemann is, his company isn't even profitable. With all these acquisitions, Metro Mobile is now $723 million in debt, versus a shareholders' equity of negative $355 million. Worse, its cash flow is inadequate to cover interest. Cash flow for 1990 is estimated to be $36 million, while interest payments are about $70 million. But Lindemann's bankers are gambling that he can repeat his past magic and cut costs and build revenues to the point where cash flow will again turn positive. Just as he did in cable.

Investors also have faith in Lindemann. Lindemann and his original partners, including two of the Bass brothers, today have a 40% stake in Metro Mobile worth about $280 million. In addition, two other Basses sold their shares in 1988 for an estimated $86 million. Lindemann's own initial $4.5 million stake has grown to $70 million in only eight years. The values were considerably higher before cellular stocks got hit hard earlier this year. Investors who bought Metro Mobile in the first public offering in 1986 have quadrupled their money. The stock was quoted recently at 11%, for a total market capitalization of about $700 million.

Lindemann concedes that growth and results in propane and natural gas will most likely be less spectacular than in cable and cellular, which he calls "home runs." But he figures he can keep up his batting average by hitting singles. His shareholders are praying he won't strike out.

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For better than a decade now this master player has moved stealthily through the world of penny stocks. The feds are once again closing in. Will be take the fall?

The secret world of Richard Bertoli

By Richard Phalon with Graham Button

First Jersey Securities’ notorious Robert Brennan is gone, and the slippery Meyer Blinder is under indictment. Now Richard Bertoli, 58, is targeted by the government as the last of the great penny stock pushers.

Bertoli is a man of many faces. Talk to fellow members of the well-manicured Westchester Country Club or to affluent Rye, N.Y. neighbors invited to Christmas parties in the Bertoli family’s six-bedroom French Provincial home bought five years ago for almost $1 million in cash. What comes back is the very model of suburban respectability.

You hear that Bertoli has “something to do with stocks and bonds.” Then again, perhaps he is an “entrepreneur in electronics.” Mrs. Bertoli does volunteer work at a nearby hospital, and Richard Bertoli is a “very quiet gentleman, a very fine gentleman.” All’s right with the world.

Talk to law enforcement officials who have been trying intermittently for the last 13 years to jail Bertoli for stock fraud, and you see yet another face. “A twisted genius with this great ability to manufacture and manipulate stock from behind straw men,” asserts one harried lawman who’s familiar with Bertoli’s early activities.

There is more: dark talk, not unusual in such cases, of organized crime and political connections—links that have supposedly enabled Bertoli to pocket tens of millions at the expense of unwary investors, while getting off with only five years’ probation and a $10,000 fine in 1978 on a 77-count fraud indictment involving his brokerage firm, Executive Securities. Bertoli pleaded no contest.

In a series of probes in the last three years, it appears that the sec and New York County District Attorney Robert Morgenthau have been looking for the face of Bertoli in his possible control in—and stock manipulation of—two intertwined complexes.

The sec was looking into HTK Corp., an o-t-c-listed business development company that for the last seven years has been a hatchery and repository of scores of penny stock promotions. The district attorney is looking into control and stock trading patterns in Worldwide 800 Services, a cluster of companies partly owned by HTK, whose announced purpose is breaking into the international telephone card business.

HTK claimed to have cut off dealing with Bertoli, and maintained that his function was as an “unpaid adviser.”

The focus of the dual investigations is clear enough. As of March 1989, the largest shareholder in Worldwide was a shadowy figure based in the Caymans (see box, p. 131), who also figures in the government case that resulted in the racketeering indictment handed up against Bertoli last fall. It is likely to go to trial in a federal court in Newark, N.J. early next year.

The indictment charges Bertoli, who was effectively banned permanently from the securities business as a result of his earlier plea, with calling the shots at a New York-based brokerage firm, Monarch Funding Corp., from behind the scenes. Along with

The lifestyle of the rich and bankrupt

Although in personal bankruptcy, Bertoli lives in this luxurious house.
Poisoned penman?

Say this for Richard Bertoli: Brought up in the blue-collar town of Guttenberg, N.J. in the center of Hudson County's notorious political stews, he is a street fighter who knows only one style—attack.

Even before he was named in this latest indictment (see story), Bertoli opened a campaign to impeach both the judge in the case, Alfred Lechner, and the prosecutor, Assistant U.S. Attorney Robert Warren.

Bertoli contended, without offering any real evidence, that the judge displayed "a lack of judicial temperament" and need of "psychiatric help and analysis" for failing to discipline the "immoral and dishonest conduct" of Warren in the sentencing of Bertoli's fellow defendant, onetime security analyst Richard Cannistraro. Two birds with one canard.

Bertoli made phony charges in letters to Lechner himself, to Supreme Court Justice Thurgood Marshall, to the American and New Jersey State bar associations' ethics committees and to the chairman of the Senate and House Judiciary Committees.

On the basis that his attack would prejudice Lechner, Bertoli then made a formal motion that the judge disqualify himself. Lechner, after wading through a flurry of paper from both sides, denied the old street fighter's motion with a tightly reasoned decision that must have taken days to write.

What did Bertoli get from all this spilled bile? More time before the trial proper begins, and maybe grounds for an appeal that will buy more time later on.

Bertoli is an old hand at judge shopping and the poison pen. In the earlier Executive Securities indictment, he attempted to taint two tough judges who might have drawn the case with "willfully" diverting "federal funds for personal purposes."

FORBES has strong evidence that one of Bertoli's other faces is that of the fictional J.R. True, the supposed editor of Wall Street Tales, a newsletter faxed at irregular intervals to members of the media and others from what appears to be a mail and phone drop in Hollywood, Calif. FORBES has been a target of the letter, as have The New York Times and Barron's.

The SEC has taken its licks, too. "The staff should be honest, not allowed to trade in securities; drug-free; nonalcoholic and ethnically unbiased." The sheet's primary target, however, seems to be penny stock promoters who are cooperating with one or another criminal investigation of the trade. The presumed objective: intimidation.—R.P.

two confederates, Bertoli is alleged to have ripped off more than $7 million by rigging the market in at least six stocks. His codefendants are Leo M. Eisenberg, 69, Monarch's president, and Richard S. Cannistraro, 38. All three men pleaded not guilty. Cannistraro, a former Wood Gundy & Co. research analyst, is already serving time on a related charge.

The method outlined in the indictment squares with Bertoli's reputation as a pro who leaves few tracks: Buy huge amounts of inside stock on new issues at fractions of a cent a share from behind a facade of nominees; hype the price with cooked research reports and by bribing mutual fund portfolio managers to get in on the action. As the price rises, wash profits offshore into the Caymans through a maze of bank and brokerage accounts. An FBI agent has testified that some of the checks in this maze were forged and turned into cash at a Passaic, N.J. check-cashing service.

According to the government, the profits were juicy—about $1.3 million in just nine months on a little number called High Technology Capital Corp., with about $200,000 of the total earmarked for the benefit of Richard Bertoli's wife and three children. The pride of the collection, a gem called Toxic Waste Containment, Inc., brought in $4.4 million in three months. The Bertoli family's alleged share: better than $1 million.

But Bertoli has been involved in far more than just this handful of issues. Basically, the government alleges that Bertoli was in the business of manufacturing stocks. Monarch Funding, between 1978 and 1988, underwrote at least 34 issues. What seems to be a companion operation underwrote many more. That operation was Citwide Securities, extruded from yet another promotion set up to export low-calorie desserts to Israel.

The companies had trendy names and plausible pursuits, shrewdly cobbled to whatever was new and bright in the business page headlines. There was Zarkon Computer, run by two teenagers who could devote only a limited amount of time to the company because they had so much homework to do; and Biosonics, for those who heard the enchanting twang of the cash register in sex devices.

It seems safe to say that many of these companies were longer on imagination than on viable product lines. Listen to the testimony of David O'Connor, the Manhattan attorney who defended Wood Gundy analyst Richard Cannistraro in an earlier Monarch indictment. O'Connor says of two Bertoli operations: "It was my opinion that they were totally fraudulent operations using front men for Richard Bertoli."

O'Connor, himself a former assistant U.S. attorney, had planned to put up a "smoke screen" defense for Cannistraro. He would distract the jury from charges that Cannistraro had
hyped the stock with puffed-up research reports by getting the jury to concentrate on the idea that Toxic Waste Containment was a viable startup that involved cleaning up military and industrial hazardous waste dumps.

Deeper examination, however, convinced O'Connor that Toxic and a sister promotion—Liquidation Controls, hatched in the same Washington, D.C. offices where Bertoli sometimes appeared as an "unpaid consultant"—were "total jokes."

If Toxic Waste was a total joke, it was no more so than some of the other malodorous stuff that wound up in the HITK portfolio.

There was Dentec, for example, which raised $1 million on the hope it could make a go of peddling administrative and marketing services to dentists. When the New Jersey Board of Dentistry denied the company a license to operate, it rushed into the new frontiers of high technology. A recent SEC filing indicates that Dentec, now known as ST Systems, Inc., has run out of cash and is a "questionable" bet "to continue to stay in business."

HITK's recent bankruptcy filing suggests that many issues Monarch put out (or farmed out through other underwriters) are also broke, inoperative, or nowhere to be found in the quote sheets.

The Monarch-marketted stocks all went through the full SEC registration drill, they were all appropriately labeled in "embryonic" or "promontional stages of development." For most plungers into penny stocks, they proved to be sucker bets.

But not for the officers, directors and mysterious unidentified "original investors" who typically took down millions of inside shares at fractions of a mil. These insiders had little stomach for the market risk that ordinary investors face. Richard Cannistraro, for example, according to the testimony of an FBI agent, once told a friend that every time he depended on legitimate information in the market, he lost money.

The government contends that Bertoli and his friends rarely depended on legitimate information. "Richard Bertoli was running a perfect inside scheme—he knew the company because he created it, he knew his information was good because he planted it, he knew how the market would respond because he rigged it," maintains one longtime Bertoli watcher.

Law enforcement people trying to follow the money trail have trouble looking directly to Bertoli. He filed a personal bankruptcy action in October, 1983, establishing a $442 monthly Veterans Administration disability pension as his only source of steady income. In a parallel action, frustrated creditors, after a convoluted court fight, managed to sequester some real estate that they contend Bertoli attempted to convey to a family holding company. The Bertoli house, creditors say, is owned by a company that lists Mrs. Bertoli as president.

The law enforcement people have been at this for a long time. Most of the market rigging cited in the Monarch indictment dates to the early Eighties. Why did it take so long to develop an indictment? The SEC was on it as early as 1983, but Bertoli was a moving target. Sometimes he was in Washington; sometimes in the New York office he shared with his brother John; sometimes in the New York offices of Monarch.

Wherever he was, Bertoli was never seamless resumes to the job. Waldron, an accountant, had spent almost six years in the U.S. Department of Commerce as head of the Office of Business Development. Blake, 70, had spent two years as head of the New Jersey Division of Economic Development, and seven years as assistant to a New Jersey Democratic congressman, Robert A. Roe.

Roe's brother, James, also a longtime power in Passaic County, NJ politics, headed a Citivide-underwritten company for a time.

Robert Schuck, head of the now liquidating HITK (né High Technology Capital), and a director of many of its affiliates, spent almost two decades as a manager with a Caterpillar subsidiary before moving into the ambit.

Read the prospectuses carefully on these Monarch companies, though, and you often see that the respectable names have agreed to spend very little of their time looking after the day-to-day affairs of the company.

And what's in a name for them? Cheap stock, usually. Peter Blake, who has known Richard Bertoli since the late Fifties and worked for Executive Securities for a short time in the
Seventies, recently pointed out to Forbes that the sale of inside stock is restricted. He seems confused as to whether he and his associates had made any money out of their Toxic and Liquidation Control stock.

Testifying under oath, however, Blake did say that there had been a 'pool' arrangement with his brother-in-law in Santiago, Chile, who had been on the original distribution list for Toxic Waste. "Whenever necessary [the brother-in-law] sold shares and the payments were made back to the individuals, whichever their proportionate holdings was," Blake wasn't asked how much money was involved. The Assistant U.S. Attorney, Robert Warren, did ask, "Isn't that called a nominee account?"

"Perhaps, I don't know," replied Blake.

It's clear that the government's questions aren't going to draw such soft answers from Richard Bertoli himself. He's a shrewd tactician. Bertoli once turned the SEC inside out for three years with an internal investigation prompted by accusations against staff members of the agency. More recently, he has launched a series of efforts to impeach both prosecutor Robert Warren and the judge in his current case, Alfred Lechner.

Thus does Bertoli buy time and may the possibility of judicial error (see box, p. 129) It's a tack he's taken before. For all his guile, Bertoli tends to work in established patterns.

Since there is no quoted market for such tattered Monarch remnants and other detritus such as Toxic Waste and

Unlocking the Cayman connection

On a sunny oceanfront street in downtown Georgetown, Grand Cayman, sits one of the island's more prestigious business addresses: the West Wind building. It's an address well known to accused stock swindler Richard Bertoli, who did business through a West Wind tenant called Georgetown Securities. More recently, a former Georgetown Securities employee, Ernest Foster, surfaced as a controlling stockholder in a labyrinth of companies that U.S. authorities are investigating for possible Bertoli control.

Contacted by Forbes, Foster, who as of March 1989 owned 44% of World Wide 800 Services (see story), said that he performed "corporate administration/secretarial services" for certain unnamed "clients."

The availability of such confidential "services" in part helps explain the emergence of the Cayman Islands as a mecca for stock swindlers and others with something to hide.

In the last decade Cayman bank assets have grown more than fourfold, to $360 billion. That Grand Cayman island is an hour by plane from Miami certainly gives it an advantage vis-à-vis other offshore financial centers like Britain's Channel Islands.

To be sure, the Caymans have long occupied a special place in the hearts of tax shelter scam artists and sordid other funny money types who crave anonymity more than pristine beaches and turquoise seas. Perhaps to Bertoli's dismay, obtaining confidential Cayman records in criminal matters has just gotten considerably easier.

In March something called the Mutual Legal Assistance Treaty went into effect. Originally negotiated in

1986 and ratified by the Senate last October (as part of a package of similar agreements with five other countries—Belgium, Thailand, Canada, Mexico and the Bahamas), the treaty smooths the way for American prosecutors to obtain the cooperation of Cayman authorities in criminal investigations that don't hinge on tax charges.

The first request for assistance under the new arrangement came from the U.S. Attorney's office in Newark, N.J., which is seeking to unravel the complex maze of bank and brokerage accounts that Bertoli has used to ply his trade. He has been fighting every step of the way to prevent the disclosure, but lost a ruling by the Cayman Grand Court in July. An appeal was set for Sept. 24.—G.B.
Computers don’t make it cheaper to operate city government, but they may make it easier to get a dog license.

Electronic democracy

By Julie Pitta

For the last year the 95,000 citizens of Santa Monica, Calif. have spent roughly $1 apiece to run an experiment in better government. The city has set up a special computer network and given out passwords to any residents who want them. Log on to the network and you can practice good citizenship by airing a beef with city officials—and getting a guaranteed response within 24 hours—or by participating in one of nearly 300 on-line discussion groups ranging from “Freedom from Religion” and “Matters of the Sexes” to “Vegetarian Food Forum.”

Flaky? Sure, but this is the People’s Republic of Santa Monica. The big surprise is that the city’s public electronic network—or pen, as it is better known—has developed a loyal following. One-third of Santa Monica’s residents have a personal computer at home or work. Those not equipped can use a terminal at public places like the county library. About 3,000 residents are registered users, they access the network an average of 8,000 times a month.

Santa Monicans have queried city officials about the city’s recycling schedules, the mechanics of getting a business license, and plans for earthquake preparedness meetings. Officials are required to respond to the queries within 24 hours. One city councilman, Ken Genser, likes to answer his correspondence in the wee hours—his messages are time-stamped by the computer, usually around 3 a.m.

U.S. Representative Mel Levine hosts a discussion group over the network on the Middle East crisis. It’s a live discussion in about the same way chess by mail is live chess. Voters read what their neighbors say and add their own thoughts, although hours or days may elapse between comments. By the end of the year, Santa Monica expects to offer on-line applications for city licenses and permits. (Builders, don’t hold your breath. Getting a building permit in this stridently antigrowth town could take a decade of litigation, as at present.) A similar on-line public access scheme is in the works in Kansas City, Mo., where officials hope to have a computerized network to take applications for various city permits and licenses operational within a year.

Is there a downside to electronic democracy? “It encourages a one-on-one relationship with the public sector,” says John Kirlin, professor of public administration at the University of Southern California. “It doesn’t provide for the interaction of ideas that you would get at a town meeting. There’s something very educational about face-to-face interaction.”

So far, Santa Monica is the only city to implement a citizens’ computer network. Budget-conscious officials in other cities view the experiment as a novelty they can’t afford. “It’s more for the techie than the average person,” says Frank Cheeney, director of data processing for the city of Seattle.

In Santa Monica, the only out-of-pocket cost for the network is $100,000 a year in maintenance. The hardware was donated by Hewlett-Packard Co., which frequently gives computers to groups it deems worthy. But, rather than cut down on administrative costs, Santa Monica’s computer network may add to them. Representative Levine says the 10 to 20 electronic messages he receives from his constituents daily create extra work for his staff, but he says that many of those constituents would not be heard from otherwise. “I’m trying to find new ways to be accessible,” Levine says.

In other places, municipal computer networks are a welcome source of revenues. For example, the government of Florida’s Pinellas County sells access to its database of county real estate and court records to attorneys, real estate agents and newspaper reporters for a one-time fee of $20 plus 5 cents per data record retrieved, which helps defray the costs of maintaining the records.

But in Santa Monica money isn’t the point. “The purpose was to increase services to our residents, not reduce costs,” explains Ken E. Phillips, director of information systems for Santa Monica. “This adds to our sense of community.”

Patrick McDonnell
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Tossed from office in free elections, Nicaragua's Sandinista gang hopes to regain power by sabotaging the economy and then blaming the mess on the democratically elected government.

By fair means or foul

By Patrice Duggan

After Nicaragua's voters showed Sandinist leader Daniel Ortega the door in free elections in February, the media seemed to lose interest in the little Central American country. A guerrilla leader who jogs, brandishes AK-47s and always has a smile for the camera by swapping designer eyeglasses for contact lenses makes good press. An elected liberal government struggling with national reconstruction doesn't.

Sonia Cruz de Baltodano was recently appointed by Nicaragua's new president, Violeta Chamorro, as the first Nicaraguan consul general to operate in the U.S. in seven years. Closeby allied to the Chamorros through her husband's family, Cruz—35 and educated at New York's Parsons School of Design and New Orleans' Tulane University—is close to the president. Recently she spoke to Forbes about the problems facing the Chamorro government:

"What this government is interested in doing is returning the lands and the industries to those most able to make them produce," says Cruz. "That is one of the first steps to turning it into a free market economy." Indeed, the new government is busily creating liberal laws for foreign investment—which grant the right to repatriate profits and provide low taxes for industries that produce employment and foreign exchange. Tariffs on most imported goods have been cut from 200% to 20%. "We are trying to make Nicaragua the most open economy in Central America," says Cruz.

While in power, the Sandinistas created politicized trade unions and turned over many of the country's best farms and factories to these unions. Although new laws have been passed to return expropriated property to its former owners, there is a major sticking point. Many of the former owners will face the formidable challenge of firing workers from bloated payrolls and confronting the Sandinista Confederation of Labor, which is more interested in making trouble than in improving wages or working conditions. For example, the Ingenio San Antonio sugar mill and refinery may be returned to the Palas family with 7,000 unionized employees. Although 5,000 workers voted to switch to the democratic union, 2,000 remain in the more hardline Sandinista union. The Sandinistas have planted a highly effective totalitarian fifth column within the democracy.

Another kind of problem involves projects bungled by the Marxist planners. In 1988, when the Sandinistas were still besieged by the U.S.-backed contras, Nicaragua's then-minister of tourism, Herty Lewites, bragged about Sandinista success at attracting Canadian and European investment in tourism (Forbes, Aug. 22, 1988). The Sandinistas' crown jewel is the Montelima resort, projected to cost $40 million and fashioned out of former strongman Anastasio Somoza Debayle's Pacific oceanfront estate.

But after the first $20 million investment, Montelima is an embarrassment, where not even the plumbing and electricity work regularly. Montelima, says Cruz, is at the top of the Chamorro government's list of businesses to privatize. Bids from foreigners, she adds, would be welcomed. But, not surprisingly, none have yet been forthcoming.

Now that the Sandinistas are out of the executive office, it is the challenge of Mrs. Chamorro's Unión Nacional Opositora party to overcome the Sandinistas' lingering military, judicial and trade union influence. Easier said than done. The next presidential elections come in 1996; the Sandinistas hope to win by waging bureaucratic and administrative war against the economy until then. Their chances are improved by their cynical understanding that a democratically elected government cannot silence inconvenient dissent, as a well-organized Marxist military regime like the Sandinistas' could. Says Consul General Cruz: "When the Sandinistas make a decision, they do so in disciplined military style."

Still, Cruz is confident the Chamorro government will be able to turn the mess around. Although the Sandinistas have kept their influence with government labor unions and university students, Cruz explains, they lost popular support long ago. "The Sandinistas began to loosen their grip in 1987. And as soon as they did, you could hear it in the streets. The Sandinistas were literally abhorred." Abhorred, perhaps, but not toothless.
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Gone are the days when studios could hire star names for “bargain” salaries like $3.5 million per flick. You want a big name today, you make him or her your partner.

Golden boys and girls

Disney was bubbling two years ago. The Hollywood entertainment giant had just landed movie actor Tom Cruise for its picture Cocktail. And for “only” $3.5 million.

That’s a bargain? Paying an actor $3.5 million plus a percentage of the box office take for 14 weeks’ work? By movie standards, yes. Today Cruise is said to be asking $10 million per flick. Die Hard 2 hero Bruce Willis demands $15 million to do lead roles. Former bodybuilder Arnold Schwarzenegger is up to $15 million per picture, while comedian Eddie Murphy feels short-changed by getting only $12 million for a single role. After all, Sylvester Stallone got $25 million for Rocky V, scheduled to be released in November.

Stars are also demanding a slice of revenues from the home video versions of the movies. Murphy, Schwarzenegger and Jack Nicholson can command more than 10% of a studio’s videocassette income. With blockbusters that sell more than 5 million cassettes, a star’s total take on a movie can mushroom. That’s one reason Nicholson is laughing even louder today, than he was last summer portraying the Joker in the box office smash Batman.

Clearly, Hollywood is running ahead of Wall Street when it comes to paying a few people a lot for doing very little.
Is it any wonder then that five new members of this year's Forbes Top 40 are direct beneficiaries of this new pricing system? Tom Cruise, Michael Douglas, Willis and Indiana Jones star Harrison Ford all got onto the list in part because they went for a share of the profits on movies they act in.

The new financial calculus has changed the way Hollywood's big studios make movies. Growing more rare are films such as Cocktail, which made big profits for its backers because it was produced for just $17 million—peanuts by current Hollywood standards. Nowadays it isn't unusual for a film to cost upwards of $40 million, and that's before the distributor spends a further $10 million to $20 million to promote the film and get it to the movie houses.

What's new, however, is that, like Wall Streeters, some of today's box office stars are waiving large up-front salaries for a bigger piece of the box office gross. Schwarzenegger, for instance, passed on a salary for the 1988-89 hit Twins in order to get an estimated 15% of the movie's box office receipts, giving him a back-end payment of $17 million or so.

Tom Cruise waives a huge salary and worked for minimal pay in Oliver Stone's Born on the Fourth of July. Cruise's share of the gross—including videocassette sales—earned him an estimated $10 million.

This trend shows actors' increasing financial savvy, but it also can be seen as a reaction to the huge up-front costs that movie studios are incurring. With many big-budget films having trouble making a profit these days, don't be surprised if studios someday start pushing back-end payments in lieu of hefty salaries. What better way to keep costs down and make more reasonably priced flicks?

At the rate things are going in Tinseltown right now, however, a $40 million movie may sound like a bargain. It has been predicted that the total cost of Francis Ford Coppola's Godfather Part III could reach $70 million. Complains Mace Neufeld, who produced this year's hit The Hunt for Red October: "I don't see how it can escalate much more without making films economically unfeasible. How many E.T.'s are there?"

Hollywood producers have been complaining about escalating costs for at least 50 years. Yet the movie industry keeps getting richer and richer. Adam Smith wouldn't be mystified. The market for movie entertainments has grown exponentially, and so have the potential rewards for big hits. Therefore, since star names increase the chances of having a hit, the sky becomes the limit for stars who can produce global box offices.

As affluence has spread throughout Western Europe and East Asia, new audiences have been created. Technology has helped expand the market. Because of global communications, a performer who is a big star in one place can quickly become a big star anywhere in the world. On top of that, adolescents and children today have greater amounts of disposable income, and they are big moviegoers. As the movie business has gone global, so, too, has the record industry. Says entertainment attorney John Branca: "A poll taken of Soviet music fans put the Rolling Stones and Michael Jackson on top of their list."

Jackson and the Rolling Stones remain near the top of the Forbes list as well. After raking in nearly $100 million in ticket sales last year from their Steel Wheels tour of North America, the Stones rolled their show to Japan and then Europe. The profitable tours combined with record sales put the Stones at the third spot on this year's list. Jackson slipped from first place to second this year, but, with a new record expected, he will likely make another strong showing on next year's Top 40 list.

New records and concert tours helped veteran rockers Paul McCartney and Billy Joel make the grade after falling off in recent years. Janet Jackson, little sister of second-ranked Michael, landed on the list at the 26th spot thanks to her new album and tour, Janet Jackson's Rhythm Nation 1814.

Nobody's music videos seem to have gotten more airtime in the past year than cheerleader-turned-video-star Paula Abdul, 28. Abdul's debut album went number one and sold over 11 million copies. Her clean and sassy image made her a hit with youngsters while the dance-oriented music attracted an older, club-hopping audience as well. Peds ders of trendy goods hitched themselves to her rising star: L.A. Gear signed the former Los Angeles Lakers girl to an estimated $12 million endorsement deal. In all, Abdul made an estimated $23 million over the past two years, good enough to put her in the number 33 spot on our list.

The biggest splash of all in this year's ranking was made by the teen dance group New Kids on the Block. The fivesome jumped from oblivion to the number five position. The clean-cut Kids helped bring Columbia Records out of the doldrums, selling more than 20 million records in just
over two years. Their current tour is packing concert halls nationwide, and
a movie is set to go into production at
the beginning of next year. New Kids
merchandise-such items as T-shirts, lunch boxes and calendars-flew past
the quarter-billion-dollar mark this
year, and depending on what happens
at Christmas, that number could be
much higher.

The New Kids’ success is largely
attributable to the ever richer market
among kiddies-some of them barely
out of diapers [Forbes, June 11]. The
audience is so attractive that Walt
Disney Records is making a strong
pitch for the 3-to-11-year-old market.
Among Disney’s new acts is Christa
Larson, an 11-year-old singer from
the national tour of Les Misérables. Christa
sings and dances to carefully choreo-
graphed numbers such as ‘‘The Girls
on Minnie’s Street.” Maybe-just
maybe-Christa could make the
Forbes list someday.

It’s said that nobody makes money
on Broadway anymore, but producer
Cameron Mackintosh proved that
maxim flawed. Mackintosh staged the
hit musical Les Misérables, and his
play Miss Saigon, though having diffi-
culty opening here, has been a smash
abroad. He joins Andrew Lloyd Web-
ber, who until this year had been the
list’s only Broadway representative.

Number one on our list? Comic Bill
Cosby. Despite another box office un-
deracheiver, this summer’s Ghost Dad,
and a less than glorious career as a
jazz musician, Dollar Bill goes on and
on. His number one status should be
safe for now: Cosby collects some $4
million a month from syndicated re-
runs of The Cosby Show.

While a handful of stars stuff their
portfolios with investments, the
money men in the entertainment
business are holding their collective
breath. This Christmas at least five
movies costing a minimum $40 mil-
lion each will be battling it out for
moviegoers’ dollars. It’s doubtful all
of them will do the $80 million to $90
million needed to break even.
“Christmas will be a shootout,” film
producer Robert Cort admits. “Some
people will get hurt. It’s just a matter
of who.”

One thing is certain: It won’t be the
top performers. ■
WILLIAM H. COSBY JR.

2-year total income: $115 million  
(1990: $55 million; 1989: $60 million)

Cosby leaped back atop FORBES' list of the world's richest entertainers this year after a two-year absence from the top spot (he was third on last year's list). The cigar-chomping miniconglomerate writes books, performs live stand-up comedy acts, produces television shows and makes records as a jazz musician. He's also one of America's favorite product spokesmen, with his endorsements for JELL-O and Eastman Kodak.

But his movies are still financial and critical letdowns: this year's Ghost Dad and his 1987 bomb, Leonard: Part VI. Luckily for his expensive habit of collecting Colonial American furniture, the 53-year-old comic still rakes it in on syndicated television reruns of The Cosby Show—an estimated $4 million a month. Ominously, however, ratings for Cosby reruns were poor last season, and this fall the show on NBC airs opposite Fox' animated hit, The Simpsons. Tough competition, Bill.

MICHAEL JACKSON

2-year total income: $100 million  
(1990: $35 million; 1989: $65 million)

With no tour and no new album, Jackson's earnings fell by almost half this year. That knocked him out of the top spot, which he had occupied two years running on the strength of his Bad platter, released through CBS' Epic Records, and concert tour. Don't fret for Michael. His endorsement deals will keep the cash rolling in until his next album hits the stores, probably next year.
THE ROLLING STONES

2-year total income: $88 million  (1990: $44 million; 1989: $44 million)

The Stones catapulted into third place this year, up from eighth, thanks largely to their Steel Wheels concert tour. In North America alone, more than 3 million fans paid a total of $98 million to see the 2 1/2-hour spectacle. The band also drew huge crowds in Japan and Europe. The relationship between band leaders Keith Richards, 46, and Mick Jagger, 47, may have been strained over the years, but it sure is profitable.

NEW KIDS ON THE BLOCK

2-year total income: $78 million  (1990: $61 million; 1989: $17 million)

Newcomers to the Forbes list, these five clean-cut youngsters have been making preteen girls swoon by the millions. Columbia Records is dancing to the beat, too, having sold more than 20 million New Kids records in two years. The Kids are even bigger phenoms in licensing: T-shirts, lunch boxes and the like could bring $400 million (retail) of business at the cash register this year.

STEVEN SPIELBERG

2-year total income: $87 million  (1990: $23 million; 1989: $64 million)

Producer-director Spielberg, 42, enjoyed success with his Arachnophobia chiller this summer. But there were no blockbusters to rival his past triumphs like E.T., Jaws and Raiders of the Lost Ark and squelks. These days he's engrossed with animated films, working with Warner Bros. and its Looney Tunes characters.

OPRAH WINFREY

2-year total income: $68 million  (1990: $38 million; 1989: $30 million)

The queen of TV talk shows saw a healthy jump in earnings this year. When Oprah, now seen in 13 countries, takes on child abuse, the whole world watches (see box, p. 166).
SYLVESTER STALLONE
2-year total income: $63 million
(1990: $25 million; 1989: $38 million)

Stallone, 44, claims he wants to shed his musclehead image, but his action-packed flicks speak otherwise. Star of four Rocky movies, he filmed Rocky V earlier this year, and the Tinseltown rumor mill says that he may do a fourth Rambo movie before long. When you can get $25 million per movie, who wants to be an egghead?

MADONNA
2-year total income: $62 million
(1990: $39 million; 1989: $23 million)

For this Bay City, Mich. businesswoman, 1990 has been the most materially rewarding year yet. See page 162.

ARNOLD SCHWARZENEGGER
2-year total income: $55 million
(1990: $20 million; 1989: $35 million)

Bodybuilder Schwarzenegger, 43, has become one of America's biggest box office draws. Schwarzenegger's sci-fi slaughterfest Total Recall was one of this summer's top movies. Most of his 1990 earnings came in the form of an estimated $15 million paycheck for playing the lead in Terminator 2.

CHARLES M. SCHULZ
2-year total income: $54 million
(1990: $26 million; 1989: $28 million)

Schulz' "Peanuts" remains the world's number one comic strip, and the licensing champ, too. Peanuts characters grace everything from bandages to inflatable pools. And Charlie Brown may have a girlfriend.
JOHNNY CARSON

2-year total income: $50 million

Carson, 64, has felt the pinch of late-night rival Arsenio Hall. NBC is said to have given Carson one of TV's most lucrative contracts—an estimated $25 million per year.

JACK NICHOLSON

2-year total income: $50 million  (1990: $16 million; 1989: $34 million)

Nicholson, 53, inched up from 13th place. His third directorial effort, The Two Jakes, got a cool reception this summer, but he's still counting merchandising booty from last year's Batman. Having played the devil (The Witches of Eastwick) and the Joker, he's now set to star in a film on Napoleon.

EDDIE MURPHY

2-year total income: $48 million
(1990: $26 million; 1989: $22 million)

You can't say Eddie Murphy isn't ambitious. The perpetually grinning 29-year-old got Paramount to give him one of the sweetest deals in Hollywood six years ago. He now gets a guaranteed salary estimated to be $12 million per film for his next two films, plus a percentage of the gross. Even so, Murphy is rumored to be shopping for a new deal.

PAUL McCARTNEY

2-year total income: $45 million  (1990: $34 million; 1989: $11 million)

The ex-Beatle embarked on a yearlong tour last September, flogging many of the group's tunes for the first time since its 1970 breakup. Predictably, the graying mop top drove the crowds wild—and brought in about $1 million per show. Reportedly, McCartney panned the Stones' and the Who's sponsorship deals, but signed his own estimated $3 million-plus deal with Visa.
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JULIO IGLESIAS

2 year total income: $44 million (1990: $22 million; 1989: $22 million)

At 47, Iglesias maintains one of entertainment’s most rigorous touring schedules, playing about 150 shows around the globe year after year. Though his annual income held steady at $22 million, with about 8 million records sold last year, the crooner slipped four notches on the list, to 15.

THE WHO

2 year total income: $35 million (1990: $5 million; 1989: $30 million)

The legendary British rock group—Roger Daltrey, Pete Townshend and John Entwistle, now all in their 40s—is still coasting on income from the 25th anniversary tour last year. The Who still perform their 1965 hit “My Generation,” complete with key lyric: “Hope I die before I get old.” Never trust anyone over 30.

BRUCE WILLIS

2 year total income: $36 million (1990: $28 million; 1989: $8 million)

A former New York bartender, Willis hit it big as the smart-aleck detective on TV’s Moonlighting. He wasn’t considered a film star when he got $5 million for 1988’s Die Hard. For this summer’s sequel, he got $7.5 million. He’s getting $5 million for his role in the film of Tom Wolfe’s Bonfire of the Vanities, due out by Christmas.

SEAN CONNERY

2 year total income: $35 million (1990: $27 million; 1989: $8 million)

Remembered best as the original James Bond, Connery won an Oscar for his supporting role in The Untouchables. Since then he has stuck to thrillers, including The Hunt for Red October and Russia House, opening later this year. Next he will work on The Stand, a drama. Connery isn’t getting older, he’s getting richer.
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BON JOVI
2-year total income: $35 million
(1990: $10 million; 1989: $25 million)
Earnings dipped this year for the New Jersey rock group, partly because lead singer Jon Bon Jovi (né Bongiovi) had been working on the soundtrack to Young Guns II. While no new tour is in the immediate future, the group does especially well with concert merchandise, selling on average $12 worth to each concertgoer.

PRINCE (ROGERS NELSON)
2-year total income: $35 million
(1990: $15 million; 1989: $20 million)
This rock funkster from Minneapolis faded after Purple Rain with fey albums and bomb movies (Under the Cherry Moon). But last year, at age 31, he came back strong with the Batman soundtrack. That was enough to move him into the number 20 spot. This fall Prince is coming out with his next film and album, Graffiti Bridge.

MICHAEL J. FOX
2-year total income: $33 million
(1990: $23 million; 1989: $10 million)
After a serious acting stint in Casualties of War last year, Fox went back to playing boyish Marty McFly this summer in the third Back to the Future. Now the 29-year-old Canadian will star in The Hard Way, an action comedy due out this winter. Endorsements fattened his wallet, with Honda and Pepsi paying him millions.

BILLY JOEL
2-year total income: $32 million
(1990: $26 million; 1989: $6 million)
Joel returns to the Top 40 thanks to his new rock album, Storm Front, a 5-million seller. His current tour, the first in three years, should gross over $40 million. In a lawsuit filed last year, Joel claims his former manager (and ex-brother-in-law) frittered away more than $10 million of the star’s fortune on bad investments.

AEROSMITH
2-year total income: $31 million
(1990: $22 million; 1989: $9 million)
This Boston rock quintet fell victim to drugs and alcohol in the late 1970s but then rose from the ashes after signing with Geffen Records in the mid-1980s. Ever since, they have been living straight and turning out multiplatinum albums. The band’s tour this year should gross nearly $30 million.
Pink Floyd floated along this year, with no concert tour or fresh album to boost its coffers. Sales of golden oldies helped, including the band’s 1973 psychotic rock album, *Dark Side of the Moon*, still a favorite with college students everywhere.

The Dead have been kicking for a quarter-century, playing to their cultish fans, Deadheads. After years of a laissez-faire attitude toward merchandising, the Dead now cash in on tie-dyed T-shirts, bumper stickers and buttons. Their new album, *Without a Net*, should be out in September on Bertelsmann Music Group’s Arista Records.

A German-born illusionist team, Siegfried Fischbacher and Roy Horn have been raking in money on their live act, a sort of Liberace-meets-Houdini magic show, complete with lasers, rare white tigers and disappearing sequined chorus girls. In 1988 Las Vegas’ Mirage hotel and casino signed them to a five-year, $58 million contract.
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So you see, it wasn't just accidents the Subaru Legacy was designed to avoid. But junk yards as well.


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FRANK SINATRA
2 year total income: $27 million
(1990: $13 million; 1989: $14 million)
One of the first artists to have his own record label (Reprise), Sinatra, 74, hit the road in 1988 with the Ultimate Event tour featuring Liza Minnelli and the late Sammy Davis Jr. This year he teamed with old friend and unlikely songster Don Rickles. He also bought an AM/FM radio station in Casa Grande, Ariz. and changed its call letters to KFAS (for Francis Albert Sinatra).

TOM CRUISE
2 year total income: $26 million
(1990: $19 million; 1989: $7 million)
This 28-year-old heartthrob has shown financial savvy, working for minimal pay in last year's hit Born on the Fourth of July in exchange for a bigger piece of box office receipts. Likely take: $10 million. He took an estimated $9 million up front for this summer's Days of Thunder.

U2
2 year total income: $25 million
(1990: $5 million; 1989: $20 million)
After three straight years of strong commercial presence, 1990 proved to be a quiet year for this Irish rock quartet; they dropped 9 slots from last year's number 21 ranking. U2 is working on another album, but with no release date set, the band next year could fall off the list.

MICHAEL DOUGLAS
2 year total income: $24 million
(1990: $15 million; 1989: $9 million)
Douglas, 46, has done his father, Kirk, proud, producing One Flew Over the Cuckoo's Nest 15 years ago. He has emerged as unquestionable box office gold, starring in Wall Street as well as Fatal Attraction. Little wonder he's getting an estimated $14 million to star in the upcoming Basic Instinct.

ANDREW LLOYD WEBBER
2 year total income: $24 million
(1990: $12 million; 1989: $12 million)
Now 42-year-old Lloyd Webber is trying to go Hollywood, planning movie versions of his hit Broadway musicals Cats and Phantom of the Opera. The film adaptation of Cats will be an animated feature, with Steven Spielberg's Amblin Entertainment. Look for Lloyd Webber to move further up the list.
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PAULA ABDUL
2 year total income: $23 million
(1990: $14 million; 1989: $9 million)
Abdul, 28, left the Los Angeles Lakers' cheerleading squad, and became hugely successful last year thanks to impeccably choreographed music videos. Her debut album sold more than 11 million copies worldwide. Abdul's endorsements include Reebok, Diet Coke and an estimated $12 million deal with L.A. Gear.

STEPHEN KING
2-year total income: $22 million (1990: $12 million; 1989: $10 million)
America's best-paid author, King signed a four-book deal with Viking Penguin in 1988 said to be over $35 million. Master of the macabre (Carrie, The Dead Zone), King has more than 80 million books in print. Paramount is planning the movie Stephen King's Graveyard Shift for Halloween release.

HARRISON FORD
2-year total income: $22 million (1990: $13 million; 1989: $9 million)
Ford, 48, has starred in six of Hollywood's top ten box office hits, including three Star Wars flicks and three Raiders of the Lost Ark sagas. This summer's Presumed Innocent from Warner Bros. may not break into that top ten roster, but it earned Ford an estimated $7 million for his starring role.

JIM DAVIS
2 year total income: $21 million (1990: $10 million; 1989: $11 million)
This year was more of the same for Jim Davis, 45—more cartoons of Garfield, the cranky orange and black cat, more stuffed Garfield replicas stuck inside car windows from coast to coast, and more money for Davis.
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MEL GIBSON

2 year total income: $20 million  
(1990: $9 million; 1989: $11 million)

Having starred in three Mad Max movies and two Lethal Weapon actioners, Gibson, 34, managed to get an estimated $7 million for starring in this summer’s Air America, a commercial dud. But don’t expect to see him next year on the Forbes list. After completing filming of Hamlet recently, Gibson announced he’s taking a year off.

GEORGE MICHAEL

2 year total income: $18 million  
(1990: $7 million; 1989: $11 million)

British pop singer George Michael, 27, fell far from the number 10 position on last year’s list. This year and last were comparatively dry for Michael, following a $36 million earnings performance in 1988. His big hit album back then was Faith, which sold about 20 million copies. Michael’s latest, Listen Without Prejudice, is set for release in October.

GUNS N’ ROSES

2 year total income: $17 million  
(1990: $4 million; 1989: $13 million)

This was a slow year for these Los Angeles-based hard rockers: no new records or concert dates. But fans may soon get another sampling of xenophobic, homophobic record lyrics from these tattooed wonders. The Gunners’ new album on Geffen Records is expected early next year.
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How Reuter, Inc. lost a bundle with what seemed like a promising recycling idea: It built a costly plant before figuring out who its customers were going to be.

Garbage in, garbage out

By Ruth Simon

F

EW YEARS SOMEONE comes up with a swell new recycling idea that’s supposed to be a breakthrough in finding new uses for garbage. Environmentalists cheer. Investors applaud. But the reality dashes all the hopes.

Couple those unfavorable odds with some poor management decisions, and you’ve got a formula for disaster. That’s pretty much what’s happened to Reuter, Inc., a small Minneapolis company that spent two years and $20 million to build a state-of-the-art waste reprocessing plant. It turns garbage into 2-inch-long pellets of what’s known as refuse-derived fuel, or RDF.

Burning RDF is supposed to help solve the nation’s energy and garbage problems and cut emissions that produce acid rain. Selling for roughly $25 a ton, RDF is about 30% cheaper than coal. But like many environmental entrepreneurs, Reuter is learning that making new garbage “products” is easier than finding markets for them.

Today, in its fourth year of operation, Reuter’s plant sells only 30% of its RDF production. The rest—some 140 tons per day—is unsalable.

Reuter has piled up $9 million in losses since 1986, and sales are off more than 20% from their peak. Reuter’s stock, which once traded for as much as 23 1⁄4 per share o-t-c, now languishes at around 4 1⁄4.

Management is in a turmoil. This September founder and Chairman Edward Reuter, 68, resigned. His son, James, 43, is still president. One director, former Control Data executive Edward Strickland, threatened to resign this spring, citing nepotism, poor strategy and other management errors in a letter to Reuter. Strickland and other directors will soon start looking for a new chief executive.

When Reuter first got into the garbage business, things didn’t look so bleak. A toolmaker by training, Ed Reuter had built a modestly successful little company building high-quality spindles that hold computer disks in place. Troubles began when he tried to diversify into something less cyclical than computer parts.

Reuter was making molded plastic items when he found what looked like a winner: large, molded plastic garbage containers for municipalities. Reuter’s product saved labor costs, using garbage trucks with robotic arms to dump the containers allowed one worker to do the work of four. But using the containers meant buying new trucks, and only about 150 cities and towns were willing to foot an investment of $200,000 per machine.

“The fact that it saved money didn’t wash,” says Kidder, Peabody’s Clarence [Otto] McGowan Jr., who’s tracked Reuter for 10 years. Many municipalities weren’t eager to try a new system, garbage companies, which had no problem passing on high labor costs, saw no reason to buy it. “It was the right product at the wrong time,” McGowan says.

Still convinced there was a future in the waste business, Reuter made repeated trips abroad in the early 1980s to study the more advanced European recycling technologies. What he saw was tempting. In 1986 Reuter got the exclusive U.S. license from Buhler, a Swiss company with more than 100 RDF plants, mostly in Europe. Reuter publicly talked of a company with $500 million in sales—a vision that initially captivated Wall Street and several national business publications, Forbes among them. Reuter’s stock jumped to a high of 23 1⁄4 a share in 1987 from a low of 8 3⁄8 in 1986.

But troubles began almost from the start. Reuter had badly miscalculated the cost and processing capacity of the plant, which simply couldn’t handle all the garbage it took in. More equipment had to be purchased, ballooning the plant’s cost to $20 million from about $8 million.

Reuter, Inc.’s Edward and James Reuter
Making a garbage “product” is easier than selling it.
Moreover, the plant’s economics were a problem. To get local officials’ approval, Reuter promised to have the plant up and running in 1986; that year tipping fees were running about $18 a ton in the Minneapolis area. (Garbage processors and landfills charge tipping fees to municipalities and others to take in garbage.) But to break even on its expensive new plant, Reuter needed $75 a ton—a level that wasn’t reached until last year.

Even with tipping fees now at $95 a ton, Reuter is still losing money. One big reason: It has only three or four customers buying its RDF pellets, including two paper companies. They account for only about 30% of the plant’s capacity, so Reuter must either stockpile its pellets or turn around and spend as much as $50 a ton to send them to a landfill.

Ironically, the environmental pressures that got Reuter into the business to begin with are making it tough for the company to survive. Wary neighbors have shot down three attempts to build a plant that could turn some of the garbage into marketable compost. And the Minnesota Pollution Control Agency insisted that every potential customer do a test burn before using the RDF pellets. “Companies were threatened with extreme scrutiny,” says Jim Reuter, who finally convinced the state legislature to exempt from the testing rule companies that burned up to 25% RDF.

Though RDF has been used successfully to generate power for utilities, there are good reasons industrial users aren’t jumping to try it. “Boilers that aren’t originally designed for RDF have to be retrofitted or changed,” explains James Miller, president of ABB Resource Recovery Systems, which builds and operates RDF plants. ABB learned this the hard way. It was forced to spend $1 million to repair a boiler in Hartford after RDF corroded its lining.

RDF produces less energy than coal does, and some potential customers wonder if it will produce a consistent level of heat. Cleanliness is another issue. “I had problems bringing garbage into a food site,” says Anthony Heinbaugh, environmental control manager for American Crystal Sugar, which three years ago rejected the PCA’s request that it test-burn RDF.

What’s to be learned from this failure? Essentially a marketing lesson. The Reuters spent too much time shopping for technology and not enough on market research. “We had enough confidence the market was there from our experience in Europe,” says Ed Reuter, who talked mostly to European and not U.S. fuel users.

The company hopes to pull itself out of the hole with another new plant: a $48.5 million facility now under construction in Pembroke Pines, Fla. that will make compost instead of RDF pellets. Reuter says it has contracts to assure both a steady supply of garbage and a major customer to take the compost it will produce beginning in 1992. Shareholders hope a new chief executive will be able to keep their investments from winding up in the compost heap as well.

Was Henry Luce right that successful new magazines arise with every generation? In taking on venerable TV Guide, Mark Edmiston intends to find out.

TV Guide’s scrappy rival

By Lisa Gubernick

MARK EDMISTON’S OFFICE, a clutter of video display terminals and half-unpacked boxes, is a far cry from his posh digs at his previous job as president of Newsweek magazine. Although he has been in this office for three years, the walls are still bare, and framed posters are piled on the floor. “I haven’t had time to decorate,” he says, surveying the disarray.

Edmiston’s dedication to the job shows in other ways. Since buying New York-based TVSM, Inc., which publishes the Cable Guide, the monthly program digest, the magazine’s circulation has steadily climbed from 5.5 million to 7.7 million. Advertising revenues, based on Publisher’s Information Bureau statistics, tripled, to $29 million (discounted by 15% for agency fees), between 1986 and 1989. Include subscription fees, and overall revenue will have increased about...
SO MUCH FOR CONVENTIONAL WISDOM.
A good part of our business is in commodity pulp and paper products—market pulp, containerboard, communication papers. Long considered unglamorous and low-margin, conventional wisdom has it that these items are not profitable.

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50%, to an estimated $70 million for 1990. One industry consultant estimates pretax profits of the privately owned company at around 10% of revenues. Before Edmiston, Cable Guide had derived virtually all its revenues from circulation and an occasional ad from cable programmers.

Fired in 1986 from Newsweek, Edmiston put together a group of investors and bought TVSM from founder Fred Lieberman, a Philadelphia cable system owner, for $50 million. The new owner hit Madison Avenue running, pitching syndicated research showing Cable Guide's demographics were better than TV Guide's. The ads began to roll in.

Now Edmiston is taking even more direct aim at TV Guide. Last February Edmiston launched TVTime, a weekly publication designed to compete directly with Rupert Murdoch's popular digest. TV Time features stories and listings on both cable and network programs. And it's a full-size, 7½-by-11-inch magazine.

Edmiston hopes his larger format, which will be more expensive, will address complaints from advertisers and cable operators. The latter want the program listings to be reader friendly. "With a [small-size] digest, it can take 14 pages to go through one day's schedule," says Warren Zeller, general manager of Cable Time, a subsidiary of Denver-based Tele-Communications. "The bigger size makes it much easier to use." Advertisers, meanwhile, want larger pages on which to display better messages. Japanese carmakers, for instance, have been reluctant to use the small-size digests to advertise their vehicles.

Surprisingly, Murdoch's TV Guide has been slow to respond to the growth of cable. Only 7% to 8% of its subscription circulation is currently sold through cable operators, versus 100% of Cable Guide's and TV Time's. But there is feistiness in the older magazine. When Edmiston's TV Time had its first test run in San Diego in February, TV Guide hit back hard, creating a magazine that was specifically designed for that city's cable market, halving subscription prices and offering a two-week premium of 39 cents a copy instead of the usual 75 cents. Nevertheless, TV Time claims that circulation in the San Diego market is about 20% ahead of expectation. TV Time's total circulation is currently 150,000, and with an East Coast expansion planned, it could grow to 700,000 by the end of 1991.

For its part, TV Guide plans to test a 7½-by-10-inch version in early 1991, but President and Publisher Joseph Cece concedes it would be exceedingly costly to refit the plants to accommodate the larger version.

Edmiston is not underestimating the tough battle that lies ahead. Tobacco companies threw him a curve earlier this year when they cut their marketing budgets; this helped push Cable Guide's ad pages down 17% through September. On the other hand, packaged goods advertisers, Procter & Gamble's Crest toothpaste among them, have signed on, and October's ad linage should be up 20% over last year. Edmiston is predicting that burst will continue for the rest of the fourth quarter. If it does, total ad pages will be down 5% to 6% for the year, from last year's 449 pages. At TV Guide, ad pages are projected to be down 7% to 8% this year.

Could TV Guide be a vulnerable Goliath? Mark Edmiston answers with a line he attributes to his first boss, Henry Luce. "Every magazine belongs to a generation," he says, "and TV Guide has been around 38 years." But don't forget that Murdoch paid Walter Annenberg $3 billion, cash, in 1988 for Triangle Publications, which included TV Guide and two other Annenberg titles. The Murdoch forces are not about to roll over. TV Guide's Cece points out that Manhattan's two cable operators just signed an exclusive agreement to offer his publication to their 400,000 subscribers. Cece growls: "We are not going to let someone come into an established market and not react."

It's doubtful that Mark Edmiston is going to have much time to hang those pictures anytime soon.
A promise to attend recitals, late meetings notwithstanding.

A promise not to show up when you're with your friends at the mall.

A promise to keep it all safe no matter what.

Nothing binds us one to the other like a promise kept. Nothing divides us like a promise broken. At MassMutual we believe in keeping our promises. That way, all the families that rely on us can keep theirs.

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Yield is just one part of total return, but an important part. Stocks with solid yields tend to hold up better in bear markets.

**Comfortable yields**

These stocks have above-average yields and good earnings growth rates. All but one of them sell below the market's P/E multiple of 15.

<table>
<thead>
<tr>
<th>Company/business</th>
<th>Recent price</th>
<th>Latest 12-month price</th>
<th>Current yield</th>
<th>Dividend payout</th>
<th>5-yr div growth rate</th>
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<td>7.8%</td>
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Source: Media General via Lotus One Source.

By Eric Hardy

Which is better to aim for, the immediate benefit of a dividend check? Or the deferred gratification of a capital gain from a growth stock? It depends on what kind of market environment you're in. In the recent August selloff, issues that pay dividends fared better than companies that don't. According to Vestek Systems in San Francisco, stocks paying no dividends fell an average of 14%, while stocks yielding between 3% and 5% declined 8%.

Some money managers use dividends as a primary criterion in stock picking. Robert Harvey, who manages the $500 million Scudder Growth & Income Fund, will not buy a stock for that portfolio unless its yield is at least one-fifth greater than the yield of the market. With the S&P 500 market average showing a yield of 3.4%, Harvey's candidates have minimum yields of 4.1%. And he won't hold a stock after the yield drops below three-fourths of the market's average.

The resulting portfolio is conservative. Scudder Growth & Income did worse than the average stock fund over the three market cycles from Nov. 30, 1980 to June 30, 1990 but held up well in August, with a loss of 5%, to the market's 9%.

"My bias is toward high-quality, [relatively] high-yielding stocks regardless of market conditions," says Harvey. "That's one reason I was overweighted in the oil group even before the invasion."

But any dividend-led strategy must make some tradeoff between level of yield and soundness of yield. Many a utility or bank has a market-beating yield that loses luster when you see how poorly dividends have kept up with inflation, or how scantily covered they are by earning power.

The 30 companies listed here all have yields of at least 4%, not much more than the market's average yield. But they also have increased their dividends by at least 5% per year since 1985. Also, they pay out no more than 75% of their income as dividends, there's money left over to reinvest in the underlying business. We used the Institutional Brokers Estimate System database to make sure that all the companies that made our final list are expected to post higher earnings in 1990, despite the heavy earnings estimate cutting now taking place on Wall Street (see page 264).
Making a profit on the A340 is simple. 
just add up the numbers.

Long before we started production of the Airbus A340, the needs and goals of the airlines that could operate it were carefully considered.

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2. An aerodynamically advanced, light-weight wing design that gives both improved performance and fuel economy.

3. An optimum 222 inch fuselage cross-section that allows carrying standard containers two-abreast, underfloor.

4. True wide-body comfort made available with a choice of six, seven, eight or nine-abreast seating.

5. And a two-crew cockpit with fully integrated flight control systems, including automatic windshear protection.

It's numbers like these that have given airlines around the world good reason for selecting the A340. Because after all, the most important set of numbers are still the ones on the bottom line.
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Words alone simply can’t describe it.

How’re you going to do it? PS/2! it!
The crumbling of socialism is even beginning to have some impact on the backward economy of repressive North Korea.

Hold the applause

By Gale Eisenstodt

A 40-MINUTE DRIVE from downtown Pyongyang, North Korea's dreary capital city, sprawls the three-year-old Pyongyang Golf Club. The course is a joint venture between Koreans living in Japan and the North Korean government. The greens fees work out to around $80. This is more than what the average North Korean worker is estimated to earn in a month, but then the course isn't for the natives. It's mainly for Korean businessmen living in Japan and the few Japanese working for trading companies who are coming to do business with one of the world's last totalitarian regimes. Japanese businessmen who have played the 18-hole course say it's a pretty good one.

As the world's socialist states lurch toward free market systems and unwind their feudalistic barter trade relationships, North Korea's "Great Leader" Kim Il Sung finds his backward economy more isolated than ever. For many years North Korea's leading trade partners have been the Soviet Union and China. But Mikhail Gorbachev's recent San Francisco meeting with South Korean President Roh Tae Woo was a clear sign that the Russians are more interested in trade with Seoul than ideological solidarity and barter trade with Pyongyang. South Korean relations with China are also warming.

"The North Koreans see what happened in Eastern Europe," says Riichiro Aikawa, chief director of the Japan-Korea Trade Association, which serves Japanese firms doing business with North Korea. "They're looking for ways to develop their economy while keeping a socialist system." In July Kim Il Sung invited a representative of the Japan-Korea Trade Association to Pyongyang. A delegation from Japan's ruling Liberal Democratic Party is scheduled to visit North Korea in October.

Japan is North Korea's third-largest trading partner and its second-largest export market. In 1989 Japanese-North Korean trade came to almost $300 million—peanuts compared with Japanese-South Korean trade ($50 billion last year), but of immense importance to North Korea and its hard-pressed people.

Some 700,000 Koreans live in Japan, many descended from laborers imported during World War II, the waning years of Korea's status as a Japanese colony. Despite discrimination, some Koreans have prospered; the discrimination has reinforced their strong feelings of identity with their former homeland. Most favor the capitalistic government in Seoul. But some prefer Kim Il Sung's belligerent communist regime.

Since 1986 pro-North Korean resi-
dents in Japan have established more than 40 joint ventures with Pyongyang, of which the Pyongyang Golf Club is one. Typically, the capital and technology is supplied from Japan, the labor and land by the North Koreans. Last year the Korean Joint Bank was opened by Koreans living in Japan to provide financial services for joint ventures with North Korea.

The largest of these joint ventures is operated by $500 million (estimated 1990 sales) Sakura Group, a Tokyo-based food company. Owned by two brothers, Chon Jin Shik and Chon Yong Shik, Sakura has two clothing factories in Pyongyang, employing over 1,000 people and exporting clothing made with Japanese machinery to Japan. The Chon brothers also make pianos and small motors in North Korea, again for sale in Japan.

Another operator is Tokyo-based Seiwa Trading Co. It runs a 150-employee women's blouse factory that is 45% owned by Seiwa and 55% owned by the North Korean side. The fabric and buttons are sent from Japan to North Korea. Machinery to assemble the blouses is purchased from Juki Corp., Japan's largest industrial sewing machine maker. Technicians visit the plant when needed to help keep quality standards up. This year some 50,000 elegant blouses will be sold in Japan's fine boutiques, priced between $130 and $200.

While most of the commerce is done through small firms owned by Koreans in Japan, Japan's famous trading companies have also knocked quietly at Kim Il Sung's door over the years. They have generally gotten burned whenever the door opened. In 1975 Japan's Ministry of International Trade & Industry stopped providing export insurance for Japan-North Korea trade. Pyongyang owes Japanese companies over $500 million for deals done in the early 1970s.

But the companies keep knocking. In order not to offend South Korea or the U.S., the trading houses have done business with "dummy" companies. For example, Mitsui & Co, the Mitsui Group's huge trading company [1990 sales $126 billion], works with a company called Shinwa Bussan for its North Korea trade. In the 1970s Shinwa did a big business selling manufacturing equipment to North Korea. But these days Shinwa does little exporting because North Korea still owes money for the machinery and has nothing with which to repay the old loans, let alone new loans. So Shinwa is now mainly importing coal and raw silk from Pyongyang.

Why bother even with that? "We want to keep the pipeline open for the future," replies a source at Shinwa.

Kim Il Sung hopes to attract more Western investment to North Korea, but two tough barriers stand in his way. Economically, the problem is how to integrate a backward economy into the late-20th-century's global market economy. Complains a manager at Japan's Sakura Group: "North Korea deals with socialist regimes on a barter basis. We demand a different level of merchandise, but there is no sense of producing a quality product to meet a customer's needs."

There is some hope. "We are bringing capitalist values to North Korea from Japan," says Pak Dong Su, a Prosper North Korean living in Japan who advises joint ventures between the two countries. "People will be challenged to make better goods."

The political problem is less hopeful. Kim Il Sung rules North Korea by strictly controlling the flow of information from the outside world. His is a cult-of-personality state, as Romania was and as Iraq and Cuba are. Kim is now 78. He has groomed his son Kim Jong Il to succeed him. But whether this transition can be peacefully orchestrated is anyone's guess. Few businessmen will want to make significant investments in a country where future stability remains so uncertain.
A "SHORT-TERM" PROBLEM WILL TAKE DECADES AND COST BILLIONS.

Alarmed by the poisoning of our environment at Love Canal and other toxic waste sites, Congress created the Superfund program ten years ago. Superfund was intended to be a short-term cleanup program for the most serious hazardous waste sites across the country.

More than a decade later, it's painfully clear that cleaning up hazardous waste is not a short-term problem for America. It will take many decades and cost hundreds of billions of dollars.

Currently, 1,200 of the most dangerous sites have been selected for priority action. Billions of dollars have been spent, but very few sites have been cleaned up. In fact, only 45.

SO FAR, ABOUT ALL WE'VE DONE WITH HAZARDOUS WASTE IS WASTE TIME AND MONEY.

One problem is that Superfund requires establishing liability—who sent what waste, how much and where. And this has taken priority over cleaning up. With the cost of cleanup at just one site estimated as high as one hundred million dollars, the question of who pays has serious consequences for everyone involved.

At most hazardous waste sites, the operator of the dump caused the environmental harm. But under Superfund, everyone who used the site is liable for the cleanup bill. The record of users can go back 25, 30 or 40 years and can number in the hundreds. Users can include major corporations, small businesses, local governments, hospitals, nursing homes, schools, even individuals.

For example, at 422 sites almost 14,000 entities have been notified by the government that they could be liable for the cleanup cost. And many of these entities have themselves identified still others.

The result? A bonanza for lawyers and
consultants. And a tragedy for the environment. At some sites, as much as 60% of the money spent goes toward legal expenses in costly and time-consuming efforts to assign liability instead of solving the cleanup problem. An avalanche of lawsuits has resulted, all aimed at getting someone else to pay.

**HERE'S AN IDEA THAT DESERVES EVERYONE'S CONSIDERATION.**

At AIG, we think it's high time to find a better approach to the problem of cleaning up old hazardous waste sites. One that encourages prompt cleanup and spreads the cost more broadly. And more equitably.

We propose creating a National Environmental Trust Fund similar to the National Highway Trust Fund. Its resources would be used exclusively for cleaning up old hazardous waste sites. The Fund could be financed by adding a separate fee to commercial and industrial insurance premiums in the United States.

Even a modest assessment, say 2% of premiums and an equivalent amount for self-insurers, would provide about $40 billion over the next decade, more than enough to deal with the 1,200 highest-priority sites.

A national advisory board of private citizens, industry and public officials could be charged with overseeing the program. We also suggest giving consideration to establishing local technical monitoring committees in each community. These groups would be composed of local citizens, industry and others who would work with the Environmental Protection Agency and the state on the particular cleanup site, from the very beginning of the cleanup effort.

Just think. A new way to finance Superfund's mission without the need for new taxes, a new government agency or expensive and unproductive lawsuits.

**WHY IS AIG RUNNING ADS LIKE THIS?**

AIG (American International Group) is the largest underwriter of commercial and industrial insurance in America, and the leading U.S.-based international insurance organization. The nature of our business means we deal every day with issues affecting U.S. competitiveness and the future of the world economy.

We've started this dialogue to encourage people like you to help shape the future. Perhaps you'll want to keep the ball rolling by contacting your elected officials, or an environmental or trade group. We hope you will. Shouldn't we stop trying to fix the blame and start fixing the problem?

If you agree with this idea or have thoughts of your own to share, write to Mr. M.R. Greenberg, Chairman, AIG, 70 Pine Street, New York, NY 10270.

**AIG World leaders in insurance and financial services.**
Research shows that Americans care less about what they eat than how they eat it. The fast-food industry is paying attention.

I don't want good, I want fast

By John Harris

It's just 11:15 a.m., but already cars are lining up at the drive-through window at Rally's restaurant on Broadway Avenue on the south side of Gary, Ind. The line moves so rapidly that most customers are on their way within 30 seconds—less time than it takes the traffic light to change. For a quarter-pound cheeseburger, french fries and a large Coke, they've paid $3, which is 85 cents less than a nearby McDonald's would charge for the same package. "The food isn't very good here," says customer Dan Sheridan, "but it's cheap, quick and easy."

Rally's, a 240-outlet (mostly franchised) chain based in Louisville, Ky., is a good example of the new back-to-basics restaurant chains that are succeeding despite the supposed saturation of the restaurant business. Restaurant sales have been flat for the last two years, and at big chains like McDonald's growth has slowed substantially. But Rally's, which went public in March 1989, doubled its revenues in fiscal 1990, to $62 million, and trebled profits, to $4 million, or 67 cents a share.

"We just want to be what McDonald's used to be," says Richard Sherman, Rally's president, chief executive officer and chairman. Sherman says he plans to add 100 instant-service stands in the next year.

Rally's is profiting by paying close attention to the fast-food industry's latest research. It shows that the three most important factors in a consumer's decision where to eat are (1) the time of day, (2) how long the customer wants to spend eating, and (3) price. What about the food itself? "It turns out that it's not the food that's important anymore," says Leo J. Shapiro, a Chicago market researcher whose firm, Leo J. Shapiro & Associates, has studied Americans' eating habits for 40 years. "We used to eat when the food was ready. Now we eat when the best food is ready."

Shapiro's research shows that customers are relatively inflexible in how they view many restaurant foods. Fried chicken, for instance, is viewed by most people as too messy to eat in a sit-down restaurant, and it's too expensive to eat for lunch. Pizza is a leisurely sit-down food, suitable because of price and time for dinner. Hamburgers, primarily a lunchtime affair, built McDonald's, Burger King and Wendy's because they are fast, inexpensive fare that people can eat anywhere.

In the face of such findings, why does Kentucky Fried Chicken offer seating? Why does it take an average of several minutes to get a meal at McDonald's? Why does Pizza Hut think it can succeed as a speedy "pizza distributor" when its menu is heavy with slow, relaxing foods?

Rally's and other back-to-basics chains listen to the research, and structure themselves to avoid those problems. Take Boston Chicken, a 15-store chain that serves only one main dish, rotisserie chicken. Its largest restaurant has just 20 seats. Explains Charles Cocotas, its president: "Everybody's too tired to make dinner, but they still want to eat at home."

Rally's also has a limited menu and no seating. A typical Rally's is only 600 to 700 square feet, about one-fifth the size of a McDonald's; it costs $350,000 to build, against about $1 million for the average McDonald's. "We can fit just about anywhere—a parking lot, a small corner lot," says Sherman. And while Rally's prices are cheaper, its high volumes and smaller outlets mean that Rally's annual sales run about $1,300 a square foot, compared with $400 for the average McDonald's.

The established chains are trying to respond to the threat from the back-to-basics upstarts. (Besides Rally's and Boston Chicken, the upstarts include Checkers, a 500-store chain based in Clearwater, Fla., and Fast Track, a 25-store chain from Baton Rouge.) Carl's Jr., a West Coast chain not known for speedy service, has installed a massive stop-watch at its drive-through windows; if you don't get your food in a minute, you get a coupon for a dollar off for the next visit. Taco Bell, a unit of PepsiCo Inc., began offering 59-cent tacos and other low-priced items in 1989; sales rose 27% last year, while profits jumped 40%. McDonald's is trying to utilize its dead seating space by promoting pizza at dinner. And Pizza Hut is trying to compete with Domino's; Since 1986 Pizza Hut has added 1,300 units offering delivery and carryout only.

"The pizza doesn't have to be awesome," says Roger Rydell, a Pizza Hut spokesman, "but the service does." That's a refrain that will become increasingly common in the fast-food industry.
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CREATING THE RIGHT CHEMISTRY.
Larry Wilson turned a college job into a $265 million business. Lots of people have been watching—including IBM.

Insured growth

Larry Wilson, Policy Management Systems chairman and president

Pushing the insurance industry toward automation.
Seibels, Bruce. In 1981 Policy Management went public. Wilson and four fellow managers kept 2% of the company; Seibels, Bruce, 82%. Wilson’s stake, including options, has a current market value of nearly $11 million.

Policy Management Systems sells more than 60 software products to automate virtually every aspect of the insurance business. With more than 4,000 employees in 75 offices worldwide, the Columbia, S.C. firm had sales of $265 million and earned $27 million in 1989. That same year International Business Machines Corp., paid $116.8 million to buy 19.8% of the company, with the right to purchase 10.2% more on the open market. That’s more than IBM paid for any of its dozen or so other software investments that year.

IBM’s interest is understandable. The computer giant is trying to sell hardware to the insurance industry, and Policy Management’s software fits right in. “The only way this industry is going to improve is through automation,” Wilson says. Which is what Policy Management sells.

In managing its own finances, Policy Management borrows a page from the insurers themselves: Like predictable cash flow from regular premium payments, 66% of Policy Management’s software revenues come from a steady stream of monthly license fees, spread over six to ten years of each contract.

With some of the company’s newest software and service contracts selling for $10 million to $50 million, that’s not a bad lock on future revenues. The company’s stock was selling recently on the Big Board at 37, a hefty multiple of 21, reflecting the fact that earnings per share have increased 13 quarters in a row and the company has met its targeted 20% growth rate for the past three years.

Wilson has demonstrated a knack for repeating some of the successes he made as a young software designer back at Seibels, Bruce. There he helped develop software packages to attack premium calculation and billing problems. Word began to spread, other insurance companies came knocking, and in 1974 Seibels, Bruce started marketing its systems to the entire property/casualty industry.

Despite Policy Management’s performance, Wilson remains cautious. “We’re like a duck swimming across a pond,” he says. “We’re paddling like hell to get there.”

The heavy paddling now involves diversification—in an effort to attract new customers and insulate the firm from downturns in the cyclical property/casualty business. An industry slump can mean losing upfront license fees on lost new business.

In the mid-1980s, for instance, when the property/casualty insurance business suffered a severe downturn, Policy Management’s earnings were flat two years in a row. By charging less up front, and by diversifying, Wilson has reduced initial software license fees to 10% of total revenues, from 50% some years ago.

Last year Wilson bought $49 million (revenues) Chicago-based Advanced System Applications, one of the largest providers of systems and services to the group health insurance industry. This will give the company an important niche in the health field—and put it in the ring with General Motors’ giant I.S. unit, which provides a broad range of software and services to the health insurance business. In addition, Policy Management is building databases of information, such as accident records and replacement costs, designed to help insurers price policies and estimate claims.

Databases now account for about 30% of Policy Management’s revenues, but profit margins here are only 5%, versus 18% for software and related services. So the company is not neglecting this part of the business. Its newest product is something called Series III, a software system designed to liberate insurance companies from their paper-pushing pasts.

Among other things, the system will optically scan and store on a mainframe computer things like letters from policyholders changing their addresses. An agent can then call up the letter on his desktop computer, make the changes in his records and store the information again—without ever making a trip to the file room.

Policy Management has spent more than three years and over $100 million developing the Series III, which will go for up to $50 million. The company has firm commitments from ten big insurers, including Boston-based John Hancock Property & Casualty and Maryland Casualty, in Baltimore. Half of the commitments are from overseas—the European insurers are gearing up for a more complex environment once 1992 arrives.

Under a joint agreement, IBM salesmen will get commissions for helping to sell Policy Management’s software. And Policy Management will be able to test insurance applications for IBM hardware that is in development.

IBM’s involvement is both a benefit and a worry for Policy Management. When IBM first approached Wilson last year, it wanted to buy 49% of the company. Wilson said no. He figured anything over 30% was control, and he didn’t want to feel smothered by IBM’s formidable bureaucracy.

Wilson is pleased to be where he is. Still in control, and paddling hard. Sort of like being back in college.

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The Up & Comers

Upstarts

How Richard Worth, an ex-hippie blueberry farmer who doesn’t like banks, built an $18 million cookie company from scratch.

Meet the Frootie man

By Alyssa A. Lappen

"Would you like to hear some music?" asks Richard Worth. Not waiting for a reply, he switches on a boom box by his desk. On comes a rap radio spot pushing Frooties, Worth's fruit-juice sweetened cookies. Worth starts bouncing in his chair. "See?" he says. "I'm all froocked up."

Yes, Worth, 40, is a bit wacky, but it's all part of his smart promotion. In two years he's built sales of his little Englewood Cliffs, N.J. cookie company, R.W. Frooties Inc., to $18 million from zero. Worth's bankers—from
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whom he has yet to take a loan—confirm his outfit netted $700,000 pretax in the first half of 1990.

Frookies are now sold in 63% of the nation’s supermarkets, and in roughly half of those stores Frookies have graduated from freestanding display cases to the regular shelves. Best yet, they sell at a premium price over some of Nabisco’s regular brands.

Worth now has 14 varieties of Frookies, with more on the way. An ex-hippie himself, he knows how to open the purse strings of a generation willing to pay premium prices for things with natural-sounding names. Worth makes his cookies from whole grains and fruit juice sweeteners instead of sugar. His cookies include 7-Grain Oatmeal, All Natural Oat Bran, Mandarin Orange Chocolate Chip and Ginger Spice. Frookies is selling a knockoff of Nabisco’s Fig Newtons called Fruitins (from “fruit in them”). Cinnamon-flavored Animal Frackers are clones of Nabisco’s popular Barnum’s Animals crackers. Still to come: high-fiber Fibbers and Frones—ice cream cones with no sugar.

Worth is the son of a Boston clothing retailer and graduated from Hobart College in 1972 with a degree in psychology. He bought 2,000 acres of land up in New Brunswick, Canada and started growing wild organic blueberries. “I went into farming to get away from money,” he says. “But I found that the less money you have, the more you think about it.”

Worth made ends meet by brokering real estate, hauling lumber and unloading tuna boats. In 1978, when his son Jonas was born, Worth hit on the idea of making and selling all natural blueberry jam. There’s more money in selling jam than there is in farm produce, especially if you can convince people that your jam is better for them than other folks’ jam. Using his farm as collateral, he borrowed money to put up a 5,000-square-foot plant, and began peddling Sorrell Ridge jams, named for the farm. Sales reached $250,000 a year by 1982, when Worth sold out, for $75,000 plus an annual royalty payment, to Allied Old English (Forbes, June 12, 1989).

By now the ex-hippie was as deep into making money as he once had been into avoiding it. He figured he could make even more money selling “healthy” cookies than he had made selling “healthy” jams. While working as a marketing consultant, he and his nutritionist wife, Randye, worked on recipes and a business plan.

To avoid banks, one of which had given Worth a hard time with Sorrell Ridge, Worth engaged contractors to bake, package and distribute his goods, and asked everyone to invest in his venture. Worth’s wife and a partner baked cookies in the kitchen while Worth and a cousin worked on the marketing and financial plans. He raised $500,000, chiefly from his suppliers and customers. One of his major distributors, Cincinnati-based Shur Good Biscuit Co., has just under 4% of the stock. Worth has 60%.

These days, most manufacturers must pay grocers “slotting fees” for space in their stores. How to get a new brand of cookie on the shelves without paying such fees? Worth provided freestanding display cases, so Frookies didn’t need shelf space. Stores liked them because they made more money by selling such natural foods.

The cookies soon caught on. Listen to Jules Rose, chairman of New York City’s Sloan’s chain: “They had outstanding, colorful packaging, the marketing was excellent and they had no refined sugar or cholesterol,” he says. “If we don’t have the product, we get phone calls. I’ve never seen brand loyalty like this.”

Worth, of course, did not depend entirely on the health angle. In the fall of 1988 he hired 15 National Football League rookies to push Frookies in supermarkets nationwide.

But Frookies’ fast growth has been hard to manage. Last winter Worth brought in former Colombo yogurt head John Vinton as president. Vinton quit after three months. “This has been one of the most successful new consumer products introduced in the last five or ten years,” Vinton says. “But Rich Worth is no fun to work for, and the magic that has made him successful is a two-edged sword. He will have to hand over the reins, or lose out.” Vinton says he couldn’t implement the marketing plan because Worth wanted full day-to-day control.

Thus Worth’s biggest problem may be finding the energy to keep going. He now works 12 to 16 hours a day, from both his unassuming office in Englewood Cliffs and his home in East Hampton, N.Y. “Every entrepreneur has days when he wants to do nothing but go out and look at the water,” Worth confesses.

But then he remembers that he should be using the Forbes interview to promote his product. “May the fruit be with you,” he says, raising his hand in a sign of blessing.
It was recently announced that the Port of Los Angeles has surpassed the Ports of New York and New Jersey in volume and now ranks as the largest and busiest port in the U.S. This phenomenal growth is due almost entirely to the corresponding surge of trade and investment between U.S. industry and the Asian-Pacific markets.

Although there is still excitement about developments in Eastern Europe and the European Community, for the majority of American companies, the Asia Pacific region remains the premier growth market for the 1990s and beyond.

What is less known is the role Australia plays in this regional growth. Even the most informed American CEO is surprised to learn that Australia, like the U.K., Japan, Canada and France, is among the leading overseas countries with major investments in the U.S.

As the Australian Investment Commissioner for North America, I am pleased to address the readers of Forbes Magazine about Australia and its role as regional headquarters for a rapidly increasing number of American multinational corporations.

The U.S. has now invested more than $46 billion in Australia. More than forty U.S. companies use Australia as a base from which to access Japan, while many others—over 500 companies—rely upon Australian management and regional marketing expertise to penetrate the vital markets of Southeast Asia.

Our commonality of language, education, legal system and management styles all combine to make Australia a comfortable place where Americans can invest and prosper.

For all of these reasons and more, I am delighted to introduce this special Forbes Supplement, appropriately entitled "Investment Australia." I invite you to read on and explore some of the many ways in which Australian industry and finance—along with Australian Government—are working to make your investment in Australia a profitable one.

Richard J. Seddon
Australian Investment Commissioner
for North America
New York

Rarely has there been a better time for U.S. companies to invest in Australia. This may sound surprising given headlines about the country’s economic slowdown and financial woes besetting several of its high-profile entrepreneurs. Yet the underlying economy is sound and, as the latest McKinsey & Co. study shows, bedrock Australian companies are performing well. More important, Australia is undergoing structural changes that will permit it to compete far more effectively in the global economy.

The catalyst for these changes is the government of Prime Minister Robert Hawke. Though leader of a non-conservative party government, Hawke is freeing up Australian markets at a rate far faster than anything dreamed of by the even Australia’s most conservative modern day Prime Minister, Sir Robert Menzies.

The most notable changes include:
- Deregulation and privatization of a host of basic industries ranging from banking to transportation
- Lowering long-standing protective trade barriers to imports
- Movement of the trade unions away from the old craft structure toward larger entities whose fate will be tied more closely to the success of individual enterprises or industries
- Acceptance by these unions that wage and benefit increases must be tied to improvements in productivity
- A national policy designed to tie Australia more closely to Asia.

By Hugh D. Menzies
To help you see why Westpac is one of the world's top banks, just look for the fish.

The fish is seen simply by looking at the more obvious birds in a slightly different way. Which is exactly the approach Westpac Banking Corporation applies to the somewhat larger picture of international finance.

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Taken together, these developments make Australia an increasingly attractive investment site for U.S. companies—especially those searching for a solid base from which to enter the Asia/Pacific region, the fastest-growing economic area in the world.

Richard Seddon, Australian investment commissioner for North America, introduced Australia’s investment attraction program to North America in 1988. "The opportunities are there," says Seddon, "and our task is to assist U.S. companies in establishing value-added manufacturing facilities in Australia to service the whole Asia-Pacific region."

The American Experience

U.S. investment in Australia is hardly new. Americans have been heading Down Under since the 1850s when Freeman Cobb, a young man from Massachusetts, arrived in the colony of Victoria. Cobb brought several Concord stagecoaches with him and set them to plowing the dusty roads between Melbourne and the outlying gold fields. Cobb & Co. went on to carve out as mythical a place in Australian legend as Wells Fargo occupies in the U.S.

Most U.S. companies following Cobb's trail aimed at tapping into the small but lucrative Australian domestic market. Protected by high tariff walls, these concerns came to dominate several Australian industries—notably food processing, autos and computers. The one great exception to this trend involved the American mining companies that provided the capital, equipment and technical skills required to unearth Australia’s massive reserves of high-grade minerals and ship them north to fuel Japan’s current economic miracle. At last count U.S. investment in Australia amounted to some A$46 billion.

The Australian domestic market is still there, still lucrative and somewhat larger now that the removal of trade barriers between Australia and New Zealand has effectively created an Australian market of 20 million people. This market is well-supplied with goods from mature industries such as apparel and autos, but companies possessing unique products capable of commanding a premium price, especially in high-technology areas such as computer software, biotechnology, and scientific and medical equipment, can do extremely well. The federal and state governments encourage such companies with incentives like the 150% write-off on R&D expenses conducted in Australia.

Many U.S. corporate management, moreover, should look beyond the Australian domestic market and consider the country a regional headquarters and manufacturing site for the Asia/Pacific region—a region that economists say accounts for more than half the world’s economic output and one-third its trade. Australia’s commitment to strengthening economic, political and communications links with its northern neighbors is already paying dividends in terms of increased business for Australian-based companies. Conversely, alternate regional sites are losing some of their appeal. Many Old China hands, for example, believe Hong Kong may find its laissez-faire policies curtailed when Communist China takes over the colony in 1997.

Investment commissioner Richard Seddon, points out that Australia provides the answer for U.S. manufacturers capable of adding value to his country's treasure trove of raw materials and then exporting the resulting products.

Seddon ticks off just a few of the advantages Australia offers such companies:

- A stable political structure
- Legal and tax systems that are not capricious
- A sophisticated financial community
- State-of-the-art communications
- The best-educated work force—especially in the scientific and engi-
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The message is getting across. Some 40% of the 750 U.S. corporate operations in Australia are responsible for all or part of the Asia/Pacific region. The "tyranny of distance" that has so long isolated Australia is being dissolved as the quality of international communications and transportation improve and their costs come down.

The Asian Connection

Australia's ties to Asia have never been stronger. Two-way trade continues to grow. Australian companies keep winning contracts in everything from construction and power stations to telecommunications. Asian students enter Australian schools and universities in growing numbers. Australians who once considered Europe and the U.S. as the only serious spots for overseas vacations now flock to Indonesia and Thailand. In turn, Japanese tourists flock to Australian resorts, an increasing number of which are owned by their countrymen, and Asians account for one-third of Australia's annual intake of immigrants.

The Hawke government's policy is to strengthen these bonds. The Prime Minister has visited Asia more often than all his predecessors combined and even done some export promoting of his own. "The PM led a delegation to Pakistan and raised the question of our bidding on a telecommunications contract there against world competition," says Ken Loughman, managing director of Telecom Australia (International). "We won the contract."

The Australian government's Business Migration Program provides further links with Asia's business community. The BMP offers broad resettlement assistance to business people who emigrate to Australia with upwards of $250,000 and the willingness to establish a business. Many such people possess advanced business skills and technologies plus contacts in their original homelands that could lead to exports. Asian business people, especially those from Hong Kong, account for most BMP immigrants, but several Americans have joined the inflow.

Australia also encourages Asians to study Down Under in the hope of fostering political and business benefits. To this end Australian universities have established an International Development Program (IDP). The IDP joined with Qantas, the national airline, to establish student recruiting centers throughout Asia. The goal is to quintuple the Asian student population on Australian campuses to 15%. "U.S. universities have had this recruiting field largely to themselves until now," notes Dr. Dennis Blight, director of IDP. "Look at the immense benefit the U.S. has gained from educating Taiwanese students who now work in Silicon Valley."

How Is It All Working Out?

This multipronged effort to weave Australia into the tapestry of Asia benefits multinationals with operations Down Under. IBM, Merck, Digital Equipment and Eastman Kodak are just a few of the U.S. companies exporting into the Pacific Rim countries from Australian bases.

A number of foreign companies, particularly those operating in high-tech areas, are encouraged by the Australian government both to export and to boost their local R&D efforts. In return, Canberra offers access to government contracts—no small market in Australia—and a 150% R&D write-off.

Australians have demonstrated great ability to develop computer software. "It's one reason a lot of overseas companies are looking at putting
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Landsat receiver in Alice Springs, part of Australia’s telecommunications network

Regional data centers in Australia, notes Gerry Allen of AT&T Australia. The more developed Asian economies, most notably Japan, are hungry for such expertise. So great is the appetite that Australian industry experts believe Australia-based companies could reap a $500 million software bonanza in Japan alone.

Government incentives are tailored to individual corporate needs. Merck Sharp & Dohme, the Sydney-based subsidiary of Merck & Co., gained extended patent protection and price increases for drugs sold to Australia’s national health program once it began exporting to Southeast Asia. MS&D exports rocketed from zero to $48 million in just five years.

Merck is one of a number of companies to discover that it enjoys an unusual advantage as the source of products for many Asian countries. The limited size of the Australian market has forced these companies to become proficient at short product runs and to develop the flexibility to switch quickly to new lines. Asian markets for many products are both relatively limited and widely varied in their packaging and labeling demands.
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Best Investment Bets in Australia

Investment possibilities extend across the Australian economic spectrum. So do methods of entry: merger, acquisition, joint venture strategic alliances and “greenfield” siting are all viable. Right now, the price of entry is eminently reasonable. Tony Spohr, a Price Waterhouse USA Sydney-based partner, believes that now is a good time for potential U.S. investors to look Down Under. “The changed economic conditions provide opportunities and potential—often at more acceptable prices—flowing from deregulation of telecommunications and airlines, privatization of government-owned enterprises and expanding tourism.”

Canberra and the state governments are keen on encouraging investment in projects designed to add value to the nation’s natural resources. “We must get away from the mentality of selling from the farm-gate,” says Lindsay MacAllister, managing director of the Australian Trade Commission (Australia), a quasi-government agency charged with boosting exports and promoting investment. MacAllister notes that Australia annually exports $8 billion of foodstuffs that foreigners promptly process and sell for $80 billion. “We want more of that value-added.”

MacAllister envisions such ventures as the one established by CRA, an Australian mining giant, in the island state of Tasmania. A CRA subsidiary smelts bauxite into aluminum that is taken hot from the pots and cast into alloy wheels for export to Japan and West Germany. Tellingly, a Japanese company holds a minority share in the Bell Bay venture.

Despite such successes, the federal government realizes that the Australian manufacturing base requires greater diversity and specialization. Thus Canberra is investing in yet another natural resource—the Australian people.

The Australian university and technical college system, nearly all of it publicly funded, has been expanded enormously, with fine results. “Australia has won more Nobel Prizes per capita than any other nation on earth,” claims Professor Ross Garnaut, author of the highly influential Australia and the Northeast Asian Ascendancy. Australians have proved particularly good, for example, at developing medical health products such as a bionic ear and a heart pacemaker that sell well in the U.S.

Canberra is trimming funding for the Commonwealth Scientific and Industrial Research Organization (CSIRO), thereby encouraging this scientifically creative body to go commercial with its discoveries. Sirotech, the CSIRO subsidiary set up to handle such commercialization, is soliciting joint ventures with multinationals possessing financial and distribution muscle.

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AUSTRALIA—A GROWING MONEY CENTER

When Treasurer Paul Keating deregulated Australia’s financial markets, floated the Australian dollar and removed restrictions on capital flows, he set Sydney on the road to becoming one of Asia’s money centers. Foreign banks rushed to gain a foothold in this most beautiful of urban settings. Australia’s big four of banking—Westpac, the Australia and New Zealand Bank (ANZ), the National Bank of Australia and the Commonwealth Bank—expanded their international operations with a vengeance. Overseas funds poured into Australian stock markets and money-market instruments.

Seven years later, Australia’s financial institutions are among the most sophisticated in the world. “There is not a financial product that we cannot offer our customers,” notes Stuart Fowler, managing director of Westpac, Australia’s largest bank. “And our banks are way ahead of the rest of the world in applying risk ratios, capital adequacies, etc. as required by the Bank for International Settlements.”

“Sydney is perfectly positioned to become the second most important city—after Tokyo—in the Western Pacific and an important financial center for Asia,” agrees Peter Thomas, chief executive officer of CS/First Boston Australia Ltd.

Beyond their home markets, the Australian banks are well-established to service corporate customers in the U.S. and Britain. “The four major Australian banks are represented in 55 countries around the world,” says Westpac’s Fowler. “Westpac does 40% of its business outside Australia.” The next big challenge is Asia, where rapid economic growth is encouraging several countries, most notably Japan, Taiwan and South Korea, to tentatively open up their financial markets.

U.S. investors more interested in the equity and money markets than direct investment can find opportunities Down Under. Australia’s real interest rates remain high—helping to prop up the Aussie dollar—and the stock market is recovering from the combined whammy of the worldwide crash of ’87 and the more recent collapse of several entrepreneurial empires. Conscious of the need to reassure overseas investors, the Australian securities regulators are moving to tighten up regulation of such dubious practices as insider trading.

The Australian markets also are getting a boost from the fast-growing “superannuation” or pension funds. Several years ago, the government employed its accord with the trade unions to ensure that 6% of Australian earned incomes went into superannuation funds as savings. “When Labor came to office in 1983, there was $17 billion in ‘super’ funds,” says Treasurer Keating. “Today there is $120 billion, and by the year 2000, there will be about $700 billion. A lot of that money will be invested here at home but a lot will have to go offshore.” Not surprisingly, money managers are pitching for slices of this lucrative financial pie.

“We are especially interested in U.S. companies because Australians and Americans understand each other better than any other two countries in the world,” says Colin Adam, Sirotech’s managing director. “The comfort level is high and so is the scientific and business integrity.”

What Lies Ahead?

Australian corporate executives give high marks to the Hawke government for its liberalization of the economy. They note work remains to be done in several important microeconomic areas, including freeing up the transportation sector and tackling environmental concerns, but applaud the policy direction.

The pace of change may be a little slow for some, but even critics realize the government cannot push its prime constituents—trade union members—too fast along the capitalist road. “The changes here are being made with the cooperation of the trade unions, compared to Britain, where improvements were wrought via confrontations that have left bitterness,” notes Professor Fred Gruen of the Australian National University. “We may be moving too slowly for some, but I believe our changes will be longer-lasting.”

Such broad-based consensus makes it likely that only an incredibly severe economic setback could reverse the trend. The Hawke government has two more years in office to consolidate and expand beachheads gained. Yet, even if Labor should lose at the next election, the conservative Opposition is likely to speed up the move to free markets.

John Hewson, the new leader of the Opposition, spent several years as an economist at Johns Hopkins University and the International Monetary Fund. “While overseas, I became an internationalist and one who was persuaded that deregulation is the only way to go,” he said during an interview in Canberra’s Parliament House. It is hardly surprising to discover Hewson agrees that “Australia should become an economic and political force in Asia-Pacific by the year 2000.” To that end, he too envisions Australia serving as “the focal point for regional investment.”

Australian-born Hugh Menzies is an editorial consultant based in New York City.
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THE STATES OF THE NATION

The state governments of Australia are cautious about offering large financial inducements up front to potential investors. But they often prove forthcoming during actual negotiations. Thus, Victoria came up with $4 million to help persuade Goodyear Tire & Rubber and its Australian partner, Pacific Dunlop, to upgrade a domestic tire plant.

Most state governments, however, place their prime emphasis upon improving the operating environment for industry.

Premier Nick Greiner of New South Wales, a Harvard Business School graduate, sees his main contribution as trimming back the role of the public sector via privatization and deregulation. Simultaneously, he is striving to improve Sydney's position as the gateway city of Australia and hub of his state by upgrading the local transportation systems.

Greiner also considers his state's financial institutions capable of establishing Sydney as a regional money center.

South Australia is building upon the high-tech base created near Adelaide by the Defense Department. The state's new Technology Park is proving such a lure to small high-tech companies, some of which may prove attractive acquisitions or joint venture partners for U.S. companies, that a Science Park is under construction. Victoria also is playing to its scientific strength, with emphasis upon the medical sciences and computer software fields. Tasmania's blue waters and green fields provide bounteous harvests of foodstuffs for processing.

Western Australia continues to attract investment keyed to the development of its extraordinary mineral resources, and French investors have discovered the quality of its wines. The state is also actively seeking joint ventures with international companies to invest in its booming defense-related high-technology industry.

The more northerly Australian states look further north. Darwin, closest to Asia of all Australian cities, operates a free trade zone designed to entice export-oriented plants. Queensland is the favored state of Japanese tourist resort developers—golden beaches, golf courses and sunny skies all year just eight hours due south from Tokyo as the 747 flies (and none of the jet lag created by the trans-Pacific flight to crowded Hawaii).

The states compete aggressively—there was spirited bidding for the Multi-Function Polis, a Japanese-proposed village of the future to be built near Adelaide—but increasingly realize the need to interact with the federal government for the best results. "We are Australians first and South Australians second," asserts Dr. Peter Crawford, director of that state's Department of Industry, Trade, & Technology.
I would like to learn more about setting up manufacturing operations—joint ventures, licensing agreements, technology transfers and the like—in Australia so that I might more easily access the burgeoning markets of Asia and the Pacific. Please send me detailed information on the industry sector indicated below:

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- The Right Climate
- Australia Welcomes Business People
- Australia's Foreign Investment Policy
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- Comparative Taxation Tables
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Is there an Oscar for Best Entertainment Company Financing? If so, Disney’s team should win hands down.

Why not buy the real thing?

By Tatiana Pouschine and Thomas Bancroft

The cranes have barely broken ground on Walt Disney Co.’s theme park outside Paris, but the financing is already firmly in place. When the park opens, the customers may get good value for their money, but the same can’t necessarily be said for the public investors.

In June, Merrill Lynch sold, at the rate of $100 million an hour, the biggest convertible debt issue in U.S. history, with a total face value of $2.25 billion. The issuer was the Walt Disney Co., which owns 49% of Euro Disney S.A. The balance of the equity is publicly traded on the Paris, Brussels and London stock exchanges.

As befits modern international finance, the terms of the issue are complex. But the deeper one gets into the prospectus, the more one has to admire Disney’s financial people.

The issue, a liquid yield option note, otherwise known as Lyons, consists of convertible (and unsecured) zero coupon bonds, maturing in 2005. They sold for $412 per $1,000 maturity value, for a 6% yield to maturity—hardly much of a rate in today’s market, where U.S. Treasurys pay 9%. The debt is Disney’s liability.

Why were investors willing to finance amusement park construction for a return 300 basis points below the U.S. government’s cost of capital? Because the bonds are convertible into Euro Disney equity? Not quite.

To protect itself from potential dilution of its holding in Euro Disney, the Disney Co. structured its convertible issue with a little twist. Instead of getting actual equity upon conversion, investors get the dollar cash equivalent of 19.7 Euro Disney shares for each $1,000 face value bond. Euro Disney shares, which trade only overseas, recently fetched the equivalent of $17. At current prices, a bond would be worth about $334 if converted. [The bonds are trading at 395, down from 412.] Since investors must forgo all accrued interest if they convert their bonds, the only way they can hope to earn more than the 6% would be if the common stock were to rise to at least $22 a share, 29% over its recent price.

That, of course, is not at all conceivable, but there’s another hitch. Disney inserted another clause that says if, within two years after the offering date [June 27], the stock climbs to $31.45 [French franc equivalent] per share, or above for 20 consecutive trading days, Disney can call the bonds with an accrued interest of $51. [After that date, Disney can recall the bonds at any time.] That accrued interest would give investors a 6% annualized yield, but they would then be cashed out of any further upside potential represented by the Euro Disney common stock.

There is one upside for the bondholders. The bonds are convertible at any time. Should Euro Disney shares rise to, say, $40 a share before June 27, 1992, then bondholders could convert their bonds into cash at 19.7 times $40. That would give them a total $788, or a 38% average annual return. Not bad at all.

But the chances are slim of this happening. Here’s why: If all the bondholders were to cash in their bonds that quickly, Disney would have to come up with as much as $1.8 billion in cash to pay off a loan that brought in just over $900 million. Think about it. If the Euro Disney stock jumps and bondholders convert, then Disney has to pay out a lot of cash. Disney equity holders could be hurt. Theoretically, then, Disney doesn’t want Euro Disney’s stock price to get too high.

The Disney folks are as adept at raising money as they are at creating entertainment. In short, they sure don’t give anything away. So our advice would be: If you think Euro Disney’s going to be a big success, buy the parent company stock. At just over $100 a share, it’s down 25% from its high and represents a lot more than a single amusement park.
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It simply works better.
By Michael Novak

Do you know what it’s like to leave a daughter off as a freshman at an American university today? My friend Harry described what happened recently when he and his wife drove their 12-year-old van loaded with the necessities of college life today to the University of X.

When his family pulled up to the assigned dormitory for the mandatory 90-minute “unloading period,” they waited patiently in line behind vans, U-hauls and ordinary cars packed with belongings. (If it takes this much gear to send 250,000 troops to Saudi Arabia, he remembers thinking, where will the Air Force find enough cargo space?) Going to college these days is no longer a matter of a suitcase, a demi-trunk and a portable typewriter. Add the computer, stereo, fridge, lamp, fan, rug, popcorn maker, blender and hockey stick.

Fortunately, a nice young man was willing to take Harry’s place in carrying his daughter’s heaviest things up to her room. At least, Harry thought of the lad as nice, until he visited the men’s room on the floor above his daughter’s. (In this dorm, men and women were assigned alternate floors.) There on the wall was the largest contraceptive dispenser Harry had ever seen, plastered with posters suggesting moral laissez-faire regarding sexual intercourse, as long as contraceptives are used “to prevent aids or pregnancy.” As he left the men’s room, Harry looked a little more carefully at every young man on that floor. When he told me that, we both laughed.

Then there was the lecture to the parents by the dean of students. If Harry understood his message correctly, it was that the University of X does not intend to act in loco parentis. (“We can’t force your children to do anything now; they are adults; they must learn from their own mistakes. If they are too loaded with drink Monday morning to get up for class, they’ll have to learn to drink less.”) In addition, the university expects parents to leave the kids there and then to bug out—that is, any communication from parents to officials concerning their children will be reported verbatim to the latter.

Now, Harry could understand this policy, even find ways to think of it as noble and enlightened. On the other hand, it gave him a terribly uneasy feeling. It let the university bail out of its responsibilities. It forced the parents to bail out, as well. But maybe, Harry said, he misunderstood.

The University of X is an especially good university, and Harry has reason to trust many people there and to be proud that his daughter was accepted into its exclusive circle. However, my own trust for the contemporary university is much more limited than Harry’s. When I later told this story and mentioned my mistrust to several youngsters who were still home from college, one young woman asked me: “Why?” Why do I distrust today’s universities?

I stopped to think, and then spoke carefully: “Because the faculties as a whole seem to be so far out of tune with the rest of the American public, politically and culturally.”

She nodded for me to continue talking. So I did: “I do not like the herd instinct with which campuses have caved in on matters of race, feminism and homosexuality—I do not like the regime of politically correct thinking.”

“PC,” she smiled, using the new campus jargon for opinions that are “politically correct.” That and “DWEM” (Dead White European Male) are, I gather, two of the most common acronyms on campus. Plato, St. Augustine, Dante and Shakespeare, for example, are DWEMS. The implication is that this Greek, this African, this Italian and this Englishman were all of a kind and held oppressive opinions.

This insistence on a single party line makes visiting a campus these days a little like visiting Eastern Europe before the fall of communism. One encounters euphemisms and PC everywhere (even, as Harry mentioned, in the men’s room, where he also picked up a university-sponsored pamphlet on contraceptive use). To stray from PC, one fears, will bring down public humiliation, even ostracism, maybe a disciplinary hearing.

At another university, I heard of two students who were assigned to a dormitory celebrated for housing many gays. The two put up a sign on their dorm room: “This room is straight.” They were brought before an administrative hearing and sentenced to 20 hours of counseling. At one of these sessions, they were asked what they thought about homosexual behavior. “It’s a sin,” one said. “That’s superstition,” he was mocked, “have you tried it?” When he stood awkwardly silent, he was asked: “How can you condemn it until you’ve tried it?”

It seems that every other view is protected at the university today except the convictions and values of the parents—and of the public as a whole.
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The Money Men

David Kudish doesn’t pick stocks and bonds, he allocates assets. Favorites: small growth stocks, high-grade bonds, timber and cash.

A pragmatist in mumbo jumbo land

By Marcia Berris

David Kudish doesn’t manage money, but he advises investors with $10 billion of it. He calls his firm, Chicago-based Stratford Advisory Group, an asset allocator. He likes to tell the story of a client, a Russian Jewish immigrant, who wanted to keep gold on hand in case the family had to flee again. Kudish persuaded him to buy emeralds instead; easier to transport and a better buy at the time.

Kudish, 47, and his 11-person firm don’t pick individual securities. They advise how much to invest in broad asset classes—stocks, bonds, real estate, inflation hedges—and “styles” within those classes. For example, among bonds Kudish strongly prefers high quality to junk. “Debt repudiation by governments, companies, individuals will be the theme of the early 1990s,” he says.

There’s a lot of mumbo jumbo about asset allocation these days, but Kudish doesn’t offer magic formulas to time asset shifts. Just common sense and a pragmatic reading of the financial and economic indicators. Kudish doesn’t run portfolios for his clients.

Adding an allocation adviser to your portfolio management, however, adds significantly to your costs. For individuals, Kudish’s Stratford Advisory charges 1% of assets managed in the first year and about 0.5% in later years. For institutions, fees start at 0.2% of assets for the first $10 million and work down. In either case, these fees come on top of fees for portfolio managers, which are typically 0.5% to 1%.

Of the funds Stratford Advisory oversees, about $1 billion belongs to rich families (including, Kudish says, four past and present Forbes Four Hundred members); the rest belongs to pension funds and endowments. The 40 clients include Knight-Ridder, the Sheet Metal Workers Union and the Art Institute of Chicago.

Kudish started Stratford in 1982, after eight years with Hewitt Associates, investment consultants. His early clients were mostly charities, exposing Kudish to the rich folk who sit on their boards. From there, it was word of mouth.

Currently, Kudish is bearish on junk bonds of all kinds and on long-term bonds of any credit quality. He thinks interest rates will go up. So, he says, get U.S. Treasurys, AAA corporates and high-quality foreign government bonds, and keep your maturities under about seven years.

Kudish also tells clients to keep
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VOLVO
The no-load road

Investors with less than $10 million should be in no-load mutual funds, says asset allocator David Kudish. Here are some of his favorites.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Assets ($mil)</th>
<th>—Total return—</th>
<th>Annual expenses per $100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brandywine</td>
<td>$287</td>
<td>31.8% 12.5%</td>
<td>$1.12</td>
</tr>
<tr>
<td>Neuberger &amp; Berman Guardian</td>
<td>562</td>
<td>8.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Vanguard World-U.S. Growth</td>
<td>347</td>
<td>32.2</td>
<td>13.5</td>
</tr>
<tr>
<td>Fidelity Global Bond</td>
<td>80</td>
<td>11.0</td>
<td>9.1</td>
</tr>
<tr>
<td>Vanguard Fixed Income-Short-term Govt</td>
<td>260</td>
<td>7.9</td>
<td>NA</td>
</tr>
<tr>
<td>Vanguard Fixed Income-U.S. Treasury Bond</td>
<td>528</td>
<td>3.3</td>
<td>9.0</td>
</tr>
</tbody>
</table>

*Annualized. NA: Not available.

their exposure to the stock market to a minimum, a stance he has maintained since February. Correspondingly, more of their money is in cash equivalents, like T-bills. Stratford has no single allocation formula. Clients who have been keeping their stock holdings at 70% to 90% of total assets are told to aim for 70%. Those in the 25% to 50% range are at 25%.

Kudish has a very specific notion of where a large part of that stock position should go: small growth stocks, of the sort owned by the Janus Twenty Fund and 20th Century Growth Investors. "If one would make an investment and pull a Rip Van Winkle—go to sleep and wake up five years from now—small capitalization growth stocks would be a terrific place to be." By small cap he really means small to medium capitalization companies, with less than $600 million of stock outstanding. He cites the usual reasons: Growth companies lagged the broad market averages during the takeover-driven 1980s, when cash-generating value companies were in vogue. Thus, the growth stocks should be due for a rebound. And small growth companies are the very cheapest.

Given his pessimism about financial markets, is Kudish pushing tangible assets—say, real estate? "Oh no. You have all the psychology for a bottom, but you have huge overhang," he says, noting impending Resolution Trust Corp. sales.

One tangible asset Stratford does favor is timberland. Big timber producers like Brazil deforest as they industrialize. And paper use increases as living standards rise in developing nations. Result: Demand will outstrip supply in the next decade. "You can't speed up the growth of a tree. And you can see [what kind of] paperless society we are in," Kudish says, thumbing through a thick sheaf of papers and computer printouts.

When it comes to recommending money managers to run specific portfolios, Kudish tells people with less than $5 million or $10 million to go into no-load mutual funds. Why? Trading costs are too high if you try to diversify a small portfolio; it's cheaper to pay a no-load's management fee. He says: "The firm taking a $5 million account won't pay 6 cents a share in transactions. It'll pay 20 cents. A bank will hold the assets. Between transaction costs, investment management fees, custodial costs, you're talking 3% a year to have an active manager. And you have no diversification. You have one equity style, one bond style. Why not have a series of no-load mutual funds?"

Among no-load funds, Kudish has favorites. In large capitalization growth stocks, it's Vanguard World-U.S. Growth fund, and in small growth stocks, Brandywine Fund. Both are fairly new funds with good recent returns. In large capitalization value stocks he favors Neuberger & Berman Guardian Fund. In bonds, it's a mix of credit-solid U.S. Treasury funds from Vanguard with a small dose of foreign bonds, via the Fidelity Global Bond fund and the T. Rowe Price International Bond Fund.

That's the nice thing about no-load mutual funds. A small investor—and today anything under $5 million is a small portfolio—can use them to create his own asset allocation system and still achieve the same economies of scale a big investor gets.

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Taxing Matters

Edited by Laura Saunders

In a misguided attempt to collect more taxes from people who can't vote, Congress teed off our allies and created yet another bonanza for lawyers.

Taxation without representation

By Janet Novack

It's unlikely to cause a second Boston Tea Party, but Congress has found a way to tax people who can't vote and in many cases don't even live in this country. The move has upset some friendly countries but made a lot of U.S. lawyers very happy.

In 1988, with virtually no public notice, Congress jacked up estate tax rates for foreigners who invest in the U.S. It also decreed that the 7 million U.S. residents who aren't citizens would no longer be allowed to inherit a spouse's entire estate untaxed—as resident citizens can.

As revenue raisers, these estate tax changes are a flop. Worse, they have annoyed countries that are in a position to retaliate against Americans. To show its displeasure, a committee of the Bundestag, the German House, in June held up approval of a mammoth new income tax treaty that cuts German taxes on American investors.
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THERE WHEN IT COUNTS.
Even after being extinguished, fires—especially industrial fires—can remain life threatening. Because during a blaze, substances such as mercury, formaldehyde and acids used in industry can be released into the air in deadly concentrations.

"It's a case of what you can't see or smell being able to kill you," warns industrial hygienist Dr. Roger Hallstein.

Dr. Hallstein, who manages our industrial hygiene laboratory—one of the few labs of its kind in the country—heads up a highly qualified team ready to work days, nights and weekends. Using state-of-the-art equipment, they analyze air samples whenever necessary. And provide crucial data and recommendations to deal with harmful or lethal contamination. In short, they save lives.

Continental has a lot of dedicated people like Dr. Hallstein. People who are there when it counts. People who have helped make us a leading property/casualty insurer and a strong, solid company. They're why, for over 135 years, we've met our obligations to our insureds, our employees, our distributors and shareholders.
and companies.

Most of our allies are more disturbed by the discriminatory treatment of foreign nationals living in the U.S. than by the hefty increase in estate tax rates applied to foreigners who invest in the U.S. but do not live here. Canada, however, is equally if not more upset over the tax on foreign investors.

The estate tax on foreign investors probably brings more income to lawyers and accountants than to Uncle Sam. By Congress' own estimates, the sharply higher rates would raise only $2 million in 1990. One reason for the low returns is that it is easy to dodge a cross-border estate tax like this one. If the U.S. levies an estate tax on Italians who die owning U.S. real estate, then smart Italians won't own U.S. real estate. They will own shares of corporations that own the real estate.

The shares will (supposedly) show up on their Italian estate tax returns, but they will escape U.S. estate taxes. It would be a pretty long reach for this country to try to tax the transfer in Italy of shares in an Italian corporation.

So why are the Canadians upset? Hordes of average Canadians have bought modest U.S. vacation homes or stock in U.S. companies without setting up corporations. These folks are complaining so loudly that the Canadian government is pushing to have its tax treaty with the U.S. amended.

Then, too, Canadians have a special problem, explains David O'Brien, of the Toronto office of KPMG Peat Marwick Thorne, an accounting firm.

Canada doesn't have an estate tax that a Canadian can credit U.S. payments against. But it does tax previously unrecognized capital gains at death. So a Canadian heir is liable for both U.S. estate taxes and capital gains taxes on the same property, at a combined rate that can reach 80%, O'Brien says.

A fair number of Canadians neatly evade U.S. estate taxes by holding their U.S. stocks in a street name account at a Canadian brokerage. That's illegal. The legal way to avoid the tax is to own shares in a Canadian mutual fund that buys U.S. stocks.

Foreign citizens who live in the U.S., however, have a harder time getting around U.S. estate taxes. Before the 1988 changes, they, like U.S. citizens, could inherit a spouse's estate, no matter how large, with a full exemption from federal estate taxes. The idea is that the Internal Revenue Service will get its cut later, when a widow or widower dies and children or more distant relatives inherit. Then, only the first $600,000 is free from estate taxes; above that, the tax rate starts at 37% and climbs to 55% on estates over $3 million.

How did the experts on the tax-writing committees justify denying the spouse's exemption to foreigners? On the theory that the survivor might leave the U.S.—and the IRS' reach—for his or her late spouse's assets. As the law now stands, the availability of the spousal deduction depends on the citizenship of the surviving spouse, usually the wife, since women live longer and tend to marry older men. Thus, the noncitizen widow of a foreign national domiciled in the U.S. and the noncitizen widow of a citizen are both hurt.

If all this gets a bit confusing, you can understand why lawyers love it. Bear with us: It gets even more confusing. The new law presumes that the dead spouse was the real owner of any jointly held property acquired after July 1988. The widow must prove she contributed financially to its purchase—unless she's lucky enough to be living in California or one of the eight other community property states where marital assets are considered to be owned 50/50, says Glen da Fowler, an international estate specialist at the Washington law firm of Arnold & Porter.

Fortunately, there are still ways to leave your wealth to a foreign spouse without paying the estate tax. For example, you can begin now to transfer $100,000 in assets a year tax-free to a noncitizen spouse, without reducing the usual $600,000 exemption at death, Fowler notes.

Another simple strategy, if a foreign spouse isn't planning to return to live in her native country, is simply for her to become a U.S. citizen. "Citizenship is a touchy area. We had one wife who could see herself pledging allegiance to the U.S., but it was emotionally trying for her to renounce the Queen of England," says Chicago attorney Lloyd Sheftsky. After the woman saw the papers needed to protect her as a foreigner, however, she decided the queen could live with one fewer loyal subject.

Had the woman not taken U.S. citizenship, her attorney would have had to create a "qualified domestic trust," a cumbersome legal creature. A qualified trust must have an American trustee (usually a bank) and works like this: The surviving foreign spouse is entitled to all earnings on the trust's principal, free of estate tax (albeit subject to income tax). Anytime she withdraws principal, however, except for medical care or other still-undefined "hardship," the estate tax is imposed.

A qualified trust, cumbersome and costly though it be, is a way to buy time for a surviving spouse who may eventually become a U.S. citizen. When she does become a citizen, she can withdraw the remaining principal without paying estate taxes, provided the trust is drafted to allow such a distribution.

Arnold & Porter's Fowler recommends that wealthy couples of mixed citizenship create two trusts. In addition to a qualified domestic trust, she suggests that the citizen use his or her $600,000 exemption to create a "credit-shelter trust" for the children. The money is held in trust for the kids with the proviso that the surviving foreign-national spouse can draw on its earnings during her life, or if necessary, tap principal. That way a couple can leave as much as $1.2 million ($600,000 from each) to the children tax-free, but a widow will have funds to tap before resorting to a taxable drawdown of qualified domestic trust principal. What if you don't plan ahead? A surviving foreign spouse can still escape taxes by becoming a citizen or setting up a qualified trust before the estate tax return is due. But there are tax advantages to having a trust written into your will.

The bottom line is this: If you're a foreigner living or investing in the U.S., you can pay the lawyers now or the IRS later.
You'll save enough with Philips SL* to buy an SL from a different manufacturer.

Philips SL* Lamps can save you a carload of money. Let's say you have a 500 room hotel. If you put SL* Lamps in your corridors alone, you'll save $66,000 over the life of the lamps. That's because an SL* can reduce energy costs by an amazing 76% compared to incandescents. Also, they last up to 13 times longer than incandescents, so you'll save even more on maintenance costs.

There are SL* Lamps for general lighting, high-hat downlighting, decorative lighting and a brand new one for low lumen areas. Each fits right into an ordinary incandescent socket and produces the same warm light.

To find out more about Philips incredibly efficient SL*, call 1-800-631-1259 and talk to our Lighting Team. Then you can start picking out the color of your other SL.

It's time to change your bulb.™
On August 1, 1968, a law was passed that created a federally chartered, private enterprise to help finance homes for American families. This brainchild of the 90th Congress has stood the test of time — Fannie Mae is an idea that works.

Operating within a restrictive charter, we channel all our energies into one business — housing America.

In the last decade, Fannie Mae raised more than $450 billion, money that flowed directly into home mortgages for more than seven million families. Our federal charter allows us to raise the money at more attractive rates than otherwise would be possible.

We, in turn, pass that savings on to you.
The real genius behind the Fannie Mae idea lies in its private nature. Operating in a competitive arena, recruiting some of the most capable people in the mortgage business, possessing the financial strength to meet whatever the future holds.

Today, mortgage lenders in all 50 states can offer a wide range of options to home buyers because an innovative Fannie Mae is developing a constant stream of new products.

Not only that, a home mortgage in Omaha costs about the same as a home mortgage in Pittsburgh because a single-minded Fannie Mae is in the market every day.

All of these benefits to the American housing market come at no cost to the American taxpayer because this public/private enterprise is still working the way Congress intended.

Fannie Mae helped provide homes for millions of families in the 1980s. And, because we work in the family business, we're doing just that for millions more in the 1990s.
How Countrywide Credit has taught the S&L industry a few lessons by cutting costs and being picky about credit risks.

Naive, egotistical, but smart

By David Stix

As a nice counterpoint to the S&L carnage, consider the success of Countrywide Credit Industries, Inc., the nation’s largest independent mortgage banker.

Positioning itself as the “Charles Schwab of the mortgage banking industry,” the Pasadena, Calif.-based company has prospered by being aggressively stingy in its lending policies, keeping costs to a minimum and building a stable earnings base of mortgage-related fee income.

In the fiscal year ended in February 1990 the company earned $13.1 million on revenues of $104 million, and wrote $3.6 billion worth of mortgages. In the first half of the current fiscal year it wrote 20,148 mortgages worth $2.2 billion, 38% more than in the year-earlier period. No bailouts needed here.

Like an S&L, Countrywide is in the business of originating mortgage loans on single-family homes. Unlike most S&Ls, however, a mortgage bank doesn’t take in deposits, and it doesn’t keep loans—or any such mortgage-related obligations—on its books. Instead, it packages the loans, gets them insured by an agency such as Ginnie Mae or Freddie Mac, and sells them as mortgage-backed bonds in the public markets.

Countrywide was founded in 1969 by Angelo Mozilo, 51, and David Loeb, 66, who had worked together at another mortgage banking company, which was taken over. They obviously wanted to stay in the business. Mozilo is now vice chairman and Loeb is chairman. They figured they could do it better than the competition, and set out to raise capital via a $1.25 million initial public offering in the hot stock market of the late 1960s. “It was a combination of being naive, aggressive, egotistical and having the financing,” says Mozilo.

Mozilo and Loeb may have been all that—naive, aggressive, egotistical—but they were not dumb. Like the discount stockbrokers who started in business around the same time, they avoided the high costs of elaborate offices, with no depositors to impress, who needed them? They also did away with the commissioned salespeople, traditional in the business, who often pocket half of the origination fee on a mortgage. Instead, Countrywide, as a rule, staffed its 100 nationwide branches with one salaried loan officer and two assistants. This saves overhead: Branch managers make an average of nearly $60,000 a year, including incentive bonuses. That’s less than what commissioned salespeople usually make.

Countrywide reviews the performance of its loan officers on a monthly basis and either fires or retrained those who have an above-average number of delinquent customers. Countrywide also pays its credit “counselors”—known as scorched-earth collection agents at other firms—on an incentive basis and ranks their performance daily to encourage competition. “Our objective is not to take a property back,” says Thomas Boone, managing director of loan servicing. “Nobody wins if that happens.”

Countrywide manages to hold its costs of servicing a loan to about a third below the industry average. Thanks in part to Mozilo’s purchase of sophisticated optical scanning equipment that cuts down paperwork, when customers call with questions about their loans Countrywide employees can usually call up—in an instant—a picture of a homeowner’s file, kept on laser disc, on a computer screen along with a detailed summary of payments made.

Unlike some of its go-for-broke competitors, Countrywide maintains strict quality control over its credit policies. Doing away with commissions removed the incentive to book loans whether they were sound or not. This has cost them business at times, but it’s also helped keep the company’s delinquency rate below the national average: From 1985 through 1989 the portion of Countrywide’s loans that were over 90 days past due on their payments was only 0.7%, compared with national averages prepared by the Mortgage Bankers Association of over 0.9%.

The company also has a more stable base of earnings than most of its competitors. It’s been working hard to develop its servicing income, which has grown from $6.4 million, or 14% of revenues, in 1986 to $36.6 million, or 35% of revenues, in 1990.

Servicing income is the fees mortgage businesses earn from collecting mortgage payments. After writing the mortgage, Countrywide recognizes some service fees as income up front but, in general, recognizes fees as earned over the life of the loan.

Income from servicing accounts now for 35% of Countrywide’s revenues, against about 31% from mortgage origination earnings. Service fees, of course, are highly desirable because, unlike origination fees, they are predictable and dependable.

In the face of the spreading S&L disaster, Countrywide’s roughly 17 million shares, traded on the New York Stock Exchange, have moved from a 1990 low of 5% to a recent price of 6%, still far from its 1987 peak of over 16. Bruce Harting, an analyst at Salomon Brothers, thinks the stock, at six times probable earnings for fiscal 1991, is a bargain, its price undeservedly depressed because people associate the company with S&Ls.
TO MAKE SURE YOUR CHILD CAN GO TO COLLEGE, APPLY YOURSELF NOW.

The possibility that you may not be able to afford to send your child to college is difficult to accept. But when you consider that the average cost of one year at a private college will be around $27,000 in 1999 and $47,000 in 2008, that possibility is all too real.

Clearly, to send your child to college will take solid planning - starting right now.

That's where The New England comes in. Our representatives will help you create a long-term plan - funded by life insurance, mutual funds, and/or tax-advantaged vehicles - that will allow you to maintain your current lifestyle while you fund your child's future. In other words, they'll design a plan that allows your family to live - and learn.

For our free booklet, "Education Funding," call 1-800-662-2448, Ext. 639. And start doing your homework today.

What Alfa Romeo builds are performance cars. It's what the first one was. It's what the new 164 high performance luxury sedan is.

If you're looking for something else, you're however, we will tell you that the new 164 does have universal appeal in one respect: an Alfa Romeo Assurance Program that is so comprehensive it even pays for scheduled maintenance.*

The idea of building an automobile that tries to be all things to all people is not a very good one.

looking in the wrong place. Because a 164 does not drive, handle, accelerate, ride, sound, look or feel quite like anything else. Except, of course, another 164.

Having said that, And that the 164 delivers its 140-mile-an-hour + test track performance in an extremely civilized way. In fact, at any speed you choose, you will find it quiet, stable, predictable. So you needn't have attended a high performance driving school to manage it.

The new Alfa Romeo 164 high performance luxury sedan. You will see very few of them on the road. But once you've driven it, you'll wonder why.

For additional information, call 1-800-245-ALFA.

Alfa Romeo.
The legendary marque of high performance.
A random walk through the early days of advertising shows how a simple, elegant sales message often had great impact. Does too much of today’s advertising put technique ahead of the message?

“What the hell was that all about?”

Harley Procter and his cousin James Gamble were looking for a hook to sell their new White Soap, which Gamble had invented. It had distinct advantages over the hard yellow soap P&G had been selling for years as a by-product of the candle and tallow business that made up a large part of the company’s sales back then. But how to communicate these advantages to the consumer? The year was 1878 and modern advertising and communications didn’t exist yet.

Three things happened—one pure happenstance, the others inspired strokes of marketing genius. First, a P&G worker mistakenly churned a batch of the new soap too long, making the whipped bars light enough to float. Suddenly, reorders for “that soap that floats” started pouring in. Hook number one.

Second, Procter established a benchmark for the purity of soap—defining any ingredients besides fatty acids and alkali as “foreign and unnecessary substances.” An assay of P&G’s new White Soup found it—you guessed it—99% per cent pure. Hook number two.

The capper came as Procter sat musing on the words of the 45th Psalm in church one Sunday morning: “All thy garments smell of myrrh and aloes and cassia out of ivory palaces whereby they have made thee glad.”

On Monday Harley Procter changed the product’s name from White Soap to Ivory Soap. The ad blitz that P&G soon launched in magazines like Ladies’ Home Journal, Harper’s Weekly and...
Good Housekeeping to ballyhoo the soap’s distinctions smothered the competition and quickly created a soap empire.

This early Procter & Gamble marketing effort featured a saint-like figure standing by a bathtub. Images like this and the accompanying message—"Ivory soap it floats"—proved that advertising can make a brand out of a commodity and compel consumers to demand it by name.

Most of the ads that appear with this story come from a fascinating new book called Advertising in America: The First 200 Years, by Charles Goodrum and Helen Dalrymple, to be published later this fall by Harry N. Abrams, Inc. Many of these ads sold hard, inventively and well. They laid down the ground rules that still govern good advertising.

By today’s standards most of these ads appear simplistic. The sheer mass and din of messages—in every conceivable medium—are forcing advertising agencies to employ more daring techniques to snare the consumer’s jumpy attention. Often, clarity and good sense get lost in the creative process. Some ads today are truly memorable. But then you can’t remember—let alone figure out—what the ads are selling. “You look at some ads these days and you end up asking yourself, ‘What the hell was that all about?’” says Alfred Scaman, a former agency head who now runs the New York-based Advertising Educational Foundation.

Here, then, are some reminders that advertising wasn’t invented yesterday. And that there was an era when technique—no matter how elegant—didn’t often get in the way of the basic selling message.

Coca-Cola ranks with Procter & Gamble as one of the earliest American companies to push advertising into the American mainstream. Dr. John Styth Pemberton, the Atlanta pharmacist who mixed up the first batch of Coke, launched the tradition when he painted squares of oilcloth to hang from drugstore awnings.

But it was Asa Candler, who later bought the rights to Coca-Cola, who made the Coke brand all but ubiquitous. And always Coke advertising has hammered away at the “refreshment” theme—on walls, fences, pocket knives, indeed, anyplace where Coke could find room for it. That theme also explains why many early Coca-Cola ads featured models by the sea.

Advertising hit a high-water mark in the 1920s. Art Deco design reached its full flowering, giving the great illustrators of the day full rein to develop some enduring advertising images. None more so than the Arrow Collar Man, who served as a walking billboard for Arrow shirts, then part of Cluett, Peabody & Co. Some critics contend these ads were more concerned with style than sales, but they did help establish strong graphic design as part of the selling effort for the first time.

![Cluett, Peabody’s "Arrow Collar Man"](#)

The model of Art Deco sophistication.

One in a line of Coke ads showing models by the sea

Consistently hammering home the message that Coke is refreshing.
Sex sells for Phoenix Silk Hose
Demure titillation from 1915.

Marketing

Depression-era ads were every bit as dour and dreary as the times they reflected. Out went color and flashy illustrators—too expensive. In came ads generated by cheaper, salaried agency artists. Big business took it on the chin for causing the Depression. As industry’s handmaiden, advertising acquired its reputation for being the businessman’s unprincipled hiring—an image that it still hasn’t shaken.

Guilt, fear and shame have long been among the most potent weapons in the adman’s arsenal. And the doom-and-gloom environment of the 1930s provided a particularly good excuse for exploiting all that. The era also gave an early hint of the advertising obliqueness that was to come into full flower decades later. “Let the man with the withered arm warn you ... chew delicious Dentyne often,” reads the alarming copy beneath a picture of an Indian fakir. What’s that mean? Like the Indian fakir whose arm withered from ten years of disuse, people who don’t give their mouths a regular workout are courting oral disaster. Ads like this did little to enhance the industry’s stature.

When advertising picked up again after World War II, it did so with a vengeance. And a man named Elliott White Springs discovered that sex sells. Hardly a new notion, given the allure of the young lady’s calf-length hemline in the 1915 ad for Phoenix Silk Hose.

But Springs was onto something else—the tease. Springs, the president of Springs Mills, wanted to create images that were “subtly” suggestive. Some of his ads went beyond subtle, but the sly, winking copy that Springs wrote himself helped let his audience in on the joke.

Springs also knew that, however outrageous his ads, he’d better throw in some selling, lest his readers feel manipulated. Many of Springs’ imitators lacked his wit—as witness Homko’s tarty 1952 lawnmower lass.

Andy Warhol and Sonny Liston
fly on Braniff. (When you got it-flaunt it.)

A George Lois ad for Braniff
Startling images and street-smart copy.
"The basic rule for a foreign business venture is: 'If you can't take the money out, don't put it in.'"

Bob Beane, J&H Senior VP & Director, on political risks:

One thing is certain about Eastern European political uncertainty. The transition to market-oriented economies in these nations won't be as swift as their historic dash to freedom. Some are used to dealing with Western businesses. Others are making up the rules as they go along. Even countries with a track record of payment reliability are experiencing problems as they attempt to change. And it's important to remember that any government can move on the assets of any foreign business at any time — with or without a change in leadership. That's why clients are talking with us about the risks of currency inconvertibility, contract frustration and expropriation. Usually the focus is on foreign governments' actions, but our own government's policy decisions can be just as disruptive. Someday, this kind of insurance will be needed less. But until then, business is risky enough without the politics.
REEBOKS LET U.B.U.

Reebok’s Let U.B.U. ads stirred controversy.

**Stylish, but not much of a selling message.**

Nissan’s much-criticized Infiniti campaign

**Rocks, but no automobile.**

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**Marketing**

Until the late 1950s, many advertisements had vigorous copy and arresting images, but the two rarely combined in an organic way. That’s because copywriters and art directors toiled independently, each one embellishing the other’s handiwork without consultation.

Bill Bernbach, founder of the pioneering ad agency Doyle Dane Bernbach, changed all that by teaming the copywriter and the art director. In the process, he changed the face of advertising. “Bill understood that one and one together makes three,” recalls George Lois, who started out at DDB and went on to contribute mightily to the aptly named “creative revolution” that followed.

One and one did make three at DDB, which set about proving that ads could test the intelligence of readers and sell at the same time. In ad after ad for Volkswagen—DDB’s best-known work—headlines and images grew together from a single idea: “Ugly is only skin-deep,” for instance, is the punchy headline underneath a sad-looking VW Bug against a stark white background.

Lois and other celebrated Bernbach alumni were intoxicated by the freedom, and took Bernbach’s legacy with them to the ad agencies they later founded. In came entwined images and words reflecting muscular ideas. The point, of course, was not so much to cajole the reader but to snap him to attention.

Like Lois’ unlikely pairing of Andy Warhol and Sonny Liston in Braniff Airline seats. The effect is startling, but it’s also largely meaningless without Lois’ street-smart headline, “When you got it—flaunt it.”

The freedom Bill Bernbach espoused and fought timid clients to uphold is, unfortunately, liable to abuse. Bernbach elevated the art director to equal creative status with the copywriter.

Today the art director carries much more creative clout than his partner. As a consequence, the literacy of advertising sometimes suffers. Worse, the shock value that Bernbach encouraged in the service of selling has become, all too often, an end in itself. “We don’t sell them anymore, we stun them,” laments Jerry Della Femina, chairman of Della Femina McNamee, Inc. “It’s just shocking and jiving.”

That’s what a lot of people thought of these recent ad campaigns for Nissan’s Infiniti luxury car, Reebok athletic shoes and Guess jeans. Stylish? Most definitely. But also oblique.

Viewing the images in this book and on these pages makes one yearn nostalgically for the days when Du Pont could advertise its new Cellophane with a dewy-eyed housewife rhapsodizing, “What a lovely transparent wrapper!”
Air Group One, the highly effective combination of Delta’s SKY and TWA Ambassador magazines, delivers readers wealthier than those of Barron’s, Business Week, Forbes, Financial World, or Inc.

If you’re targeting the high and mighty, Air Group One reaches more than 2,500,000* of them monthly. 870,000 have a household net worth exceeding $1 million, and we deliver this prime audience at a CPM significantly lower than any news magazine or general business publication. It’s a proven-effective, cost-efficient forum for your advertising message.

The readers of Delta’s SKY and TWA Ambassador—70% managerial professional, 55:45 male/female ratio—are perfect prospects for stocks, bonds, mutual funds, investment programs and consumer goods ranging from fine jewelry and fragrances to vehicles and VCRs.

For all the facts and figures on Air Group One’s frequent buyers, call today for our new media kit and revealing research on this “affluent” audience.

Call toll-free (800) 523-6809; In FL (305) 893-1520; FAX (305) 895-0622

Halsey Publishing Co., 12955 Biscayne Boulevard, North Miami, FL 33181

*Source: 1989 MMR
It just got a lot easier to put a color image in a computer and onto a page. Good news for publishers. Not so good for Scitex.

By David Churbuck

It was past deadline at MacWeek, a weekly trade newspaper that covers the Apple computer market, when Jean-Louis Gassée resigned as president of Apple Computer's products division. Daniel Ruby, editor of the San Francisco publication, put a reporter on the story, warned his Wisconsin printer that a change was coming and told his photo editor to pull a picture of the departing executive from the files.

Within an hour the story was written, copyedited and fitted onto a new page displayed on a Macintosh. The photo of Gassée was scanned into a computer and then turned into color separations for a printing press. That was a fast turnaround, given that a professional color engraver could do the job only if given a day's notice. The photo was sized on the page, the modem was dialed, and within minutes the new page was shipped over the phone line to Wisconsin.

"There is no way we could have made the swap without the Macintosh system," says Ruby, who has used his Macintosh publishing system to get photos of trade shows that open on Thursday into the printer's hands on Friday.

Desktop publishing has advanced a generation. It now includes desktop scanning. Images can be scanned into a computer's memory and then manipulated. The pixels (picture elements) of an image take up vastly more memory space than the words of a document, but today's personal computers are powerful enough to cope. With this technology comes enormous potential for improving all manner of printed material, from simple advertising brochures to slick annual reports and magazines.

Scanning is a critical step in producing a printed image. For a color photograph to be reproduced on a printing press, it must first be separated into its four component colors—cyan, magenta, yellow and black. This four-color separation is traditionally produced with cameras and a series of color filters. But in the 1980s comput-
ers began to take over the job.

The specialized computer systems developed by companies like Scitex, Siemens and Du Pont's Crosfield Electronics division gave art directors the ability to manipulate images in ways never before imagined. A light beam in a powerful $250,000 scanner reads the color values, pixel by pixel, and delivers to a computer a series of numbers describing the image. A graphic artist can then use the information to manipulate objects within the image. The pyramids are too far apart to fit on the cover of National Geographic! Well, just move them closer together. More important, the system enables a technician to make subtle color adjustments. The light that shines through the photographer's color slide doesn't behave the same as the light that bounces off the ink on a printed page. Separators make appropriate allowances.

Now, thanks to personal computers, a scaled-down version of the costly Scitex machine is available to trade magazines, catalog publishers and other publishers that don't have million-dollar equipment budgets. An ambitious Marlborough, Mass. software outfit called Data Translation has an image editing program that runs on the Macintosh and costs just $795. The program, called PhotoMac, lets a photo editor move objects within images and adjust their colors. "Any image editing that you can do on a Scitex I can do on a Mac," brags Tobin Koch, the firm's product marketing manager. Well, not quite. One difference: the quality of the result. But PC scanners are getting better every day, threatening the livelihood of firms that make $250,000 machines.

Like the television industry in the 1960s, the computer business is moving quickly from black and white to color. In the last year it seems that everyone from IBM to NEC began offering its PCs with a color monitor as a standard feature. More technically, a new kind of color has emerged: 24-bit color, which, simply put, offers users a palette of over 16 million colors rather than the old 8-bit standard, which could paint a mere 256 colors.

What all this technology means is that publishers can eliminate a fair amount of labor-intensive production work that goes into preparing a publication for the printer. "We are doing almost everything in-house," says MacWeek's Ruby. He scans photos into a Mac with a Nikon color scanner, produces four-color separations using Adobe's PhotoShop software ($895), produces camera-ready film on a Linotronic 300 ($65,000) and ships the

Which one of these color images was processed on a costly high-resolution scanner, and which on a cheap desktop machine? If you have trouble telling them apart, don't buy stock in Scitex (o-t-c, 17%). Scitex, along with Siemens' Hell Graphics and the Crosfield division of Du Pont, sells color-separation equipment costing about $250,000. Now, the same kind of image processing can be done, although not as well, on vastly cheaper desktop systems. MacWeek, whose editor Daniel Ruby is the man in the photograph, uses desktop separations. Forbes has separations done on the expensive equipment. The image above was scanned with a Nikon scanner and processed on an Apple Macintosh with PhotoMac software; the one below was scanned and processed on high-end Crosfield equipment. The desktop image is a little muddier; a magnifying lens would also show differences in the ink dots that make up the image.
Comp/Comm

film to the printer, where it is used to make photo-offset printing plates. Since moving most of its image handling to desktop computers, the paper has cut production costs in half.

“We've saved a lot of money,” echoes David Bayer, art director at Success magazine, a New York monthly, which uses a Mac Ilci ($6,000), a desktop scanner and some software called Color Studio from Letraset to produce low-grade color separations for tinted black-and-white photos, illustrations and graphs.

But color desktop publishing still has its limits. Large-circulation magazines, including Forbes, don't use the desktop devices for scanning and manipulating photographs. Quality differences are subtle, but detectable to the trained eye and, for difficult photographs (with contrast or darkness problems), visible even to a casual reader. One reason is that the cheap scanners bounce light from a light bulb off a picture to get color readings, while the Scitex shines a precise beam of light through a color slide. Another is that the Scitex system makes finer adjustments to compensate for the color differences between what a graphics artist sees on a video terminal and what you see on a printed page. Yet another is that digitized images can take up a lot of space in memory—3.5 megabytes for the pictures of Dan Ruby (see p. 239)—and full-color adjustments can be time-consuming on a Mac. For trade tabloids like MacWeek and corporate publications like instruction manuals, however, muddy color photos are better than none at all.

The demand for color desktop publishing equipment could get another boost, in the market for producing single copies of reports and brochures. The limitation here is in the quality of color printers. But that could be changing. Canon has a hybrid laser printer/photocopier that prints high-quality color, at a density of 400 dots per inch, on plain paper. Canon's printer mixes different colored particles of toner together on the page to produce a very crisp image. That printer—actually marketed as the Color Laser Copier 500—is expensive ($49,000) and only recently became adaptable to personal computers. But the technology could change the world of desktop publishing when it drops in size and price—which Canon says is inevitable. At that point, for example, newsletters and other small-print-run publications will quickly move to color.

As computers get cheaper and more powerful, publishers will keep bringing more page preparation work in-house, bypassing hundreds of regional graphic arts houses. Recognizing the trend, high-end equipment maker Scitex recently brought out a somewhat primitive version of its system for a Macintosh. Its Visionary software enables graphic artists to do on a desktop computer some basic jobs like electronic pasteup and the arranging of text and illustrations on a page. But the system still requires a visit to a Scitex service bureau for the high-resolution scanning of slides and photos and the down-and-dirty retouching work. More control is passed to the customer, but not all, especially not the artisan's work of adjusting colors so that flesh tones look like flesh tones and sunsets like sunsets.

“We wanted to allow our users to capture more of their creativity in-house,” explains George Carlisle, president of Scitex' U.S. subsidiary. Unstated: We didn't want to be sitting down while our business was overrun by cheaper products.

Scitex' customers aren't designers and ad agencies, but rather the graphic arts houses that cater to them. These small service outfits have enormous investments in Scitex equipment, typesetters and laser scanners, so Scitex wasn't about to cut them out of the picture by selling really powerful desktop devices to their customers. If you want to adjust the color of an image, you've still got to pay your local Scitex operator $200 an hour to do the job.

Are the Scitex job shops worried that they will become the Linotype operators of the 1990s? Jack Zucker is chairman of Unitron Graphics in Long Island City, N.Y., a Scitex service bureau whose clients include Institutional Investor and Home Mechanix. He says he welcomes the move of color onto the desktop, “The market for color is expanding,” says Zucker. “No one gets hurt. The middle of the market, the trade press and catalog publishers, once they get a taste of color from their Macs, will want better quality. As our client's costs drop because of systems such as Visionary, then they'll be able to publish more color throughout.”

For now, Scitex, an Israeli-owned company that trades over-the-counter in the U.S. and in which publishing magnate Robert Maxwell has a majority stake, isn't hurting. It earned $32.7 million in the quarter ended in June on sales of $238 million. But its executives must be watching nervously over their shoulders.
The day they make a laptop computer that meets all your needs, you’ll read about it in a magazine.
Flexible manufacturing is the in thing on the factory floor. But how do companies go about implementing it? Altera Corp. is one chip company with an answer.

Roll-your-own chips

By Kathleen K. Wiegner

Last year Texas Instruments gave some of its product engineers a mission: Design a compact, high-resolution video camera that could be customized for uses ranging from closed-circuit security to industrial inspection and monitoring systems. Also, the camera was to be usable under different lighting systems.

Answering the needs of any one of those custom markets would have provided no great engineering challenge. The design had merely to call for very specialized silicon chips suited to a very particular type of camera. But each market is too small to support a custom chip, designed and manufactured from scratch. What could the engineers do?

The solution to this dilemma came from Altera Corp., a little chip company in San Jose, Calif. Altera makes what is called an erasable programmable logic chip. Logic chips are the brains of an electronic circuit board—they enable the other chips to communicate with one another and with the outside world. By using programmable chips, TI was able to have its customized output, without spending a fortune customizing.

TI is happy—so far it has sold 30 cameras to such customers as military contractors and factories working with machine vision—but Altera is happier still. Last year Altera netted a handsome $11 million on sales of $59 million, and analysts are predicting a 36% growth in sales this year.

That's quite a success, given that Altera was started seven years ago on just $500,000 in seed money. It was not an easy sell. Says Rodney Smith, Altera's chief executive: "Nobody believed it would work. They wanted to know why Intel hadn't done it, if it was such a good idea."

By now, though, everyone wants into this custom-logic market. Xilinx, Lattice Semiconductor, Cypress Semiconductor and Actel are among the firms homing in, with San Jose-based Xilinx likely to almost match Altera's revenues this year.

Customized logic chips are nothing new. Engineers call it "roll-your-own logic." The usual method is to put a lot of all-purpose logic circuits on a piece of silicon and then electronically blow the fuses linking some of the circuits. What remains is a chip optimized for certain applications.

Another old-hat item is erasable programmable memory. This is semi-permanent memory: You can change it if you want, but in the normal course of business it stays put.

Altera's inspiration was to put these two off-the-shelf ideas together in a logic chip that can be modified by reprogramming its semi-permanent memory. There was one more clever idea behind the founding of Altera: Sell not customized batches of chips but blank chips—along with the software for reprogramming them. Let the customer, Texas Instruments in this case, make its own custom chips.

The world is going to want more of these things. Flexible manufacturing is as much in demand in electronics as in metal bending or textile manufacturing. Shorter product cycles and the need to get to market quickly, sometimes with last-minute design changes, make do-it-yourself logic attractive. Too, with more and more customization downstream—in the sales of the video camera or whatever—specialized chips will have short production runs. Rodney Smith says that 75% of the add-on circuit boards for personal computers, for instance, are manufactured in batches smaller than 10,000 units. A lot of those short-run manufacturing lines are potential customers for Altera or one of its competitors.

Besides custom fitting, the Altera system offers another benefit to manufacturers of electronic devices: compact size. If, for instance, Texas Instruments had wanted to make its cameras out of smaller, standardized logic chips, it might have wound up with 50 or 60 of them, taking up 30 square inches on a circuit board. There just wasn't room for them in a camera 2 inches in diameter.

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integration in their chips. For mass-market items—namely, microprocessors (a specialized variety of logic chip) and memories—they already enjoy integration on a grand scale, with chips containing up to a million transistors. Garden-variety logic chips, though, are way behind on the evolutionary time line. While logic is a $13 billion market, it is a highly fragmented one. The logic chip connecting an Intel 386-microprocessor running at a particular speed to a Hitachi memory chip of a particular size must work slightly differently from one connecting a slightly different Intel 386 chip to a Toshiba memory.

The customizing scheme that Altera is popularizing should change matters, creating volume in a fragmented market.  

Computer Ventures  

Commentary by Richard A. Shaffer

OF COMPUTERS AND RECESSION

There’s no pleasing some people. This summer, with its stock at $30 a share, minicomputer maker Pyramid Technology surprised Wall Street analysts with unexpected good news—it’s earnings had doubled on record revenues. So what happened? The stock went straight down and, within two weeks, had lost almost half its value. This, mind you, was before the crisis in the Middle East. Later, as the increasing possibility of war in the desert sent all stocks tumbling, Pyramid’s shares in a single week rebounded nearly 30%.

As the case of Pyramid illustrates, the prices of technology stocks sometimes seem to have nothing to do with anything—including the general state of the stock market. Which means the stocks can—and frequently do—march to a drummer different from the one the rest of the market follows. In the first eight months of 1982, when the s&p 500 was off 7%, IBM went up 11%. In the first seven months of 1984, the s&p dropped 9% while IBM dropped only 3%.

Since we are facing rising oil prices and a likely recession, it is interesting to see what happened to computer stocks during the last similar period. From mid-1973 through mid-1975, oil prices almost doubled and the s&p 500 dropped 14%. Yet an unweighted index of computer stocks maintained by Merrill Lynch went up 10%.

It is accepted wisdom that the computer industry has begun to be-

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have much like other capital goods industries. This is true of much of the industry—the IBMs, the DECst—but it is less true of niche players like Pyramid.

Thanks to companies like Pyramid, I think we are about to enter a period during which selected computer stocks will again outperform the market. The reason is that a few technology firms still depend more on product cycles than on economic cycles. Among these are companies involved in workstations, network computing and on-line transaction processing—segments where the outlook continues to be brighter than average.

I like computer companies that rely more for sales on software than hardware. For example, Novell, the network maker, has recently raised its gross margins to three-fourths of sales from two-thirds of sales by emphasizing the sales of networking software over networking hardware. That emphasis will probably continue, which could continue to improve profit margins for the company, even in a recession.

In commercial computing, I’m optimistic about the prospects for specialty superminicomputer makers Sequent Computer Systems, Stratus Computer and Pyramid. Pyramid—profitable for the last 14 quarters—has been growing an average of 40% annually for the last five years and expects to continue growing at least that rate.

Among technical computer companies, I like Silicon Graphics, the vendor of high-end graphics workstations. In addition, workstation leader Sun Microsystems has recovered from last year’s fumbles, yet its stock price is off one-fourth from its 1990 high of 37%. Market share and profit margins are both rising again, and the company’s balance sheet is stronger than ever. Sun’s efforts to enter new markets may help it resist recession. With an average annual growth rate of 75% a year, minisupercomputer maker Convex Computer has flourished while most of its competitors were faltering, and an earnings growth of 60% and 40% still seems quite reasonable for Convex this year and next. Its stock has scarcely budged from its 1989 year-end price of 15%.

Technology groups that could fare relatively well are service outfits such as software publishers and semiconductor design firms, which do almost no manufacturing. Of these, my favorites are spreadsheet and database publisher Borland International, Chips & Technologies, which sells specialty chips, and Weitek, which sells turbochargers for mathematical processing (FORBES, July 9).

As computers have become more important to the economy, the economy has become more important to computers, and in a recession computer averages will fall with the others. Investing, however, is not about averages. It is about picking winners, and the computer industry will have its share, no matter what happens to the rest of the stock market.
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Science & Technology

Edited by Gary Slutsker


The new asphalt shingle look

By Fleming Meeks

T\nce a week beautician Carmen Bires lathers, conditions, mousses, coifs and sprays the heads of customers at her Wayne, N.J. beauty parlor. This is no ordinary hair salon: Carmen Bires does only half heads. On one side of a subject's part, she works with unidentified shampoos, conditioners, mousses and sprays. On the other side, she uses a "control" set of products for comparison. Throughout the process, she takes copious notes on lathering, luster, tackiness and comb drag. After the do has set, Bires plucks at the curls on each side, observing how quickly they snap back into place. Such is the behind-the-scenes action in the hairspray business. Bires, you see, is not just a licensed beauty operator, but also a chemist who holds seven patents for hair care formulations. Her salon is in the research and development lab at GAF Chemicals Corp., the leading supplier of polymers to the domestic hair care industry.

To most of us, the "technology" behind the hair care industry is little more than marketing hype. But at GAF, some 20 degree chemists and technicians take it very seriously. As well they should. GAF supplies nearly half the polymers used in the hair care industry, worth an estimated $40 million in annual sales. National Starch & Chemical Co., a Bridgewater, N.J.-based subsidiary of Unilever, runs a close second.

Chemists at both companies are scrambling to fit their new and improved polymers to the latest fashions. When stiff and spiky hair was in style, their mandate was to come up with polymers that would allow the hair to be sculpted into place. Now what's in is the "natural" look, but to keep hair that way and to give it bounce and shine, you still need plenty of polymers.

The polymers GAF and National Starch sell to hair impresarios like Revlon, Helene Curtis and Vidal Sassoon are essentially plastic resins that dissolve in water. Without them the $5.5 billion (1989 retail sales) hair care industry would still be back in the age of bear grease.

In addition to holding hair in place, polymers keep freshly washed hair
from tangling, patch up split ends and make otherwise ordinary hair shine. Alcohol, propellant and fragrance make up 96% of a hairspray’s weight, but, says Jacqueline Franklin, an analyst at Kline & Co., chemicals consultants, “Polymers are the backbone.”

The way they work is simple. Tiny droplets of polymer resin, dissolved in alcohol, are sprayed on the hair. The alcohol evaporates, and the polymer spot-welds the hairs together at thousands of intersecting points (see electron micrograph, above). Mousses and gels, on the other hand, hold hair in place by seam-welding, or laminating, the strands together.

Mixing hair with polymers creates a hairdo that is, in effect, a fiber-reinforced composite material. That’s why the hair chemists at GAF have so much in common with building-materials chemists down the hall. “We do a lot of work here with shingles, because we’re also in the roofing business,” says John Tancredi, R&D chief at GAF Chemicals. Make a shingle out of asphalt resin and fiberglass and, he says, you see electron micrographs identical to those of hairspray spot welds. “The whole principle of fiber-reinforced plastic is built around the same concept.”

But synthetic polymers have faced a central technical problem ever since they were developed to replace shellac as the active ingredient in hairspray in the early 1950s. On the one hand, the polymers have to resist moisture so that the hair won’t droop in high humidity. On the other hand, they have to be water soluble so that they can be easily washed out. (Shellac, a natural polymer that is impervious to water, held fast on humid afternoons but could be removed only with an alcohol wash or by cracking it off the hair and brushing it out.)

To solve this problem, Frank Nowak, technical service manager at National Starch, says his chemists have, after three years of experimentation, finally designed a polymer that is water resistant but which also breaks down completely when hit by water and shampoo.

Hairspray makers have not only the weather to contend with. They also have environmentalists. In 1978 chlorofluorocarbons were banned and hair care polymers had to be rejiggered to make them compatible with a safer propellant.

Then, in 1989, methylene chloride, a key solvent in hairsprays, was identified as a potential carcinogen. More rejiggering. Now the California Air Resources Board is seeking to reduce the use of ethanol in hairsprays, mousses and styling gels because it contributes to the smog layer.

Both GAF and National Starch are working on a new polymer that would dry quickly, despite its water base (ethanol evaporates ten times as fast as water), and would also resist humidity. But Robert Login, director of polymer science R&D at GAF, thinks that this time the environmentalists have gone too far. “Why are they picking on this innocuous, tiny piece of the problem?” he sputters. “I’m sure that one stinkpot car puts out more volatile organics than a small town full of women using hairspray.”

Once in a while a technical innovation comes along that is so sublime it devastates the competition. Such is the case with Pert Plus, a three-year-old shampoo and conditioner from Procter & Gamble. Although other products have advertised themselves as “conditioning shampoos,” most of the conditioner contained in them gets washed down the drain by the shampoo.

But P&G’s chemists came up with an ingenious way to keep the conditioner on your head until after the shampoo has rinsed away. They blended silicone polymers with a detergent-like substance to which the polymers are naturally attracted. While you’re soap ing up, the polymers are held in suspension by the detergent, along with the dirt. Then, when you rinse, the detergent is diluted, carrying off the dirt.

But dilution loosens the detergent’s hold on the polymers, which are then more chemically attracted to your hair than to the rinse water. Result: In 1988 Pert Plus topped P&G’s own Head & Shoulders brand to become the number one shampoo in the country. Last year Pert Plus had a 12% market share, worth $175 million in revenues.

The competition is hot on the trail. Says GAF’s Robert Login: “Procter & Gamble has built a big patent fence around that technology. But we’re working on comparable technologies with several customers. This is a hot project.”
COCKROACHES IN COURT

Yesterday you spotted one dead cockroach and two live ones on your kitchen floor; this morning the count was two dead and three scuttling for cover, Is the infestation getting worse or better? According to two law professors at Cornell, your bug problem is abating. After all, the fraction of dead roaches has increased from 33% to 40%.

James Henderson and Theodore Eisenberg published their legal census of the Roach Motel last February in the UCLA Law Review, in an article titled "The Quiet Revolution in Products Liability." The piece generated enormous interest. It's been cited everywhere in defense of our reach-out-and-sue-someone culture. The New York Times ran no fewer than three stories reporting "a significant turn" in the courts "toward placing significant limitations on plaintiffs' rights to recover for product-related injuries."

Many have taken the Cornell study to mean that the product liability crisis is over. No need to enact reform legislation. The courts themselves, in their infinite sagacity, will take care of everything.

This conclusion has surprised quite a few people who pay real legal bills. They will be much less surprised by a second cockroach-counting study recently completed by Arthur Havenner, an econometrician at the University of California, Davis. In his study, commissioned by the Manhattan Institute for Policy Research, Professor Havenner works entirely with raw data used by the two Cornell professors but arrives at diametrically opposite conclusions.

Yes, between 1976 and 1988 plaintiffs won a declining fraction of appellate decisions. But in the same period Havenner found a steady increase in inflation-adjusted payouts to plaintiffs—225% over eight years. "Measuring the law by the results it achieves," Havenner dryly concludes that "trends in products liability law are in fact strongly favoring plaintiffs."

Yes, it's also true that judges rather than juries are deciding a growing fraction of product cases. More "quiet revolution," declare the Cornell professors. But as Havenner points out, the absolute number of cases that do go to juries has been increasing as well. Fractions may gyrate, but every number in sight is on the increase. So how's the bug problem?

Henderson and Eisenberg also point to the fact that defendants have been winning more "breakthrough decisions" than they once did. More dead roaches? Yes, but there are more live ones, too. In every year but one of the survey, plaintiffs won more legal breakthroughs than defendants. Breakthroughs accrue as precedent: By 1987, Havenner observes, "plaintiffs had accumulated in their favor exactly twice the number of decisions accumulated by defendants." If breakthroughs on opposite sides cancel out, tort plaintiffs have been gaining ground relentlessly.

There is much more of this back-and-forth. The Cornell professors report, for example, that the rate of plaintiffs' wins is declining. Havenner calmly responds that the total number of plaintiffs' wins is still rising.

How can both claims be right? Statistical wonders are possible with simple division: Divide every number in sight by the total number of cases filed. That number happens to be increasing faster than anything else, so once you do the division, everything else appears to be decreasing.

The Cornell team's most important and least examined assumption is that claims being filed today are as meritorious as they ever were. On that assumption, a declining fraction of plaintiff wins might signify that any given claim was running into a lower chance of success. Which, circularly, can help prove the assumption: With the legal winds turning against them, why would plaintiffs' lawyers file weaker claims than they used to?

The answer, explains Havenner, is that on average plaintiffs are collecting more than ever. With higher payoffs all around, it makes sense, of course, to try your luck on longer-shot claims.

Ironically, as Havenner carefully points out, the Cornell tort census used in both studies is a classic exercise in meaningless sampling. The only cases counted were those disposed of in court. But the vast majority of claims never get to court—they are quickly settled. Moreover, the companies too intimidated by liability suits to manufacture things like contraceptives or small planes never appear in court anymore at all. No bugs in sight in this kitchen, because there's no kitchen.

"Why aren't insurers broadcasting these findings from the rooftops?" inquired the Times in a recent paean to the Cornell study. "Politics, apparently." Insurers fear they might be forced to lower rates or give ground on liability reform legislation, the story went on to explain. Havenner suggests another possibility: Insurers can tell good statistics from bad.

What it comes down to is this: No census of dead roaches visible in the middle of your kitchen floor can prove that a quiet revolution is somehow wiping out the vermin under your refrigerator, pleasant though that thought may be. The poor bugs may just be suffering from overcrowding.
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Personal Affairs

Edited by William G. Flanagan

Exotic animal skins are out. Collecting live beasts is very much in—especially llamas, pot-bellied pigs, mini horses, sika deer, giraffes, buffalo and six-figure goldfish.

Pretty, pretty Piggy Sue

By Gail Buchalter

The buffalo will soon roam at Ted Turner's 107,000-acre Flying D Ranch in Gallatin Gateway, Mont. The TV mogul has cut back his cattle from 4,500 to 400 head to make room for a herd of about 3,500 American bison and wild elk.

Michael Jackson keeps chimpanzees, exotic birds and horses on his 3,000-acre estate near Santa Barbara, Calif. But it's the rock singer's giraffes that steal the show.

The pond at Hugh Hefner's Playboy mansion in Los Angeles is easy to overlook, given the distractions of the menagerie—from monkeys to flamingos to rabbits (no more bunnies, however, since the new Mrs. Hefner came along). Yet it's Hefner's koi pond (koi means "living jewel" in Japanese) that warrants the most attention. It is filled with 450 fish, some over 20 years old, and some worth tens of thousands of dollars each. (In the U.S., koi—akin to goldfish—top out at about $50,000. But in Japan, the fish, judged by color, pattern and size, can fetch up to $300,000 each.)

Koi aside, most of the popular exotic animals on sale these days are not all that much more expensive than a well-bred poodle (see table, p. 252). The exceptions are the truly rare or endangered species. But getting licenses for those animals is almost impossible anyway.

The reason many exotics are relatively affordable is the number of domestic breeders in the game now. For many, it's a hobby turned business.

Take llamas and Douglas Danforth, for example. Danforth is chairman and chief executive of the Pittsburgh Pirates and former head of Westinghouse, Inc. When he lived in Latin America in the early Fifties he grew attached to these docile, intelligent animals. In 1975 he bought three females for $1,500 each and a male for $600, and started breeding them in the U.S. Twelve years later, at an auction in Nebraska, Danforth paid $70,000 and $40,000 for two prize sires. They've produced 30 thoroughbred calves that have been sold to breeders for $20,000 to $30,000 each.

Charles Dana, family and friends, on his 27-acre farm outside Newport, R.I. The sika deer herd numbers 20.
Ordinary llamas, however, start at about $1,500.

Today Danforth has 40 llamas on his 130-acre farm just south of Pittsburgh. He puts his annual breeding profits in the substantial six figures.

In all, there are now some 30 to 40 serious domestic breeders of llamas, and some 3,000 owners in the U.S. Requiring only about a half-acre of space per animal, llamas are found even in suburbia.

Another llama breeder is James (Jim) Otto, the star center for the Oakland Raiders in the Seventies. He recently bought his first eight llamas and is starting to breed them on his 30-acre ranch near Sacramento. He half jokes that llamas could make great caddies.

Otto also wants to raise ostriches and is looking to involve other athletes in the business. The demand for ostriches far outreaches supply at this point, he says. Described by one breeder as having 2-watt bulbs for brains, ostriches don’t make good pets, but their feathers, skin, eggs and meat have commercial possibilities. One ostrich egg is equivalent to 24 chicken eggs; the meat is nearly cholesterol-free and has a delicate beef flavor. But don’t expect ostrich-burgers soon. A fertilized egg now sells for as much as $1,000, and at three months an ostrich chick commands a $2,500 price tag, triple that as it nears breeding age.

Roy Park, chairman and chief executive officer of Park Communications, prefers his watchdog-like peacocks to ostriches. He’s had them for the past 25 years and says they keep strangers off his 20 acres in Ithaca, N.Y. Peacocks announce all visitors with a shrill whistle. The only problem with these birds, says Park, is that they frequently wander off. To soothe the ruffled feathers of neighbors, who sometimes help recapture them, Park makes donations of a few male plumes. Peacocks sell for $75 to $600 apiece.

Some sportsmen hunt deer. Others collect them. Charles Dana, whose grandfather started Dana Corp., a manufacturer of automobile parts, keeps 20 downsized sika deer on his 27-acre farm outside Newport, R.I. The sikas, which stand about 3 feet tall, are very tame. They eat out of his children’s hands and follow them around the property. Last year Dana sold his Massachusetts farm but deliberately left 6 deer behind. Reason? The previous owners had left a few sika deer for Dana, and he is returning the favor for the new owners.

Robert Van Kampen, who heads up
Van Kampen Enterprises, Inc., a Chicago investment management company, is a reptant deer hunter who now provides a safe habitat for herds of fallow, formosa and sika deer, as well as a herd of elk. For a short time he had a half-dozen yaks and three camels in addition to his 20 alpacas, foxes and chickens, but he found the yaks and camels too dangerous. The camels enjoyed rearing up on their hind legs and flailing their hooves, while one of the yaks had a bad habit of spooking guests. More than once the 1,000-pound critter sent visitors scrambling to the tops of their cars.

The current rage in exotic pets (and by exotic we mean only animals that are not native to North America) is the ultra-cute pot-bellied pig. These petite pigs, which originated in Asia and Europe, arrived here only in 1986. Suppliers can’t keep up with the demand for these cuddly, intelligent animals. A Pot-bellied Pig Registry was even started in 1988 by Betty Beeman (219-784-2989) so that the 1,900 breeders in the U.S. can keep records of their pigs’ lineage.

Pot-bellied pigs are about one-tenth the size of regular pigs and can weigh from 40 to 120 pounds. The pigs have short, straight doglike tails that wag with delight. Cost: $500 for young males and $2,500 for females. Distinctively marked pigs known as pintos cost between $5,500 and $7,500, and pure whites go for $7,500.

Kayla Mull, a medical technologist in Narco, Calif., has 14 of the critters and should win some kind of prize for naming them—Piggy Sue, Pig-mallon, Magnum P.I.G., Hamlet (who plays the piano with his snout), Oscar Mayer, Mumblety Pig and Pig Tails. Mull frequently takes her pigs for car rides and even carries Pig Tails in her arms when she shops. But the little pig was such an attention-getter that Mull taught her to tug her nose under her owner’s arm. In that position she looks like a clutch bag and escapes notice. Owners say pigs are as easy to house-train as cats and as affectionate as dogs.

Ferrets are the answer for thousands of people looking for an unusual indoor pet that’s quiet, affectionate and trainable, provided you don’t live in California, New Hampshire or Hawaii, where they’re illegal for fear of rabies.

Elsewhere, ferrets have become common. These fun-loving rodents live eight to ten years and weigh 1½ to 3 pounds. They cost $40 to $100 from pet stores.

Not so cute and cuddly are reptiles, which are also experiencing a sudden growth in popularity. The first National Reptile Breeders’ Exposition was held in Orlando, Fla. this past August; over 2,000 breeders and exhibitors showed up.

And so it goes with birds, wild cats, primates, miniatures (horses, donkeys and sheep) and even bears and elephants. Why the surge of interest in exotics?

Pat Hocot, a well-respected breeder and publisher of the Animals Finder’s Guide [812-898-2701], opines: “People have become numbers in this society. You’re no longer a name. People seek their individuality from a pet and are choosing wilder, unique animals as their companions that they can be identified with.”

Source: Animal Finder’s Guide
"If you cannot drink The Glenlivet the correct way, I beg you to drink some other Scotch."

— Sandy Milne, our Resident Sage.

At the pinnacle of Scotches sit the single malt whiskies. Slightly above them sits The Glenlivet, the father of them all. At this topmost level of Scotch, there is a ritual to the drinking of it. “Ice massacres the smooth, mellow taste,” says our Sandy Milne somewhat testily. “So, no ice. All you want is a drop or two of water to bring out the ‘nose,’ or aroma. Spring water, if you’ve got it. Cool, not cold. And use a fine crystal glass, gently warmed in a cupped hand to release the full bouquet.

“Save the ice cubes and big splashes of water for other Scotch,” advises Sandy, “where it hardly matters a hoot.”

What is a single malt Scotch?

A single malt is Scotch the way it was originally: one single whisky, from one single distillery. Not, like most Scotch today, a blend of many whiskies. The Glenlivet single malt Scotch whisky should therefore be compared to a château-bottled wine. Blended Scotch is more like a mixture of wines from different vineyards.
Collectors

They’re American and known for their ruggedness and accuracy. And they’re still cheap. No wonder pocket watches are such popular collectibles.

America on time

By Christie Brown

COLLECTING OLD American-made pocket watches is a hobby anyone can pursue on a fairly small budget. The very best and rarest examples are priced in only thousands of dollars, and there is a wide range of interesting and beautiful ticking available for just a few hundred dollars.

But don’t expect a killing on your collection: The American watch industry, once the world leader, produced millions of quality watches, and tens of millions of cheap ones.

Cary Kresge, of Orlando, Fla., often carries a pocket watch. Kresge, the president of Florida Medical Development, which sells high-tech medical facilities, has over the last 20 years collected 350 American pocket watches dating from 1850 to 1947. He possesses one of the finest collections in the country, including gold, silver and gold-filled watches by Waltham, Elgin, Illinois, New York Watch, Thomas and others. Kresge estimates his watches are worth about $250,000. That’s a tidy sum—but it amounts to an average of less than $1,000 per watch. A novice collector could put together an interesting collection for $5,000 to $10,000.

Wristwatches are newcomers on the timekeeping scene, common only since the 1920s. But pocket watches have been around since the 1500s.

For centuries in Europe, artisans made highly decorated watches for wealthy customers by hand—sometimes spending years on each one.

American tinkerers dreamed of mass-producing timekeepers average folks could afford. They finally figured out how to stamp crude, interchangeable parts by machine, then hand finish them. This greatly cut costs and propelled American manufacturers like Waltham, Elgin, Hamilton and Howard into world prominence from about 1850 until the 1920s.

In the end, first the Swiss and later others copied American methods and the U.S. lost its primacy. But to this day the American pocket watch is renowned for ruggedness, simplicity and accuracy.

Kresge began collecting pocket watches because he needed an inexpensive timepiece after his college watch, a Rolex, got flooded. For a cheap substitute he picked up a 1920 gold Hamilton pocket watch in a Connecticut antique shop for $60. (It’s now worth about $300.)

When the Hamilton needed repairs in 1968, Kresge took the watch to a shop in New York’s Grand Central Station. His interest was heightened when the repairman praised the fine quality of the watch. His Hamilton back in immaculate working order, Kresge bought four more pocket watches. For $30 each, he got another Hamilton, a B.W. Raymond (Elgin), a Waltham and an Illinois Abe Lincoln, all made in the early 1900s.

Kresge read up and joined the National Association of Watch & Clock Collectors, in Columbia, Pa. After moving to Orlando in 1970 to start his own company, Kresge devoted spare time apprenticing to a watch repairman. After three years he could handle basic repairs and discern the good from the shoddy and the fake.

It’s a big advantage. Kresge likes to cannibalize—taking the best of sever-
al watches in order to make one excellent watch. It's a common habit for watch collectors and not as illegitimate as it might be with other collectibles. It was the way most American pocket watches were originally sold. Jewelry stores carried different watchcases, movements and dials. The buyer chose which he liked, the jeweler fitted them together.

In this fashion, Kresge has pieced together about 40 of his best watches. Take his mint-condition 1898 Waltham model 88. He bought the gold case in 1976 for $200 from an Orlando coin dealer. The following year he got the movement at a Miami watch show for $175 and later snagged the dial off another watch. Complete, it's worth about $850.

One of the top prices ever paid at auction for an American pocket watch was $21,000, in 1989, for an 1890s gold Waltham. By contrast, a 1914 Patek Philippe wristwatch sold by Sotheby's in London in 1991 brought $1,235,000. (Christie's in London recently handled an 1893 Patek Philippe which sold for $215,000.)

Naturally, watches cased in gold are worth more than those with gold-filled or silver cases. But rarity counts more than gold content, since most gold cases contain only a few hundred dollars' worth of the precious metal.

At the peak of the collectibles boom in the early 1980s, prices soared, then collapsed. They have since recovered somewhat. For example, a rare Waltham Premier Maximus that sold for $1,400 in 1970 climbed to $14,000 by 1980. Two years later it was selling for $7,000. Today it might fetch $9,000.

Kresge is an active collector, buying and selling all the time. He also rotates wearing watches he especially likes. He has made profits, but investment isn't his purpose. "Like owning a lot of different watches," says Kresge, "feeling them, winding them."

Like most collectors, Kresge finds his prizes at watch shows, antique shops, flea markets and coin dealers. (Christie's and Sotheby's rarely auction American pocket watches, the prices aren't high enough.)

If you are paying more than a few hundred dollars for a watch, be on the lookout for fakery. Some original manufacturers even indulged in it. Take the 1870 pocket watch Kresge bought in 1977 for $400. It was cased by the Dueber Watch Case & Manufacturing Co. Kresge thought he was buying a 14-karat gold watch. After all, it was stamped that way. But it was only gold-filled. Dueber frequently faked the company's stamping to fetch a higher price.

There are also modern counterfeits. For example, Waltham made an expensive movement engraved "Appleton Tracy." Today it's worth $75. But a skilled watchmaker can rub out Appleton Tracy, write in the name of the rare 1866 Waltham movement "Howard & Rice," and change the serial number. Presto—an $8,000 watch.

Some of Kresge's favorites are the great old railroad watches developed specifically for accuracy. Nearly every company made them, but the most famous are the Ball railroad watches that came about after a grisly train accident in 1891 due to a conductor's watch being four minutes slow.

Accidents had happened before, but a time inspector named Webb Ball was then authorized to set timepiece standards. A number of companies manufactured to this specifications, and he marketed the products under his own name. Soon, anyone with a good watch was "on the Ball."

For more information on pocket watch collecting, the National Association of Watch & Clock Collectors (717-684-8261) has monthly publications and regional meetings. Annual dues: $25. Two of the best dealers are Wingea's Quality Watches, Dallas, Tex., and Ashland, Sarasota, Fla. The book of choice is the Official Price Guide to Watches, by Cooksey Shugart and Tom Engle [House of Collectibles, $16.95]. The prices tend to be on the high side but are useful as guides.
As Donald Bainton neared the top of Continental Group, his abrasive style cost him his job. But he recovered by launching a packaging empire of his own.

The cost-cutter's revenge

By Roula Khalaf

Throughout his 29-year career at Continental Group, Donald Bainton was known as a brilliant manufacturing executive, but one who could be brutal about cost-cutting. By the early 1980s Bainton's positive qualities had pushed him to the position of executive vice president. He made about $400,000 a year and was one of two officers running the $5 billion (1983 revenues) canning and packaging conglomerate under Chairman Bruce Smart.

In the end, however, Bainton's abrasiveness cost him his job. Bainton readily admits that he was tough when it came to firing people, and that he was especially undiplomatic in questioning the diversification strategies of his boss, Bruce Smart. Smart wanted to move Continental Group away from packaging and further into areas like insurance and oil drilling; Bainton wanted to stay in packaging. In June 1983 Smart forced Bainton out.

Bainton, then 52, felt like he had died a premature death. He was angry. After his departure, Bainton tried to launch an assault on Continental from the outside, trudging up and down Wall Street looking for investment bankers who would help him get control of Continental through a leveraged buyout. No takers. Even that faint hope was dashed in July 1984, when Continental was bought by the Omaha-based construction giant Peter Kiewit Sons Inc., which has been selling off the pieces ever since.

Smart quit packaging and went on to become under secretary of commerce for international trade. He is now a corporate adviser to the World Resources Institute.

Were Bainton the typical displaced executive, this would have been the end of his career. “Most executives who are pushed out the door look for a chance to be heroes again, but few
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A Bainton, still a tough manager

**Keeping an eye on Europe.**

find the opportunity,” says Jeffrey Sonnenfeld, director of the Center for Leadership & Career Studies at Emory University.

But Bainton refused to slip into dependency. He settled for what appeared to be a smaller job than the one he had left. By doing so, he successfully launched a second career, and a substantial one at that.

Bainton’s opportunity came in the form of Viatech Inc., a tiny American Stock Exchange-traded engineering company on New York’s Long Island with $6 million in revenues. His brother Jack, an industrial engineer, had acquired a 20% stake in Viatech. The headhunters weren’t besieging him with offers to become a chief executive of any big company, so Bainton signed on as Viatech’s chairman in 1983. In place of an annual salary for nearly four years, Bainton accumulated a 10% holding in the company, and set out to make the company grow.

Viatech didn’t have the resources to buy a ready-made empire. So Bainton built piece by piece, concentrating in Europe, where prices were relatively cheap compared with the U.S. Recalls Bainton, “I knew Europe was about to burgeon, you could smell the European Community pulling together.”

Events, and his own skills, have proved him right. Over the past seven years Bainton has built Viatech into a $250 million [revenues] packaging company with operations in Spain, Germany and France.

Bainton’s first chance came in 1984, when American Can [today part of France’s Pechiney] wanted to sell Dixie Union, a $21 million [revenues] packaging subsidiary in Kempten, West Germany. For putting down $500,000 in cash and assuming $7 million in debt, Viatech was given a 51% stake in Dixie Union.

The side of Bainton that had gotten him in trouble at Continental—the sometimes abrasive urge to keep costs down—now worked strongly in his favor. Dixie Union, which makes the plastic bags used to package foods like hot dogs and cold cuts, had been losing money. But after less than a year under Bainton’s tough supervision, Dixie was turning a profit again. Bainton was on his way.

After his success with the Dixie Union deal, Bainton put the word out to his friends and former colleagues in Europe that he was looking for more acquisitions. In early 1988 he heard about Onena Bolsas de Papel, a troubled printer and laminator of plastic films based in Pamplona, Spain. The company was on the verge of bankruptcy, owing millions of dollars to provincial governments and banks. Bainton made a deal with government officials: For one peseta [equivalent to one penny], he would buy an 80% stake in the company and turn it around.

“I took them over to Dixie Union and showed them the products we would bring over,” explains Bainton. The government officials liked what they saw. Last year Onena made nearly $500,000 in profits; sales rose slightly, to $11 million.

Bainton’s real break came about a year ago when he bought Ferembal, France’s second-largest food can manufacturer, for about $45 million. Ferembal was a good fit: The foodmakers it sells to in France are the same customers that Dixie Union and Onena wanted to service with flexible plastic packaging. But with sales of $150 million, Ferembal was more than twice the size to which Viatech had by now expanded.

Again Bainton’s old contacts came into play. He convinced two former Continental executives to work out a business plan for Ferembal. With them, he approached Citibank. Within a few months Citibank committed to lend and syndicate in excess of $90 million to buy and restructure Ferembal. Viatech put up only $3 million in cash. So far, Ferembal is on schedule with its debt repayment.

Now 59, Bainton will continue to charge ahead, if the banks let him. A graduate of Columbia University and the son of a Wall Street lawyer, he regularly travels into New York City from Viatech’s modest headquarters in suburban Syosset for meetings about potential acquisition targets. But Viatech’s debt is a lofty 80% of capital, operating cash flow covers debt servicing expense by 1.7 times. And though Viatech’s units operate in a generally stable, noncyclical business, the metal can industry is growing at a sluggish 3% in Europe. Problems with recycling plastic also might eventually affect Dixie Union and Onena’s profit performance. Without its bankers’ help it will be difficult for Viatech to grow further. And even with their help, a nasty Euro-recession could create serious liquidity problems for Viatech.

But in Bainton the bankers have a tremendous asset: an executive determined to make his operation a low-cost producer. Once a month Bainton flies to Europe to visit Viatech’s businesses. “As long as the profit numbers keep coming in,” says Bainton, “the European managers are safe.”

In many ways, Bainton prefers his smallish empire to a larger corporate throne. For one thing, he is accumulating some serious capital; his equity in Viatech is now worth nearly $8 million, at least as much as he could have hoped to put aside as chief at Continental. More important is the sense of really being his own boss. In this there is probably some feeling of revenge, now satisfied, against his former boss.

“When I make a decision I don’t have to worry about structuring it so I can get approval from so and so, whether that’s a corporate staff department or Bruce Smart,” Bainton says. “I don’t have to, you know, produce big, huge documents and do a lot of silly dog and pony shows.”

Bainton adds: “Would I rather have been chairman of Continental? Of course. But realistically, I would’ve been pushed out eventually because of the [Peter Kiewit] buyout.” Instead, it was Bainton’s Continental colleagues—including the nonabrasive and diplomatic corporate in-fighters—who found themselves squeezed out. Don Bainton, meanwhile, had dusted himself off and built a company from scratch.
FORBES FYI is the “executive’s guide to the good life.” It’s written with spirit, wit and a sense of sophistication that you won’t find anywhere else. But that’s something you can see for yourself. Because as a FORBES subscriber you’re the first to receive the October 1 issue of FORBES and FORBES FYI.
Less debt, more equity

Powerful people keep calling F. Warren Hellman. Earlier this year, Shearson Lehman Hutton named him chairman for a brief period before American Express decided to recapitalize the firm. Then, a few weeks ago, Chicago centimillionaire Sam Zell raised $50 million in cash by selling Hellman an 18% stake in Zell's Great American Management & Investment, Inc., a $1.6 billion (1989 revenues) grab bag of manufacturing and real estate interests that Zell and his late partner, Robert Lurie, built up out of bankruptcy in the early 1980s. Among Great American's products: skiwear, ceramic bathroom fixtures, ribbons and bows, mobile homes and waste-treatment pumps.

Why did Zell sell? "I wanted somebody to come in with financial exposure to be my partner and a sounding board," he says. "And I only made one phone call."

Zell got to know Hellman in the early 1980s, when the two men sat on the board of Itel Corp., the railcar-leasing company Zell took over in 1985. Hellman has quite a résumé. The great-grandson of a founder of Wells Fargo and Security Pacific banks, he is also remotely related to the founders of Lehman Brothers, where at age 28 Hellman became the youngest partner in the firm's history; later he served as its president.

Now 56, he runs Hellman & Friedman, a San Francisco investment bank whose fund manages more than $325 million in assets, largely the firm's own capital. He helped take Levi Strauss private in 1985—he is distantly related to its founders, too—and is a financial adviser to American President Cos., the shipping line, and Clorox Co.

So why did Hellman sink $50 million into a minority stake of common stock with no dividend and erratic earnings? That investment values the company at around $250 million, though it earned just $2 million in fiscal 1989. But, like Zell, Hellman loves cash flow—and he spotted more than $260 million of it behind Great American's paltry earnings. Also, in the first three fiscal quarters of 1990, the company earned $37 million, up from an $11 million loss in the comparable 1989 period. With just 8% of the shares traded on Nasdaq, "this is a company that's nearly unidentifiable to the public, a very interesting jigsaw puzzle that can have greater value if the pieces are put together correctly," says Hellman. "So Sam can come to us with a restructuring idea and we will carry it out ourselves."

Hellman, who dislikes debt as much as Zell likes it, expects some "active discussions" on the subject. On Itel's board, he laughingly recalls, he once considered buying T-shirts for himself and Zell to read, in a takeoff on the Miller Lite commercials, "Less Debt, More Equity" and "More Debt, Less Equity."

Before investing, Hellman insisted that Great American sell Firststate Savings & Loan Association of Orlando, a healthy institution that Hellman considered a political liability for the company. Zell agreed, and bought Firststate himself.

Spitting out the bone

It was a chicken bone stuck in the throat of economic progress here. And it made me mad." Thus Oregon Governor Neil Goldschmidt describes his state's costly workers' compensation program.

Oregon's workers' compensation...
premiums rank eighth-highest in the nation per capita. Oregon businesses paid nearly $1 billion in workers' compensation premiums last year, though the state accounts for just 1% of the U.S. population and gross national product. And precious little of Oregon's compensation funds ended up in the pockets of injured workers. Instead, says Goldschmidt, "money was going into the pockets of trial lawyers and other special interests."

Earlier this year Goldschmidt, a Democrat, took on the lawyers, as well as doctors and chiropractors who were making out on the compensation pool. The move was surprising, since the legal and medical establishments had long been financial supporters of Oregon's Democratic Party.

Goldschmidt argued that the workers' compensation system was keeping business out of the state. And he knows business. In the early 1980s Goldschmidt, who is now 50, was an executive of Nike Inc., first handling overseas sales and then running the shoemaker's Canadian subsidiary.

To bring some sense to the workers' compensation system, Goldschmidt summoned 14 businessmen and labor leaders to a room in the basement of the governor's mansion in Salem. He told them to meet there weekly until they came up with a blueprint for reform. Banned from the meetings were all representatives of the doctors, lawyers and insurers, who had the most to lose in any reform.

After four months, a new compensation reform package, based on the business/labor blueprint, sailed through the state legislature. The law commits Oregon to prosecute health care fraud, police safety rules more closely, review chiropractic invoices and set up health maintenance-type organizations to control the costs of treating injured workers. The law also restricts lawsuits over workers' compensation by stressing arbitration and limiting appeals. The yearly cost of workers' compensation premiums should drop as much as 20%, or $200 million.—Marc Beauchamp

**Designing woman**

With department stores falling into Chapter 11 like dominoes, the rag trade should be the last place to find a superb growth company. But look at Donna Karan Co., the women's clothing concern, which projects net sales of $132 million this year, thanks mainly to the year-old DKNY line. That's up from $107 million last year and $7.4 million in 1985, Karan's first year in business.

Karan's secret: sharp designs and slick marketing by Chief Executive Donna Karan, 42, who owns 50% with her husband Stephan Weiss. (The other half of the company is held by New York's Takihyo Inc., owner of Anne Klein & Co., where Karan began her career.)

Karan clothing sells well, and wholesale buyers know it. On aver-

age, retail customers buy an estimated 70% of Karan goods at full price. At some stores, 80% of Karan clothes—both the high-priced Donna Karan Collection and the more affordable DKNY line—is sold with no need for markdowns. More typical for women's apparel is a 46% sell-through rate.

How does Karan do it? Says Neiman Marcus President and Chief Executive Terry Lundgren: "She cares about what is selling to the customer, not just what the store buyers are buying." Famous customers help, too. Candice Bergen and Diane Sawyer regularly wear Karan's wool jersey and crepe designs on television.

While other designers have used their names on everything from cigarettes to frying pans, Karan has been more judicious, licensing only five product lines—hosiery, furs, shoes, eyewear and jewelry. In today's tough retail climate, Karan's in-house credit department is carefully watching receivables from stores like Macy's.

What's next? International expansion. Karan already sells 20% of her merchandise abroad, half of that to Japan. A Donna Karan shop opened in August in Hong Kong, with a DKNY store to follow in 1991. Next spring Karan debuts in France.

Karan says she will remain private for now. But with stellar growth and no long-term debt, Donna Karan, the company, would be even more welcome on Wall Street than it is in America's department and specialty stores.—Katherine Weisman
Private and Prospering

With more and more public companies going private, the need has never been greater to provide the inside story on America's private companies. That's why FORBES has added yet another new special issue to its line up – The 400 Largest Private Companies.

To rank the companies, FORBES' staff sorts through questionnaires, interview notes, press clippings, etc., of about 800 different companies. This intensive gathering of information discloses the sales revenue, the chief executive, and the number of employees for each company.

FORBES also covers which companies have remained private, the advantages of being a privately held company and what it costs to stay private.

The 400 Largest Private Companies

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Issue date: December 10, 1990
Closing dates: November 5, 1990
(4-color pages)
November 12, 1990
(B/W & 2-color pages)
"The Iraqi invasion is merely a political event, not something that's going to fundamentally change the financial markets," says Russell E. Thompson, manager of the $1.6 billion (assets) United Income Fund. Thompson has been standing pat on the market, and now has 20% of his portfolio in cash, against 65% prior to the October 1987 market crash. Thompson is keeping his eye not on the tanks in the desert but on the Federal Reserve. If the Fed loosens up the money supply, some financial companies will benefit. He cites Federal National Mortgage, Sal- lie Mae, Beneficial Corp. and Household International. All four have, in varying degrees, taken steps to insulate themselves from rate fluctuations by balancing assets and liabilities. But they remain sensitive to interest rates.

The Wilshire index of 6,000 issues is 4.3% higher (as of Sept. 6) than it was two weeks earlier. Stephen Leeb, editor of Indicator Digest, points out that, since 1968, almost all sudden and sharp market drops have been followed by bullish markets. "On average, after four-week declines of at least 10%, the market was 14.5% higher 30 weeks later," he says.

As the market recovered, gold stocks suffered. Right after Iraq's march into Kuwait, some gold stocks posted double-digit gains. In the last two weeks, five of the ten worst-performing stocks were gold issues.

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### The Best Performing Stocks

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<th>Company</th>
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<th>P/E</th>
<th>Avg vol (thou)²</th>
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### The Worst Performing Stocks

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### Closeup on the Market

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<tr>
<td>Amex</td>
<td>324.50</td>
<td>2.7</td>
<td>2000 stocks with small market values, capitalization weighted</td>
<td>139.34</td>
<td>4.8</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>378.78</td>
<td>5.2</td>
<td>Gold⁶ (composite quote of 6 major dealers)</td>
<td>$390.50</td>
<td>-5.2</td>
</tr>
<tr>
<td>Amex international market index</td>
<td>298.00</td>
<td>3.7</td>
<td>Commodity index⁵ (CRB futures index, 1967 = 100)</td>
<td>238.67</td>
<td>-2.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Oil⁵ (WTI Futures)</td>
<td>$31.45</td>
<td>-1.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>T-bills⁵ (30 days)</td>
<td>7.38%</td>
<td>-14 basis points²</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Broker loan rate⁸</td>
<td>9.25%</td>
<td>unchanged</td>
</tr>
</tbody>
</table>

---

Note: All data for periods ending 9/6/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. ¹ Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. ² Average daily volume over 2-week period. ³ Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. ⁴ Morgan Stanley Capital International Perspective. For period ending 9/6/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. ⁵ Knight-Ridder Financial Information. ⁶ A basis point is equal to one-hundredth of a percentage point.
Wall Street isn’t supposed to work this way, but it often seems that analysts forecast earnings with an eye on stock prices—down go prices, and down go the estimates. This makes some sense if you believe that the market does an excellent job of discounting future events. But it is a little irritating if you base an investment decision on numbers that turn to sand with every market swing.

Immediately after the 1987 market crash, security analysts began slashing earnings estimates. It’s happening again now. In the last few weeks, estimate cuts have been pouring into the Institutional Brokers Estimate System.

“The numbers are being cut quite heavily, and I suspect that it is going to continue for a while,” says Richard Pucci, INES database director.

Anticipated 1990 earnings on the s&p 500 index have been cut from $27.36 to $26.40, meaning that the index is priced at 12 times estimated 1990 earnings. If the experts’ new projections are right, the earnings of the s&p 500 will increase 8% over 1989, rather than the 12% gain they were talking about not long ago. The analysts are also saying corporate earnings will be up another 15% next year, but that, too, is subject to revision.

Who’s Hot

These companies show the greatest increases in estimates over the past three months.1

<table>
<thead>
<tr>
<th>Company/industry</th>
<th>1989 EPS</th>
<th>1989 estimate P/E</th>
<th>1990 estimate P/E</th>
<th>3-mo price chg</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magma Copper/nonferrous metals</td>
<td>-1.86</td>
<td>1.57</td>
<td>57%</td>
<td>4</td>
<td>18% Record output from refineries plants</td>
</tr>
<tr>
<td>Vons Cos/supermarkets</td>
<td>-0.77</td>
<td>0.93</td>
<td>41</td>
<td>20</td>
<td>-17 Benefits from acquisition of some Safeway Stores</td>
</tr>
<tr>
<td>Lyondell Petrochem/spec chemicals</td>
<td>4.67</td>
<td>4.69</td>
<td>36</td>
<td>4</td>
<td>-18 Higher refinery margins</td>
</tr>
<tr>
<td>Dell Computer/computer equip</td>
<td>0.28</td>
<td>1.24</td>
<td>29</td>
<td>9</td>
<td>0 Increased acceptance of its 386 and 486 computers</td>
</tr>
<tr>
<td>Quantum/computer equip</td>
<td>1.73</td>
<td>2.52</td>
<td>26</td>
<td>7</td>
<td>-14 Increased sales of 3½-inch disk drives</td>
</tr>
</tbody>
</table>

Who’s Not

These companies show the greatest decreases in estimates over the past three months.1

<table>
<thead>
<tr>
<th>Company/industry</th>
<th>1989 EPS</th>
<th>1989 estimate P/E</th>
<th>1990 estimate P/E</th>
<th>3-mo price chg</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalFed/savings &amp; loan</td>
<td>$3.23</td>
<td>$0.48</td>
<td>-84%</td>
<td>19</td>
<td>-55% Deteriorating asset quality</td>
</tr>
<tr>
<td>Texas Instruments/semiconductors</td>
<td>3.04</td>
<td>0.30</td>
<td>-77</td>
<td>93</td>
<td>-30 Lower semiconductor prices</td>
</tr>
<tr>
<td>Cummins Engine/machinery</td>
<td>-1.72</td>
<td>0.73</td>
<td>-62</td>
<td>55</td>
<td>-27 Slow demand for heavy-duty trucks</td>
</tr>
<tr>
<td>Bank of Boston/banking</td>
<td>0.83</td>
<td>0.81</td>
<td>-58</td>
<td>11</td>
<td>-38 Soft real estate market</td>
</tr>
<tr>
<td>Mentor Graphics/computer-aided eng'n'g</td>
<td>1.22</td>
<td>0.55</td>
<td>-57</td>
<td>25</td>
<td>-44 Declining orders from aerospace &amp; computer customers</td>
</tr>
</tbody>
</table>

1Actual. 2Companies with market capitalization of $100 million or more. 31991 estimate. Earnings projections are Wall Street consensus estimates data from 3,000 security analysts compiled by the Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan Investment Services. Aaa bond yield forecasts supplied by Blue Chip Economic Advisers. NA: Not available.
If you’re like most lazy investors, you have too much on deposit at your bank and too little in your fund account.

Dreyfus versus the banks

By Michael Fritz

Here’s a little puzzle on interest rates. The average bank money market account pays 6.5%, including the effect of compounding, with some paying as little as 6%. The average money market fund, however, pays 7.8%. So why don’t bank customers close their money market accounts and put the money in mutual funds?

Wouldn’t Dreyfus Corp. like to know. It has attracted a mammoth $8.7 billion of assets to its Worldwide Dollar Fund, which carries a recent 8.6% yield, with compounding. (That yield is artificially boosted by Dreyfus’ temporary absorption of operating expenses on the fund.) If markets were perfectly efficient, Dreyfus might have, oh, another $377 billion in the fund. That’s how much consumers have in money market accounts at banks and savings and loans, virtually all of it paying a good deal less than 8.6%. Wells Fargo, for example, is paying 6%, compounded, on its money market accounts.

One possible explanation: Consumers want deposit insurance. Bank and thrift money market accounts are federally insured to $100,000; money market accounts at funds are entirely uninsured. The insurance premium paid to the Federal Deposit Insurance Corp. knocks about 0.2 percentage points off the interest rate a bank can afford to pay. That still leaves most of the gap between bank rates and fund rates unexplained.

Reserve requirements? They used to cut into the return a bank could earn on deposits. But they no longer apply to consumer deposits. Minimum balances? Typically $500 to $3,000 at a fund. Banks aren’t very different here.

Convenience? It used to be that fund investments were unsuitable for money you might need in a hurry. To get cash into your bank account, you might have had to write a check against the fund account, then wait forever for the check to clear. No more. Most money market mutual funds permit free wire transfers between the fund account and a predesignated bank account. Telephone the fund, and the money goes into the bank account within three days.

The funds are adding new conveniences to compete with banks. They can’t take direct deposits of payroll checks the way banks can, but you can get around this. Worldwide Dollar offers a free “automatic asset builder” program that allows you to transfer a predetermined amount of money from your bank account as often as twice a month. Thus, if your payroll check is going into your bank account through a direct deposit program, you can arrange to transfer a portion of your payroll check into the fund ac-

Where the yields are

<table>
<thead>
<tr>
<th>Fund</th>
<th>Assets* ($mil)</th>
<th>Yield nominal</th>
<th>Yield compound</th>
<th>Annual expenses per $100</th>
<th>Minimum check size</th>
<th>Minimum investment</th>
<th>Minimum investment subsequent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alger Fund-Money Market</td>
<td>$131</td>
<td>8.1%</td>
<td>8.5%</td>
<td>$0.10p</td>
<td>$500</td>
<td>$1,000</td>
<td>$100</td>
</tr>
<tr>
<td>Capital Preservation Fund</td>
<td>3,066</td>
<td>7.3%</td>
<td>7.5%</td>
<td>0.57</td>
<td>100</td>
<td>1,000</td>
<td>100</td>
</tr>
<tr>
<td>Dreyfus Worldwide Dollar Money Market</td>
<td>8,717</td>
<td>8.2%</td>
<td>8.6%</td>
<td>0.00p</td>
<td>500</td>
<td>2,500</td>
<td>100</td>
</tr>
<tr>
<td>T Rowe Price Prime Reserve</td>
<td>4,785</td>
<td>7.2%</td>
<td>7.5%</td>
<td>0.75</td>
<td>500</td>
<td>2,500</td>
<td>100</td>
</tr>
<tr>
<td>Safeco Money Market</td>
<td>221</td>
<td>7.5%</td>
<td>7.8%</td>
<td>0.73</td>
<td>500</td>
<td>1,000</td>
<td>100</td>
</tr>
<tr>
<td>20th Century Cash Reserves</td>
<td>904</td>
<td>7.2%</td>
<td>7.4%</td>
<td>1.00</td>
<td>500</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>Vanguard MM Reserve-Prime</td>
<td>13,444</td>
<td>7.8%</td>
<td>8.1%</td>
<td>0.28</td>
<td>250</td>
<td>3,000</td>
<td>100</td>
</tr>
<tr>
<td>Vista Premier Global</td>
<td>235</td>
<td>7.9%</td>
<td>8.2%</td>
<td>0.27</td>
<td>2,000</td>
<td>$100,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Chase Money Market Account</td>
<td>NA</td>
<td>6.1%</td>
<td>6.3%</td>
<td>NA</td>
<td>none</td>
<td>500</td>
<td>none</td>
</tr>
<tr>
<td>Wells Fargo Consumer Market Rate</td>
<td>NA</td>
<td>5.9%</td>
<td>6.0%</td>
<td>NA</td>
<td>none</td>
<td>2,500+</td>
<td>none</td>
</tr>
</tbody>
</table>

*As of 8/31/90. †Smaller accounts accepted, but no interest paid. $ Net of absorption of expenses by fund sponsor. NA: Not applicable or not available.
The Funds

If you are a young executive, your 401(k) plan could make you a millionaire. But there are a few “ifs” that are up to you.

The responsibility is yours

By Laura Saunders

How is your 401(k) thrift account invested? Who manages the money? What is his, her or its performance record? What are the annual management and overhead fees?

If you can’t answer these questions, join the crowd. For this story we polled some two dozen thrift plan participants, many of them M.B.A.s and/or employees of financial institutions.

Not a single person could answer any of these questions when we first posed them. Many couldn’t answer them even after spending some time talking to their corporate benefits departments.

It’s curious that even the financially astute don’t pay more attention. For many workers, defined-contribution plans like 401(k)s are likely to become a big, maybe the biggest, part of retirement income.

A defined contribution plan is a tax-deferred savings account into which worker and employer each makes specified dollar deposits. Many companies offer them. A plan’s payout at retirement is neither guaranteed—as a pension can be—nor even predicted. They can’t be predicted because it is impossible to know in advance how well the money will be managed.

Defined contribution plans are taking on a growing importance as employers become leery of the liabilities that go with a defined benefit plan, one with a promised payout. Another reason individual savings plans will take on a larger role in retirement security has to do with Uncle Sam. The financial pressures on the Social Security system are such that today’s young workers have no hope of earning the kind of enormous returns that their parents are now collecting on past Social Security contributions. In short, a strong 401(k) account may make the difference between a comfortable retirement and living in a mobile home.

A lot of money is involved. Funds invested in 401(k) plans have grown to $143 billion from $32 billion since just 1986. For an executive making a maximum contribution over a working lifetime, a thrift account grows to a considerable sum. Let’s say you contribute the legal maximum (now $7,979 a year, and escalating with inflation) for 30 years. And let’s say the money is invested to produce a real return, net of inflation, of 6%. (Stocks have done slightly better than that since 1926.) Then in 30 years you would have $669,000 in the account, in today’s dollars.

That’s just your own money. If your employer matches some or all of your contribution, you would have proportionately more. If, say, the employer puts in 50 cents for every dollar you put in, your fund would hit $1 million at retirement. There are going to be lots of 401(k) millionaires in this country in the future.
One great benefit to workers of defined contribution plans is the plans’ portability. Switch jobs every five or ten years and you could wind up with a pittance from conventional pension plans. But your thrift accounts follow you from job to job.

With this flexibility comes a burden: being sure the money is invested wisely and well. This means you, not your company, will have to make some crucial decisions.

There are firms, such as Texaco, that give their employees lots of options. For the portion of the account that represents the employee’s own contributions, Texaco’s 401(k) offers seven choices: Texaco common stock or any of six Vanguard funds with differing objectives. Costs? Very low. Funds from Vanguard are the most efficient in the business, with annual expense ratios averaging 35 cents per $100 of assets. Workers can track the performance and risk levels of all seven investments in the newspaper or in fund-rating surveys. They can switch funds daily, if they want to. As registered investment companies, the Vanguard funds also report performance histories, expense ratios, turnover and amounts spent on brokerage commissions. What’s more, Texaco has one of the most generous matches out there. It contributes $2 (in the form of convertible preferred Texaco stock) for every $1 invested by the employee.

More common is the kind of thrift plan you get at such companies as BellSouth and Kellogg. These plans are farmed out to privately managed investment pools that may or may not deliver performance commensurate with the risks they take. Also, notes benefits expert Roger Bransford of Towers Perrin, reports on privately managed equity pools are usually silent about costs—management fees and other expenses—even though these are just as important as past performance in making intelligent investment selections.

One East Coast entertainment company recently switched its plan from seven Fidelity funds, including the excellent Puritan Fund, to two individually managed accounts at Shearson Lehman. Who’s managing the Shearson accounts? Employees weren’t told. What about fees? Shearson is probably compensated by collecting brokerage commissions on stock trades, but employees were told nothing about this.

Aerospace Corp., a nonprofit government defense contractor in the Los Angeles area, has one of the most liberal investment menus, with nearly unlimited switching permitted among funds from Fidelity, T. Rowe Price and Scudder. The plan’s big drawback: no company match.

The Forbes Inc. thrift plan, managed in-house, does not charge employees for management fees or expenses. It is generous on matching—$1.50 to $2.50 from the company per $1 from the employee—but very restrictive about switching between stock plans and bond plans.

Liberal switching rules, such as Aerospace and Texaco have, present some drawbacks. Employees may be tempted to time the market or gamble with their retirement dollars, or they may be spooked by headlines into making panicky decisions. So, if your corporate thrift plan offers a liberal switching option, use it to set long-term goals, not to beat the market.

And if the plan has mutual funds as investment choices, pick them as carefully as you would any fund bought with your aftertax paycheck. The annual Forbes fund survey (Sept. 3) is a good place to start. Pay attention not only to where a fund went over the past ten years but to how it got there. We measure not raw performance but consistency of performance, and we measure risk by computing a separate performance grade for bear markets.

Next, pay attention to costs. An equity fund running up overhead and management fees of more than $1 a year per $100 of assets is suspect. As for sales commissions, you shouldn’t have to pay any. Tenneco employees, for example, can put their 401(k) contributions in the U.S. Trend Fund, but they don’t have to pay its 4.75% front-end load. The only reasonable exception is for small plans—say, fewer than 200 participants—where economics of scale don’t exist.

Recordkeeping fees can eat into your return. According to Gary Strum, a benefits expert at Oppenheimer & Co.’s Quest for Value Funds, recordkeeping fees to maintain a 401(k) plan often run $30 to $50 per head per year, as opposed to $10 to $25 for an ordinary IRA account. Many firms—such as Schering-Plough and Texaco—pick these up, but a few split them with employees or charge the plan. Browning-Ferris Industries charges employees 25 cents per $100 of assets a year for recordkeeping.

Next, consider your investment options carefully. Excessive switching is a hazard. So is excessive caution. According to benefits experts at William M. Mercer Inc., in a typical plan nearly 70% of all 401(k) employee contributions goes into “guaranteed investment contracts,” which are bondlike products from insurance companies. They are usually safe, if you measure safety only by monthly variation in returns. Yet they carry the risk that a spurt in inflation will destroy your portfolio’s purchasing power. A more sensible mix would be perhaps half in fixed income, half in a good growth stock fund. Certainly any plan participant a long way from retirement should put a substantial fraction of his savings in stocks.

Also consider diversification. Company stock is often an investment option, and sometimes it is terrific: Food Lion, whose stock has climbed more than 600-fold in the last 20 years, has a telephone operator who became a millionaire on the strength of her stock purchase plan. But think before you put all your eggs in one basket, no matter how you love that basket.

What if your choices are limited or the disclosures are inadequate for sound decision-making? If there is a company match, sign up anyway. You will gain valuable tax deferrals and that even more valuable matching company money. But then exercise your right to complain. After all, it’s your money.
THE NEW YORKER

MARTINA NAVRATILOVA

READS THE NEW YORKER IN

ASPEN, CO.

THE BEST-WRITTEN, BEST-READ MAGAZINE IN AMERICA.
**DIVIDENDS UP AN EFFECTIVE 20 PER CENT**

**SIX MONTHS RESULTS**

<table>
<thead>
<tr>
<th></th>
<th>Six months to June 1989</th>
<th>1990</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROFIT BEFORE TAX</td>
<td>£668m</td>
<td>£592m</td>
<td>-11%</td>
</tr>
<tr>
<td>INTERIM DIVIDENDS PER SHARE - ACTUAL</td>
<td>19.60p</td>
<td>20.70p</td>
<td>+6%</td>
</tr>
<tr>
<td></td>
<td>- PROFORMA*</td>
<td>17.25p</td>
<td>20.70p</td>
</tr>
</tbody>
</table>

(The 1989 comparative figures have been restated at average exchange rates, following a change in accounting policy.)

- Encouraging overall business growth in difficult climate.
- Tobacco: trading profit up 19 per cent with continuing export success.
- "I am pleased with the growth trends in both our tobacco and financial services activities...the underlying performance may not be fully reflected in our reported results for 1990, subject as they are to world stock markets and exchange rates."  
  Patrick Sheehy, Chairman.
- Second interim dividend of 10.70p, making a total of 20.70p, an increase of 6 per cent.

*On a proforma basis, excluding dividends attributable to the demerged companies, total interim dividends are effectively up 20 per cent.

**BAT INDUSTRIES**

The full interim report is being posted to shareholders and copies are available from Roger Wilson US Investor Relations, 1600 Summer Street, Stamford, CT 06905.
Capital Markets

MONEY & INVESTMENTS

Despite Iraq and the recent bulge in rates, interest rates are headed south. Here's how to play the bond market to maintain liquidity and yield.

YIELD CURVE PLAY

By Ben Weberman

The fixed-income market is almost as volatile these days as the stock market. Economic uncertainties abound, recession looms. Rising energy costs and the sinking dollar suggest a new wave of inflation. Moreover, an unprecedented amount of new cash to be raised by the Treasury—about $75 billion in the last quarter of this year—will soon flood the market, putting pressure on yields.

If you believe as I do that recession fears on the part of Federal Reserve policy officials will outweigh inflationary concerns in coming weeks, then you must expect a cut in the federal funds rate soon. That will help ease credit and send bond rates down and bond prices up.

As a defensive move, I'd recommend a mix of medium- and shorter-term Treasuries and other federally guaranteed issues. It's a smart strategy, particularly given what's likely to happen over the next few months to the yield curve—the benchmark measure of key Treasury issue returns by maturity.

The chart plots the yields of three-month Treasuries over the past year against those of the long-term 30-year bond. Up until about January, the spread between the two was fairly flat. But when worries about the federal budget and inflation began to put pressure on long-term rates earlier this year, the spread widened. However, in a recession, short-term rates typically drop faster than long-term. And given the prospects for a sagging economy, the spread will widen even more in the months ahead.

Note how under this scenario the spread between the three-month Treasury and the 30-year bonds should increase in a year's time to about 180 basis points from about 120 basis points now.

While it may be tempting to lock in those higher rates, medium-term maturities make more sense if you want safety, liquidity and investment flexibility.

I'm betting that rates for the shortest, overnight maturities—federal funds that are surplus reserves that banks lend to each other—will fall from the current 8% to 8.125% to perhaps 7% in a year, spurred by the Fed's efforts to stimulate the flow of credit. Three-month bills, now yielding the bond equivalent of 7.65%, will fall to less than 7% by next spring. Long-term rates should ease to about 8.5% on the 30-year Treasury, from 8.95% now.

Currently, interest rates rise from 7.65% on the three-month issues to 7.79% for one-year issues and 8.08% for two-year notes. Yields continue to rise steadily until 8.85% is reached at 10 years. Rates of return for longer due dates from 10 years to 30 years go up by ten basis points.

The dilemma is always how to balance liquidity and yield. I'd put about 20% to 30% of holdings in six-to-nine-month T bills paying 7.77%—or money market funds now carrying average yields of 7.43%. A larger proportion of funds, probably about 70%, should be invested in the 5- to 10-year range where T bonds pay 8.5% to 8.85%. I'd avoid longer maturities altogether right now.

Staying with the 10-year maturity range minimizes market risk without loss of yield. The 10-year bond pays 8.85%, while the 30-year bond pays 8.95%. But price movement of the shorter issue is much smaller for each change of interest rates. Even if rates rise, for each 1% increase the 10-year bond would lose roughly 6% in price. But the 30-year bond would give up about 10%.

One middle-maturity issue giving some additional yield is the Federal Farm Credit Bank 8.65s of 1999. The issue is priced at $97.16 to yield 9.12% to maturity. For a shorter security, try the Student Loan Marketing Association—Sallie Mae—8.55s of 1995. These trade at $99.34 to yield 8.73% to maturity.

Investors can always avoid the problem of portfolio management by purchasing an intermediate-term taxable bond fund having high yield and no load. Among the funds meeting these requirements are Fidelity Government Securities Fund, yielding 8.23%, and T. Rowe Price New Income Fund, yielding 8.51%.

Ben Weberman is a columnist for Forbes magazine.
The Contrarian

MONEY & INVESTMENTS

Beware of market timers, asset allocators and snake oil salesmen.

HOW TO AVOID WHIPLASH

By David Dreman

Ironically, some of the same academics who built giant reputations by slamming market timing are now making big bucks peddling a new variation of the same snake oil. The new product is called "tactical asset allocation" and is slickly packaged for respectability in complex computerese.

Whereas market timing generally involved choosing between being in cash and being in stocks, asset allocation can involve more complex choices among cash, stocks, bonds, real estate, foreign markets and even gold. It appears to be far more sophisticated than the older and largely discredited systems for calling market tops and bottoms, drawing as it does on impressive economic and investment correlations. Yet in the end the basic premise is the same as that of market timing. Both timers and asset allocators study the past to discover signs and portents that occur at strategic junctures. They believe that what worked in the past must again work in the future. So back-testing is done on a few dozen or even a hundred or more inputs that seemed important to prior market moves.

But trying to predict the future by studying the past is a futile business. In a dynamic, constantly changing environment, numerous new international, monetary and investment factors not present in the past now enter into the equation, almost always changing the outcome, often dramatically. Like generals fighting the last war, market timers and asset allocators constantly devise strategies and tactics for a set of conditions that no longer exists. Oh sure, a Joe Granville or a Bob Prechter or a lucky computer will make a few great calls and instantly be made a member of the timers' Hall of Fame. But given the thousands out there, statistical probability states that some will be right a few times or more before their luck runs out.

Rather than trust your luck to a magic formula, even one based on computer printouts, I strongly recommend a simple strategy: Assess your investment goals and then set a fixed stock-to-bond/liquid-asset ratio. Many institutions, looking ahead a decade or more, use equity to bond-and-cash ratios ranging from 50% to 65%, depending on whether their principal goal is growth or safety. In deciding on the approximate ratio, I advise my clients to set the stock portion at a point that lets them sleep well, even though it may be well below the theoretically optimum level. But once it is set, don't keep changing it. Don't jump around in reaction to what you see and hear on the 6 o'clock news. Leave timing and asset allocation to those who are peddling their respective nostrums.

This does not mean that once you have set a ratio suited to your current needs it has to be fixed in stone. If market conditions change dramatically, the ratio should also be changed. If the S&P 500, for example, moves up to 20 times earnings, or inflation shoots up to 10% or more, this would be the time to reduce your equity position and put more into cash or bonds (keeping a fixed ratio automatically makes you sell a part of your portfolio if stocks rise sharply, because the stock portfolio would move above the preset ratio). Conversely, when stocks are being beaten up and P/E multiples are low, you might increase the portion in equities.

Such guidelines help take the subjectivity out of decisions and keep folks from swinging wildly between stocks and bonds, usually winding up with a severe case of financial whiplash.

So, what to do today? My answer is to hold the same percentage in stocks and bonds as before the Gulf crisis. In the bond sector, keep maturities short because of the risk of rising inflation. With the market off sharply, there are some good opportunities available. Here are a few:

American Express [24] is a blue chip that has lost over 40% of its market value as a result of problems at Shearson. Earnings should rebound to over $3 a share next year. The stock trades at a P/E of 7 on 1991 results and yields 3.8%.

Federal National Mortgage [29] is the nation's leading creator of residential mortgage funds. Continuing growth is likely for the next few years. The stock trades at a P/E of 7 and yields 1.9%.

First Fidelity [14] has dropped over 60% in the current bank panic. EFF has written down all its known bad real estate loans and should show earnings of $2.50 or more next year. The stock trades at a P/E of 5 times 1991 earnings and yields 8.5%.

Foote, Cone & Belding [24] is the fifth-largest U.S. advertising agency. Income should be up 10% or more in 1990. The stock trades at a P/E of 12 and yields 4.9%.

Woe to the company whose earnings fall below analysts' estimates. J.C. Penney [46], which was a retailing favorite through most of 1989, has dropped sharply in the past few months. Earnings should be flat this year, but should improve with the economy in 1991. The stock trades at a P/E of 7 and yields 5.7%.

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Having Down Syndrome doesn’t mean you can’t reach for the stars. Or sometimes, even become one.

Chris Burke, the star of Life Goes On, is a shining example of what is possible when those with Down Syndrome are encouraged to achieve their dreams. The National Down Syndrome Society is proud to be a part of these accomplishments. Through research, educational programs and public awareness activities, NDSS has helped people with Down Syndrome to reach their goals. And sometimes even surpass them.
Stock Trends
MONEY & INVESTMENTS

Here are some time-tested techniques for investing in bombed-out markets.

A GUIDE FOR BARGAIN-HUNTERS

By Ann C. Brown

In the Sept. 17 issue of FORBES I listed six prime stock groups and several companies in each as potential buying opportunities after the sharp stock market decline resulting from the Persian Gulf crisis. Following are some tricks of the stock trader's trade that can be helpful in deciding when and how much to buy of these stocks and other stocks that have suffered in the current collapse.

1) Consider averaging down on stocks that appear to have been hit unfairly, assuming that outlook for earnings has not changed materially from the estimates made before the market decline. However, exercise caution when averaging down toward the end of a calendar year when large gains in stocks preceded the market drop—like this year. Investors with realized capital gains could be selling the stocks you are planning to buy in order to register losses for tax purposes before year-end.

2) After serious market selloffs, it is wise to "nibble" at stock positions, whether you are averaging down or purchasing a new position for your portfolio. Stocks that look low-priced today are frequently even lower-priced tomorrow. While buying partial positions will likely result in higher commission costs, it's cheaper insurance to pay in the event the stocks you are adding to/accumulating fall further.

3) Once you are convinced that the stock market has reached bottom, buy fewer shares of more stocks than you would under normal circumstances. Some of these buys will prove much better than others, even though all look attractive at current low prices. In time, eliminate the poorest performers and use the proceeds to increase the size of the positions in the more profitable issues—or buy some new stocks.

4) When you begin buying stocks that are at or close to their recent lows, consider putting in bids below the current market. Often there is little stock on the specialist's book, and a single substantial order to sell at the market could hit your bid. In today's volatile and fast-moving markets, where specialists tend to keep minimal inventories, below-market bids can be an intelligent way to buy equities—particularly if you are long on patience.

5) Be sure to ask your broker for not only the bid and the asked prices of the stocks you are planning to buy but also the "size" [or amount of stock available at the bid and asked prices]. If xyz Corp. is quoted "54 1/2-54 1/2, 5 by 50," it means that there are 500 shares bid for at 54 1/2 and 5,000 offered at 54 1/2. This shows a block of stock overhanging the market, although not all blocks are shown so obviously. You may wish to wait until the size becomes more favorable before placing your order. Or you may decide to put in a lower bid. Also note the spread between the bid and the asked prices. If it is large—or larger than usual—it could cause you to pause before purchasing the stock.

6) Look for stocks that manage to go up on days when most stocks go down. Let your eyes scan the plus and minus columns in the newspaper and pick out the pockets of strength. Frequently, this is one of the first signs that a stock has bottomed out and is in the process of recovering. But before pushing the buy button, watch these stocks over a period of days to confirm your suspicions. This strength in the face of weakness could be the result of a dividend play or some other one-shot factor.

7) Corporate announcements of stock buyback programs can be an indication of stock undervaluation, although the stated intention to buy back shares does not necessarily mean that a company will buy back all the shares it is authorized to repurchase. Nor does it tell you at what price the company may initiate buy programs. Perhaps as good an indicator of a company's belief in itself is a stock split or a significant dividend increase in the face of adverse external market conditions. Corporate boards are slow to raise dividends and loath to cut them.

8) Whenever the stock market has suffered a severe setback, it can be profitable to abandon temporarily a long-term investment orientation and concentrate on stock purchases and sales with a shorter time horizon in mind. In times of market turmoil, short-term trading profits become both desirable and possible because of heightened market volatility. This strategy requires constant monitoring, discipline and a willingness to take above-average risk. It is not recommended for individuals who have neither the time nor the training to speculate.

9) Take an objective look at your portfolio. Ask yourself: If I didn't already own each stock would I buy it today? Don't hold stocks simply because you cannot bring yourself to take losses. A loss is a loss whether or not you choose to realize it. Just make certain that, tax-situation permitting, your money is invested at all times in the most attractive situations suitable for your investment objectives.
A majority of today’s investors have not experienced an extended bear market.

WHAT DO THE GRAYBEARDS THINK?

By Mark Hulbert

Growth Stock Outlook’s Charles Allmon likes to tell the story of his speech in October 1974 before 700 members of the National Association of Investment Clubs. It was just two months before the eventual low of the terrible 1973-74 bear market, but of course no one knew then that a historic buying opportunity was at hand. Pessimism was pervasive; it almost seemed the world was ending.

Allmon asked for a show of hands. How many of the 700, he asked, were planning to buy in that bombed-out market? Only 5 hands went up—5 in 700. And each of the 5 was more than 75 years old.

Why was Allmon impressed that only the oldsters were buying? Let’s examine the context. The Dow Jones industrials first crossed the 1000 level in 1966—nearly a decade earlier. Since then there had been nothing but bear markets and rallies in bear markets. For younger people—meaning in this case most people under 40—their only experience was of rotten markets and losses. For close to a decade stocks had been a lousy investment.

But the old-timers knew better. They knew that over the long term stocks are a good investment. They understood that no bear market goes on forever, just as no bull market goes on forever.

Now it is 1990. Today the situation is just the opposite of that which prevailed in 1974: The majority of today’s investors have never experienced a severe bear market. Thus they are predisposed to being bullish. Most of these relative neophytes—professional as well as amateur—tend therefore to regard every decline as but a temporary pause within the long-term bull market. Even the worst crash in history—October 1987—has apparently not shaken their faith, since the market soon erased its 1987 losses and attained new heights.

So let’s do a haircut on Charles Allmon’s 1974 experiment. Let’s look at those investment letters that are relative graybeards in the business, the ones that have been around for a couple of decades and whose experience includes long periods of bear markets, long periods of flat markets and long periods of bull markets. Of the 120 newsletters 1 track, 1 count 17 that have been published since before 1974.

What do we find when we consult these graybeards? Bad news. Eleven of the 17 are unequivocally bearish. The average stock market exposure among all 17 stands at a very low 19%, less than half the average that prevails among all newsletters I follow. Charles Allmon’s old-timers were bullish in 1974; the Hulbert Financial Digest’s graybeards are bearish in 1990.

What was needed in 1974 was the knowledge that bear markets don’t last forever. Today, according to Allmon and most of the other longer-lived newsletters, what is needed is the knowledge that bull markets don’t either.

Particularly bearish is the oldest newsletter among those I follow that has been edited continuously by the same adviser: Richard Russell’s Dow Theory Letters, which he has published since 1958. Russell is impressed by the fact that investors are not nearly as pessimistic and deserted as they would be at a bear market bottom. In 1974, for example, seemingly nothing could convince investors to turn bullish. Today, in contrast, Russell wonders what it would take to turn investors bearish; bearish beyond the point of nervousness to the point of despair. He writes: “People today are stubbornly optimistic, despite the onset of the greatest debt mountain in history and persistent divergences on the part of some of the averages and indexes.”

Contrarians might be tempted to draw bullish conclusions from the fact that so many of the oldest newsletters are bearish, but Russell counsels against trying. He believes that in a bull market it pays to be contrarian, but not during bear markets. Russell adds that “this concept always comes as a shock to analysts who have never lived through a major bear market.”

Obviously, not all newsletter advisers are as bearish as Russell, Allmon and many of the other longtime newsletter editors. But there is one point on which almost all of them seem to agree: The attitudes that predominate among investors today are nothing like the stubborn pessimism that has existed at historic buying opportunities such as December 1974.

I therefore detect among newsletters an uneasy consensus that, at the very least, we must be closer to a market top than a bottom. Which means that the long-term downside risk is large. Just ask yourself: How big a bear market would be needed to erase the bullishness bred by a 16-year bull market and to recreate the stubborn bearishness seen in 1974? I won’t try to answer that question, but I’ll remind readers of this: The bottom came in 1974 only after the market had declined about 45% from its alltime high; the market so far is down just over 15%. No wonder the old-timers are worried.
Property Strategies

MONEY & INVESTMENTS

Irving Fisher called interest rates “the link which binds man to the future.” That link is suggesting that stocks are a “buy.”

T BILLS AND TEA LEAVES

By Charles E. Babin

In the month following Saddam Hussein's initial grab for Kuwait's oil reserves, the s&p Composite index dropped some 9.3%. While equity investors have already been ambushed, the questions now are: Is the market headed lower? Or are stocks bargains ready to be bought?

In turbulent times like these, even seasoned players have to trust their intuition. Many veterans' instincts are telling them to expect a moribund stock market into the foreseeable future. As they see it, skyrocketing oil prices will exaggerate inflation and induce a recession. In short, stagflation à la mid-1970s will work to depress share prices into 1991.

Maybe so. But there are solid reasons to reject this doom theory, and believe instead that equities will recoup their August losses over the next year or so.

Yes, corporate earnings are weak and likely to get weaker as the economy slows. But, as I discussed in my "Don't Panic" column [FORBES, Sept. 3], weak earnings don't necessarily imply a bear market. Even if a full-blown recession is inevitable, as most economists now warn, history shows that economic downturns tend to coincide with bull markets.

How come? During hard times what counts in determining stock prices is the prospect of recovery, not yesterday's business news.

While previous oil disruptions may have paralyzed us at the gas pump, the stock market proved resilient. In 1975, when financial markets emerged from the oil shock triggered by OPEC's 1973-74 embargo, the Composite index returned more than 35% in the face of recession and negative profits comparisons. What's more, stock returns were positive throughout the Iraqi oil crisis (1978-79). And in 1980 — another recession year — the s&p's total return topped 32%.

Beyond precedent and expert opinion lies another means of interpreting the tea leaves: Investors can harness the collective wisdom of the market itself, as reflected in unbiased credit market prices, by monitoring fluctuations in three-month Treasury bill yields.

The proposition that interest rates are forward-looking and linked to equity returns is hardly novel. Yale's eminent economist Irving Fisher observed at the turn of the century: "The truth is that the rate of interest is not a narrow phenomenon applying only to a few business contracts, but permeates all economic relations. It is the link which binds man to the future... It enters into the price of securities, land and capital goods generally... Upon its accurate adjustment depend the equitable terms of all exchange and distribution."

There is an important reason why. Fisher's theorem ought to hold — particularly when risk, inflation and taxes hang in the balance, as they do with the showdown in the Persian Gulf. In the marketplace, opinion is backed by cash, an incentive that does not always work with the experts, who often have little to lose but their reputations. Moreover, at the margin, interest rates should reflect the latest intelligence available to investors. Arbitrage would make it so.

It's hard to imagine, for example, that nominal interest rates would remain relatively stable if inflation is about to run rampant, as many observers would have us believe. Yet, surging oil prices notwithstanding, today's T bill futures quotations are little changed from their pre-Kuwait-invasion levels. According to the futures market, next year's three-month T bill rate is still expected to average slightly over 7.1%, down from this year's likely average of about 7.5% and roughly a percentage point lower than 1983's average yield of 8.1%.

While these implicit forecasts could be wrong, the historical record shows that T bill futures boast an enviable 14-year record in foreseeing the path of interest rates in the year ahead.

While statistical testing affirms Fisher's postulation, even at the intuitive level the idea that equity and credit markets are linked makes sense. Just envision the impact on stocks if 1991's average three-month T bill rate were expected to hit double digits in response to the runaway inflation forecast by many economists. Few investors would expect the stock market to remain calm. The reverse would also hold.

The bottom line is that credit market behavior is at odds with the higher inflation/lower stock market scenario. With current T bill futures quotations signaling an improved interest rate environment ahead, the chance that equities will rebound is high. Based upon the observed relationship between credit market swings and the stock market performance in years past, today's interest rate picture is indicating better than 2-to-1 odds that equities will more than recover their 10% drop by year-end 1991. While it may require some intestinal fortitude, patience should be rewarded. With the s&p's Composite hovering in the low 300s — and the Dow Jones Industrial index nudging 2600 — the stock market is a "buy."
Financial Strategy

MONEY & INVESTMENTS

The recession-mongers say we are in trouble: The deficit and our external debt have tied Uncle Sam’s hands. Nonsense.

DEALING WITH RECESSION

By Alan Reynolds

A reader sent this juicy item from a Dallas newspaper: “The economic night, long predicted to follow Ronald Reagan’s morning, is falling.” Poor Ronald Reagan. Even if the next recession turned out to be a decade away, it would still be blamed on him.

However, the blame may have to be deferred. Just after bandwagon forecasters eagerly rushed to declare that their “long-predicted” recession had at last arrived, there was embarrassing news of lofty increases in orders, income and home sales. Those inconvenient signs of strength were dismissed as irrelevant because of higher oil prices, but the gloomsters forget that the spot price of Mideast oil more than tripled in 1979, hitting $38, yet the economy kept rolling. Anyhow, military conflicts, if it comes to that, have always created at least the illusion of boom, not bust.

Okay, but let’s for the moment give the gloomsters the benefit of the doubt and assume a recession looms. What should the government do? The recession-mongers like to say that any downturn under present circumstances must be worse than usual because the government is powerless, unable to use either fiscal or monetary policy to soften the blow. Tax rates have to be increased, not cut, because of Gramm-Rudman ceilings on the deficit. And the Fed can’t lower interest rates, so the story goes, because high interest rates are needed to bribe foreigners to finance our trade deficit.

Is all this really so?

Before you answer the above queries, answer this test question from freshman economics: When the economy is close to recession, should the government raise tax rates or lower them? The answer, of course: Cut them, fast. Not since June 1932 have so many politicians flunked this basic exam. Even without any new federal taxes, personal taxes have already been rising much faster than personal income. Personal income rose 10.4% over the last six quarters, but personal taxes rose 14.2%. With federal and state governments trying to snatch a larger share of any increases in personal income, the incentive to earn such pay increases in the first place has been diminished.

In these circumstances it seems obvious that the government is far from helpless in combating a recession. With taxes as high as they are, there is plenty of leeway for cuts.

What about the federal deficit? Well-designed tax relief would put some needed vigor back into the U.S. economy and would reduce the deficit by reviving taxable payrolls, sales, profits and asset values.

Okay. How about monetary policy? Are we in trouble because the Fed must keep interest rates high to keep foreign creditors happy? Not necessarily. There are good reasons for being skeptical about solving real economic problems by getting the Fed to flood the banks with reserves. Such a move would entice consumers and companies to take on even more debt. And the resulting weak dollar would make the U.S. less competitive. More important, recent research suggests that the 1970s emphasis on monetary causes of all recessions has, at the very least, been overdone.

In the Minneapolis Fed’s Quarterly Review, Finn Kydland and Ed Prescott note that “quantitative research has had difficulty finding an important role for monetary changes as source of fluctuations in real aggregates. As a result, attention has shifted to the roles of other factors—technological changes, tax changes and terms-of-trade shocks.”

The writers are saying that recessions have little to do with monetary policy and a lot to do with external shocks to the economy. The U.S. has recently been hit by two out of three of Kydland and Prescott’s “real” shocks. The oil embargo constitutes a terms-of-trade shock. We suddenly have to give up more manufactured goods in exchange for fewer barrels of oil, which makes both the U.S. and its best export markets (Asia and Europe) poorer. The second shock is that effective tax rates on personal income have also increased in 1989-90, and there are threats of even higher federal and state tax penalties that must at least postpone productive efforts and investments.

These are real problems: more costly oil and rising taxes. Trying to offset that sort of real problem with easy money may indeed increase nominal GNP or spending. But spending more money on less output just means stagflation.

If these two shocks push the economy toward recession, is there anything Bush Administration officials could do? Certainly. They could sell some strategic petroleum reserves to educate hoarders and speculators if they again try pushing the price of oil up too far too fast. They could stop putting public pressure on the Fed to supply more dollars at times when the dollar is already under attack, and instead pressure the G-7 to help support the world’s key currency. And they could finally get serious about promoting the President’s campaign pledge to cut the capital gains tax to 15%.

Alan Reynolds is the director of economic research for the Hudson Institute of Indianapolis, Ind.
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Pennant race on 
Wall Street

Streetwalker has often thought the current stock market resembled a good pennant race. September is traditionally the month the contenders make their final stretch run to overtake the division leaders. This season the bulls ran out to a big lead, but by midsummer the bears—with help from murderous slugger Saddam Hussein, up from the minors—were in first and pulling away. The consensus is the bears will win. But even in bear markets, rallies are not unheard of.

The kind of rally we’re talking about isn’t the recent sigh-of-relief, but one that retraces some of the market action that took place earlier this year—well before the Iraqi invasion of Kuwait. So, with the Dow lately recovered to over 2600, how high is up in such a rally? Streetwalker would not be surprised if, near term, it broke 2700 or rose even slightly higher.

When the market was marching toward 3000 this spring, technicians noted “resistance” above the 2700 level—meaning that anybody interested in selling stocks was likelier to do so when the Dow broke through 2700. And when most of those so-called “natural” sellers were gone, who was left? Mainly natural buyers, who drove the market yet higher.

There are fewer buyers around than a couple of months ago, but obviously still enough that recently they carried the market up 130-odd points in no time flat. Of course, whether they are sufficiently strong to rally the market above 2700 remains to be seen. But if they succeed, look for lots of sellers once more to start bailing out.

The caveat to all this is such a rally would probably be short-lived. Before Kuwait, bears expected the market to drop because of weakening economic fundamentals. None of that has changed; in fact, conditions may have worsened. But that doesn’t rule out one more run by the bulls. Play ball.

The sprinter stumbles

Headquartered in Westwood, Kan., $7.5 billion [revenues] United Telecommunications, Inc. owns just over 80% of US Sprint, the U.S.’ third-largest long-distance carrier [behind AT&T and MCI Communications]. Be-

cause of losses at Sprint, United Telecom’s second-quarter net fell 55%—despite Chairman William Esrey’s earlier confidence that the worst was over. The nyse-listed stock crashed from around 40 to a recent 25.

Nevertheless, John Bain of St. Petersburg’s Raymond James & Associates notes that, absent Sprint’s losses, United Telecom would probably earn more than $2 a share. It operates independent telephone systems, publishes telephone directories, and distributes telecommunications products—all solidly in the black.

Nor is Sprint a dead loss. It has been

United Telecom’s William Esrey
The potential in Sprint.

plagued by billing and collection snafus, and its costs relative to revenues remain considerably higher than the competition’s. But these things are probably fixable. Sprint, which has already taken writeoffs, is reorganizing operations and laying off more employees. United Telecom has delayed its $500 million acquisition of the 19.9% of Sprint it doesn’t yet own.

Analyst Bain thinks the company’s profitable operations are worth at least $20 a share, which means the market is valuing Sprint at around $5 a share. With the long-distance business expected to grow 8% to 10% a year, Bain thinks that United Telecom’s ownership of Sprint is a cheap way to buy into what is still a franchise with good long-term prospects.

Consider the following: MCI’s operating margins recently exceeded 15%; Sprint’s weren’t much more than break-even. “There’s no technologi-

cal, legal or regulatory reason those margins can’t be raised,” says Bain. “MCI has proven it can be done.”

Security-conscious shares

One of the unfortunate facts of American life is that crime is rampant. But if crime is a growth industry, there are also a number of companies growing through their efforts to protect us from it. One is $462 million [sales] Wackenhut Corp. Based in Coral Cables, Fla., it is the nation’s second-largest publicly traded security guard and services company behind Pinkerton’s [Forbes, Sept. 17]. Recent NYSE price: 21½.

One high-margin business that Wackenhut has targeted for growth is private corrections management. The doubling of the U.S. prison population over the last decade has put authorities in both a capacity and a cost squeeze. Wackenhut currently operates nine correctional facilities, and recently announced contracts to run two new ones in Texas and Louisiana. A lucrative contract: This month the company will take over the $20 million-a-year job of providing security for the Energy Department’s Rocky Flats, Colo. facility, which manufactures plutonium triggers for nuclear weapons.

Analyst Mark Daugherty of Dean Witter Reynolds expects Wackenhut to earn $1.75 a share this year, up 15%. For 1991 he’s estimating $1.90. So at recent prices the stock is trading for 11 times next year’s anticipated earnings, or at the low end of its P/E range over the last few years. One caveat: The stock is thinly traded. Chairman and founder George Wackenhut, 71, owns 50% of the 3.9 million shares. Also, don’t look for a takeover; Wackenhut’s son Richard, 42, is president.

Go ahead, make my play

Speaking of crime-stoppers, there’s also the stock of Southport, Conn.-based Sturm, Ruger & Co., Inc., a leading U.S. manufacturer of firearms. Recent NYSE price: 24%. Sturm, Ruger [estimated 1990 sales of $147 million] caters primarily to the high end of the sporting and law-enforcement markets. What’s more, it can often price its products below competitors’ because its manufacturing costs are lower. The company uses advanced metallurgy technology more commonly associated with the making of jet engine parts, so its precision castings require little additional machining. To this end, it is spend-
Refined taste

The Middle East crisis has been good to oil stocks. Ditto driller and oil service shares. Not so the refineries. Why? Because, says Alan Gaines of New York’s Gaines, Berland, the perception is that as oil prices rise, refining margins fall. Lately, however, margins have been nothing short of spectacular, he says.

Refiners make their money on the spread between the price of a barrel of gasoline and the price of a barrel of crude. Pre-invasion, the spread was $5 to $5.50—enough, says Gaines, that refiners made darned good money in the second quarter. But with the spread having lately risen to $8.50 to $9, Gaines thinks third-quarter earnings will be tremendous.

Gaines acknowledges that historically the refining business has been volatile. Even so, some of the stocks are now ridiculously cheap. Among his favorites: Ashland Oil Inc. (recent NYSE price of 33%) sells for eight times the $4.10 to $4.25 a share Gaines thinks it will earn this year. Diamond Shamrock Inc.—recent price of 23% on the NYSE—trades at eight to nine times his 1990 estimate of $2.50 to $2.75. As for Crown Central Petroleum Corp., Gaines is looking for $4.50 to $5 on the year. Recent price of the Amex-listed class B stock: 28%, which makes for a p/e of only six times anticipated earnings.

Taking over $5 million on a new titanium foundry in Prescott, Ariz.

One new product drawing high marks is the P85 9mm automatic pistol. (Suggested retail price: $357.50.) Most law enforcement departments around the country are upgrading their firearms to ensure that they won’t be outgunned. The P85 features a 15-shot magazine and can be reloaded quickly with a new clip. This compares with the typical .45-caliber police service revolver, which has more stopping power but carries six shots and is slower to reload. By year-end Sturm, Ruger is expected to introduce a more powerful 10mm, .45-caliber model of the P85.

Analyst Mark Keller of St. Louis’ A.G. Edwards & Sons expects the company to earn $2.75 a share this year, and is looking for a 16% gain to $3.20 in 1991. At just eight times estimated 1991 earnings, he thinks the stock’s a buy. Chairman William Ruger, 74, and Joanna Sturm, daughter of the late cofounder, own nearly 50% of the 6.7 million shares.

Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of ‘bula’ are a reflection of the welcome and care extended to visitors.

“This is the way you always imagined the South Pacific to be – an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the Bounty two centuries ago. Situated 200 miles out to sea northeast of Nadi, Lauca is the lushest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior rife with giant ferns, mango trees and wild birds..."

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don’t expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

Meals are a delight here, beginning with breakfast prepared by a cook and housekeeper in the privacy of your own bungalow at any hour you wish. Dinner and lively conversation are enjoyed at the atmospheric Plantation House..."

"A wide range of daytime diversions are available including top-notch sport fishing aboard a specially-designed 45-foot deepsea boat staffed with knowledgeable captain and crew at your call. Tuna, maimi, snapper, jack fish and sailfish are all regularly hooked in these virgin grounds, plus an occasional black marlin. There’s also superb snorkeling/scuba diving (tanks and weights provided) in the transparent offshore waters where stunning reefs harbor colorful coral heads teeming with rare tropical fish and specimen shells."

"It’s always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special - particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific..."
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It's the perfect place to acquire a substantial part of the American dream. Here you will taste life on the scale it was meant to be lived.

Forbes Magazine's division, Sangre de Cristo Ranches, put this project together based on the many requests received over the years for a really large tract of land. Through Forbes Wagon Creek Ranch, we're pleased to be able to share a part of it with you and your family. We've randed this area for almost two decades and plan to be around for generations to come. Our neighboring Forbes Trinchera Ranch covers over 400 square miles, which is our firm commitment to the future of this unspoiled paradise in Colorado. Ranches here start at $30,000. It's not a small sum. But unlike paintings and jewelry or new cars, this ownership extends past your lifetime and the lives of those you love to guarantee your own substantial heritage in America the beautiful.

For complete information, without obligation, call 719/379-3263 or write to: Errol Ryland Manager, Forbes Wagon Creek Ranch, P.O. Box 303 90M6 Ft. Garland, CO 81133.
Flashbacks
Edited by Dero A. Saunders

Seventy years ago in Forbes
(From the issue of October 2, 1920)
"The dollar is beginning to buy more. It now buys quite a lot more at wholesale, and is gradually beginning to buy more at retail. The dollar will buy a pound or two more sugar. It will buy more coffee. It will buy more rice. You now get more for your dollars when you go to buy shoes.... In short, whereas the dollar bill used to buy less than 50 cents' worth, it is already worth more than half-a-dollar in purchasing power."

"A minimum wage for salesgirls engaged in mercantile occupations has been fixed at $17.50 per week by the North Dakota Workmen's Compensation Bureau in regulations effective Aug. 16. Apprentices' wages range from $12 to $15 per week. No girl may be employed after 6:30 p.m."

Sixty years ago
(From the issue of October 1, 1930)
"Don't overlook the indisputable fact that for almost a year, or ever since the October stock market panic, the tendency has been to bring inventories down and down. Consumers meanwhile have followed a similar course. Installment buying has dwindled. All this means that production in most lines has been running below actual consumption, and that we are steadily nearing the time when sheer necessity will compel [more] buying."

The European beginnings of American public housing to come
"Prices of practically all the important commodities have been in a fairly steady downward trend during practically all of September, and the month has registered new low records in many cases, not only for 1930, but for a number of years past."

Fifty years ago
(From the issue of October 1, 1940)
Chrysler President Keller (in driver's seat) breaks ground for new tank plant
"Adding up such solid facts as billions for defense orders and defense construction, steel output at capacity, free-spending consumers, stock market revival, and relaxing of SEC straitjackets, some business analysts see a real boom ahead. 'What we have now,' observes economist Lionel D. Edie, 'is nothing in comparison with what is in prospect for this country.'"

"The public had become accustomed to eminent Democratic individuals announcing their opposition to a third term, their decision to work for Willkie's election. Even so, nationwide interest was aroused when the Democratic New York Times, a backer of Candidate Roosevelt four and eight years ago, splashed a three-column editorial withdrawing its support from Roosevelt [in favor of] Willkie."

Twenty-five years ago
(From the issue of October 1, 1965)
"The crash came last March. 'Suddenly there were all sellers and no buyers,' says Jack Friedberg, president of Capital Coins. Rare-coin specialist Benjamin Stack, of Stack's Coin, who predicted the great coin crash, has little sympathy for any of his fellow dealers who are in trouble. 'They cut their own throats and now they're wallowing in their own blood,' he says. 'Some 15% of all coin dealers have gone out of business, and I predict we'll lose another 15%....'"

"Like a bulldozer, the nation's highway industry has ripped its way from a $7.4 billion-a-year business in 1955 to a $14.3 billion-a-year business today. More than 40,000 construction companies, cement companies, steel companies and manufacturers of machinery are now engaged in building and repairing highways and in turning out the raw materials and equipment to build and repair them. They employ 870,000 workers, including 370,000 construction workers alone."

Ten years ago
(From the issue of September 29, 1980)
"Probably not since the days of conversion from war production to civilian production at the end of World War II have major U.S. corporations hemorrhaged so much red ink. Chrysler dropped $1.8 billion over 12 months. White Motor filed for bankruptcy. The bleeding is going to get worse before it cases up. Consider this: In the most recent 12 months one in every ten of the 4,500 actively traded public companies in the U.S. will show red ink."

"More than likely the Pentagon's newest bomber idea—this one to be rendered invisible to radar by a new technology called 'stealth'—will wind up in a museum, like its predecessors. Back in the 1960s there was the 2,000mph B-70, whose prototype sits at the Wright-Patterson Museum in Dayton, Ohio. Next came the B-1, which is meeting a similar fate."

Wang Labs founder Dr. An Wang
"When you're 30 you have ideas but you also have a lot of other things to do," says Dr. An Wang, the Shanghai-born, Harvard-educated scientist who founded Wang Laboratories, one of the most spectacular computer-industry success stories. When 'The Doctor,' as he is called by employees, was 30, he was getting his company off the ground. Now he's 60 [and] his company will do three-quarters of a billion dollars in sales this year...."
Men occasionally stumble over the truth, but most of them pick themselves up and hurry off as if nothing had happened.

Winston Churchill

I have discovered the art of fooling diplomats; I speak the truth and they never believe me.

Benso Di Cavour

If you want to annoy your neighbors, tell the truth about them.

Pietro Aretino

Some of the most frantic lies on the face of life are told with modesty and restraint; for the simple reason that only modesty and restraint will save them.

G.K. Chesterton

A truth that's told with bad intent
Beats all the lies you can invent.

William Blake

As scarce as truth is,
the supply has always been
in excess of the demand.

Josh Billings

Truth is the object of
philosophy, but not always
of philosophers.

John C. Collins

My way of joking is to
tell the truth; it's the
funniest joke in the world.

George Bernard Shaw

God offers to every mind its choice between truth and repose—you can never have both.

Ralph Waldo Emerson

Most writers regard truth as their most valuable possession, and therefore are most economical in its use.

Mark Twain

It is perfectly monstrous the way people go about nowadays saying things against one, behind one's back, that are absolutely and entirely true.

Oscar Wilde

Any truth is only true up to a certain point. When one oversteps the mark, it becomes a non-truth.

Kierkegaard

A Text...

Children's children are the crown of old men; and the glory of children are their fathers.

Proverbs 17:6

Sent in by Richard Schmitt, Maple Glen, Pa. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

It is a great advantage for a system of philosophy to be substantially true.

George Santayana

At a distance from the theater of action, truth is not always related without embellishment.

George Washington

There are truths which are not for all men, nor for all occasions.

Voltaire

An exaggeration is a truth that has lost its temper.

Kahlil Gibran
Like modern pioneers, we’re moving into areas that offer the best opportunities for future growth.

The spirit of the Old West is alive and well in the telecommunications industry today. New opportunities are created almost daily. And those who move quickly reap the rewards.

At ALLTEL Corporation, we are doing just that. We’re building on a solid base of regulated telephone operations, while moving aggressively into high-growth, non-regulated fields like cellular telephones, distribution and long distance.

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And we’re rising fast on the Forbes 500.

If you share this pioneer spirit, we invite you to join us for what promises to be a singularly rewarding journey.

For more information, call (501) 661-8999 or write to: ALLTEL Investor Relations • P. O. Box 2177 • Little Rock, AR 72203
Ten of Europe's toughest critics awarded Wyse their top prize.

Over 3 million even tougher critics awarded us their business.

The Wyse Model 3225, winner of Europe's CeBIT award for design excellence. Novell certified as a network server, this 25-megahertz 386 runs today's demanding business software with brisk efficiency.

Source: IDC 1989 Terminal Census

[Wyse] is a registered trademark and Model 3225 is a trademark of Wyse Technology Inc. All other trademarks are property of their respective owners. © 1990, Wyse Technology Inc.
The world's largest computer exposition is CeBIT, held in Hannover, Germany. It is the premier international showcase for the latest and finest computer products from around the world. And in 1990, the European computer experts who judge at CeBIT awarded their top honor for design excellence to a Wyse personal computer, our Model 3225. Several PC brands are better known than Wyse to the world at large. But it isn't particularly surprising that one of ours was selected for this prestigious award. Wyse design expertise has been winning a following among computer professionals for nearly a decade. And today, we have an installed base of over 3,000,000 terminals and personal computers. Our design goal always is to add value. The ingenious design of our terminals, for example, gives them more features, styling and ergonomics than the competition. For less money. As a result, Wyse is the largest independent maker of computer terminals! Similarly, our new family of UNIX multiprocessor systems offers better price/performance ratios than any similar line. Plus the investment protection of expandability. You'll find such value reflected throughout our family of PCs, as well. All are extensions of the design philosophy and capability honored by the CeBIT judges. To learn more about their winning ways, just call 1-800-438-9973.
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A legend in modern design: Movado® Museum® Watch.

It was inspired by the group of international artists who founded the famous Bauhaus School in the mid 1920's.

Simplicity, tastefulness, function was their dictum. And one of its purist expressions was the watch dial distinguished by a single dot, designed a decade later by Nathan George Horwitt.

In the 1950's this design was recognized by the Museum of Modern Art and selected for its permanent collection.

It seems appropriate that today, the Movado Watch is crafted in Switzerland, the country that gave roots to both watchmaking and the Bauhaus movement of modern design.

The Movado Museum Watch is executed in an 18 karat gold micron-finish. It is water-resistant and has an electronic quartz movement. (Should you prefer, the watch is available in 14 karat gold as well.)

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WHY SOME OF THE MOST ASTUTE PEOPLE IN THE WORLD CONSIDER THIS THE BEST INVESTMENT IN LUXURY SEDANS.

BMW's engineers have put a great deal of thinking into the 735i luxury sedan. Maybe that's why it appeals to people who put as much thinking into the car they choose to drive.

A luxury sedan that's worth the money. The 735i is one of those automobiles that actually inspire their owners with a sense of money well spent. Though it's well equipped with features, it is entirely lacking in gadgets. In fact, everything in it is there for good reason: whether it's to make your drive more comfortable, more enjoyable or more safe.

High performance defined. The BMW 735i sedan is compelling proof that there are many dimensions to the term "high performance": balance, aerodynamics, safety, virtually every element of design.

This is an automobile that is almost perfectly balanced from front to rear. That's rare in cars in general, but quite common for BMW. For only a well-balanced car offers the best possible road handling.

Unlike most aerodynamic cars, the 735i is designed not only to cut through the wind, but to minimize the dangerous effects of crosswinds and the forces of lift—a design which
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can help keep you in control when passing large trucks or crossing windy bridges.

Safety is the first priority. In the 735i sedan, performance goes hand in hand with safety. BMW's sophisticated antilock braking system gives you the confidence that you can stop quickly, even on wet surfaces, and stay in control.

Even if you can't avoid an accident, it still performs well. It has regenerating bumpers, attached to replaceable crash boxes, so in frontal collisions up to 9 mph, the car sustains only minimal damage. Its rigid passenger compartment provides more protection to those inside. It's also equipped with a 3-sensor airbag system and rear seat belts designed to prevent passengers from bumping heads in a side impact.

An investment you can be comfortable with. The 735i sedan represents a milestone in automotive elegance, but its luxury runs deeper than the rich leather and wood of the interior—from its three-memory electronic seats to its two-zone climate control.

Even more comforting is the fact that, historically, the 735i yields a handsome dividend at resale time. For more information, call 800-334-4BMW. Or see your BMW dealer for a test drive, and make a few astute observations of your own.

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Boom or doom?

As this issue of Forbes went to press, the Dow Jones industrial average had shed 500 points in a few months—roughly equal to the damage the market suffered in that never-to-be-forgotten October of 1987. The circumstances differ, but now, as then, people ask: Should I swallow my losses and sell stocks? Should I postpone that vacation? Do I really need a new car?

How bad is the economy? Two prominent economists address the question in this issue and come up with clearly reasoned but clearly opposite answers. Alexander Paris, the respected guru of Barrington Research Associates (see page 126), looks at the stock market and says he feels like a kid in a candy store: So many bargains! Paris predicts a worldwide capital spending boom.

But business economist Gary Shilling (see page 232) has an opposite vision. Writes he: “A major business slump started . . . and [it] will be deep and global.” His advice: Get into cash and out of stock and real estate.

Contradictory? Heck yes. In times like this, Forbes owes it to its readers to explore all the probabilities. These two, Paris and Shilling, represent the polarities inherent in what is in many ways an ominous situation—a weakening economy compounded by mounting financial failures and a threat of war.

Whose side are we on? Bull or bear? If pressed, we fall back on our informal forecasting tool, the Media Index. By late September, television, newspapers and magazines had become saturated with bad news. On our desk right now is the latest issue of a mass periodical. It trumpets: “Best Moves Now For Forbes Times.” This is typical. One day late last month I counted five gloomy articles in the Wall Street Journal’s first section and eight in its financial section, these outnumbered the cheerful stories by stories from 3-to-1.

Last time our informal Media Index registered such a gloom boom was in November of 1987—just before the Dow Jones industrials began a 1,000-plus-point runup. Before that the highest Gloom reading was in 1982, when the media were dominated by apocalyptic nonsense about de-industrialization, unemployment and two-child deficits. There followed eight years of mounting prosperity.

Pressed, then, we’ll bet with Paris. But—remembering that while predicted disasters seldom happen, they sometimes do—we’ll hedge a bit with Shilling’s persuasive pessimism.

The fire down south

Our John Marcom visited Brazil to look at the explosion of Protestantism in that theoretically Catholic country. Is Forbes getting theological? Not at all. Scholars have noted—but the mass media have ignored—the spread of evangelical churches in Latin America as a symptom of profound social and cultural changes. Marcom sees the trend as presaging a break with Brazil’s—and Latin America’s—anticapitalist past. “The fire down south” starts on page 56.
"WE DID IT. FIRST TIME ROUND. AFTER ALL THOSE YEARS WE SPENT TOGETHER AT SCHOOL, I KNEW WE'D MAKE AN UNBEATABLE PARTNERSHIP."

Significant Moments

OMEGA. The watch that records the world's significant moments. At the Olympic Games. In outer space. And exclusively for you. Here is the Omega Constellation in stainless steel and 18K gold.

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BAILEY BANKS & BIDDLE
Oracle Corp., the Belmont, Calif. vendor of database software, was flying high when Forbes looked at its books in May 1989. Earnings per share were doubling every year and the stock was going for 39 times earnings. The problem: The business was generating minuscule amounts of cash, at least compared with the large reported profits. Why? First, Oracle was capitalizing some R&D costs rather than expensing them immediately. That pumped up reported profits. Second, a lot of Oracle's sales were to customers who bought software on time. Such sales increased accounts receivable, not cash. In fiscal 1988, when net income was $43 million, receivables grew by $70 million.

The article appeared when Oracle was trading at a split-adjusted 12%. The stock peaked in March at 28%. But recently Oracle's weaknesses have caught up with it. In September it announced that sales had grown at a much slower rate (16%) than the expected 50% in the quarter ended in August. With expenses growing faster than revenues, the company announced on Sept. 25 its first quarterly loss ever, 27 cents a share. The stock was recently trading over-the-counter at 7½.—David Churbuck

Simplistic theory
In the midst of a protracted bear market for technology companies (Forbes, June 27, 1988), Forbes thought it made contrarian sense to buy stocks with low price-to-sales ratios and sell those with high price-to-sales ratios. After six months our buy list was up 13% and our sell list was down 10%. But in the long run the strategy didn't hold up at all. Zenith Electronics, for example, was selling at 23% per share, or only a quarter of revenues; the stock’s price “could easily triple,” Forbes averred. Zenith recently traded at 5½.

Standard & Poor's index of computer systems stocks is down 27% since June 1988. The ten stocks that looked like buys fell 31%. Making matters worse, the ten stocks that looked relatively overvalued have climbed 41% in value. So much for a simplistic application of price-to-sales theory.

Not so noble noble
As predicted, Sir C. Humphrey Cripps is stiffing shareholders in Velcro Industries, maker of the ubiquitous fastening material (Forbes, Oct. 5, 1988). Last month Cripps, 75, announced Velcro was buying in the 37% of the company not already owned by a Cripps-controlled holding company for $21.75 per share, or $24 million. That's probably less than half what the stake is worth. But shareholders can't protest: Velcro is incorporated on the island of Curaçao in the Netherlands Antilles, where shareholders have no right of dissent.—Fleming Meeks

Pennsylvania story
Fischer & Porter Co., the maker of process-control instruments, reincorporated in Pennsylvania in May. It was immediately sheltered by the state's new antitakeover law [Forbes, June 2]. Poor shareholders. The market for process-control makers soon took off, but Fischer & Porter has sat on the sidelines.

Last month Foxboro Co.—based in Massachusetts, where antitakeover laws are milder—accepted $52 a share in a takeover by Siebe Plc. of Britain. Shareholders of Foxboro have been enriched by over $350 million. And Florida's Milton Roy Co. accepted a buyout offer by Sundstrand Corp. for $28 a share—twice what the stock fetched earlier this year.

Fischer & Porter's stock, meanwhile, has lost nearly one-fifth of its value. Investors must be wondering whether the company should move back to Delaware.—Jason Zweig
Sure, it's possible to find another car this unique. It's also possible Halley's comet will return tomorrow.

The odds of another carmaker coming up with a car like the new Toronado 'Troféo' are, well, astronomical. That's because the 1991 Troféo's uncommon luxury is light years ahead of ordinary luxury coupes.

For starters, there's a state-of-the-art visual information center available that's capable of storing and recalling up to 51 useful, full-color displays.

Other standard features include a responsive 3800 V6 engine with tuned port injection, a touring suspension system, anti-lock brakes, a driverside air bag that supplements the safety belt, power adjustable front bucket seats and remote lock controls.

The new Troféo is also protected by a truly unique feature. The Oldsmobile Edge—the most comprehensive owner satisfaction program in the industry.

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You'll see that, unlike Halley's comet, the new Troféo is one phenomenon you can experience every day.

Toronado
The New Generation of Oldsmobile
Since 1983, 7 out of 10 spreadsheet users and over 10 million business people are more productive, more insightful, and more efficient because of Lotus 1-2-3. Now Lotus introduces 1-2-3 Release 3.1. And if you're one of those currently using 1-2-3, you'll find it offers the features you've been wishing for.

Like the ability to see, on screen, exactly what your printed output will look like. Our unique 3D approach to organizing and consolidating spreadsheet data. And the most flexible, professional, and persuasive printed reports you've ever created on your computer.

Or if you're one of the holdouts not using 1-2-3, you'll find that Release 3.1 offers an interactive, graphical environment that makes using 1-2-3 easier and more intuitive than ever before. It also works with Windows 3.0. And even sup-

Enter data with a keyboard; manipulate it with a mouse. Release 3.1 lets you work with either, or both.

A graphical WYSIWYG (what you see is what you get) environment shows you exactly what your output will look like. It's easier to work with, and there's no guesswork.

1-2-3 works with either DOS or Windows 3.0. You don't have to change the way you work to work with Release 3.1.

Only Release 3.1 offers an auto-compress feature that eliminates the tedious task of trying to squeeze another line, column or row on your page.

Note: Record Q4 Volume!

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Lotus is the only software company you can call for support 24 hours a day, 7 days a week.

Eight combinations of typefaces let you create anything from 1/2" tall headlines to tiny footnotes.

Align titles or text-left, right or center— with one simple command.

WeCycle Waste Corporation
1990 Recycling Summary

Last year was a good year for the company. WeCycle was profitable and came very close to achieving our goals in a very uncertain economic and recycling climate.

Revenue by Product

Material collections increased over the year. Plastics continue to bring in the most revenue and profit for the company. Prices for aluminum are still very soft and while we're continuing to collect more glass, markets for the raw material are still in their infancy.

Revenue for 1990 is $5,437,193 in the four quarters. The revenue increases show that communities are building their recycling programs beyond just collecting plastics. Revenue from aluminum and glass have increased as older programs have gained volume. But, we're still seeing price pressure as the supply of recyclable materials continues to exceed the demand. We need to look for ways to expand our markets and increase the use of recycled materials.

Collections by District

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ports both a keyboard and a mouse. And only Lotus offers telephone support 24 hours a day, 7 days a week.

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We've prepared a free demo disk, which lets you see everything that 1-2-3 Release 3.1 can do for you.

To get your demo, or request upgrade information, call 1-800-TRADEUP, ext. 950. And see why 7 out of 10 spreadsheet buyers chose 1-2-3. And the other 3 may not be far behind.

Introducing Lotus 1-2-3 3.1
Lee re-ups

The Lee Iacocca succession derby at Chrysler has been picking up steam lately, fueled by the looming expiration of Iacocca's contract at the end of 1991. But this one might go a few extra laps. In a move unannounced to the public until now, Chrysler's board quietly extended Iacocca's contract in July. Chrysler will only say that the extension was the board's idea, that the new contract does not have a termination date, and that we can read all about it in the company's proxy next spring. With industry sales slumping, Chrysler's board presumably figured the company needs all the managerial talent it can get.

Coming back is hard to do

Whatever you may think of his liberal politics, Norman Lear is as tough as they get when it comes to his own money. In August the sitcom-savvy turned media-conglomerator shook up his Act III Communications with the firing of dealmaker Thomas McGrath, who spearheaded Lear's purchases of TV stations, movie theaters and trade magazines. In came Hal Gaba, an old pal of Lear's, to preserve the status quo. Five of 15 employees at Act III's Los Angeles headquarters were given their walking papers.

The reasons for the shakeup aren't entirely clear. Act III's group of eight TV stations in medium-size markets—including Buffalo, Nashville and Dayton—are doing well. All are Fox network affiliates and thus are growing fast: cash flow this year should top $25 million, a jump of over 40%. The theaters, in Texas and the Northwest, are also profitable. These two divisions account for about 90% of Act III's estimated $230 million in revenues. The skunks in Learland are Act III's trade publication division, the smallest piece of the company, and its fledgling film division, which is expected to wind down after completing the five feature projects it now has in development.

Rumor has it that Lear, now 68, wants to go back to creating TV shows again. His latest sitcom, Sunday Dinner, is slated as a midseason replacement for CBS. But it's not at all sure that the man who brought America All in the Family, among other hits, still has the touch. Already, Lear and CBS have agreed to pull the plug on another of his ventures, a late-night program called Jody Gordon and the News. Before that, Lear's last comeback attempt was the disastrous a.k.a. Pablo, a sitcom about a large extended Latin family, which was canceled after six episodes in 1984.

Better detector?

Earlier this year the Federal Aviation Administration was in the throes of forcing the airlines to install $1-million-a-copy bomb detection devices of dubious reliability. These thermal neutron analysis devices, it turns out, could be triggered by wool scarves and Polish salami, among other things, but are too crude to detect the sort of minilexplosive that blasted Pan Am's Flight 103 out of the sky over Lockerbie, Scotland.

Now the FAA has changed its mind. It has told the airlines the thermal neutron machines won't be mandatory, soon the carriers will be able to choose at least one other bomb detector that's cheaper and more effective. Cambridge, Mass.-based American Science & Engineering, Inc., whose own detection system is already in use on a number of airlines in Japan and Europe, has just received a $2 million FAA contract to produce its automatic bomb detectors for airlines worldwide. The device's probable price tag: $250,000.

Exults Tim Neale, spokesman for the Air Transport Association, an industry group that lobbied against the FAA's decision to require the thermal neutron analysis machines: "TNA is dead in the water." —Joel Millman

Ted Field's green light

Overlooked in all the ink spilled over last month's $100-million-plus joint venture between Walt Disney Co., Nomura Babcock and Ted Field's Interscope Communications was what a coup the deal was for Field. With the joint venture, Field has now joined the tiny cadre of powerful studio heads and independent producers who have enough clout to approve a movie on their say-so alone—what the industry calls "green lighting" a project. Under the joint venture, there's already $100 million committed, none from Field's pocket. In the past few years Field has produced such films as Revenge of the Nerds, Cocktail, Bird on a Wire and Three Men and a Baby. Apparently, his 17 films have been profitable, which is one big reason Disney and the Japanese are willing to give the Marshall Field heir carte blanche with their $100 million.

Hardy little beasts

The number of penny stock firms has dwindled from 350 in 1988 to 290 this year and their registered brokers have shrunk from 5,000 to around 3,500. But this is a species that is hard to kill. Some penny stock firms have begun franchising themselves. New Jersey regulators have identified at least five penny stock peddlers that have signed franchise or branch-office agreements with suspended, even barred, brokers. These operators are setting up shop and escaping registration with the NASD and state regulators. Florida regulators have spotted at least five more such firms, and the SEC and the NASD are investigating.

Take MLB Investments, a Denver penny stock outfit, that late last month changed its name to Venture Trading. In January MLB signed a franchise agreement with Triton Funding
Corp., a Florida firm that wanted to open a branch office in Manhattan. But New Jersey state regulators—who have jurisdiction because MLB was registered in that state—found unregistered brokers running the Triton Manhattan office; among them was franchise owner Craig Van Pelt. MLB agreed to close the office, to pay a $15,000 fine to the state and to never sign another franchise deal.

New Jersey investigators also suspect that an undisclosed principal associated with Triton Funding’s Manhattan office was one Dominick Fiorese. Fiorese ran Southeast Securities of Florida before it was shut down by regulators in 1984; Fiorese was barred for five years from the industry by the SEC in November 1985. Fiorese and Southeast Securities have been linked by the Justice Department to New York’s Gambino and Colombo crime families.—Claire Poole

**Talk ‘til you drop**

Maybe the baby boom generation—those 77 million Americans born between 1946 and 1964—aren’t all that politically motivated. But a fledgling group calling itself the American Association of Boomers, based in Irving, Tex., thinks it’s figured a way to change that.

Supposedly modeled after the powerful “senior citizens’ organization, American Association of Retired Persons, the Boomers group now claims more than 6,000 members and is trying to get them to write their congressmen on a range of issues, from social security reform to health care costs to abortion.

But writing takes so much time. So the group has set up a 900 telephone line so members can write to Congress by dialing the phone. Now angry yuppies can send a letter to their congressperson by dictating to a tape recorder hooked to the 900 number, for a charge of $6.50 per letter. About 60 people availed themselves of the dictation number in its first two weeks, reports AAB founder Karen Meredith, 35. That’s far from adequate to cover the service’s cost, but if Meredith is an exemplar of her generation, usage should grow. “I’m always getting upset about things,” she says, “but I just don’t have time to write letters.”
Check the oil
Sir: Re Forbes' contention that the way to solve the coming oil import crunch is to revive the nuclear power industry ("Domestic blockade?" Sept. 3). Very little oil is used by the utilities to generate electricity anymore. Conserving electricity is ridiculously quicker and cheaper than building more nuclear plants, and producing more efficient cars and aircraft is far more practical than converting the transportation industry to run on electricity.
—Robert Levine
Glendale, Wis.

To praise or to bury
Sir: Instead of brickbats, Comptroller of the Currency Robert Clarke deserves high praise for tightening up bank lending (Fact and Comment, Sept. 17). The deregulation legislation of the 1980s led to a mass of bad loans and incompetent bankers. Also some bankers use the regulators as scapegoats for turning down loans that wouldn't pass muster anyway.
—Stuart Schwarzschuld
Atlanta, Ga.

Mutual admiration
Sir: Thank you for bringing sanity to the process of ranking mutual fund performance in your annual ratings (Sept. 3). You do a great service in focusing on consistency of performance. Unfortunately, long-term investment decisions are all too often based on short-term results.
—Thomas J. Sederick
Vice President, Investments
A.G. Edwards & Sons
Portsmouth, N.H.

Riff over Ralph
Sir: Re "Ralph Nader, Inc." (Sept. 17) I thought I could turn to Forbes for sound business reporting, not innuendo. I expected to see the Book of the Month Club and American Express credit cardholders added to the list of "frontier groups." I don't recall anything like the Nader smear since Nixon's smear of Helen Gahagan Douglas and the McCarthy era.
—Michael Roos
New York, N.Y.

Sir: I'll match Ralph Nader's integrity against your magazine's journalism any day of the week.
—Wesley J. Smith
Woodland Hills, Calif.

Sir: As a proud former "Nader's Raider" during my college days, I can only hope that your attempt to smear Ralph will have the same effect that General Motors' attempts had during the 1960s.
—Richard Rampell
West Palm Beach, Fla.

Potential liability?
Sir: What? No handrails to protect the unwary salesman approaching Mr. Nader's door on icy steps?
—David A. Roberts
Atlanta, Ga.

Sir: Ralph Nader's alliance with lawyers opposed to civil justice reform is made easier by the enormous financial support from the legal profession. I respect the right of the trial bar to oppose change, but I cannot respect Nader's misleading the public as to why he opposes reforming a liability system that is neither civil nor just.
—William O. Bailey
Chairman
MBIA Inc.
Armonk, N.Y.
Buying opportunity
Sir: Re your recent skeptical article on Comstock Partners Strategy Fund ("Tortoises versus hares," Sept. 3). Over the past 18 months I have purchased several hundred thousand shares of CPF for clients and myself, and it is articles like FORBES' that give me a better buying opportunity.

Comstock Partners have provided their shareholders with top-performing funds [in either CPF or Dreyfus Capital Value] in the years 1987, 1988 and 1989.

—Dale R. Folwell
Investment Representative
Alex. Brown & Sons
Winston-Salem, N.C.

Tergiversation
Sir: Re your Fact and Comment on limiting federal tax deductions for state and local taxes (Aug. 20). For the past ten years the federal government has been sloughing off its obligations onto the state governments. For it to turn around then and punish those very states which picked up the burden is adding insult to injury.

—Maryloine Block
Davenport, Iowa

Home gain
Sir: Re "Hard luck for homeowners," (Sept. 17). A loss on a sale of rental property [provided the property has been owned for over one year] would be an ordinary loss under Internal Revenue Code Section 1231, not a capital loss. A gain would be treated as a capital gain. This is a beneficial anomaly in the tax code.

—Philip J. Holthouse
Partner
Parks, Palmer, Turner & Yemenidjian
Los Angeles, Calif.

Standing on the moon
Sir: Re your "Readers Say" correction of Robert Fulghum's misstatement about "decreasing gravity" (Sept. 3). Though conservation of angular momentum is a useful notion when one describes how orbital radius relates to velocity and mass, it no more causes anything than our law of gravity causes things to fall. Nothing can be "due to" a principle.

—Peter Lundman
Professor of Semantics
SUNY College at Old Westbury
Old Westbury, N.Y.
This is a glass of Cutty Sark. If you need to see a picture of a guy in an Armani suit sitting between two fashion models drinking it before you know it's right for you, it probably isn't.
Washington and Europe have been slow to recognize the earthquake in the Soviet Union. The Empire is rapidly disintegrating, which is why Gorbachev sought “extraordinary” powers from the Soviet Parliament to deal with the political and economic crisis.

Whether or not he knew it, Gorbachev hastened this dissolution when he permitted elections for parliaments in each of the 15 “republics” earlier this year. These legislatures are expanding claims to political power. Local authorities are increasingly ignoring Gorbachev’s presidential decrees.

The most visible example of this is, of course, Boris Yeltsin. His economic program will rupture the U.S.S.R. His notion is that each of the republics would be politically independent, Moscow would lose the right to levy taxes on them. The Kremlin’s only powers would be those given to it by the various republics, such as national defense and a continental communications system.

Most ominous to Communist Party apparatchiks is Yeltsin’s plan to permit private property, particularly land. This will effectively strip party functionaries of their special position in society; they are fighting the idea tooth and nail. Gorbachev is still reluctant to ditch the Communist Party as Yeltsin did: hence his proposed referendum on the concept of private property, which will delay Yeltsin’s plan for months.

A coup by the army or the KGB to restore the regime’s all-encompassing powers? It may be too late for an effective crackdown. Much evidence is accumulating that officers below the rank of colonel in both organizations favor reforms.

Aleksandr Solzhenitsyn, who understands the Russian psyche as well as anyone and who has immense moral authority there, chose this moment to unveil his plan for an all- Slavic nation encompassing Russia, the Ukraine and Byelorussia. The central Asian republics and the Baltic States would be free to go their own ways.

**PUNITIVE DAMAGES**

The Supreme Court could strike a blow for judicial sanity and economic progress. The nation’s top tribunal has agreed to hear a case [Pacific Mutual Life Insurance v. Haslip] that could sharply limit jury awards. A growing barrier to American competitiveness and innovation is the mushrooming size of payouts that are utterly unrelated to the harm suffered by the victim.

Under civil law, a losing defendant, often a corporation with “deep pockets,” must pay the plaintiff for actual harm suffered. But courts can also charge a defendant with punitive damages, which are levied as punishment and as a deterrent to future bad behavior.

Until the 1960s, punitive awards were rarely granted, and then only in cases involving a quasi-criminal intent to hurt the victim. Today these payouts are routine. The problem is, there are no standards by which juries assess these awards. In a case that is becoming more typical, a plaintiff won $5,000 in compensation for actual harm done but received a punitive award of $1.3 million.

No wonder courts are clogged with suits against corporations for all sorts of alleged wrongs.
Last year the Supreme Court lost its chance to bring order to this chaos when it ruled that the Eighth Amendment’s prohibition against excessive fines doesn’t apply outside criminal cases.

RECHARGING OUR ECONOMY

A congressional fight over changing our immigration laws will take place in a few weeks. This country’s future will be immeasurably improved if the right package of reforms passes.

The Senate version modestly increases legal admissions from 538,000 to 630,000 a year. A bill stitched together by Representative Bruc Morrison (D-Conn.), chairman of the House Subcommittee on Immigration, Refugees & International Law, would raise that to 775,000.

Reform is needed to balance current inequities and increase the inflow of skilled workers. The law now discriminates against Europeans because it gives preference to relatives of recent arrivals, who have come primarily from Latin America and Asia. There are, for instance, tens of thousands of well-educated Irish citizens who wish to come to the U.S. (In fact, there are probably 100,000 illegal Irish immigrants here already.)

Both bills would permit more skilled workers than are now allowed. This will help our competitiveness.

FREE MONEY

A pot of gold is up for grabs and the U.S. isn’t doing enough to get its share. The “money” is the people of Hong Kong, which will revert to direct Communist Chinese rule in less than seven years. After the Tiananmen Square massacre, hundreds of thousands of Hong Kong citizens want to emigrate.

Some are rich. Those who are not also have something that will contribute mightily to their new host countries—an intense ambition to get ahead. This windfall of wealth will be a boon to those countries smart enough to open their gates to these people. After all, they have turned the most densely populated and one of the most desolate pieces of real estate on earth into an incredibly prosperous economy. Per capita income has grown forty-fold over the last 40 years.

Other countries are working to lure these wealth creators to their shores, among them Canada, Costa Rica, Australia and Thailand.

The immigration reform bill likely to be enacted by Congress has only token increases for the Hong Kong quota. We should offer to take in several hundred thousand over the next six years. The prospect that the best and brightest in Hong Kong will come to the U.S. will be a potent disincentive for Beijing to kill this gold-laying goose.

WELL-WRITTEN WORK ON WORLD WAR II

You probably won’t find a better, more comprehensive one-volume summary of World War II than John Keegan’s ($16.95, Penguin). The author, who has written several acclaimed war books, also gives fascinating and credible treatment to such subjects as weapons development and military strategy. Particularly good is his background chapter, “Every Man a Soldier,” on the extraordinary growth of military establishments in the 19th-century industrial world.

He doesn’t hesitate to demolish legends such as the resistance groups’ effectiveness in Nazi-occupied Europe. And he doesn’t shrink from detailing the awful retribution suffered by German civilians at the hands of the Red Army in 1945. No reader could agree with all the writer’s interpretations on a subject of this scope. But all will hail Keegan’s masterful handling of so much material on history’s greatest conflict.
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Big Booster
Policy makers have ignored one of the most effective steps we can take to stem further S&L losses: a cut in the capital gains tax. Because of the high capital gains tax, the Resolution Trust Corporation has inherited a portfolio of devalued property. By increasing potential income, a capital gains tax cut would boost the value of all capital assets overnight.
—Senator Bob Kasten, [R-Wis.],
New York Times

A Real High Return
We run a real honest-to-goodness ranch. All work and no income. Ranching is a way of life as much as a business. Nobody tells you what to do.
—Jim Cox, Winston, Mont. rancher,
BusCapade, by Allen H. Neuharth

Perceptive Analysis
Whatever countries get control of Persian Gulf oil will want to sell it (they can’t drink it), and where else can they sell that much oil besides Japan, Western Europe and the United States? But whoever controls that oil can, as marginal producer, interrupt supplies—in a deliberate exercise of market power for political ends (like the Saudis in 1973), or for economic ends (like the Iranians and Saudis in 1974). In any case, such interruption would inflict severe shock on Europe, Japan and the U.S. in peace or war.

Like it or not, the fate of America and its major allies is tied to OPEC. We have to cope with violence and instability in regions like the Gulf and Middle East... attacks by regional powers like Iraq on Kuwait or on Saudi Arabia, or on an Iran diverted by internal disorder.
—Albert Wohlstetter, professor, University of Chicago, in the New York Times in 1979

Productive Partners
The average immigrant family pays more in taxes and uses fewer social services than its native-born counterpart. These hard-working newcomers put $2,500 a year in the pockets of natives.
—Don Feder, Washington Times

Keeping Face
Fortunately for the Agency, [CIA Director James] Schlesinger’s plans for its further decimation were interrupted after only five months by his appointment as Secretary of Defense. The surprise announcement of the appointment came in the middle of my weekly staff meeting, and my secretary passed it to me in a note. When I made the announcement, all those gathered around the table broke out in spontaneous applause.

A legacy of Schlesinger’s mercifully brief tenure provided a lighter touch to these desperate times. Portraits of all past directors hang along the hallway. It was rightly feared that angry employees might deface his portrait.

It was finally decided to establish a 24-hour watch on the portrait through a television monitoring station, manned by a security officer.
—For Lust of Knowing, by Archie Roosevelt

Losing Face
We don’t need secret agents or assassination plots to get rid of Hussein. We need only deny him an honorable retreat. He will not last long if he returns from little Kuwait to nothing but grieving widows, an empty treasury and shame.
—Charles Krauthammer,
Boston Herald

A budget is a system of going into debt systematically.
—anonymous, Webster’s New World Dictionary of Quotable Definitions

Waiting on the Dock
One lesson [becomes] clear: In the new world America faces, all the advanced technology and sophisticated weaponry in the world is useless if you can’t get it to the scene of the action. “The real story of the operation,” says one Army official, “is that it has taken us too long to get there [Saudi Arabia].”

Old priorities die hard. Congress last year authorized $600 million for more fast sealift, but the Pentagon refused to spend it. Instead, the department wants to transfer the sealift funds to help pay for the final purchase of M1 tanks—in other words, to buy more tanks it has no way to transport quickly.
—U.S. News & World Report

Travelers’ Tales II
On a sign in a Bucharest hotel lobby: The lift is being fixed for the next day. During that time we regret that you will be unbearable.

From a Japanese information booklet about using a hotel air conditioner: Cooles and Heates: If you want just condition of warm in your room, please control yourself.

In an Acapulco hotel: The manager has personally passed all the water served here.

In a Yugoslavian hotel: The flattening of underwear with pleasure is the job of the chambermaid.

—Derek Davies,
Far Eastern Economic Review

"I'm sorry. The doctor no longer makes phone calls."
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The Model 372


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1992—EUROPEAN COMMON MARKET . . . OR A NEW COUNTRY?

One day last year several FORBES writers and editors had lunch in the FORBES town house with Jacques Delors, head of the European Community Commission organizing the Common Market. He asked me why there seemed to be so much opposition to the Common Market idea in the United States. First I mentioned the familiar point that there was concern over the Common Market’s becoming a protectionist Fortress Europa. Then I said that I had heard many express uncertainty and some worry that Mr. Delors was really trying to form a whole new country instead of a Common Market, and I continued, with undiplomatic directness, “Are you?” Delors replied, “Of course.”

The gigantic implications of his answer led me to wonder if he had correctly understood me. But, as the months have gone by and we have seen so many steps and proposed steps away from national sovereignty, it seems clear that most of the officials of the 12 countries hammering out the details of the Common Market have become enamored of the idea of a European political union—as some phrase it, “a whole new country.”

Much of the impetus toward this political, rather than just an economic, union stemmed from the adoption of the Single European Act, which abandoned the requirement of unanimity on major decisions involving taxes, movement of peoples and conditions of employment. Very soon, I should venture, the European Community will try to assert control over not just taxes but the allocation of revenues—in short, the 12 countries will no longer be able to determine their own spending programs. Instead, these will be decided upon by a majority of EC countries.

It should be no surprise to anyone who knows Prime Minister Margaret Thatcher that she has expressed serious reservations about this attempt to turn the Common Market, which she supports, into a “whole new country.” She worries over possible far-reaching changes now that the old idea that each member country could veto any EC legislation it did not like has been abandoned.

Some proponents of the political union claim that the only real difficulty is that some EC countries do not completely trust others. Thus, England is said to oppose the abolition of immigration and custom checkpoints because the English do not trust the French to do the kind of job Britain wants. Indeed, two close observers of the Common Market’s birth pangs, Nicholas Colchester and David Buchan, who have just written Europe Relaunched, conclude that the EC will succeed only if there is established “such a degree of mutual trust and influence between EC states that they will be halfway to political union without knowing it.”

Would such a “whole new country” be good for the U.S.? I think not. Protectionist measures would be far easier for the EC to adopt if a unanimous vote were not required. And special and still highly valuable U.S.-bilateral relationships would not be possible if these countries were to give up so much of their own sovereignty, including making up their own defense budgets.

Iraq’s aggression has demonstrated how much more decisively and quickly countries like England and France can act (and have acted) as separate nations than can the EC, which cannot even discuss military matters. The 12 nations could use NATO or, as they are trying to do, the Western European Union [WEU], a separate body of only 9 nations. It took the WEU three weeks to decide that a joint naval mission to the Persian Gulf would be a good idea.

At the very moment when Eastern European countries, so long under the heel of the Soviet Union, are emerging and demanding their own sovereignty and the right to choose the kind of economic systems they want, when even each of the Soviet Union’s 15 republics is demanding independence, it is indeed odd that Europe should move closer to the possibility of a political union—one that could impose socialist economics on the very countries that have conclusively demonstrated that communist and socialist economics do not work, that a free market does.

*Title of the British edition, the American edition is titled “Europower.”
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Restructuring and shakeout were the productivity spurs in the 1980s

The benefits of "de-diversification"

Private research and development spending to the rescue?

**PRODUCTIVITY ENHANCERS FOR THE 1990s?**

Increases in manufacturing productivity averaged 3.9% a year from 1982 to 1989, up from just over 2% a year in the 1970s. Will this strong improvement resume once the economy gets back on track? The answer, unfortunately, seems to be probably not.

The reason for this gloomy view is that a significant part of the growth in U.S. manufacturing productivity in the 1980s arose from the mergers and leveraged buyouts that hit a peak in 1986, says Michael Jensen of Harvard Business School. Now that merger mania has subsided, that spur to improved efficiency has been dulled, he says.

The general shakeout in manufacturing that followed the 1980-82 double-dip recession also played a part. For example, General Electric moved to concentrate on businesses in which it was one of the top two competitors (dropping, among other things, small domestic appliance and television manufacture); this strategy has helped it average a 5.4%-a-year productivity increase since the mid-1980s.

The adage that companies that "stick to their knitting" do the best is borne out by a recent study of "de-diversification" by Frank Lichtenberg of Columbia Business School. He found in a survey of over 17,000 plants that those operated by companies involved in only one industry were, on average, one-fifth more productive than those operated by companies involved in many industries.

The 1980s saw a clear swing away from conglomeration. Lichtenberg dissected Standard & Poor’s Compustat data for 1985 and 1989 and found that the proportion of companies involved in just one industry grew from 16.5% to 25.4%. He also found at the other extreme that the number of companies involved in ten or more industries declined from over 12% to just under 10% of the total.

Confirming Lichtenberg’s investigation, other studies have shown higher profitability, greater return to shareholders (dividends plus capital gains), and even an increase in the ratio of R&D to sales following a major corporate restructuring.

Absent a resumption of merger and buyout activity (and that possibility should not be ruled out), what else might dramatically spur productivity growth in the 1990s? Throwing money at the problem through capital investment, without other management changes, is no panacea. In any case, capital spending will be hit if Washington doesn’t pass a capital gains tax as part of the budget settlement.

Foreign competition works to encourage productivity. But its effect will be muted as long as the dollar stays weak. One possible source of help could come through higher private R&D spending, says Harvard’s Jensen, especially if it goes up, as it normally does, as government-funded defense R&D declines. Such spending would presumably include the rapidly growing field that is generically called “speed to market”—the reorganization of companies so as to accelerate the rate at which they can produce new goods and services.
New economic data for August reveal a fragile and vulnerable U.S. economy. Industrial production fell 0.2%, retail sales 0.6% and house building 7.2%. Housing starts are now 16% below their level of a year ago. The Consumer Price Index rose 0.9% in August (before seasonal adjustment), and oil prices were not the only culprit. Not counting food and energy prices, the cost of living rose 0.5%, following a 0.6% climb for these components in July. One bright note: Although exports fell 6.4% in July, they could pick up in the coming months if the dollar remains weak.

The Forbes Index

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, Forbes monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

- Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
- New housing starts (thousands) privately owned, unadjusted (Dept. of Labor)
- New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
- Retail sales ($billions) seasonally adjusted (Dept. of Commerce)
- Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
- Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)
- Inventories ($billions) seasonally adjusted (Dept. of Commerce)
- Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)
- Prime rate
- Auto sales year to date vs. 1989
- Index of leading indicators July vs. June
- Trade balance 12 months ended July 1990
- Producer price index August vs. 1989
- GNP 2nd quarter vs. 1st—annualized growth
- NBER Experimental Recession Probability Index

*U.S.-based manufacturers, excludes imports, as of 9/10/90. 
1Finished goods. 
2July 1990.
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If you think of electronics leader Raytheon Corp. only as a defense company, you’ve missed the best part of the story.

The limits of synergy
By Subrata N. Chakravarty

The U.S. defense industry is littered with companies that incurred disaster by diversifying into civilian businesses. General Dynamics did poorly in telecommunications, Grumman flopped with buses, and McDonnell Douglas has achieved only minimal profits in commercial airliners.

But Raytheon Corp. is different. As Raytheon’s chairman and chief executive, Thomas Phillips, 66, contemplates retirement at year-end, his carefully nurtured diversification is clicking on all cylinders, and his defense business is remarkably solid.

Raytheon makes none of the hardware vulnerable to Pentagon and congressional budget-cutters. “We don’t build a B-2, we don’t build an Aegis ship, we don’t build an MX missile,” says Raytheon President Dennis Picard.

Under Phillips, Raytheon quickly expanded this beachhead. Raytheon bought Caloric (ovens and ranges) and Speed Queen (washers and dryers). To get into capital goods, it bought United Engineers & Constructors, which engineers power plants, and the Badger Corp., which sets up refineries and chemical plants. Along the way it also acquired Cedar Rapids Corp., which now has 30% or more of the U.S. market for rock crushing, asphalt and paving machines. It got into energy services with the acquisition of the Seismograph Services Corp., which does geophysical mapping.

What distinguished Raytheon from so many other defense companies that stubbed their toes on commercial diversification? A subtle difference, but a vital one: From an early mistake Raytheon learned the folly of thinking that because it knew how to make a product, it also understood the market. “The idea of synergy in this industry, of being in the same business, may actually be harmful,” says UBS Securities analyst Wolfgang Demisch, who follows the company closely.

Demisch is right. Raytheon’s first lesson in the limitations of synergy came early on in the TV age, when the company built excellent TV sets but had no distribution network. It understood the product but not the market. Never again. Before getting into appliances, it bought a good appliance company, before getting into commercial aircraft, it bought a good aircraft company.

In 1980 Raytheon bought Beech Aircraft for $790 million. Soon afterward the general aviation market went into a nosedive and didn’t recover until 1988. During those lean years Raytheon spent heavily developing new models of Beech’s popular King Air corporate turboprop. It got into the regional airline market with its 1900 series and into the corporate jet business by buying a jet design from Mitsubishi and adapting it.

Raytheon had learned to take the long view. Even through their tough years, Phillips stood by the appliance and energy and aircraft businesses. He financed their losses and their expansion with profits from the thriving defense businesses during the Ronald Reagan years.

For example, Raytheon has poured $300 million into developing the ultramodern Starship corporate aircraft. The Starship is the first civilian aircraft whose body is made of all-composite materials—graphite, epoxy and carbon—rather than metal. It is also a radical design. Its two turboprop en-
Raytheon's Starship
A bold design, for delivery this year.

Engines face backward, pushing the plane rather than pulling it.

The result is a plane that is faster, quieter, roomier, more fuel efficient—but more expensive—than other turboprop aircraft. Development costs have already been written off, along with half the tooling costs, but Phillips says the first 25 planes will lose money. Here again, Raytheon takes the long view: Phillips says he expects the Starship will have the longevity of the King Air line, which has been in production since 1964.

After Beech, Phillips made no major acquisitions in the 1980s because, he says, prices were too high. Instead, between 1984 and 1989, Raytheon bought in over 25% of its stock, borrowing the money. This raised Raytheon's debt load from under 5% of capitalization to 33%, and made the company less vulnerable to takeover.

Today this long-range view is vindicated. As profits from Raytheon's military businesses hold firm, returns from the civilian side are accelerating. Last year, for example, more than 70% of Raytheon's $52 million increase in pretax earnings came from commercial businesses.

Raytheon's $1.1 billion appliance business is holding up fairly well in a generally weak industry. Amana, Caloric and Speed Queen are all manufacturers of quality, premium-priced products and have suffered less from the slowdown in housing starts than have cheaper brands. Nevertheless, operating earnings on appliances will be down slightly in 1990, even before absorbing a $17.5 million plant closing charge.

Beech continues to rebound strongly. In 1987 the aircraft division had operating earnings of only $16 million. In 1989 it earned $75 million, and this year $110 million is expected. As in appliances, Raytheon has moved toward higher-priced, higher-margin planes. This year, besides the Starship, Beech has begun deliveries of Super King Air 350 turboprops and the Beechjet 400A. Next year it will begin deliveries of an improved commuter aircraft, the 1900D.

With the beginning of the recovery in the oil industry, Raytheon's energy services business has also picked up. Operating earnings have grown from $6 million in 1987 to $40 million in 1989. This year profits should hit $65 million. Raytheon also hopes its energy services business can cash in on the environmental cleanup business. Raytheon President Dennis Picard predicts the group's revenues will grow from under $900 million last year to $2 billion by 1995.

Analysts estimate that Raytheon will earn $8.60 per share this year, up from $8.01 last year, on a 5% to 6% increase in revenues, to $9.2 billion. The company's return on equity will be in the neighborhood of 22%—a superb showing in a down year for many businesses.

Says Tom Phillips: "I'd like to be remembered as the guy who put Raytheon in the defense systems business through the Hawk, because I was the program manager. And I'd like to be remembered as the guy who built a meaningful commercial base." He says this last with some wistfulness, because his efforts have gained little respect on Wall Street, where Raytheon's shares sell at just under eight times 1989 earnings. But stock prices are fickle and ephemeral, while a well-balanced business endures.

As the Pentagon prepares to withdraw troops from Germany, its accountants are figuring how best to recoup the investments in the U.S. bases that will be closed.

Ammo dump, anyone?

By Peter Fuhrman

Available soon: well-maintained, rich in history, 570,000 square feet of prime office space. Distinguished, stone exterior, majestic setting on 91 undeveloped acres, convenient to Frankfurt banking district. Call or write, U.S. Army V Corps.

The ad is fictional, but the building is entirely real. It is the former headquarters of I.G. Farbenindustrie, wartime Germany's notorious chemical and munitions combine. Confiscated by the U.S. military in 1945, I.G. Farben's West German factories were re-distributed to form chemical giants Bayer A.G., Hoechst A.G. and BASF A.G. The massive tan stone headquarters site was retained by the U.S. Army and is currently the command center for the Army's V Corps, which directs two of the four U.S. divisions in Germany.

In Frankfurt's feverish commercial real estate market, the I.G. Farben building and its land would sell, if fully zoned for commercial use, for between $1.5 billion and $2 billion. With such sums at stake, it is only natural that the future of V Corps in Germany is now a source of considerable speculation. Secretary of Defense
Cheney has already this year announced plans to close a total of 99 U.S. military facilities in Germany. A 50% cut in troop strength, and the closure of perhaps 400 U.S. bases and facilities, looks well within the realm of possibility. Early estimates suggest that the Pentagon could raise between $5 billion and $10 billion when it hands these real estate holdings back to the German government.

All told, the U.S. military in Germany has 47,000 separate buildings and land parcels. Included in this tally are workshops, gymnasiums, schools and hospitals, barracks, aircraft hangars, ammunition dumps and other real assets of modest value. But the pieces add up.

The U.S. holds land parcels totaling 500 square miles. Legally, the West German government holds title to all this land and provides it free of rent to the U.S. But in the event of withdrawal, the U.S. is entitled to recover from the German government what NATO treaties term the “residual value” of the military assets. Decided, that means the market value of the buildings minus the value of the underlying land. Against any U.S. claims will also be set such contingent costs as environmental cleanup expenses and the cost of making ammo dumps safe.

The Pentagon is busily working out methods for determining exact German residual values. Until now, the extent of Pentagon accounting has been the calculation of only the replacement costs of all buildings and weaponry in Germany, setting this at $75 billion. The buildings’ actual market value will be substantially less.

There is one hazard for the U.S.: The German government could buy out the U.S. at a low cost, and then flip the property, pocketing all the profit. Senior U.S. diplomatic officials deem this unlikely.

The first big test will be the Zweibrücken Air Base, tucked away near Saarland and the French border. Zweibrücken is home to the 2,700 soldiers of the 26th Tactical Reconnaissance Wing. In January the Pentagon said it would shut down the 750-acre base by 1993. Pentagon appraisers argue that the facilities at Zweibrücken are top flight and can be converted without much cost to civilian use. Local real estate agents value the airbase’s 1.7 million square feet of office and residential space alone at $150 million to $180 million.

The impact on the German economy of U.S. property sales should be beneficial. Tight zoning laws have led to chronic shortages of residential and commercial land. These are most acute in the southern half of Germany, in the economically vibrant regions of Bavaria, Swabia and Hesse, where the majority of U.S. facilities are situated. Land for development is expensive here, selling for $300,000 an acre in rural areas, and upwards of $15 million per acre in cities like Frankfurt, Stuttgart and Munich. In Mannheim, a crowded town just south of Frankfurt, the local government says it wants to assist in the conversion of all vacated U.S. facilities there to civilian housing.

The last time the Pentagon negotiated such a major withdrawal claim was in France in 1966, following Charles de Gaulle’s peremptory decision to close down all 54 U.S. facilities. The U.S. asked for $400 million, after nearly a decade of rancorous argument, we accepted $100 million.

This time the U.S. may play tougher. Anthony Duno, one of the Pentagon appraisers working on Zweibrücken, says he is “viewing it as a real estate developer would.” That’s promising news for U.S. taxpayers.

After its parent spun part of it off to American stockholders, PolyGram Records began spending big to become an integrated entertainment giant. But it takes more than money to make it in Hollywood.

Please don’t leave us, Janet Jackson

By Peter Fuhrman

Sister of Michael and pop star in her own right, 25-year-old Janet Jackson is up for grabs. Just nine months after PolyGram N.V. acquired the high-energy rock ‘n’ roller by paying $460 million for A&M Records, Jackson’s contract is expiring. Avidly courting her are Britain’s Virgin Group, Sony’s CBS Records and Time Warner’s Warner Music Group.

Losing Jackson would be an embarrassing blow for PolyGram. She’s A&M’s bestselling act—her latest album, Rhythm Nation 1814, has sold 6 million copies and brought the company about $45 million in reve-
highly profitable compact discs. PolyGram's operating margins in 1989, at 11%, were half those of industry leader Warner and declining.

PolyGram hasn’t shown much of a knack for locating and nurturing acts on its own—which is why the loss of Janet Jackson would hurt so much. Last year PolyGram in the U.S. had 11 gold or platinum records (those selling 500,000 or 1 million copies). Warner Music had ten times as many.

But PolyGram isn’t giving up. Blaze of Glory, the recently released recording by teen heartthrob Jon Bon Jovi, has gone to the top of the charts. Next year will bring new recordings by PolyGram’s big three—Def Leppard, U2 and Sting. Even so, Alain Levy, the respected record industry executive who has run PolyGram’s U.S. operation for barely a year and is set to take control of the entire company in January, is uncorning no champagne. “Our budget next year will be tight,” says Levy, “exactly the same as this year.”

Films? PolyGram will this year spend about $55 million coproducing five to eight films. Whether any will be hits is anyone’s guess.

PolyGram has one great recording strength: It dominates the market in classical music. Its artists include Luciano Pavarotti, Dame Kiri Te Kanawa and both the Berlin and New York philharmonic orchestras. One-half of all classical recordings sold this year will be PolyGram recordings. Unfortunately, sales of classical music account for only 10% of the recording industry’s sales, as against 85% for popular stuff.

Pavarotti, bless him, doesn’t appeal to teenagers and recent graduates from adolescence—and they’re the ones who buy most of the records.

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Why Sigourney Weaver is pushing Nippon Steel, and other tales from Japan’s latest efforts to cope with a labor crunch.

Lightening up heavy

By Hiroko Katayama

At first glance, the Japanese TV commercial looks like a pitch for avant-garde clothing. A sexy model, dressed as a jester in pink and purple, struts around a stage like a marionette, and then confides: “I like you, Kawasaki-kun.”

The Kawasaki ad running on Japanese television is part of the big motorcycle and shipbuilder’s attempt to soften its image as a boring old heavy industrial smokestack firm. The ad isn’t meant to sell products. Its purpose is to convince new university graduates that heavy industry à la Kawasaki is really glamorous stuff.

How cutthroat is the competition for workers? Last spring each male university graduate entering Japan’s workforce got an average of 3.2 job offers. Companies used to spend $15,000 to $20,000 to recruit each graduate hired. But the new ad campaigns have raised those per capita figures tenfold, estimates Tetsu Kayama, an official at Recruit Co., the leading Japanese provider of recruiting information and services. Thanks to surging demand for its services, Recruit Co. has rebounded from the political scandals in which it was embroiled in 1988-89. And Dentsu, the huge advertising agency, has set up a new department just to handle corporate recruiting ads.

Jobs with an image of what the Japanese call “the three Ks”—kikaku, kita, kiken (dirty, difficult, dangerous)—are especially hard to fill. No surprise, then, that steel, trucking and construction companies have been the most aggressive users of the wacky and often nonsensical commercials.

Explaining why one of Kawasaki Steel’s ads features a famous Japanese comedian dressed as a peanut playing a tuba and drum, Katsuyoshi Yamashita, manager of the company’s gen-
eral affairs department, says: "I wanted to have something really drastic to destroy the stuffy image of steel."

Then there's Sigourney Weaver. Hired by giant Nippon Steel "because of her image as a versatile actress," according to a company spokesman, Weaver sensually assures viewers: "Nippon Steel will make it."

Some firms have adopted a more focused approach. IBM Japan and NEC have each spent about $2 million to produce 45-minute videos mailed to thousands of college seniors; the NEC tape features a mock news program about the electronics firm. Hitachi Ltd. mailed out a comic book to college seniors entitled The Real Hitachi: Truth Is Stranger Than Fiction. It describes life at the company and the products the diversified firm makes.

All the campaigns are related to the Japanese practice of providing lifetime employment to workers; hence the emphasis on the companies' long-term prospects. But manufacturing companies have difficulty competing with financial institutions that pay higher wages and offer better benefits. So along with the new recruiting efforts comes a rush of new perks and other incentives. Company dormitories for unmarried workers, for example, used to be known for their spartan, barracks-like appearance. Now big firms are investing heavily in resort-like dormitories with facilities such as cable television, health clubs and chic furniture.

Sumitomo Corp., the big trading company, just spent $8 million to build a 153-room Tokyo facility, complete with tennis courts, billiard room and copies of contemporary paintings in the lobby. Other firms are offering use of company-owned resorts in Hawaii and Australia to employees. Small and medium-size firms, which have the most trouble attracting fresh graduates, even offer free rentals of Ferraris and other sports cars.

Is all the hype working? Nippon Steel and Kawasaki Steel claim they're getting 30% more job applications than they did a year ago, and that the quality of the candidates remains high. Advertisers also contend the commercials have had an unintended side effect: Directed at young people, the ads have boosted morale of older factory and office workers, and the added exposure has helped open doors for salesmen.

The ads have also opened yet another new income stream for America's cultural icons. If Sigourney Weaver can sell Nippon Steel, why can't Bruce Springsteen sell Mitsubishi, or Danny DeVito Honda? ■

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One of Kawasaki’s soft-sell recruiting commercials

**Trying to lure new employees with a glamorous pitch.**

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**Step right up, ladies and gentlemen**

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**The old-time snake oil salesman isn’t dead. He’s busily hawking his wares on late-night and early-morning television.**

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**By Mary Beth Grover**

Be a millionaire! Get rid of that ugly cellulite! Buy the latest kitchen gizmo—a bargain you can't refuse.

You've seen them. They used to be mainly on cable, but now local stations and even network affiliates run the programs in the wee hours of the morning. These advertisements look and sound like information. They are called "infomercials." They usually run for 30 minutes and have a talk show format; they contain naked product pitches and have an 800 number for calling and ordering the pitched product.

If you’re into self-help, try "The Anthony Robbins Show" infomercial, hosted by ex-football hero Fran Tarkenton. Robbins, interviewed in his

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FORBES, OCTOBER 15, 1990
plush Palm Springs home by Tarkenton, says you can get rich, improve relationships or lose weight, all by listening to his $179.95 “Personal Power” motivation tapes. Call an 800 number with your credit card number.

Last year about $450 million worth of goods were unloaded through infomercials. The number is expected to be higher this year. Six companies dominate the infomercial industry. The biggest is New York-based Synchronal, with sales of $180 million.

The infomercial party really started to roll in 1984, when the Federal Communications Commission struck down a 1973 guideline banning program-length commercials. At about the same time, further deregulation of the air waves created new cable and independent channels with a terrible thirst for both programming and revenue. No-money-down real estate “shows” hit the air, followed by a spate of “shows” featuring miracle diets and baldness remedies.

It’s a great game for the successful practitioners. First they find a likely product and make a deal with the outfit that makes it. They buy inventory, produce the ad and buy air time—usually discounted blocks of hard-to-sell time. The infomercial outfit, then, is a hybrid, a cross between a distributor and an advertising agency. The company’s profits depend not only on the appeal of the product and the success of the hype but also on how well it controls costs.

As direct descendants of the old-time medicine show pitchmen, the infomercial peddlers sometimes hawk phony products. Scottsdale, Ariz.-based Twin Star, which last year earned $668,000 on $29 million in revenues, was recently in hot water with the Federal Trade Commission. One of Twin Star’s successes was a study course on how to go into business using government money. That got the FTC’s attention. It looked into other Twin Star products as well, and found the company had made unsubstantiated claims about EuroTrym Diet Patch in a show hosted by Michael Reagan, President Reagan’s son; YBron, a male impotency treatment sold in “Straight Talk with Lyle Waggoner”; and Foliplex, a cure for hair loss. Not surprisingly, many consumers thought the infomercials were independent, objective programming.

In April Twin Star reached an agreement with the FTC to take these infomercials off the air, refund $1.5 million of the $18 million it took in for these products and run “paid advertisement” disclaimers in its other infomercials. Twin Star took the hit in stride. It went public in January—with the FTC action still pending—and raised $3.5 million, which will help with the refunds.

Twin Star plows on. It has come up with new products such as Stainera- tor (a spot remover) and Joe Namath’s Power Bands (exercise equipment). The stock, which came out at $3, was trading on Nasdaq recently for $5.25.

Complains Nancy Langston, president and co-founder of Philadelphia-based Media Arts International, a competitor: “Twin Star is really dragging this industry down. I hope we can get rid of them.” Sure she does; she’s being sued by Twin Star, which charged that Media Arts’ new star pitchman, Michael Levey, breached a noncompete clause he had with Twin Star.

Media Arts sued, too, charging that Twin Star buys time for an infomercial that rips off its bestselling “Amazing Discoveries” Auri car polish infomercial. In the Auri infomercial, hosted by Michael Levey, two wacky British guests light a fire and fry a hamburger on the hood of a Rolls-Royce to demonstrate how tough the wax’ finish is. Propelled by that pitch, the wax sold $20 million worth, becoming what one infomercial player calls a “Batman”—a highly successful product. Twin Star’s version, “Incredible Breakthroughs,” which sold Liquid Lustre car wax, was also a “Batman.” A court ordered, among other things, that Twin Star’s infomercial be changed.

Synchronal, the giant of the business, hopped onto the diet and baldness bandwagons as well. Synchronal now markets time to other infomercials as well as marketing products to consumers. Synchronal has purchased a block of cable time on the Discovery Channel and has rights to all half-hour segments on seven other cable channels. “It’s like owning key department stores in a mall,” says Greg Renker, president of Guthy-Renker Corp., which owns the Robbins infomercial. Synchronal demands—and gets—70% of the sales of the infomercial outfits that use the time. That a distributor can pay 70% of its revenues for TV time and still make a profit gives an idea of how overpriced many such products are.

So profitable has the business been that some big-time advertisers are trying infomercials. Time-Life Music now sells some of its records and cassette in an infomercial. AT&T is exploring half-hours to explain and pitch its telephones, long-distance services and other home communications products. Caveat emptor.
Taking Six Months To Build One
Seems Quite Reasonable Considering How Long
An Owner May Keep One.

It takes as long to build a Rolls-Royce motor car today as it did nearly a century ago.
But then handicraftsmanship is a rare earing, a patient process that cannot be hurried.

And today, still, this nearly lost art form is the pivotal difference between Rolls-Royce motor cars and all others—creating automobiles so superbly engineered, so exquisitely finished, they live up to the expectations of the most demanding owners in the world.

Bonding In A New Perspective.
Over half of all Rolls-Royce motor cars built since 1904 are still gliding along the road.
Others are in prized collections and museums.
Some are in collections of owners who simply haven’t been able to part with their first Rolls-Royce motor car. Or their second. Or third.

And some owners have become so attached to their Rolls-Royce motor cars that, much like family heirlooms, they have been passed on from generation to generation.

Legends Are Made Of This.
One of the first Rolls-Royce motor cars ever built, the 1907 Rolls-Royce Silver Ghost, is still going strong after three-quarters of a century and more than half a million miles.

Even now you can test the extraordinary smoothness of the Silver Ghost's engine by balancing a coin on the radiator. Just as Sir Frederick Henry Royce first did all those years ago.

Today, Rolls-Royce motor car engines, while being technologically current and computer precise, continue to be painstakingly assembled by hand. As they were then.

And their renown for power, smoothness and silence continues to grow.

Simply The Best Motor Car In The World.
The Rolls-Royce motor car has, you might say, been in development for 85 years. A gradual, systematic evolution with every improvement thoroughly researched, tested and perfected before acceptance.

A process that has led to the fabled Rolls-Royce ride, now further enhanced through a remarkable new electronic suspension system* that, automatically and instanta-

A load-leveling system so finely tuned that it even compensates for the gradual emptying of the fuel tank.

A radiator grille so intricately handcrafted that only ten men in the world are qualified to build one.

Aesthetic refinements such as rare woods from around the world, hand-cut and perfectly matched to create veneers no two motor cars will ever share.

And in 1990, a culmination of refinements long in development and of sufficient importance to justify a visit to an authorized dealer. To arrange for an appointment, or to receive Rolls-Royce literature, simply call 1-800-851-8576.

Owning One Will Not Make You A Different Person. Yet You Won’t Be The Same, Either.
Every motor car in the world can be compared to others in its class. Except one. The Rolls-Royce motor car. It defines its own class.

Which gives an owner the singular distinction of attaining a goal all but abandoned in today’s homogenized society.

Individuality.
And how can one ever be the same after that?
In the Information Age, major financial firms use ADP for their back office processing, front office information, and proxy services.

So recently when Wall Street needed even more data services to navigate turbulent markets—and needed them to be secure—ADP sounded the alert.

That’s when they called NYNEX.

And NYNEX set up a customized data network for ADP’s enormous volume of record-keeping, securities processing and on-line quotation services. Plus a system that lets ADP switch to their back-up network at the first sign of stormy weather.

The NYNEX family of companies would like to work with
Winds shift, signals for ADP.

you too. We offer you everything from computer networks to software, to telemarketing systems, to the services of New England Telephone and New York Telephone.

Call us at 1 800 535-1535.
We can help your company achieve a true S.O.S.: State of Security.

Need to communicate? Need to compute? The answer is NYNEX.
The pleasure powerboat market sails from one storm into the next. When the business finally recovers, there will be fewer companies, making more money.

Any offers?

By Howard Rudnitsky

If you ever wanted a pleasure boat and are prescient enough to have some unneeded cash around and/or an untapped credit line, now is a great time to bargain. At a big powerboat show in Norwalk, Conn. last month, some dealers were offering to throw in optional equipment packages valued at about $2,000 to anyone willing and able to buy a $25,000 boat. The industry's plight is made all the worse by the used boat market, which is now glutted with 3- and 4-year-old models being offered at about 60% of their original price.

A number of smaller boat manufacturers have already gone out of business. Among them are Spokane, Wash.-based Sun River Marine and Giddings, Tex.-based Invader. (Invader's name and assets were then acquired by another group.) Heavily leveraged Miramar Marine, a much larger company, which makes Carver and Ranger Bass boats and is owned by Dallas' Thompson family, defaulted on $125 million of its debt earlier this year; the Thompson clan is trying to restructure the debt.

Until this year Minneapolis' Irwin Jacobs' privately held Minstar Inc. had fared better than most boating outfits. Through its Genmar Industries unit, which makes boats under the Wellcraft, Hatteras, Larson and Glastron nameplates, Minstar is the second-largest boat manufacturer by revenues, after Brunswick Corp. (If engines are included, Outboard Marine Corp. is bigger than Minstar.)

But now Genmar, too, is feeling the pinch. In the first half of 1990 Minstar's boating revenues dropped 21%, to $218 million, and operating profits fell from $28 million to virtually break-even. Fortunately, lower interest costs and a $20 million jump in investment and other income enabled Minstar as a whole to report a profit for the period.

Circumstances are rougher still at Outboard Marine Corp. The Waukegan, Ill.-based company is the leading maker of outboard engines and a manufacturer of a variety of small and large boats (Four Winns, Chris-Craft, Donzi, Sea Nymph). So far this year, OMC has been forced to close several plants and to lay off 600 of its 3,750 employees.

Related writedowns will result in a $47 million pretax loss for the fiscal year ended Sept. 30. In early September, Standard & Poor's downgraded...
OMC's $154 million senior debt for a second time, to BBB-, S&P warned that the boatmaker's failure to restore profitability in 1991 could prompt a further rating reduction. OMC's management argues it has already begun cutting costs further, which they say should result in a $43 million annual savings.

In Skokie, Ill., industry leader Brunswick Corp. (latest 12-month sales, $2.5 billion) took most of its lumps last year. It has been cutting costs in its marine products division wherever it can. Since the start of 1989 the company has cut its work force by more than 20%, to about 15,000, and sharply reduced its own inventories. To help reduce dealer inventories, last year Brunswick provided $25 million in dealer rebates. It also took a $100 million pretax restructuring charge.

The swift response to the faltering market seems to be helping. The marine division this year will likely earn a small profit, despite a nearly 20% decline in sales, to about $1.8 billion. Thanks to Brunswick's strong bowling, fishing and defense lines, the company might earn overall profits of some $40 million, or about 45 cents a share, on revenues of $2.5 billion. Nonetheless, the weakness in the marine market has clobbered the company's stock. Recently trading at 8%, its shares have fallen from 21$ in 1989, far more than the drop in the market as a whole.

The flood tide of pleasure boat orders that buoyed the industry during the mid- and late 1980s was spurred by the large number of banks and finance companies offering easy credit. But the banks' general tightening up on credit is hitting boat loans: Whereas down payments of 15% or less used to be acceptable, today the minimum is generally 20%.

If the sluggish economic environment weren't bad enough, Congress, scrambling for revenues, has been talking about slapping a 10% luxury tax on high-priced cars and boats. For boats, the tax would kick in after $50,000. Congress might also take another hard look at the tax rules allowing the deductibility of interest on some boat loans.

Add all these negative factors together, and the horizon looks bleak. Says Harold Vogel, Merrill Lynch's well-regarded recreation and entertainment analyst, "The boating industry isn't likely to recover until the spring of 1992."

When it does arrive, the recovery will primarily benefit a few large companies. Today four or five companies account for over half the nation's recreational powerboat sales. Their share is almost certain to rise as the current recession drives more smaller boat companies out of business or into the arms of the big players.

"Boating has always been a cyclical business," says Brunswick Chairman and President Jack Reichert. "It leads the economy before it turns down, but boating sales also lead it on the way up. We're well positioned for the upturn." But many boatmakers won't be around to benefit.

National Loan Bank and National Asset Bank are Texas banks full of troubled assets but treating their investors well.

By William P. Barrett

It is a measure of how far the Texas economy has fallen that two of the state's strongest publicly traded banks are full of lousy assets and also going out of business. But therein lies our tale.

Technically, National Loan Bank (net fair market assets, $74 million) and National Asset Bank (net assets, $59 million) are each a "bank in liquidation." A more popular name is "bad bank." There are several of these creatures kicking around in Texas these days, but National Loan and National Asset, both based in Houston, are the only ones with any kind of a market for their shares.

They were created when big, troubled Texas bank holding companies sold themselves at bargain prices to out-of-staters. By dumping their dumbest, hard-to-value loans into these newly created bad banks and vesting ownership in existing shareholders, the big Texas banks spruced up their own balance sheets and made their acquirers rest easier.

National Loan Bank was started in
Westinghouse Group W Broadcasting is one of the most dynamic and diversified entertainment companies in America. We may also be the most surprising. From the nation's first commercial radio broadcast more than 70 years ago, Group W Radio has grown to be America's largest non-network radio group. With 20 major market radio stations, we reach one out of three American homes.

Maybe even more surprising, Group W's five TV stations are seen in 10 million homes a week. Group W Productions produces and syndicates popular shows that are seen in more than 40 countries. We distribute more video programming via satellite than anyone else. We even market cable TV's popular Nashville Network. And we're the nation's largest non-network video news service, reaching more than 70 million homes in North America, Europe and Australia.

All this may surprise you. But one thing's for sure: the best-known, unknown company in America is a company worth watching.
Over 100 million people tune us in every day.

You can be sure... if it's Westinghouse
mid-1987 with about $138 million worth of wretched loans from Texas Commerce Bancshares, which sold itself to Chemical New York Corp. Similarly, National Asset Bank began operations in early 1988 with $107 million of junk assets from Allied Bancshares when it was bought by California’s First Interstate.

What does a bad bank do? Rent out its vacant properties when it can, cajole borrowers into resuming at least partial payments, and foreclose when necessary. The ultimate goal is to sell all the assets, make cash distributions to shareholders after paying the bills and go out of business, supposedly within about five years of creation. “I’m not worried about finding another workout job,” says Robert Giles, National Loan’s new operating head. Workout experts will be in demand in Texas for a long time.

Obviously, this is not like your normal bank. But since the bad banks didn’t assume any debt, deposits or other significant liabilities, their capital ratios are above 92%, versus 6% for most other banks.

True, the assets include all kinds of strange properties, remnants of a roaring Southwest boom turned bust. National Asset’s inventory includes Catfish Town, a festive marketplace complex along the Mississippi River in Baton Rouge, La.; a surprising amount of struggling Port Arthur, Tex.; a 254-room hotel in downtown Austin; assorted ranches; and several hundred acres of raw land in the Houston area. National Loan’s spotty roster includes various miniwarehouses, condominiums and vacant land, mostly around Houston.

Accounting rules for liquidating banks require their managements to carry assets at fair market value minus anticipated selling expenses. This makes evaluation for investors a little easier.

As it turns out, then, “bad bank” doesn’t necessarily mean bad investment. National Loan, for example, recently traded o-t-c for $1.25 a share, 41% below its estimated net asset value of $2.12 a share. Shares of National Asset, also o-t-c, were recently quoted at 75 cents, 47% below the bank’s estimated net asset value of $1.42 a share. Net operating loss carryforwards largely shield these banks from most income taxes, while investors are taxed only on distributions in excess of their original investment. Figuring in the taxable equivalent, a compounded annual return over the next three years of 25% or more plus return of investment seems not out of the question.

If the potential returns are so good, why aren’t the stocks higher? A main reason, naturally, is risk: It might take longer than three years to liquidate the assets, which would reduce the annual yield. Some asset sales might fetch less than expected. There is also the “Texas factor,” a perception that any recovery now under way in Texas and the Southwest is still a pretty slow one. (However, the Iraq-Kuwait crisis might give a kick to Texas’ notoriously countercyclical economy.)

Nevertheless, the two bad banks, which aren’t followed regularly by analysts, have attracted some smart bargain hunters. Edgar Wachenheim III of Greenhaven Associates holds about 10% of each, while Michael Price owns 10% of National Loan through his Heine Securities.

National Loan, the oldest of all bad banks, is the most straightforward and efficient, seemingly intent on quickly winding up affairs. Thanks to its success in turning around nonperforming loans, the bank has so far distributed $2.15 a share—more than the change in net fair market assets since the bank began—while consuming as expenses only 21% of the cash produced.

On the other hand, plagued by some nasty unanticipated expenditures necessary to preserve its assets, National Asset has distributed only 45 cents a share despite a net asset drop of $1.15 a share. Expenses have eaten up 46% of the cash generated. But a turnaround seems at hand. Earlier this year the bank hired away National Loan’s boss, Michael Hrebenar, and terminated First Interstate as its collection agent. Hrebenar and his tiny staff figure to save much of the 12.5% First Interstate pocketed on all collections by working out the bad loans in-house.

In a delicious irony, Hrebenar recently rented out 100,000 square feet of empty office space in Catfish Town to the regional office of Resolution Trust Corp., the biggest liquidator of them all.
OUR CLIENT LIST INCLUDES 50% OF THE FORTUNE 500.

The bottom line is your financial peace of mind.
They try. But somehow Honda always seems to be a car ahead of everybody else. That's not hard to understand.

When you look at the fourth generation Honda Accord, it becomes easy. This latest Accord was designed and engineered to create a new standard of automobile. Our engineers always take that approach to building a new car. It's one that apparently works, too.

The Honda Accord is the best selling car in America. *Car and Driver* magazine considers it to be among the Ten Best Cars in the World. In fact, since they first began the Ten Best list eight years ago, the Accord is the only car to appear on it every time. For that, we thank you.

While our technology puts the Accord out in front of others, it's the workmanship that keeps it there. You will begin to notice it when you take a closer look at the car.

Things that are supposed to line up do indeed line up. Seams for doors, hood and trunk are straight and unwavering in width. The finish is even and glossy. Details are very much detailed.

Inside you will see smooth and soft surfaces. Controls and instruments are all logically placed. A bright, airy environment greets you. And when you close the door,
you will be astonished at just how quiet everything has suddenly become.

Starting the car's engine does nothing to disturb your peace.

Imaginative Honda technology makes this powerful fuel-injected engine run smoothly and quietly. Balance shafts built into the engine block cancel the inertial forces that cause other engines to twist and shake. They are amazing.

The smooth running engine is coupled to an equally smooth shifting five-speed transmission. A four-speed automatic with a lockup torque converter and a driver-selectable Sport-mode is available. Either one gets you under way effortlessly. And that is when you find out what the Honda Accord is all about.

Nothing else quite matches the driving experience of the Accord. It was designed to raise the quality of driving. It is more attuned to the driver. And more responsive under virtually all driving conditions.

It feels solid. It makes you feel secure. Your passengers feel comfortable. You have to drive it to believe it. You should.
Pentecostal Protestantism has probably replaced Catholicism as Brazil's religion with the most followers. This quiet theological revolution has great implications for the future of all Latin America—and we're not just talking theology.

The fire down south

By John Marcom Jr.

JOHN WESLEY, the 18th-century evangelical and founder of Methodism, didn't entirely approve of the forces he unleashed in the great British and American religious awakenings of two centuries ago. Some of its more colorful manifestations alarmed him. He wrote of overwrought congregations, like that in one English village in 1786: "Some of them, perhaps many, scream all together as loud as they possibly can. Several drop down as dead, and are as still as a corpse; but in a while they start up and cry, 'Glory, glory.'"

John Wesley presumably would feel just as uncomfortable about some of his remote followers today at the Igreja Pentecostal Deus e Amor, the God Is Love Pentecostal Church, in an industrial neighborhood of São Paulo, Brazil. On a bright but chilly Sunday morning in July, cries of glory, fervent and loud, resound through the unheated old factory shed that serves as the mother basilica of the almost 30-year-old evangelical Protestant church. Church founder David Miranda, heralded as O Missionario, is due to arrive in the next hour or two. The expectant thousands join in waves of hymn singing and intense prayer, many trembling on the verge of tears. Some rise with their arms upraised, others drop to the bare concrete floor.

This scene is not exceptional. Brazil, whose population now exceeds 150 million and is growing by 3 million a year, is gripped today by a remarkable religious fervor that ignores the nation's Roman Catholic traditions and centers on an evangelical Protestantism. In Brazil as elsewhere the media have tended to ignore this religious revival. When the foreign media notice Brazil, it is for President Fernando Collor de Mello's unorthodox economic policies, for Brazil's staggering external debt or for the current wave of kidnappings there. In the long run, however, what is happening in these evangelical churches has far more meaning for the future of Latin America. In these sometimes humble, sometimes grandiose churches, great historical forces are at work. They are sweeping through Latin America and Brazil, into Latin American communities in North America. But probably nowhere so forcefully as in Brazil.

Writing early in the 20th century, France's great historian, Elie Halévy, saw the flourishing Protestant groups of 18th- and 19th-century England as the glue that held the country together during a period of rapid and wrenching economic change. They were instrumental in specific, civilizing reforms: an end to dueling, observance of the Sabbath, better treatment of child labor. In general, concludes Halévy, the movement "fashioned the character of the English middle class, dogmatic in morals, proud of its practical outlook." Times have changed since then; religion has become less important in most Western societies. Nevertheless, what is happening in Brazil is of immense consequence.

Evangelical Protestantism has almost certainly replaced Roman Catholicism as Brazil's most widely practiced faith. The significance of this goes beyond theology: The old Brazilian order, based upon a rigid hierarchy and social immobility, has broken down. A new social atmosphere, one more flexible and more compatible with capitalism and democracy, is emerging. Upwardly striving urban poor are encouraged by religious teachings and support groups that preach the power of indi-
Individuals to change their lives through faith. This contrasts sharply with the old attitude of resignation to one's fate and a glorification of poverty. The potential is quite literally revolutionary—more so than Fidel Castro or Che Guevara could ever be.

Common estimates suggest that 15% or 20% of the Brazilian people may attend Protestant churches—most of them evangelical—or their offshoots, up from 6% or 7% a decade ago. That translates into 10 million new believers in a decade, for a current total of more than 20 million. British sociologist David Martin has recently written a book looking at the growth of such churches throughout the continent, *Tongues of Fire: The Explosion of Protestantism in Latin America* (FORBES, May 14). The title of another recent book, by University of California anthropologist David Stoll, raises a provocative question: *Is Latin America Turning Protestant?*

The trend toward Protestantism exists, and it is powerful. In Latin America, some Catholics and many leftists see the spread of evangelism as a conspiracy funded by the U.S.' so-called religious right to foster capitalism and U.S. interests. In 1982 and 1983 their fears were fueled by the brutally authoritarian reign of an evangelical Guatemalan general, Efraín Rios Montt. The Catholic Institute of International Affairs, a London think tank, held a conference last year to examine what one participant's paper called "Oppressive Christianity in the Third World." The implication was clear: Protestant missionaries were a Trojan horse for imperialism.

But pinning the gringo label on the growth of Protestantism can't change the fact that the Catholic Church has been steadily losing its appeal to Brazilians—at the very moment when the whole society is caught up in the confusion and transformation involved in economic development. In the 18th and 19th centuries the Church of England was weak against the fervor of new evangelical leaders, who appealed to workers in a similar time of upheaval and change brought about by the Industrial Revolution. At the time, the British working classes were mired in poverty and often turned to drink amid harsh working...
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"I spend about half my time traveling internationally, and I've found that most hotels in developed countries post huge surcharges on the phone calls made from their rooms," explains Nick Steffey, a senior vice president of the CIGNA Corporation, the international insurance giant. "With USADirect, I save about 50% on every call I make. The insurance business is extremely competitive. Every dollar we save on our phone calls returns 60 cents to the bottom line. That makes shareholders happy, of course."

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Selected USADirect Access Numbers

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<tr>
<th>Country</th>
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<td>AUSTRALIA</td>
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<tr>
<td>AUSTRIA*</td>
<td>022-903-011</td>
</tr>
<tr>
<td>BELGIUM*</td>
<td>11-0010</td>
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<tr>
<td>GERMANY, WEST</td>
<td>0130-0010</td>
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<tr>
<td>GREECE*</td>
<td>00-800-1311</td>
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<td>046-05-0011</td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>0800-89-0011</td>
</tr>
</tbody>
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*Public phones require deposit of coin. †Wait for second dial tone.
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conditions. Methodism, as well as a religion, functioned as a social reform movement that encouraged obedience, abstinence and family values.

Economic development is too often viewed solely in terms of money supply, foreign debt, inflation and other rather narrow economic variables. These are important. But just as important—perhaps more so—are cultural attitudes and social mores. The great German sociologist and historian Max Weber recognized this. Weber argued that Protestantism—specifically, Calvinism’s ethic of the “calling”—gave the industrialization of northern Europe a solid moral foundation and fostered a work ethic that enabled an enormous growth in wealth through organized economic activity.

The “full economic effects” of religion, Weber wrote in his seminal Protestant Ethic and the Spirit of Capitalism, emerged in Europe “only after the peak of the purely religious enthusiasm was past.”

Will the spread of evangelical Protestantism lay the cultural foundation for the economic and social transformation of a society that is semicapitalist and semifeudal, as it did long ago in northern Europe? The possibility cannot be dismissed. The specific Pentecostal message focuses overwhelmingly on an individual’s decision to accept Christ as personal savior. But with this message comes an emphasis on individual responsibility and sacrifice that is highly compatible with capitalism, free enterprise, a thoroughly decentralized society.

Ruben César Fernandes, an anthropologist who heads the Institute for Religious Studies in Rio de Janeiro, is skeptical of Protestantism’s ultimate power to change Brazil. Yet he identifies its focus on individual self-determination as a potentially powerful cultural force: “Both the Catholic Church and the Afro-Brazilian religions say you don’t really control yourself. You belong to the spirits. They haunt you, they guide you, they follow you around. But the Protestants have this image of self-control. They are secure, strict, ethical.”

For vast numbers of Brazilians the blast of religious conversion can sweep away the old Portuguese, African and Catholic influences that have held sway for centuries in Brazil and helped slow political and economic development.

Think of it this way: If the spirits rule, why bother to struggle out of bed in the morning and show up at work on time? Why not stay home and then propitiate the spirits in some way? Why bother to save money for a child’s education? Why not stay out drinking all night, abuse the wife and kids, and blame it all on the spirits? Down that path lies self-perpetuating poverty.

Jorge Luiz Ferreira Domingues, a Methodist pastor in a poor Rio community, is skeptical of the durability of the upstart Pentecostal churches, and distressed by their relentless demands for contributions. But even their followers “make a change when they begin to believe,” says Domingues. “They gradually start to leave other activities. They leave drinking, smoking, and they start to have more money in their hands. The money piles up a bit. The people understand these things as blessings of God.” Already, a Brazilian here and there will tell you, hiring a Protestant is a guarantee of securing a good worker.

“The church contributes to the well-being of society,” says evangelical Benedita Da Silva, whose own life offers a ready demonstration of evangelism’s power. Da Silva is a member of the Assemblies of God Church. Brought to Brazil by two Swedish missionaries sent from the U.S. in 1902, the Assemblies of God in Brazil now claims nearly 11 million members, plus nearly 4 million unbaptized followers.

Like most Brazilians, Da Silva recalls being raised in a household permeated by both Catholic and African superstitions, but without deep underpinnings of faith. She joined the Assemblies of God at the age of 26, poor and desperate, she says, “on the
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If the spirits rule your life, why worry about getting to work on time?

A Methodist-run nursery in a Río favela

Do Protestants make better workers?

 verge of wanting to die.” Now, at 48, she is a member of Brazil’s Congress and a forceful champion for the rights of her mostly poor constituents. She and her family live in a comfortable, recently built house at the edge of one of Río’s infamous favelas, a short climb up the hill from the fancy beachfront high-rises of Copacabana.

The present wave of Pentecostal growth dates from the 1950s, when U.S. missionary groups channeled new energies into Latin America after the communists drove them from mainland China. The new churches prospered not by good works, as had Methodists and Presbyterians in previous missionary efforts, but by proselytizing in Brazil’s mushrooming cities, and especially in the grinding poverty of the favelas.

That’s the striking thing about this phenomenon: It’s a bottom-up thing, spreading spontaneously among the poor rather than coming down to them from privileged intellectuals. You don’t find many churches in Ipanema, the posh stretch of Río beachfront, or in Jardins, a São Paulo district with gleaming bank buildings and drive-through McDonald’s restaurants that seems more like west-side Los Angeles than South America.

Where you will find the Protestant churches is in almost any scruffy neighborhood.

If nothing else, the growth of Protestantism breaks the religious duopoly formerly shared between the Catholic Church and the Afro-Brazilian cultism that has persisted among Brazilians of all classes. “It’s free competition for the first time,” says an Argentine observer. The Protestants, he adds, are “breaking the Catholic Church’s religious monopoly, offering not just a competing product but many competing products.”

A good case can be made that the local Catholic Church’s espousal of so-called liberation theology, with its Marxist, class-struggle overtones, has weakened, not strengthened, the Catholic Church among the poor. There now is a widespread recognition that liberation theology overlooked the emotional, personal message most people seek from religion.

At the simplest level, liberation theologians preached salvation through social change—meaning, in effect, socialism in one form or another. The evangelicals preach individual salvation through individual change. “That’s much more satisfying,” says Peter Orglmeister, a Catholic who advocates a Catholic evangelical group in Campinas, near São Paulo. Orglmeister’s group offers a Catholic al-
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term impact of his message.

Wesley probably would not object to the Christian Congregation of Brazil, also based in São Paulo. The attendees at the mother church on a recent Friday evening seemed relatively well-heeled, many with their own cars parked outside. The women, seated apart from the men on the minister's right, covered their heads. Members of the congregation offered a series of personal testimonials before the sermon. After the sermon, all fell to their knees for five minutes of spirited, spontaneous prayer that ended as abruptly as it began.

While it is not officially a part of the Pentecostals' agenda, the churches are taking a growing interest in politics. Antonio Gilberto, editorial director of the publishing house of Brazil's Assemblies of God, counts 35 evangelicals among about 500 congressman currently serving in the lower house of Brazil's Congress; 19 of them are from his own church. Elections this fall could increase their numbers. All but one of the current evangelical members—Da Silva—support Col- lor's government.

It is not surprising that believers in individual salvation support the politics of the young and telegenic new president, who is promising to set Brazil's economy on a free-market course. If he perseveres, this course will lead to hundreds of thousands of workers in public agencies and subsidized, protected companies losing their jobs. The rest would then be left to the private sector, making the virtues of diligence and discipline often associated with Protestantism that much more important.

Gilberto of the Assemblies of God thinks the spread of evangelism in Brazil holds the promise of transforming his society as Protestantism helped transform some of the now industrialized countries. In Britain and America long ago, "the spirit of God moved mightily," says Gilberto. "Probably the same thing is happening in modern times in Brazil."

A case can be made that cultural upheaval is simply another side of economic transformation. Thus the growth of Protestantism in Brazil and throughout Latin America offers solid clues to the future—a capitalist, bourgeois future, not a Marxist or traditional future.
In the past year and a half, Mexico has implemented a number of sweeping economic and social changes designed to put the country on the path to industrialization.

From the outset of his six-year term as president, Carlos Salinas de Gortari stunned friends and political adversaries alike by launching a series of reforms, the breadth and scope of which had not been seen in the 20th century. His administration is determined to modernize the economy and bring true democracy to a staid political system.

The results of President Salinas' "mission" have been impressive and are due to renewed growth and tangible progress in a number of key areas:

- A 30% reduction of the foreign debt to the current $70 billion
- Reprivatization of many important business sectors, from banking and telecommunications to mining and steel
- Implementation of sweeping deregulation, fiscal incentives, which are attracting sizable foreign investments, and elimination of red tape
- Reformation of the political system, including an in-depth democratization of elections

Complete liberalization of trade, including the decision to begin negotiations for free trade with the U.S. which could lead to a North American Common Market with Canada

The successful application of strict economic controls, bringing inflation down from 160% a few years ago to the current 24% level, with single-digit figures forecast for next year

Stepping up promotion of foreign tourism, the third source of foreign revenues after oil and maquiladoras, the in-bond assembly (electronics, textiles, toys, consumer goods) operations located mostly along the border.
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There are other indicators of real economic progress. In one year, the securities market (Bolsa) index has doubled, outperforming virtually every other market in the world, even in the wake of the Persian Gulf crisis. Many analysts predict that the Bolsa could well grow to four or five times its present level in a matter of three years. Earlier this year, President Salinas' team of experts put the finishing touches on a highly complex debt renegotiation package that trimmed close to $30 billion through swaps, capital and interest reductions, and fresh capital agreements with the country's creditor banks. The international financial community recognizes Mexico's tremendous efforts to meet its debt obligations through the 1990s.

Reprivatization of the banking system was announced in May. At the National Banking Convention in August, the mood was upbeat and reflected the business sector's optimistic outlook on real growth prospects. Domestic savings are growing for the first time in years, which could mean greater financing for plant expansions and capital goods acquisitions. The privatization of banks, along with two major air carriers, the telecommunications conglomerate Teléfonos de Mexico, mining companies and steel mills, promises to create many new jobs and lure back billions of dollars in capital.

**Investment Options**

In the field of foreign investment, bureaucracy and import-export restrictions have been all but eliminated. Options are wide open to foreign investors, including banks, private companies and a large variety of mutual funds and high-yield instruments managed through the securities market. Financial institutions, from banks to stock brokerage firms, have developed a virtually limitless range of attractive investment possibilities.

**Economic Picture**

Mexico's government spending deficit is down, the peso is stable and foreign exchange reserves have doubled to $7.2 billion from the April level. Additionally, interest rates are down to an annualized rate of below 30% for market-leader Treasury notes. This year the real growth is expected to exceed 5% to $166 billion.

**Stock Market**

Mexico's total equity market capitalization is about $35 billion and growing. That's about one-hundredth the size of either New York or Tokyo, but experts say the potential is unlimited. Even after rising sharply, the Bolsa still shows an average price/earnings ratio of under 10. Capitalization is expected to grow at least tenfold during the next five years just to accommodate the capital needs of growing companies, and the price/earnings ratio should then rise near 20.

**Financial Services**

In the wake of Mexico's comprehensive trade liberalization, financial services have experienced an unprecedented boom both in scope and innovation. Remember that throwing the borders wide open to trade works two ways—foreign companies and banks can go in and compete against long-established institutions, while Mexican banks can compete abroad. In short, the competition is helping Mexico's banks and stock brokerage firms stay on their toes, forcing them to come up with increasingly attractive and more imaginative investment options.

"Mexico is doing everything that is necessary to achieve an internationally competitive market economy," according to Finance Minister Pedro Aspe. "We have learned to implement budgetary discipline. We are bringing inflation fully under control. We are building infrastructure and we want to become an industrialized country," he says.

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Banking has come of age in Mexico, and nowhere is this more evident than at Banamex, the 106-year-old institution that has become the largest in Mexico. The bank boasts over 750 domestic branches, 12 overseas offices and a staff of more than 27,000. It operates in commercial, international and investment banking, and in trust services. In addition to offices in New York, Los Angeles, Chicago, Houston, Paris, London, Tokyo, Sao Paulo, Toronto, Luxembourg, Madrid and Singapore, Banamex maintains over 1,300 correspondent banking relationships with institutions around the world.

Mexican trade is expanding into a variety of new business segments, and Banamex can provide the guidance, direction and support for any company seeking to initiate or increase trade with Mexico. As the country's chief link to the international business and financial community, the bank offers a wide range of international services, from foreign trade and project financing, to letters of credit, investments and foreign exchange.

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Metropolitan Museum of Art

"Encampment of a Zapatista-Colonel" by Fernando Leal, 1921, will be part of the 20th Century section of the "Mexico: A Work of Art" exhibition at the Metropolitan

MEXICO

A WORK OF ART

The Metropolitan Museum of Art is organizing a monumental exhibition of Mexican art opening in New York on October 10. "Mexico: Splendors of Thirty Centuries," which will run through January 31, 1991, is the first comprehensive survey of Mexican art to take place in the United States in over 50 years. Hundreds of related exhibits and cultural activities will take place during the same period, under the general heading of "Mexico, A Work of Art." They range from regional cuisine samplings to photo exhibits and film cycles to painting and sculpture shows. The exhibition will document 30 centuries of Mexico's visual arts with some 400 works ranging in date from the first millennium B.C. until the mid-20th century. Objects of greatly diverse size, material and function will be included in this selection, on loan from both public and private collections in Mexico, Europe and the United States.

Impressively large pre-Columbian sculptures, examples of ornate colonial church objects, and works expressive of the political energies of early 20th century Mexico will be among the works of art presented in the exhibition.
The very best
illusions, Banamex can help companies keep financial risks at a minimum, reduce costs, speed up payments, strengthen negotiating positions and improve cash flow. It can provide competitive pre-export financing, discounting export acceptances and import financing under letters of credit, collections and other highly customized financing procedures.

**Corporate Growth**

When the economic crunch of the early 1980s hit Mexico, many major industrial operations were caught off-guard with heavy dollar-denominated debt loads. Many corporations weathered the crisis and ultimately emerged as stronger companies.

The Monterrey-based industrial conglomerate Visa was one such company. Chairman and Chief Executive Officer Eugenio Garza Laguera guided Visa through the critical 1980s by divesting its industrial and financial holdings and consolidating it into the country’s largest brewery and soft-drink bottler.

Today, the company boasts assets in excess of $2 billion, with 1990 sales estimates at $1.5 billion. These estimates are up significantly from last year despite the heavy tax load and price controls that have been in effect for nearly three years, and that have squeezed profit margins to the limit.

Visa reflects the enormous challenge faced by competitive Mexican companies: international competition at home. Domestically, Visa controls 51% of the sizable beer market through both its century-old Cuauhtemoc brewery and the recently acquired Moctezuma breweries. On the soft-drink side of the ledger, the company is the biggest bottler of Coca Cola in the world. Its Mexico City franchise is the world’s single largest, and it has another big Coca Cola franchise in southern Mexico as well as major bottling operations of soft drinks and mineral water.

Market-leader Visa has traditionally fostered employee loyalty through innovative benefit programs, and regards this as an edge in achieving international competitiveness.

Through innovation and implementation, Mexico is committed to continued economic progress and growth. As Commerce Minister Jaime Serra Puche confidently says, “Despite the high cost involved, Mexico’s sweeping trade liberalization is here to stay. Mexico is going to become a developed country, and there’s no going back on that fundamental objective.”

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and let them see
what others only dream of.
Just when the outlook for defense business looked darkest, Bernard Schwartz made a deal to double the size of his Loral Corp. Right now that deal looks mighty smart.

Thank you, Saddam

In late July, at a time when many defense contractors were wondering whether they even had a future, Loral Corp. Chairman Bernard L. Schwartz made a major bet that his company does. In one move he doubled Loral’s size, with the announced acquisition of Ford Aerospace, to be bought with a financial partner for $715 million.

Questionable timing? A few days after the announcement, Saddam Hussein invaded Kuwait and quickly buried the briefly fashionable notion that communism’s collapse signaled the “end of history” and the dawn of the love era. It’s doubtful Bernard Schwartz was informed of Saddam’s plans, but logic and experience must have told him that a world infested

Loral Chairman Bernard L.-Schwartz in his New York office

Logic and experience must have told him that the world was not yet ready for the rule of love.
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In any complex organization, size can create obstacles. And many firms are using information technology to help get past them.

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with people like the Iraqi dictator was a world that was not yet ready for the rule of love.

Loral is a high-tech maker of defense electronics equipment. Its radars, sensors and electronics provide the eyes and brains for a broad range of American aircraft, submarines, tanks and satellites. Loral has also been one of the better growth companies around. Its revenues, $1.3 billion through Mar. 31, 1990, have grown more than sixfold over the past decade. Earnings have grown over five times, to $78 million. Assuming that the Ford Aerospace deal closes, sales could rise to $3 billion in the next fiscal year.

Schwartz, a financial man by training, now 64, has run New York-headquartered Loral since 1971, when he left his job at his mentor Saul Steinberg’s Reliance Group to take over a $30 million [sales] defense electronics company on the verge of bankruptcy.

The Ford Aerospace deal has all the earmarks of an entrepreneurial leveraged buyout. To acquire 51.5% of a firm with $1.8 billion in revenues, Loral put down just $148 million. However, the deal is not balanced on a thin thread of equity like so many LBOs; it was financed with about 40% equity, 60% debt. A partner, Shearson Lehman, is putting up $455 million in equity money for the other 48.5%. The rest of the $715 million purchase price will be in bank borrowings secured solely by the Ford assets being purchased, which have been renamed Ford Aerospace.

Thus Loral Corp. does not have to report Loral Aerospace’s debt as its own. But it is allowed to report in its earnings 51.5% of the new entity’s net income. Last year Ford Aerospace earned $120 million in operating income. With a stroke of the pen, Loral’s per-share earnings projections thus rose from $3.95 to $4.30 for the next fiscal year.

The Ford acquisition climaxes a string of deals in which Schwartz has taken advantage of a buyer’s market to gobble up defense properties from such nervous divestors as IBM, Honeywell, Schlumberger and Goodyear. Just a few years ago many defense properties changed hands at multiples of 1-to-1.5 times revenues. Excluding Ford Aerospace, Loral over the years has acquired $1.3 billion in sales for just $1 billion: about 77 cents for every dollar of sales. The Ford assets acquisition of Ford Acro makes Loral a major builder of military and commercial satellites where it was previously a component and subsystem supplier.

When he buys a business, Schwartz gives managers attractive profit-sharing incentives and requires comprehensive reporting on operations. A result is usually a substantial improvement in efficiency, which helps provide the cash flow to pay off any debt incurred in the acquisition. “[Schwartz is] one of the best, if not the best, managers of an electronics company I’ve ever met,” says Robert Towbin, managing director at Shearson Lehman. “His judgment calls for 25 years have been phenomenal.”

Honeywell’s Electro-Optic division, for example, was a money loser that was on the block for years before Schwartz paid $58 million for the $130 million [revenues] operation. The division, says Schwartz, is now profitable.

In 1986, when Anglo-French raider Sir James Goldsmith was stalking Goodyear, Schwartz agreed to purchase Goodyear Aerospace for $588 million. Last year Loral sold off one piece of the Goodyear assets—the Aircraft Braking and Engineered Fabrics units—for $455 million in cash and notes, leaving Loral with the majority of the business for a net investment of only around $130 million.

If the sale of the assets was a nice deal for Loral, it was a nice deal for Bernard Schwartz as well. The buyer of the assets: a group headed by Schwartz and including Manufacturers Hanover and, again, Shearson Lehman. The sale of the division to the Schwartz group ignited a number of lawsuits, but it will be hard to argue that Loral did not make out handsomely in the deal.

Schwartz has been paid well for building Loral into what it is today. His employment contract provides that Schwartz will get 3% of any increase in stockholder’s equity [including dividends] over 8.25%. In the fiscal year that ended Mar. 31 his total compensation came to $3.2 million. Of that, $1.25 million came from equity appreciation.

Given his record, few shareholders would begrudge Schwartz his contract. He has kept Loral focused on its business of upgrading its weapons systems products in existing planes, ships and tanks.

• Susan Pitts, a partner with a venture capital firm specializing in defense, says: “Every defense electronics firm tries to get follow-on contracts. Loral has just been
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Bernie’s bargains

After learning the acquisition game at the knee of Saul Steinberg, Bernard Schwartz began to build Loral Corp. through acquisitions. To judge from the prices he has paid over the years, he really knows how to bring home the bargains.

<table>
<thead>
<tr>
<th>Purchaser</th>
<th>Date</th>
<th>Acquisition</th>
<th>Price (millions)</th>
<th>Revenues (millions)</th>
<th>Price/revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loral</td>
<td>1985</td>
<td>Rolm Mil Spec Computers</td>
<td>$88</td>
<td>$86</td>
<td>1.02</td>
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<tr>
<td>Loral</td>
<td>1987</td>
<td>Goodyear Aerospace</td>
<td>588</td>
<td>690</td>
<td>0.85</td>
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<tr>
<td>Loral</td>
<td>1989</td>
<td>Fairchild Weston</td>
<td>177</td>
<td>270</td>
<td>0.66</td>
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<tr>
<td>Loral</td>
<td>1989</td>
<td>Honeywell Electro-Optic</td>
<td>58</td>
<td>130</td>
<td>0.45</td>
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<tr>
<td>Loral</td>
<td>1990</td>
<td>Ford Aerospace</td>
<td>715</td>
<td>1,800</td>
<td>0.40</td>
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<tr>
<td>General Motors</td>
<td>1985</td>
<td>Hughes Aircraft</td>
<td>5,025</td>
<td>2,100</td>
<td>2.39</td>
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<tr>
<td>Lockheed</td>
<td>1986</td>
<td>Sanders Associates</td>
<td>1,175</td>
<td>886</td>
<td>1.33</td>
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<tr>
<td>Emerson Electric</td>
<td>1986</td>
<td>Hazeltine</td>
<td>189</td>
<td>174</td>
<td>1.09</td>
</tr>
</tbody>
</table>

Sources: Loral Corp. for Loral deals, Mergers & Acquisitions for others

extraordinarily successful in doing that.”

Last year 75% of Loral’s sales stemmed from existing business. An important reason behind Loral’s success is Schwartz’ entrepreneurial, risk-taking nature. To win upgrade business, Schwartz has aggressively committed resources to improving Loral’s products well before its customers are ready to buy or fund such improvements. For example, it independently added innovative infrared technology to some radar warning receivers previously sold to the Air Force. According to Rear Admiral William C. Bowes, Loral computers governing the firing of Tomahawk missiles have substantially exceeded Navy requirements for reliability.

How has Loral managed to avoid delays and overruns? “Every program has in it inherently the seeds of this kind of difficulty,” says Schwartz. “What we’re good at is quickly identifying it. When a problem develops, we’re very good at anticipating it before it’s humongous.” Because many problems originate with subcontractors, Loral often puts its own people on site to monitor operations.

As with many highly competitive firms, Loral sometimes tries too hard. Case in point: Last year Loral beat out Litton Industries to win a major contract to outfit F-16 fighters with radar warning systems. But the General Accounting Office, after investigating a complaint from Litton, concluded that Loral had improperly obtained sensitive information on Litton’s system. The GAO recommended that the contract award be overturned. But the Air Force argued that reopening the bidding process would cost taxpayers as much as $300 million and delay delivery of vital systems. The government settled for guilty pleas by Loral on three charges, and a bigger share of the contract for Litton as a sub-contractor. Loral had to take a $10.5 million charge against earnings, but kept the bulk of the contract, which could bring the New York firm $210 million in revenues through fiscal 1993.

Don’t look for any more major acquisitions by Loral for a while. Schwartz admits his managerial team is stretched thin with the Ford acquisition. ‘We need some group vice presidents that we may never have had before. In terms of management, our plate is pretty full.’

Finances? Fairly conservative: 60% equity, 40% debt. But with long-term debt of nearly $419 million, Loral’s debt ratings were recently lowered a notch by Moody’s Investors Service [to Baa3 on senior debt, Ba1 on subordinated debt]. Schwartz wouldn’t want to see these ratings go lower, and he doesn’t want to run a leveraged-to-the-hilt business where meeting next quarter’s interest payments takes precedence over long-term business considerations.

Loral stock, at a recent 31, sells for less than eight times the $4.30 earnings that Prudential-Bache’s Byron Callan forecast for the next fiscal year. Schwartz says that this low price still reflects a now obsolete attitude toward defense. “I think there’s been a change in the wind in terms of America’s attitude toward dependence on its defense capabilities,” he says, referring to Iraq’s aggression. “I think it will be a permanent, positive adjustment in attitudes.” The Soviet ogre may have turned into a pussycat, but there is no shortage of nasty characters around.
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Some states make great toxic waste dumps. Is it unconstitutional if they close their borders to out-of-state garbage?

The garbage war between the states

By James Lyons

The commerce clause of the U.S. Constitution says states cannot pass laws that restrict interstate trade. While states were given broad authority to govern their own citizens, the nation’s founders concluded it would be detrimental to the overall good of the union to allow states to pass protectionist laws restricting interstate business.

All fine and good, but drawing the line between legitimate states’ rights and interstate commerce has never been easy. Courts have gone back and forth on the issue, upholding some state laws and striking down others.

These days, the commerce clause has particular resonance in the rolling hills of western Alabama, the site of the nation’s largest commercial landfill for hazardous waste. Rambling over 2,400 acres, the Emelle, Ala. facility each year treats and stores about 800,000 tons of metals, solvents, and other materials considered too toxic to put out with the morning trash.

Owned by Chemical Waste Management Inc., the Emelle plant renders a valuable service by recycling the waste, converting it into fuel or burying it. This landfill is not in Alabama by happenstance. It sits atop a major deposit of chalk, a highly impermeable material. Should any of the hazardous waste leak, the chances of its seeping into an aquifer are greatly reduced. If you’re going to bury toxic waste, better—for all Americans—that it be buried in Alabama than, say, in the swamps of Florida.

But you might not consider the landfill such a blessing if you watched trucks filled with hazardous waste drive past your house every day with toxins from states as far away as Illinois, Texas and Georgia. Alabama Governor Guy Hunt once complained that his state had become “the hazardous waste dumping ground of the nation.”

Last year the Alabama state legislature passed a bill that restricted the ability of the landfill to take waste from other states. Chemical Waste Management sued, claiming that the law violated the commerce clause.

The suit has already produced contradictory results. A federal district court judge earlier this year upheld the Alabama law. In August the U.S. Court of Appeals for the Eleventh Circuit overturned it. An appeal to the U.S. Supreme Court is certain.

Like most laws, the commerce clause is not absolute. While courts have invalidated state laws that entail simple economic protectionism, the commerce clause hurdle can be overcome if a state shows that its legislation reflects “legitimate local concerns,” and its impact on interstate commerce is only incidental.

Four years ago, for example, the Supreme Court upheld a Maine statute banning the importation of live baitfish. The legitimate local purpose in this case was the protection of Maine’s “unique and fragile fisheries.” Since live baitfish from outside the state could bring in parasites, and some nonnative species of fish would be included in the baitfish shipments, the only way Maine could protect its fish was through an import ban, the court held.

But decisions can go the other way, too. In 1978 the Supreme Court struck down a New Jersey law that banned the importation of garbage generated outside its borders. While New Jersey contended that it had a legitimate interest in conserving the remaining space in its landfills, the court said New Jersey could not attempt “to isolate itself from a problem to many by erecting a barrier against interstate trade.” The court also noted that New Jersey couldn’t discriminate against waste solely on the basis of its origin.

In crafting its law curbing the importation of hazardous waste, the Alabama legislature tried to insure that the law would not be viewed by the courts as a purely protectionist measure. Under federal law, each state is required to submit a plan to the Environmental Protection Agency detailing how it intends to dispose of its...
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This year alone, American companies will spend more than $10 billion on health care for their retirees. But if the cost of retiree medical benefits is extrapolated for every current employee who has been promised them, the figure is a whopping $400 billion plus. In 1990 dollars.

Even more alarming, this situation is reaching crisis proportions.

The Financial Accounting Standards Board rightfully advocates that 100% of this future obligation be recognized as a corporate liability. And that will leave corporate America with some hard choices to make.

One option is simply to accept this liability and live with it. Some corporations, certainly, are strong enough to absorb a financial drain of this magnitude and continue with business as usual. But for many others, the situation is a lot more precarious. Some might even be affected to the point where liabilities exceed assets.

Another option is to eliminate retiree health benefits for all new hires. Many companies may indeed take this route. Unfortunately, this course of action will add untold millions of future retirees to the rolls of Medicare and Medicaid. And that's something we'll all have to pay for.

At ITT Hartford, we advocate pre-funding as the most responsible approach to retiree health care. But right now, pensions are the only significant retiree funds that are allowed to accumulate on a tax-advantaged basis. Retiree medical benefits are not afforded the same realistic tax advantages. That's fine as long as all we're paying for is current retirees. If we're being asked to recognize tomorrow's retiree health care costs today, however, the situation needs to be examined.

The Hartford doesn't think a company promise should have to become a company problem. And with the right kind of planning, it won't.

If you, your company, your civic organization, your industry group or your committee are interested in learning more about this issue, write to Chuck Clinton, Vice President, Asset Management Services A-2, Hartford Life Insurance Companies, P.O. Box 2999, Hartford, CT 06104-2999.

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hazardous waste for the next 20 years. The Alabama law banned hazardous waste imports from states that do not have adequate hazardous waste plans or do not have their own hazardous waste treatment plants.

While the U.S. district court bought Alabama's argument, the appellate court did not, relying on much of the reasoning in that 1978 case involving New Jersey. But Alabama's supporters are comforted by the fact that a dissent in the New Jersey opinion was written by Justice William Rehnquist. They hope Rehnquist will want to revisit the issue.

Beyond the nuances of the interstate commerce clause, the Alabama case raises a critical issue of national policy: How should hazardous waste be disposed of safely while making certain that no state gets a free ride? Some sort of policy needs to be determined soon because, as the Alabama law demonstrates, states are preparing to take action on their own. In fact, in early September representa-

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Just about everything that could go wrong did go wrong for Commonwealth Edison. But its trials look nearly over.

A Jobian ordeal

By Steve Weiner

Running a utility was once considered a cushy, noncompetitive job. No more. Take Commonwealth Edison Co., the $5.7 billion (revenues) electric utility that serves 3 million customers in Chicago and northern Illinois. James O’Connor, 53, Edison’s chairman and chief executive officer since 1980, must sometimes feel he is as accursed as Job.

Counting $523 million in write-downs, Edison reported net income in the year ended June 30 of just $23 million, 11 cents a share, versus $692 million, or $3.37 a share, the previous year. In 1987 Edison earned $982 million, or $4.75 a share.

Trouble is the company has not won any lasting rate increases to compensate it for the $7.1 billion it cost to build the last 3 of its 12 nuclear power plants. The Illinois Commerce Commission long ago approved all of the plants. But times and politics change. Edison’s already high rates, construction cost overruns and its huge oversupply of power have turned regulators and the public sour.

The woes mount. The utility had two disastrous substation fires in two steamy weeks in July and August, sparking looting on Chicago’s poor West Side when power was cut to 40,000 people for up to three days.

Perfect fuel for fire in the 1991 citywide elections. Incumbent Richard M. Daley, son of the legendary Richard J., has so far refused to renew Edison’s full franchise, which grants the utility access to its facilities in...
The day they make a laptop computer that meets all your needs, you’ll read about it in a magazine.
return for a substantial fee. The city wants rate breaks for low-income households and other politically popular concessions.

How does Jim O’Connor feel about all this? Beleaguered but philosophical. As to those nuclear plants that critics claim were unnecessary, he says: “We acted in reliance of fair ratemaking treatment, and to be sitting here five years later without seeing any return on that very large investment is unfair.”

Isn’t it true, though, that with those plants Commonwealth is sitting with a generating capacity that exceeds average peak demand by an astounding 33%? Most utilities rest easy with a 15% surplus; few want to pay for such extreme overcapacity.

O’Connor answers that future economic growth will go to regions with power to burn: “This has been the right approach in the economic best interests of our customers.”

So the politicians and self-appointed consumer advocates complain that the company built too much capacity, and the company responds that one day the constituents will bless the company for it. It’s the old story: short run versus long run. For a politician, long run is tomorrow. Utility companies can’t operate that way. It can take ten years to get generating capacity from blueprint to production.

Edison has always been a single-minded, innovative and entrepreneurial company. Its early and legendary chief, Samuel Insull, a former Thomas Edison secretary, pioneered broad-based electrical generation and distribution, for example. The company fired up the first privately financed commercial atomic generating station in the country in 1960.

The bulk of its nuclear program was authorized in the early 1970s, well before the shrinkage of heavy industry in the so-called Rust Belt put an end to annual 5% to 7% increases in electrical demand; lately it has averaged 2%. Edison had several chances in the early 1980s to cancel or postpone some of its plants. It did not, however, and tended to underestimate construction costs and overestimate demand.

O’Connor argues that there was no way for Edison to change its course without ruinous costs. He blames the hysteria after Three Mile Island and the resulting ever-changing federal code requirements for the cost overruns. That’s certainly partly true. However, independent audits at the Braidwood nuclear plant and another two-unit station, Byron, found that poor management by Edison added from $600 million to $1.4 billion to the costs of the nuclear projects. That could lead to significant writedowns.

In all this, O’Connor and his 211,000 shareholders can take comfort in the company’s long-range prospects. Edison is financially strong. It sits on retained earnings of $1.6 billion, for example, has a manageable debt burden of 50% of capital, and should finally win a sizable rate increase next year. “Some balancing is necessary, enough so the company can stay reasonably healthy,” says Clyde Kurlander, general counsel of the Illinois Commerce Commission. “But that doesn’t mean you guarantee every stockholder the same dividend after a rate case as before. We must strike a balance between shareholder and ratepayer interests.”

The next few years look tight. Dividends now require $732 million annually, far more than this year’s probable earnings of less than $100 million and near 1991’s projected $700 million to $850 million, depending on rates. A cut in the long-standing $3 dividend is likely, and at a recent price of 30, the stock seems already to reflect reduced expectations.

But as against the current dismal situation, the longer term is bright. The Midwest’s economy is growing once again, and O’Connor’s assertion that abundant electricity will translate into a competitive advantage in the coming years should indeed prove to be true. Job’s tribulations seem nearly over.
Here it is in a magazine.

NEC introduces the 12-pound ProSpeed™ SX/20 laptop computer. Is it really possible to have all your needs met by just one 12-pound laptop? Good question. For which we at NEC have a great answer. The ProSpeed SX/20, a small, lightweight 386SX laptop that utilizes a unique modular design to meet all your computing needs. Whether you require a high-performance portable or a fully configured desktop system. Technically speaking, the ProSpeed SX/20 comes equipped with up to 5MB of RAM and a 40MB hard disk drive, and runs at a blinding 20MHz pace. There's also 3 hours of battery life. Now all this looks good on paper. But how does it look on a computer? Well, thanks to a CRT quality LCD screen with VGA resolution, the answer is crisp and clear. Which brings us to the sensitive topics of expandability and connectivity. In other words, all that you gain in a desktop but usually lose in a laptop. The exception, of course, being the ProSpeed SX/20. Its unique Docking Station™ allows you to easily make the transition between outside-the-office portable and inside-the-office computer, while providing the connectivity and expansion capabilities you'd only expect from a desktop. So, now that you've read about it in a magazine, when can you see the one 12-pound laptop that can meet all your needs? The day you go to your NEC dealer and try one. For product literature or location of your nearest dealer call 1-800-826-2255.
Now that he has gotten his old company back, how does Manpower's Mitchell Fromstein feel about the future? Terrific.

You can go home again

By Marcia Berss

M itchell Fromstein, 62, is one lucky guy. He still has much of the $29 million he got for his stock when a British outfit bought Manpower Inc. three years ago. He also has the temporary help outfit back. This might not seem the best of times in the temporary help business, where Manpower is the world leader with $2.7 billion in revenues. (Manpower earns half its income in the U.S., the rest in Europe.) The Conference Board's index of help-wanted ads is at its lowest level in five years. When hiring is off, temps are the first to go.

Still, Fromstein is happy—and not just because he has both his company and the money. Even with this year's slowdown, Manpower's earnings should hit $65 million [before goodwill charges], 90 cents a share, off maybe 2% from last year. Profit margins are down, too: The slippage in net will occur despite a 19% increase in revenues so far this year. But never mind, says Fromstein. The long-term trends are going his company's way.

"Until the 1980s," he says, "bringing in temporary people depended on emergency use—somebody is sick, on vacation, quit, fired. Then, in the 1980s, businesses downsized." Temporary began to be hired for flexibility: They were easy to ax, and cheaper, as benefits (which temps don't get) rose faster than wages. The result: Temporary jobs in 1989 grew to 1% of total jobs, double that of 1980, according to the Bureau of Labor Statistics.

This trend is likely to continue. Meanwhile, he is sure Manpower will benefit from what he calls the "demographic deficit." This is fancy talk for predictions that the U.S. labor force will grow less than 1% in the 1990s. That's one-third the 1970s rate and the lowest since World War II, when the temporary employment industry was born because of the labor shortage.

Even more important, he says, is the U.S.' slow march to more job security, à la Europe: "In Europe government constraints make it penalizing to hire a permanent person and get rid of them." So the use of temporary workers is much higher in, say, France, at 1.6% of jobs, than here.

Manpower has 450 offices in France, versus 800 here, even though the U.S. has four times the population.

Fromstein ran Manpower for a dozen years, until September 1987, when the board accepted a hostile but generous takeover offer from Blue Arrow, a brash British temporary agency headed by Antony Berry, an ambitious English dealmaker. Manpower stockholders got $1.3 billion (38 times earnings) at the crest of the market. Fromstein pocketed his share and signed a contract to run Manpower from its Milwaukee headquarters while Berry ran Blue Arrow from Britain. But in December 1988 Berry convinced the board to oust Fromstein. Jobless but not penniless, Fromstein mounted a countercoup, backed by Manpower franchisees, who operate half its U.S. offices. He persuaded the board to kick Berry out and bring him back to run the whole company in January 1989.

The board didn't need much arm-twisting because Berry, once a darling of London money men, had become a leper. Blue Arrow paid for Manpower with a huge stock offering underwritten by Britain's big National Westminster Bank. The offering was declared a sellout, although the bank still held a chunk of the deal. The British government investigated for stock fraud in a scandal that forced top executives of NatWest to resign. Too, the directors discovered Berry had lent at least $40 million of company money to a friend without board approval.

Fromstein lost no time selling off Blue Arrow businesses, and by year-end he'll move the head office from Britain back to Milwaukee. He's sticking to his strategy of renting out relatively low-skilled people—secretaries, file clerks, customer service representatives, quality control inspectors and assembly-line workers—and shunning fields that require special training, such as health care.

Fromstein: "We will give up the side streets to other companies in exchange for keeping control of the major highways. My vision is that we are the important player in those work force areas that are largest in number of people."

At a recent $11.25 a share, Manpower's adrs sell at just 12.5 times projected 1990 earnings. Clearly the market is less optimistic about the firm's prospects than Fromstein is. (He owns about 1% of the stock.) As recently as a year ago, Manpower was trading at 22 times earnings.
THE CARS THE AUTOMOBILE ESTABLISHMENT EITHER CAN'T BUILD, OR WON'T.

Once again, carmakers everywhere are flooding dealer showrooms with mainstream vehicles for mainstream tastes.

Once again, Saab isn’t.

So among the new Saabs you’ll find cars that confront the myths conventional wisdom holds most dear. Cars that are “not generic transportation modules, indistinguishable from the herd, but rather vehicles with panache” (Motor Trend).

And for 1991, panache comes in a full complement of styles, shapes and missions:

The 9000 Turbo is a 200-horsepower sedan that surges from 0 to 60 in an exhilarating 6.4 seconds. But for all its performance credentials, the real genius of the car lies in how those credentials have been achieved.

Since Saab unleashes those horses through turbocharging, the exhilarating rush of power is there when it’s needed—and only when it’s needed. So it doesn’t squander fuel on the snail’s-pace traffic so unkind to big-engined cruisers. Making it one of the few high-performance sedans that isn’t compromised by reality.

The 9000S is a sports sedan that brings something refreshing to the category: a complete car. It has the largest fuel-injected engine Saabever built, the agility of a true European road car—plus the space and versatility such cars often deny.

It’s the only European import with enough interior passenger space to be rated a “Large” car by the EPA. And enough cargo space to rival a station wagon’s.

In short, a sports sedan designed for full-fledged humans, instead of the one-dimensional version that conventional carmakers seem to have in mind.

The Turbo Convertible resembles no present-day car so much as the classic top-down roadsters that kindled more than one generation’s love of automobiles. Yet its most revealing differences aren’t visible. Unlike convertibles that are sawed-off hardtops in disguise, the Saab has 23 special body and chassis members to counteract the stresses unique to convertibles. And a heated glass rear window, instead of a plastic afterthought.

The result is a convertible created by engineering, rather than by cosmetics.

In all, Saabs range from $18,295 to $33,995.* In return, you get a car whose overall quality is perhaps best reflected in its warranty: a 6-year/80,000-mile limited warranty that includes bumper-to-bumper coverage with Saab’s Roadside Assistance for 3 years or 40,000 miles.* (See your Saab dealer for complete details.)

So if you’re in the market for a 1991 automobile, the wisdom of comparison shopping all but mandates a visit to a Saab dealer.

You’ll leave with the benefit not just of a test drive, but a prospective few other cars can provide:

The chance to see what cars can achieve when the constraints of convention are removed.

*MSRP excluding taxes, license, freight, dealer charges and options. Prices are subject to change. ** Whichever comes first. © 1990 Saab Cars USA, Inc.
By Phyllis Berman

Junko Koshino and her husband, Hiroyuki Suzuki, rush into the dining room at New York's fashionable Carlyle hotel. Can they be for real? Giant gold earrings swing above Junko's shoulders, and she is a silhouette in her signature colors, red, black and white. Though it is breakfast time, the husband is sporting a narrow pea-green jacket and skinny tie. This is the avant-garde image Japanese fashion designer Junko Koshino creates in everything from dinner plates to men's ties.

But now, a unique touch: Koshino asks those with her, an assortment of aides, to bow their heads for a short prayer. At surrounding tables, guests sneak surreptitious but admiring glances at the slick, prayerful group.

Junko Koshino hardly notices the gapers. She is used to creating a stir in Japan. Now 51, she won the So-en award from Japan's most prominent fashion magazine for the design of a turquoise minicoat in 1960 when she was only 21. For 30 years she has rarely been out of the public eye in her native land, and she has expanded her business to France, China and Korea.

The granddaughter of a kimono maker, Koshino used her prize winnings to set up her own boutique in Tokyo's Komatsu department store in Ginza and later in the Aoyama district. As her designs caught on, rock stars like Diana Ross and Mick Jagger started patronizing her shop. Along the way Koshino became a devout "born again" Christian.

She is not the only Koshino to hit it big in fashion. Junko's mother, designer Ayako, was one of the first to sell Western-style garments in Japan, today she designs for elderly Japanese. Two expatriate sisters have also captured the limelight: Hiroko, who sells designer fashions from a boutique on Paris' rue du Faubourg St. Honoré, and Michiko, who sells funky outfits out of London's Covent Garden.

In the U.S. Junko Koshino is almost unknown, but that is about to change. To a crowded market she brings an distinctly fresh, if somewhat outrageous, look.

When Japanese designers like Mitsuhiko Matsuda, Kenzo Takada and Issey Miyake came into the U.S. market in the booming early Eighties, they brought a radically new fashion silhouette inspired by the traditional kimono; their clothes were layered, asymmetrical, their fabrics highly textured and their colors muted blacks and grays. Japanese fashion gained wide recognition in the U.S. Koshino's approach is different. She features brightly colored, body-hugging styles.

She is aiming at sophisticated buyers with fat checkbooks. Her clothes run the gamut from skin-tight bicycle pants to geometrically shaped outfits that might not fit through a doorway. Bizarre? Exactly. Says Vince Mullay, a vice president at the U.S. subsidiary of Ito-kin, the seventh-largest apparel company in the world: "Flamboyant people who want to stand out will flock to Koshino designs."

The U.S. fashion industry will get its first look in November when Junko presents her collection at New York's Metropolitan Musuem of Art.

Forbes went behind the scenes to watch her prepare for her U.S. assault. She was busy interviewing models, selecting 20 "athletic, sprightly" male and female models to bounce down the runway.

Meanwhile, husband Suzuki found the right space for his first U.S. boutique, on Manhattan's Park Avenue. Suzuki, eight years her junior and a former hairdresser is very much her
partner. He helped her build a licensing network of some 30 Japanese manufacturer/distributors. She earns a royalty amounting to between 5% and 7% of the manufacturer/distributors' 55% to 60% cut of the retail sales price. It is the manufacturer/distributors who put up the capital and carry the inventory risk; Koshino just designs and collects royalties. More than $250 million worth of her creations will go into Japanese, French and Chinese closets this year, grossing the couple $8 million in royalties. “When I met her, she asked for my advice,” Suzuki explains through a translator. “She wasn’t paying any attention to costs and was giving away free samples to her friends.” He put a stop to that.

Still, the U.S. market is crowded—and tough. Just as she always has in Tokyo and Paris, Junko Koshino will gather her models to pray before they make that fateful walk down the runway come November. Cynics would say her fate rests more with the fashion press than with the Deity, but then, Koshino knows she’ll need all the help she can get.
Lots of people have made good money in the automobile business since the Second World War, but very few have done as well as Enterprise Rent-A-Car's Jack Taylor.

The company that Jack built

Enterprise Rent-A-Car founder Jack Taylor
The fleet that was 17 cars now numbers 90,000.

By John DeMatteo

Jack Taylor remembers clearly the rainy Sunday in February of 1957. At the time, he was 35 and sales manager for Arthur Lindburg's Cadillac distributor in St. Louis. As Taylor lay idly on a couch in his living room, it suddenly dawned on him that leasing cars, in those days an innovative practice in the automobile business, was "just easy and convenient" compared with buying cars. From that elegant realization grew a business that is now worth over $500 million.

"The next morning," says Taylor, continuing his story, "I went up to Mr. Lindburg and said, 'Hey, I'd like to run a leasing business.'" Lindburg agreed and set Taylor up in a car leasing venture at an Oldsmobile dealership Lindburg also owned. Taylor took a 50% pay cut in exchange for 25% of the new business, which they called Executive Leasing.

By 1987 Taylor had finished buying out the Lindburg family's interest in what is now Enterprise Rent-A-Car; Taylor and his family own 85% of Enterprise, and senior managers own the balance. And what a business Enterprise has become. Its rental car fleet now numbers over 90,000. It has offices, all company-owned, in 80 of the country's top 100 markets. Revenues hit $850 million for fiscal 1990; the goal for fiscal 1991 is to top $1 billion. Based on FORBES estimates, Enterprise Rent-A-Car is probably worth at least $500 million; Taylor's stake, over $400 million.

After leasing cars for a few years, Taylor started the rental car side of Enterprise in the early 1960s. Ironically, the rental business was an annoyance to Taylor's leasing salesmen. But rather than let it drop, Taylor asked an ambitious young assistant named Don Holtzman "to come in Monday morning and start heading up a rental business. I asked him how many cars he wanted, and he said 17; he could not say why he settled on 17, but I gave them to him anyway."

The business was too tiny to compete against Avis and Hertz in airport car rentals, so Holtzman (who left Enterprise in 1965) looked for another kind of customer. His search led him to auto insurance adjusters, who needed cars for clients whose cars had been stolen. The adjusters became valuable clients in the early 1970s, when the courts decided casualty insurance companies were liable for an insured motorist's economic loss from being without a car. The insurers decided to provide reasonably priced rental cars, and Enterprise's rental business took off. It gained momentum as Taylor convinced body shops to send over customers whose cars were under repair. "There was a little string there," says Taylor of Enterprise's expanding rental customer base, "and we kept pulling on it."

In retrospect, Taylor was a pioneer in what is now called the "replacement car" segment of the car rental business. According to Charles H. Finnie, a securities analyst at Alex. Brown & Sons who knows the Enterprise story well, "Replacement is the most attractive segment of the car rental business because it is largely recession-proof and highly fragmented; the four largest players still control less than 50% of the market." This means that while the replacement market as a whole grows 4% a year, Enterprise can grow at 20% or more as it completes its rollout into the 100 largest U.S. markets.

Why haven't the big airport-based car rental franchises gone after the replacement market? The answer is: Both Hertz and National did enter the market, in the mid-Eighties. They quickly learned, however, that the replacement market is based on low-priced rentals, because insurance policies will pay only up to a maximum amount per day. Enterprise can keep rental cars in service for two or three years and charge around $20 per day, airport car rental operations turn over their fleets every three to six months and must get around $35 a day.
Dressing well becomes part of your daily routine as Executive Material. It's an art that Dillard's has mastered over the past 50 years. We will spice your wardrobe with variety. And you'll see why the Hart Schaffner & Marx black and white sportcoat is at the top of our checklist. A classic cut in luxurious wool and lambswool that meets your demands for consistent good looks and all-day comfort. Sizes 38-46 regular, 40-46 long, 325.00 Charcoal gray pure worsted wool flannel pleated slacks add impact. Sizes 32-40 regular, 95.00. Made in America. Specially selected for Dillard's Executive Material.

The Historical Perspective:
During the 19th century, Scottish landowners developed checks as options to tartans, which were considered unsuitable for everyday wear. The men of wardrobe variety were beginning to be understood and enjoyed.
On August 1, 1968, a law was passed that created a federally chartered, private enterprise to help finance homes for American families. This brainchild of the 90th Congress has stood the test of time — Fannie Mae is an idea that works.

Operating within a restrictive charter, we channel all our energies into one business — housing America.

In the last decade, Fannie Mae raised more than $450 billion, money that flowed directly into home mortgages for more than seven million families. Our federal charter allows us to raise the money at more attractive rates than otherwise would be possible. We, in turn, pass that savings on to
he American home buyer: But perhaps the real genius behind the Fannie Mae idea lies in the private nature of the company. Operating in a competitive arena. Recruiting some of the most capable people in the mortgage business. Possessing the financial strength to meet whatever the future holds.

Today, mortgage lenders in all 50 states can offer a wide range of options to home buyers because an innovative Fannie Mae is developing a constant stream of new products.

Not only that, a home mortgage in Omaha costs about the same as a home mortgage in Pittsburgh because a single-minded Fannie Mae is in the market every day.

All of these benefits to the American housing market come at no cost to the American taxpayer because this public/private enterprise is still working the way Congress intended.

Fannie Mae helped provide homes for millions of families in the 1980s. And, because we work in the family business, we're doing just that for millions more in the 1990s.
get a car cheaply while taking advantage of tax benefits. Taylor began to see Cadillacs leased out of Chicago by a finance subsidiary of Greyhound Bus trickle down into the St. Louis market. After working out the finance math, Taylor understood that leasing was indeed a smart way to sell cars—this was the light bulb that went off on that Sunday in February 1957 when Taylor decided to go into the business. In making the decision, he was prodded by something his fighter pilot experience had taught him. "It made me realize," he says, "that I was a risk-taker."

As he built first Enterprise’s leasing business and then its rental operation, Taylor always put customer service first. At Lindburg’s Cadillac agency, he had seen loyal customers’ bills bloated with charges like the 12 minutes of labor time required to put on new windshield-wiper blades. "We were making thousands of dollars on a car, and then getting the customer mad over a $3 charge," Taylor recalls. Once on his own, Taylor set up his "Customer Giveaway Account," against which any Enterprise employee could, within limits, charge extra expenses to satisfy griping customers.

Taylor knew customer service required more than freecare. It required motivated employees. Thus, almost everyone from assistant branch manager up has been on some form of contingent compensation since the founding of the company, typically a base salary with monthly bonuses based on profits. Here’s an example of what Taylor unleashes with these bonuses: A State Farm adjuster called one recent Friday night looking for 35 cars for Monday morning. To meet State Farm’s needs, Sandy Trott, managing an Enterprise office in St. Louis, told her husband to help her prep 15 cars Sunday afternoon.

Taylor understood that compensation also takes the form of promotion within a growing company, as well as money. To this end, he became a disciple of delegation. "One reason we have gone beyond being a one-man business is that I have no problem delegating," says Taylor. "That’s because I had people around me I was comfortable with. I wanted my employees to go up with me, so that I would be comfortable with them."

By 1969 Taylor felt ready to branch out of St. Louis. He picked Atlanta first. The office there took root. He was in Florida and Texas by 1974, when the energy crisis hit. That was the last time Enterprise failed to show a monthly profit.

"Growth is pushed only when we have qualified people to send to new cities," says Taylor’s only son, Andrew, 42, who is now president of Enterprise. "When we open a new city, I say, ‘Here are the keys; have a good time. I’ll see you in two years.’" From that point the new managers are responsible for their results. The college graduates Enterprise hires hope to be managing a branch in two years, and supervising several offices shortly after that. They know that the 40 operating group heads have an average age of 37 and an average 14 years with Enterprise. And that they all started vacuuming cars or doing something similar.

Lately the Taylors have begun to extend Enterprise’s line into a segment they call "retail rentals." The idea is to provide reasonably priced rental cars for kids coming home for the holidays, or for visiting relatives. Enterprise has begun to experiment with television advertising to build name recognition in this consumer market. While it’s too early to say whether the line extension will work, the demand certainly exists.

Can Enterprise continue to grow at its 27%-a-year rate of the past six years? Says Jack Taylor: "Enterprise will be in the future whatever Andy and the people in the company want to make it." If Enterprise’s second-generation owners and managers have learned from the founder, the company’s prospects are limitless.
Let's face it. Your child's probably not going to win an athletic scholarship. And you're looking at some pretty hefty college costs.

A few years from now, the cost of a college degree could easily exceed $110,000 at a private institution and $50,000 at a state university.

These costs are steep but not insurmountable. Using our unique CollegeBuilder® Program, your Merrill Lynch Financial Consultant can give you a personalized analysis to show you how to go about reaching those goals. We offer a wide range of choices—zero coupon bonds, insurance, annuities, mutual funds, to name a few. And we can help you select your investments according to an asset allocation strategy based on the level of risk you're comfortable with.

And because education is one thing you can't afford to fumble, we're offering a booklet that outlines some college financing strategies. See your Merrill Lynch Financial Consultant, call our toll-free number or mail the coupon.

©1990 Merrill Lynch & Co., Inc.
Will it bother you that Big Brother watches when you shop your friendly local supermarket? Do you care if marketers know your every move, what you buy and when? If so, you aren’t going to like where electronic scanning is taking us.

Scanning the future

Do you buy Cheerios? Don’t be surprised if a competing cereal maker starts writing you personal letters touting its new, better-than-oats, “all-natural” cereal.

How about beer? Have you switched from Beck’s to Heincken? You may get a letter offering you a chance on a free trip to Germany if you send in the label from a six-pack of Beck’s.

Maybe you also regularly buy the same brand of dog food for the family pooch. Before long you may get a letter from the ASPCA asking for a donation to support its animal shelter in New York City.

What’s going on here? Welcome to the brave new world of supermarket scanners, where the laser devices that tote up what’s in your grocery cart will soon do a lot more than help control the store’s inventory and generate detailed receipts for you.

By drawing on computerized data from the scanners and the plastic you use at the checkout counter, marketers, manufacturers—and even nonprofit groups that want to get a message to you—will soon be able to know your family’s buying habits and brand preferences.

Citicorp, one of the major players in the new technology, has already put special ID cards into 2.3 million households in such cities as Chicago, Dallas, Denver and Los Angeles. Consumers agree to use them at supermarkets like Jewel, Vons and Pathmark, where Citicorp’s computers take their purchase information from the store scanners.

Citicorp then sells this information to marketers, who will be able to tailor messages to specific individuals and be fairly sure their messages reach them. Databases linked into cable TV and magazine subscriber lists will be able to tell advertisers whether you’re responding to their pitches.

For the consumer, there will soon be no place to hide. While it’s not yet proved that all this will actually work in the real world, there’s no doubt that a new age of marketing is here. And it promises to change dramatically the face of selling in this country.

Today advertisers broadcast—literally broadcast—messages to giant audiences or, at their most effi-
computers with memories holding trillions of bits of data. The information, sifted and sorted to whatever specifications the client wants, will be distributed daily to scores of manufacturers and retailers, including companies such as Pillsbury, Ralston Purina and PepsiCo.

Earlier this year Citicorp bought a small interest in Information Resources, Inc., a pioneer in gathering and massaging scanner data. IRI already collects data from scanners in 2,700 stores around the country. As part of the deal, Citicorp paid an additional $9 million for the use of IRI's proprietary software and its "dictionary" of more than 1 million Universal Product Codes—those little panels of thin and thick lines the scanners read that are affixed to just about everything you buy.

Other companies are gearing up, too, for the coming of the Scanner Age. Six years ago Dun & Bradstreet, an information services company with more than $4 billion in revenues, acquired the market research house of A.C. Nielsen Co. for $1.3 billion in stock. Although Nielsen is better known for its television ratings, its biggest business has always been reporting buying trends through an index that measures sales in a national sample of stores. Nielsen now has scanner links to nearly 5,000 stores and a pilot program in 16,000 homes where consumers use scanner wands to record purchases when they get back from the store. At the end of every week, someone in the house places the wand against a telephone mouthpiece, dials an 800 number, and communicates about 15 seconds' worth of squeaks back to the Nielsen computer. Nielsen then analyzes and sells the data to companies such as General Foods, Coca-Cola, Miles, and Clairol.

Nielsen's long-standing rival, the Arbitron Co., a subsidiary of Control Data Corp., is planning to spend $125 million to go national with the scanning service it's been operating in Denver for the last three years. Like Nielsen's system, Arbitron's involves a consumer's waving a wand over shopping bag contents. The data are picked up nightly by Arbitron's computer. As proprietors of television ratings services, both Nielsen and Arbitron are able to tell advertisers what commercials these households saw as well as what products they bought, and whether there seems to be any correlation between the two. Does viewing the commercial lead to buying the product? Or is the message wasted? Marketers won't have to guess. They'll know. Citicorp has a pilot project in the works at Simmons Market Research Bureau to see if some of Simmons' reports on print media usage can be wrapped around the database gathered from the shoppers. If we advertise in magazine A, do readers of that magazine buy more of our product than people who read magazine B, in which we don't advertise?

So far, the data buyers appear enthusiastic about what they learn both about their own efforts and about what the competition is up to. "The analytical package gives us tactical value," says Roger Enrico, chief executive of PepsiCo Worldwide Beverages, an IRI customer. James Delaney, research director at Pillsbury, a Nielsen customer for over one year, says scanning is "a way of getting closer to the ultimate consumer."

Information gathering and retrieval in these dimensions is a hugely complicated and expensive activity. Data must be packaged differently for different clients: Manufacturers want to know how their share of a market stacks up in different cities and supermarket chains under different conditions of advertising and pricing. Advertisers want to know the names and addresses of the people who buy their brands, as well as what other purchases they make. Which publications do their customers read? Which TV shows do they watch?

Nielsen sells a service to retailers that analyzes the profitability of every shelf in the store, week by week. IRI offers manufacturers a weekly service that tells in which cities and at which chains a brand's sales are up or down 5% or more from the previous week, and what promotional activities for this brand and its rivals might account for the change.

The first use of scanner data for research purposes occurred when the machines were quite new, in the late 1970s. Initially, raw scanner data were used to verify the impact of newspaper advertising in grocery retail-
ing—measuring sales levels before a newspaper ad ran, sales the week the ad ran and sales in succeeding weeks. But there were problems. The chains that pioneered the early use of scanners were not always eager to share their data, making it hard to draw broad conclusions from the data. Different chains used different hardware and software, making the data difficult to compile.

Still, the early scanner data convincingly demonstrated from the first days that advertisers and their agencies had been operating on some false premises. Traditional surveys had always shown only glacial changes in market share by brand. Scanner data showed reality—that sales really bounced around like Ping-Pong balls in a storm.

In one week in the Jewel stores in Chicago, for example, scanner data showed Scott towels with a 47.7% share of market; in another week, Scott had a 4.7% share. The week that Scott sold 47.7% of all the paper towels in the Chicago Jewel stores, it had a 2.5% share in one of the Los Angeles chains. This ultimately had more to do with the sales efforts competitors were making in those markets in any given week than it did with Scott’s own promotions.

Even after advertisers and agencies recognized the value of scanner data for test-marketing and sales-measurement purposes, few marketing men understood the possible operating value of huge databases. Traditional market research has always involved psychological and sociological testing that allows you to learn which arguments for

Manufacturers want to know who buys their brands, how often and in what quantities. They will market by census, not by sample.

your product play best with the demographic group most likely to provide you with customers. Media research tells you which shows they watch and which magazines they read. You then aim your advertising appeals at your most likely consumers in the places they’re most likely to be found. Sounds effective.

But that kind of information derives from sampling—from talking to relatively few consumers and extrapolating the results to large communities. Sample surveys made their reputations predicting elections where the choice is stark and easily projectable. But buying preferences are less predictable.

“We spent a generation brainwashing businessmen on the accuracy of sample research,” says Peter Engel, president of Stamford, Conn.-based Porosan Group, a marketing consulting firm. “They had entirely lost their capacity to understand the difference between a sample and a census.”

Says Gerald Saltzgaber, head of Citicorp’s scanning efforts, “We find that 95% of households are unique. What you really need to know is what the hell the people purchase.” People, in short, are people, not demographic categories.

Suppose one does find out, person by person, who buys what? What do you do with the information? Among the many things not yet known about these new and enormous research services is whether they’ll really be cost-effective in generating strategies or tactics even for the giant packaged-goods advertisers. “What we’re doing,” says Paul Gerhold, who used to be research director for Foote, Cone & Belding, “is making the needle smaller and the haystack bigger.”
Advertisers who rely on scanner services may be setting themselves up for dangerous disappointments. Josh McQueen, research director for the Chicago-based Leo Burnett agency, asks, “Long term, are retailers going to be happy to have information they own ultimately going to a manufacturer? The competitive advantage a store has is its information about its customers.”

Sears already has data of one sort or another on more than 68 million American households, thanks to its store credit cards, the Discover card, its mail-order business and its insurance and brokerage units. It has merged its files and is in the process of trying to find uses for the data. But Sears says it won’t sell its data to the research firms. Nielsen has a contract with Wal-Mart and is negotiating with Kmart. TII is negotiating with both retailers.

Even if all the mass merchandisers go along, it’s by no means sure that better research will mean more effective marketing. The intuitive ad agency researchers who were half-salesmen themselves—and will presumably now have less of a say about marketing strategies—may have known things the computers can’t learn. Master salesmen sniff whether a trend is in the making or in decline. Raw research data, uninterpreted, can’t tell you more than what happened yesterday.

Moreover, none of the data come cheap. The major suppliers charge from $10,000 or so for a one-time measurement of a single brand in a single region, up to more than $10 million a year for a panoply of studies covering several product categories. As the databases grow in complexity, scanning companies will inevitably have to charge more. Gale Metzger, who runs his own statistical research service and sees such data from his clients, says, “At some point, the cost of the research will not warrant our undertaking a campaign equivalent to going to the moon.”

Finally, there is the Big Brother aspect. How will people react when they know that researchers are building computer files on them as individuals for coffee producers, cereal vendors and deodorant makers—names and addresses and what they bought and when? And then selling the information about them as if they were so many head of cattle?

At present, all participants in these scanner data programs are given small incentives such as coupons to cooperate. Arbitron pays cash: up to $300 a year to its panel members. “We’ve tried various prompts,” says Arbitron Executive Vice President Kenneth Wollenberg, “and we find that nothing works like cash.”

Citicorp’s Saltzgaber, who works closely with the Office of Consumer Affairs in the White House, insists that “consumers are not concerned about people knowing about their grocery purchases.” But he does concede they want to know what’s going to be done with the data. “We offer them the opportunity not to have records kept if they don’t want records kept,” he says.

Saltzgaber offers an example of how this protection works. If, say, PepsiCo wants to send different direct-mail messages to Pepsi users, switchers and Coke users, Citicorp pulls the names and addresses out of the database and gives them to bonded third parties who do the mailings. Neither Pepsi nor the mailer ever learns anything about the consumers other than their soft-drink purchasing patterns. “Pepsi never sees the list, and the mailer can use it one time only—we have it seeded so that we know if they violate the one-time-use sale,” Saltzgaber says. He argues that these safeguards should reassure nervous participants.

Maybe so. But how will you react when, after buying a new brand of coffee for the first time, you get letters from that company thanking you and from its abandoned rival frantically offering you discounts and prizes to return to your old loyalties? Maybe it’ll make you feel good—those folks really want me. But it will also give you a sense that you’ve lost some of your privacy. And none of us is going to like that.
For all its sins, Drexel Burnham has had one of the lower default rates on junk bonds. Other underwriters took bigger chances, and their customers suffered.

Due diligence

By David Stix

If justice were meted out by bond buyers rather than by judges, Michael Milken and his crew at the late Drexel Burnham Lambert would get off lightly. Investors who bought junk bonds underwritten by Drexel did relatively well compared with those who bought bonds underwritten by some other firms.

Forbes has tabulated junk bond issuance and default rates over the period 1977-90. We had the help of a database maintained by a former Drexel analyst who now works at Salomon Brothers, another maintained by the Bond Investors Association in Miami and a third by Securities Data Co.

Here's what we found: PaineWebber heads the list of underwriters whose deals went bad, with 43% of its $2.6 billion in high-yield offerings in default. Drexel is far down the list, with only 9.1% of $113 billion in offerings in default.

The best underwriter may have been Morgan Stanley. It took $14 billion of paper to market and has seen only $25 million go into default. "We are equity owners in the majority of deals that we bring to market," says Peter Karches, Morgan's head of high-yield sales and trading. "It's extremely important to us to have good credit quality and get involved in managing and helping to run companies where we're comfortable with the business and have control over what goes on. It's not just a matter of hanging paper in the market and then running away." Kidder, Peabody's 0% default rate was a tad lower than Morgan's, but Kidder did a lot less underwriting.

Our rankings cover just over $200 billion (face amount) of new-issue high-yield paper, high yield being defined as a rating below BBB at issuance. Of the total, $23 billion is in default or close to it.

The numbers could get quite a bit uglier for bond owners. Richard Leh-

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### Good dealers and bad dealers

Some underwriters dished out their high-yield bonds a little too liberally. But Drexel, the busiest underwriter, has one of the lower default rates.

<table>
<thead>
<tr>
<th>Lead underwriter</th>
<th>Total junk issues ($mil)</th>
<th>Default rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drexel Burnham</td>
<td>$113,010</td>
<td>9.1%</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>15,290</td>
<td>15.8%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>14,260</td>
<td>0.2%</td>
</tr>
<tr>
<td>First Boston</td>
<td>13,600</td>
<td>15.8%</td>
</tr>
<tr>
<td>Shearson Lehman</td>
<td>11,810</td>
<td>8.5%</td>
</tr>
<tr>
<td>Salomon Brothers</td>
<td>10,420</td>
<td>17.7%</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>7,230</td>
<td>18.3%</td>
</tr>
<tr>
<td>Bear Stearns</td>
<td>5,100</td>
<td>18.4%</td>
</tr>
<tr>
<td>Pru-Bache</td>
<td>3,870</td>
<td>19.3%</td>
</tr>
<tr>
<td>Donaldson Lufkin</td>
<td>3,035</td>
<td>5.3%</td>
</tr>
<tr>
<td>Kidder Peabody</td>
<td>2,632</td>
<td>0.0%</td>
</tr>
<tr>
<td>PaineWebber</td>
<td>2,600</td>
<td>43.4%</td>
</tr>
<tr>
<td>L.F. Rothschild</td>
<td>800</td>
<td>38.1%</td>
</tr>
<tr>
<td>Pru-Bache</td>
<td>3,870</td>
<td>19.3%</td>
</tr>
<tr>
<td>Bear Stearns</td>
<td>5,100</td>
<td>18.4%</td>
</tr>
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<td>Goldman Sachs</td>
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<tr>
<td>Merrill Lynch</td>
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<tr>
<td>Smith Barney</td>
<td>1,770</td>
<td>9.4%</td>
</tr>
<tr>
<td>Drexel Burnham</td>
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<td>8.5%</td>
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<td>Dean Witter</td>
<td>670</td>
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<tr>
<td>Donaldson Lufkin</td>
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<td>5.3%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>14,260</td>
<td>0.2%</td>
</tr>
<tr>
<td>Kidder Peabody</td>
<td>2,632</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

1Face amount: January 1977 through August 1990. 2Excluding Texaco default, rate would be 12%.

Sources: Drexel Burnham Lambert; IDD Information Services; Morgan Stanley; Salomon Brothers; Securities Data; Bond Investors Association.

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How we scored them

How did Forbes track the junk issues? We followed bonds that either were publicly offered (that is, registered with the Securities & Exchange Commission) or were originally placed privately and became publicly tradable at a later date. We excluded convertible bonds.

A default is ascribed to the lead underwriter of a bond issue, although many other brokers may have peddled the bonds. A bond is treated as being in default if the borrower missed interest or principal payments or entered bankruptcy proceedings, or if the bond was exchanged for another security while on the verge of default. We counted defaults through the end of August. Thus, Donald Trump's casino bonds are not treated as in default by this rule, although they are likely either to default or to be the subject of an exchange offer that would delay cash payments.

The 15 largest underwriters of junk debt are included in the tables above. All were given an opportunity to critique the list and, where they could make a case, delete bonds under their own names or add to the list of defaults blamed on their competitors.
Black can also mean good fortune.

Ultimately, there's Black.
Incomprehensible as it may seem, in any given month, we rarely build two Porsche cars that are identical.

The simple fact is, it was never Professor Porsche's intention to build a lot of cars. Just a limited number of very special sports cars, for perfectionists like himself who could appreciate them.

It is this fierce individuality and self-expression which has always made a Porsche a Porsche. First, we do things our own way technologically. Seeking the most perfect solution. Then, we virtually sculpt each vehicle into a distinctive statement for the individual who will occupy it.

The new generation 911 Carrera 4 Cabriolet is the latest evolution in this rather unconventional philosophy.

Simply by virtue of its Porsche heritage and construction, it stands uniquely apart. Welding alone takes over 4 working days for each body. Engines are bench-built by hand. Convertible tops are individually hand-stitched, then hand-assembled.

Incorporating an electronic all-wheel drive system that makes it literally a landmark car, the Carrera 4 elevates sports cars to a new level of useable power and performance.
her like it next month.

not.

It is after all this, however, that each Porsche truly becomes singular, allowing for individualization almost unheard of in this day and age. We offer over 350 different seat variations. Our current exterior color palette numbers 13, but we have available over 200 selections, including every production color we have ever used. You could even have the same silver that Professor Porsche used on his first roadster in 1947.

Or, send us a sample to match. One gentleman provided us with his girlfriend's lipstick. A woman sent a swatch of her favorite dress. After a tour, one customer wrote, “In many ways, your plant has more in common with an artist's workshop than with a ‘normal’ automobile factory.”

Of course, all this takes time. Which is why we can only promise 776 Carrera 4 Cabriolets to the U.S. this year. Ample reason to make time soon for a test-drive at your authorized Porsche dealership.

But be forewarned: If you acquire one, and can't wait to exchange a knowing wave with someone on the road in a car just like yours, don't hold your breath. You may never see one.
IF YOUR RETIREMENT ISN'T FAR OFF, YOUR FINANCIAL PARTNER SHOULD BE CLOSE AT HAND.

Providing for retirement can be an occupation in itself. But our representatives can make the job easier.

They'll help you figure out how much yearly income you'll need for a comfortable retirement and how to maximize your retirement portfolio. They'll even help you accelerate your program if you started late.

Call 1-800-662-2448, Ext. 866 for our free booklet, "Retirement Planning: How to Prepare for a Financially Secure Retirement." It covers annuities, pension plans, and 401(k)s, and explains which options offer the most secure savings and the most dependable income.

That way, when it's time to finish working at one job, you won't have to start another.

The New England. Your Financial Partner,
Your Financial Future.

The New England®
Your Financial Partner

The name "The New England" and the monogram are registered service marks of New England Mutual Life Insurance Company, Boston, Massachusetts.
The moral for investors: Know the company you’re buying from. For all its faults, Drexel knew the market—Michael Milken virtually invented it. Some of the worst dogs were bred by firms trying desperately to get into the market; sometimes they took deals Drexel wouldn’t touch.

### Bad deals

<table>
<thead>
<tr>
<th>Company/coupon/maturity</th>
<th>Face amount outstanding (Smil)</th>
<th>Year issued</th>
<th>Year default</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bear Sterns</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Resorts Int Financing/16½s '94</td>
<td>$200</td>
<td>1984</td>
<td>1989</td>
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<tr>
<td>Resorts International/11½s '93</td>
<td>230</td>
<td>1983</td>
<td>1989</td>
</tr>
<tr>
<td>Drexel Burnham Lambert</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ames Department Stores/13½s '99</td>
<td>200</td>
<td>1989</td>
<td>1990</td>
</tr>
<tr>
<td>Bond Brewing Holdings/12½s '86</td>
<td>510</td>
<td>1986</td>
<td>1989</td>
</tr>
<tr>
<td>Centrust Bank/15½s '80</td>
<td>125</td>
<td>1988</td>
<td>1990</td>
</tr>
<tr>
<td>Circle K/12½s '97</td>
<td>125</td>
<td>1985</td>
<td>1990</td>
</tr>
<tr>
<td>Crystal Oil/15s '95</td>
<td>125</td>
<td>1985</td>
<td>1986</td>
</tr>
<tr>
<td>Eastern Air Lines/12½s '96</td>
<td>190</td>
<td>1986</td>
<td>1989</td>
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<tr>
<td>Eastern Air Lines/11½s '93</td>
<td>115</td>
<td>1984</td>
<td>1985</td>
</tr>
<tr>
<td>Esmirne Finance/15½s '95</td>
<td>115</td>
<td>1984</td>
<td>1985</td>
</tr>
<tr>
<td>Gillett Holdings/12½s '98</td>
<td>251</td>
<td>1986</td>
<td>1989</td>
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<tr>
<td>Gillett Holdings/13½s '99</td>
<td>170</td>
<td>1987</td>
<td>1990</td>
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<tr>
<td>Griffin Resorts/13½s '98</td>
<td>200</td>
<td>1988</td>
<td>1989</td>
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<tr>
<td>Griffin Resorts/13½s '95</td>
<td>125</td>
<td>1988</td>
<td>1989</td>
</tr>
<tr>
<td>Hillsborough Hlds/Walter Ind/17½s '96</td>
<td>350</td>
<td>1988</td>
<td>1989</td>
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<tr>
<td>Hillsborough Hlds/Walter Ind/14½s '94</td>
<td>176</td>
<td>1988</td>
<td>1989</td>
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<tr>
<td>Integrated Resources/10½s '96</td>
<td>299</td>
<td>1986</td>
<td>1989</td>
</tr>
<tr>
<td>Integrated Resources/13½s '95</td>
<td>124</td>
<td>1985</td>
<td>1989</td>
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<tr>
<td>Integrated Resources/10½s '90</td>
<td>104</td>
<td>1985</td>
<td>1989</td>
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<tr>
<td>Koor Industries/12½s '96</td>
<td>105</td>
<td>1986</td>
<td>1990</td>
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<td>Las Colinas/12½s '92</td>
<td>200</td>
<td>1985</td>
<td>1987</td>
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<tr>
<td>Leaseway Transport/13½s '02</td>
<td>193</td>
<td>1987</td>
<td>1990</td>
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<tr>
<td>Linter Textiles/13½s '00</td>
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<td>Michigan General/10½s '98</td>
<td>110</td>
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<tr>
<td>Miramar Marine/14½s '98</td>
<td>125</td>
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<tr>
<td>Oak Industries/13½s '01</td>
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<td>SCI Television/15½s '90</td>
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<tr>
<td>SCI Television/17½s '99</td>
<td>128</td>
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<tr>
<td>SCI Television/16½s '97</td>
<td>100</td>
<td>1987</td>
<td>1989</td>
</tr>
<tr>
<td>Service Control/14½s '98</td>
<td>100</td>
<td>1988</td>
<td>1990</td>
</tr>
<tr>
<td>Southmark/13½s '94</td>
<td>334</td>
<td>1986</td>
<td>1989</td>
</tr>
<tr>
<td>Southmark/11½s '93</td>
<td>139</td>
<td>1986</td>
<td>1989</td>
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<tr>
<td>Southmark/11½s '91</td>
<td>132</td>
<td>1986</td>
<td>1989</td>
</tr>
<tr>
<td>Southmark/10½s '99</td>
<td>125</td>
<td>1986</td>
<td>1989</td>
</tr>
<tr>
<td>Swan Brewery/14½s '98</td>
<td>121</td>
<td>1983</td>
<td>1989</td>
</tr>
<tr>
<td>Univision Holdings/13½s '99</td>
<td>105</td>
<td>1988</td>
<td>1990</td>
</tr>
<tr>
<td>Western Union/19½s '92</td>
<td>500</td>
<td>1987</td>
<td>1990</td>
</tr>
<tr>
<td>First Boston</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allied Stores/11½s '97</td>
<td>700</td>
<td>1987</td>
<td>1990</td>
</tr>
<tr>
<td>Allied Stores/10½s '92</td>
<td>200</td>
<td>1987</td>
<td>1990</td>
</tr>
</tbody>
</table>

Both Drexel and (if you exclude Texaco’s default) Salomon look pretty good in the rankings. In the table on page 118 we show underwriters’ default rates, figured using junk bond issues of all sizes. The table below shows defaults of issues of $100 million in face amount or more.
The more U.S. professional basketball players sign with European teams, the less control NBA teams have over players’ salaries and their own profits.

Hoops go global

By Norm Alster

With fast-break speed, the economics of the professional basketball business have taken on global proportions. That’s not good news for David Stern, the National Basketball Association commissioner, who once thought he had the solution to the problem of escalating professional sports salaries.

The year was 1983, and Stern hammered out a pioneering player-management agreement under which the players would receive a fixed 53% of all league revenues. The new contract came just in time: Most NBA franchises were losing money as player salaries spiraled beyond the means of all but the richest clubs. The new plan meant rich and poor teams alike would have the same money to bid for talent; moreover, the talent would participate in the league’s growth.

With league revenues more than tripling, to nearly $650 million this season from around $200 million five years ago, the salary cap has reached nearly $12 million per team—about $1 million a year, on average, for each cager on the 12-man NBA rosters. Stern’s formula worked for the owners, too. Today, says Stern, a 48-year-old Columbia Law grad, all but two or three NBA teams are profitable.

The problem now is foreign competition—specifically, European basketball teams that weren’t a party to the 1983 agreement and therefore aren’t limited by the salary cap. At the time, they didn’t seem particularly threatening, since these squads were often shoestring operations.

But basketball’s popularity has exploded in Europe—thanks in part to the promotional efforts of the NBA. Such powerful European corporations as Philips, Benetton, Glaxo and Gruppo Ferruzzi have been buying and sponsoring teams. Now they’ve turned to the U.S. market for talent, picking off players from teams hamstrung by the cap. Already five or six NBA teams are at or near the cap’s payroll limit.

Consider Los Angeles Lakers star Michael Cooper. Recently Il Messaggero Roma, an Italian team owned by Gruppo Ferruzzi, won Cooper’s services through the 1992-93 season. Price: $1.5 million for the first season, more for the next two, plus use of a top-of-the-line BMW and a five-bedroom villa in a Rome suburb. Not bad for Cooper, a defensive standout and a mainstay of the Lakers’ championship teams of recent years, who would have earned around $600,000 playing in Los Angeles this season.

Last year both Danny Ferry, the second player chosen in the college draft, and willowy Boston Celtics guard Brian Shaw opted to play a season in Rome. This year they’ll return to the U.S., but other NBA players are being picked off one by one by previously unheard-of Euroteams. Most European teams are allowed to sign only two foreigners each, and there are still but a handful of European clubs that can compete for top talent. But their ranks are growing, and already more than 60 Americans now play in Italy and Spain alone.

While the escalating European
competition is potentially murderous for the owners of the NBA franchises, the players and their agents can scarcely contain their glee.

"The European leagues are beginning to be real financial entities," says Lee Fentress, managing director of Washington, D.C.-based Advantage International, who represents players in both the NBA and Europe. The NBA, he adds, is no longer "the sole game in town."

Most NBA observers were shocked when the Lakers this summer shelled out a reported $3 million a year for free-agent forward Sam Perkins. Why pay so much for a good but unspectacular player? One reason, reveals Fentress—who represented Perkins—is that an Italian club was making comparable offers.

Agents, never slouches at identifying opportunities, realize that the Europeans don't actually have to sign players to upset the NBA salary structure. The mere fact of their lurking presence can get the job done.

The Celtics, having lost Shaw last year, were concerned that high-scoring Reggie Lewis, set to earn just $400,000 this season, might be the next to defect. With their fans clamoring for Lewis' retention, the Celtics opened their coffers to give Lewis a nearly 800% raise; he signed a five-year contract that will pay him $3.3 million a year.

What makes matters particularly galling for the NBA is that the value of American players in Europe transcends their court skills. The European teams cannot hope to recoup multimillion-dollar salary investments directly, since teams play relatively short schedules in relatively small arenas. So they have to make their money in indirect ways. "It's like buying ad time," says Jan Volk, general manager of the Boston Celtics. "It's for an opportunity to acquire publicity and prestige."

Claudio Gatti, director of strategic planning for the Italian operations of Dutch giant N.V. Philips, sponsor of Milan's Philips Match Line team, agrees. "This sponsorship is part of our promotional activities," he explains. "We want to be recognized as a young, dynamic company."

What should the NBA's Stern do now? Neither of his chief alternatives is too appetizing. If he works to scrap the salary cap, the NBA teams will be freed to pay up for the best players and thereby keep the fans happy. But the door is then opened to the very sort of salary escalation and competitive imbalance—ruinous especially to the NBA teams in smaller cities—that Stern is credited with forestalling in the first place. Alternatively, the teams can keep the cap, at a cost of diluting the appeal of the NBA product to fans.

Stern's hope is that the NBA will gain at least as much from globalization as it is losing. Already, television rights from NBA broadcasts to more than 75 countries bring in as much as $6 million a year, and the spread of basketball fever abroad keeps creating new promotional opportunities. This month, Stern will travel to Barcelona along with the New York Knicks, who will compete against three European teams in a two-day tournament sponsored by McDonald's.

But, warns the Celtics' Volk: "The more exposure we get for our teams and players in Europe, the more desirable our players become to the European teams and public." Indeed, Volk believes that his team's Brian Shaw first caught the attention of IL Messaggero during the Celtics' appearance at the McDonald's Open in Madrid two years ago.

Whatever Stern decides to do, his action will be under a lot of scrutiny. Major league baseball is now studying the feasibility of adopting an NBA-like revenue-sharing and salary-cap structure. It's a safe bet the powerful Japanese professional baseball industry would welcome the opportunity to sign players from teams constrained by salary caps. ■
The Money Men

Are we in a long bear market? Or is a turn near? As Alexander Paris puts it, “The market is almost like being in a candy shop.”

So many goodies to choose from

By Tatiana Pouschine

Don’t abandon hope. Alexander Paris is bullish.

Quiet and thoughtful, Alexander Paris keeps mainly to his 10-acre estate in the northwest Chicago suburb of Barrington. Like other shrewd observers of the stock market who work far from Wall Street—John Templeton and Warren Buffett come quickly to mind—Paris thus insulates himself from the market’s bouts of manic optimism and depressive pessimism. Such high-profile investors as James Tisch (CBS Chairman Laurence’s son) and Saul Steinberg’s Reliance Group Holdings have sought Paris’ views on the economy and the market.

Paris, 56, also writes an expensive newsletter and provides institutional research to U.S. Trust, Lazard Frères and the state of Wisconsin pension fund, among others. Fees for the newsletter and research services range from $10,000 to $120,000.

The pessimists, of course, have taken the upper hand in recent months as around 15% has been hacked off the Dow industrials. Paris is not of the pessimists’ camp. He argues that despite the apparent similarities, 1990 is not 1973—and that the time to get back into the market is either here or just around the corner.

Paris: The “v” word is finally here.

Both the economy and the stock market were pushed over the edge by Iraq’s march into Kuwait. But I had already concluded that economic growth in the second half of the year would be almost totally absent, leaving the economy vulnerable to a shock that could throw GDP growth into negative territory. The Iraqi invasion and accompanying rise in oil prices supplied the shock. Now the market has neither lower interest rates nor higher earnings to look forward to in the second half.

Compared with other cycles, this one [from 1982 to 1989] added more debt in every area. The excesses of the 1980s were credit-related. An excessive amount of resources were getting allocated to the consumer sector, away from savings and investment. Without savings you can’t have investment. Without investment you can’t have growth. Our basic industrial base was shrinking.

So you think government policy has been wrong. You disapprove of the Reagan Administration’s supply-side economics? Far from it. Supply-side economics is exactly correct. Longer-term growth depends on supply. The problem, in my opinion, is that they cut the wrong tax.

If they were defending supply-side economics, Reagan or Bush would say, “Well, yes, we cut taxes but we didn’t do the other half, we didn’t cut the spending.” But the real problem is to cut the spending, because that’s the tax. Once the government spends the dollar, somebody has to pay for it.

Too much credit, too much government spending. How come, then, you’re bullish on stocks?

My biggest concern was that we had all this financial deterioration going on beneath the surface but nobody was paying attention to it. But now everybody knows about it. What we are doing now is paying for our past sins. But we are not committing new ones, and we are laying the groundwork for something far healthier.

Could you give us some examples of this healthier groundwork?

Sure. All the commercial banks around the country, for example, are independently raising their lending standards. I spend a lot of time talking to different companies. You are going to see many of them make a lot of strategic acquisitions. But they won’t leverage too far up to purchase them; their priority is to get the debt back down as soon as possible, trying to keep it below 40% of capital. Consumers, too, have been retrenching for several years so the consumer balance sheet has already been improving. The savings rate has been increasing since it hit its low in the third quarter of 1987; the growth of installment debt as a percentage of disposable income has slowed significantly.
over the past six to seven months. And the manufacturing sector is in much better shape than it was in the last economic downturn. Inventories are near historic lows relative to sales. We have not had the usual excessive building of new capacity this cycle; most manufacturers have been cutting costs for nearly a decade.

Let's talk specifics. Where do you see interest rates heading? I think the Fed will keep inflation from getting out of control, but it'll be sticky—4% to 5%. That in turn will keep interest rates, particularly long-term rates, from coming down very much. As far as I can see, most of the trading in long-term T bonds will take place between 71/2% and 81/2%. When the real interest rate is 3% to 4%, and you have 4% to 5% inflation, then there's no reason for long rates to go lower than about 71/2%.

We're unwinding this debt problem that we've had, and it's hurting. And it's supposed to hurt.

Ouch, already! But modern democratic societies don't have much tolerance for pain. Won't the Fed be under tremendous pressure to ease interest rates, especially given the fears people have of a severe recession? [Fed Chairman Alan] Greenspan is trying to unwind the debt in such a way that he can continue to grow the economy, because a serious recession would be disastrous. I think everyone knows that. So if push comes to shove, Greenspan will take inflation way up. But I think he's trying to keep the economy just barely growing, so that you can slowly liquidate this debt without throwing the economy into something more serious.

I think Greenspan has done pretty well. It's not hard to be tight when everybody agrees with you, as in late 1979 and 1980 with 14% inflation. [Former Fed Chairman Paul] Volcker didn't get many arguments because the concern was inflation. But now you've had people talk about deflation and still Greenspan is being tight.

Are there other reasons you think inflation will continue to haunt the markets? I think the dollar may continue to be under pressure. That's one of the reasons I don't think inflation will go away. But unless the Fed really goes up and throws in the towel, printing money too fast, I think it's going to stay under reasonable control.

But on the dollar, too, you think the bad news is already out? I think the market has fully absorbed the negative side of the dollar's falling, in terms of the inflation impact. What people are forgetting is the very positive effect of the weaker dollar on exports, particularly for our manufacturing and capital spending companies. It also means when you're translating foreign currency earnings back into dollars, the currency effect is positive—the effect is very positive on companies with overseas earnings, like International Flavors & Fragrances. The decline in the dollar is coming just at the right time.

Aren't you concerned that shutting off Iraq's and Kuwait's oil exports will result in the kind of disastrous stock market we had after the 1973 oil embargo? Let's compare what's happening today with 1973 and 1974. The first difference is that the oil situation today is not a shock. Things are never as bad the second and third time around. Second, supplies are in much better shape. Third, we're much more efficient users of energy than we used to be. You forget all the cars are now 22, 23, 24 miles per gallon, as opposed to 9 and 10 miles to the gallon back in 1973 and 1974.

The only time you had a panic sell-off that didn't bounce back was in 1973. The very same one people are looking at now. But the thing to focus on is the economy, not the panic. In 1973 you were on top of an overheated economy, and then you shocked it. This time, the economy's been decelerating for a year and a half or more.
Paris picks for value

Paris stocks fall into three groups: safe growth, growth under a temporary cloud, and ignored cycicals.

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales ($mil)</th>
<th>Earnings ($mil)</th>
<th>Price/earnings</th>
<th>Market cap ($mil)</th>
<th>Share price recent/ high/low</th>
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<tr>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>International Flavors &amp; Fragrances</td>
<td>$870</td>
<td>$139</td>
<td>18</td>
<td>$2,505</td>
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<td>17</td>
<td>1,768</td>
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<td>Clark Equipment</td>
<td>1,392</td>
<td>65</td>
<td>7</td>
<td>475</td>
<td>27%/47%-27%</td>
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<td>233</td>
<td>21</td>
<td>8</td>
<td>150</td>
<td>14/21%-14%</td>
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<td>Newcor</td>
<td>100</td>
<td>3</td>
<td>6</td>
<td>19</td>
<td>5%/11%-5%/5%</td>
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already. So it's definitely not overheated. Another thing then was that the dollar was rising sharply, that made the ensuing correction sharper because it was hurting exports.

As we speak, the Dow Jones is struggling along near 2500. Putting it all together—modest inflation, weaker dollar, no big energy problems—what's your feeling about the prospects for the market?

If you focus on the long term, I think the market is almost like being in a candy shop right now. I think stocks are already pretty reasonable. If the market comes down another 100 points, it doesn't matter, if you take the longer-term approach.

The few people who are legend among money managers, such as John Templeton, Warren Buffett, Henry Singleton, they're all long-term investors. Templeton told me a number of times that his average holding period for a stock is five years.

Before the Middle East crisis, I was thinking of a gradual market correction, as people slowly came to realize that there is no second-half bounce in the economy, that their earnings estimates are a little high, getting concerned about the budget deficit and so forth. But instead, the market came down 500 points in a hurry. I think the easiest thing for a money manager would be to have some shots fired in Saudi Arabia, have a 150 drop in the market, and then start buying.

Don't underestimate the potential magnitude of a global capital spending boom. The global rush toward free markets, if uninterrupted by governments, almost assures boom conditions. The 1992 integration of the Common Market can be a huge, newly vitalized market that can benefit the rest of the world.

But the pessimists insist that U.S. firms have lost their ability to compete internationally, that we'll be the spectator at the global feast. I believe one of the surprises of the 1990s will be a much more competitive U.S. manufacturing sector than many analysts now anticipate. There's a whole revolution going on here in the way a factory floor is configured. We're essentially copying everything the Japanese do. U.S. companies now are spending heavily to increase efficiency within their factories, and closing the high-cost, inefficient ones. When they put up new plants, it's usually to replace other old plants.

On the basis of the way you see the economy unfolding, what stocks should investors own?

There are some "gimmies." For example, you want a long-term position in the pollution control area. Pollution control is not going to go away. If people are foolish enough to really throw the stocks away here shorter term, you should take advantage of their stupidity. My own favorites are Chemical Waste Management, which specializes in hazardous waste removal; Brand Cos., which specializes in asbestos containment; and sxr Corp., which makes freon-recovery systems and emissions testing equipment for automobiles.

I divide stocks into three groups. First, growth stocks with impeccable fundamentals, whose earnings aren't going to get hurt, no matter what I tell you about the economy. International Flavors & Fragrances is one. The Wm. Wrigley Jr. Co. is another.

Second is a growth-type group of stocks temporarily under a cloud, but whose prices have already come down enough. Snap-on Tools is one of those companies, as is A.T. Cross, the company that makes the pens. Cross has been killed by the downturn in consumer spending as well as the consolidation of department stores and massive cutting back on inventories. But there may be a surprise this Christmas: It may not be as bad because inventories are so low. Cross also got into the leather business again, distributing Fendi and a Mark Cross line of leather goods. Cross is a no-debt company, with 25% return on equity.

And your third group?

These are cyclical companies that would benefit from the capital spending boom I see; this is the hardest sell right now, so that's probably what you should buy. With cyclical stocks you have to buy when the price/earnings ratio is high, and sell when P/Es are low. You have to isolate yourself from the crowd a little bit.

From your splendid isolation out here in Barrington, which capital goods companies look especially sweet?

Giddings & Lewis is a play on the factory floor reconfiguration going on all over the U.S., where manufacturers are trying to shorten the time inventories go out and come in.

Another stock I like—it's just a $6 stock—is Newcor, which has 80% of the market for final assembly systems for engines. Newcor makes the whole automated assembly systems, including robots and quality controls. The U.S. automotive companies are way behind the Europeans and Japanese on new engine technology, especially in the transmission area. These companies have to spend on more sophisticated engine assembly systems, like the ones Newcor makes.

I think Clark Equipment is a good general stock to own for the huge increase in capital spending that will go on in the first half of the 1990s. Clark makes forklift trucks and, in a joint venture with Volvo, heavy construction equipment. It also manufactures Bobcats, the smaller construction equipment, which is in line with the trend toward smaller construction projects.

If I'm right, then what we're about to see is a bit like the spending that went on in the early 1950s, when the U.S. made the transition from a wartime economy. Today the world is making the transition from a cold war economy. In what we are going through now, the down and dirty part of a recession, capital expenditures can be strong even when the economy is weak.
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People in Hungary are glad to be rid of communism, but they don't like capitalists very much. To say that they are confused and disoriented is to put it mildly.

**An impolite question: Were you a Communist?**

*By Phyllis Berman*

The huge statue of Lenin that stood at the gates of the Red Csepel industrial complex on the outskirts of Budapest has been demolished. Not much else has changed here, however. In the world of the microchip, Red Csepel, now called Csepel, and most of Hungarian industry remains frozen in the 1940s. Grim walls still surround the 13 factories that make everything from bicycles to heavy machinery, and everyone who enters Csepel must surrender his identification papers at the gate. The police state may have lost its soul, but its body still has reflex muscles.

The industrial complex, the biggest in Hungary, was built by a Jewish steel manufacturer in the late 19th century. The German occupiers renamed it the Hermann Goering Works. It has known many masters.

It has not, however, met the late 20th century. Not only the buildings but also most of the technology here dates from the 1940s. Safety and environmental regulations? If the factories were in the U.S., government regulators would long since have shut them down. Big pools of oil and sharp, jagged pieces of steel are common sights.

Yet such is the nation's isolation after four decades of socialism that few Hungarians realize how far behind they have fallen. Daniel Beza, the general manager of Csepel Works' heavy equipment factory, is proud of his facility. "I make only one-of-a-kind pieces—rubber and plastic processing presses," he says as he gives a tour to a visitor. "The Japanese buy these. These are of the highest quality. I know that they will sell well in the West." Fat chance.

At another factory in the complex, Istvan Erdei makes stainless steel machine tools, which were sold to other Eastern bloc countries. Today the old customers are no longer buying. Unsold, the machine tools are simply piled up. "We would like to get an investment in our factory from the West," he says plaintively. But what would an investor get? A pile of junk and a work force trained in the socialist tradition: They pretend to pay us; we pretend to work.

Most of these Csepel bosses are former Communists, still in their old jobs, and hopeful that they will be able to keep them when the new free-market system is in place. Chances are they will, because the nation shows no interest in punishing Com-

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*Istvan Erdei, head of the Csepel machine tool factory
Oh, for an investment from the West.*
Laszlo Nogradi, at the bike factory he's run for years outside Budapest

He got lucky when Schwinn Bicycle Co. appeared on the scene.
The number of Communists in Hungary has declined precipitously in the last year, from 800,000, or 8% of the population, to roughly 70,000. The question of former party membership is a topic to be avoided. Says Andor Gellert, deputy general manager of the Central-European International Bank, “That is simply not a very polite question.” Gellert himself refuses to reveal whether he belonged to the party. He adds: “And it is beside the point. The only educated, trained individuals that this country has were all members of the Communist Party. There is no way that the country or this economy can be run without them.”

One argument in favor of the management status quo is that many people joined the party simply to survive. Laszlo Nogradi, a former party member, manages a bicycle factory at the Csepel Works, and was lucky enough to make a deal with Schwinn Bicycle Co. about two years ago. He says he viewed his party membership as a kind of work permit.

Nogradi was attending a Catholic high school when the party took over in 1949. His family’s dry goods store was expropriated, and his school was closed. He was forced to go to work in a factory. “My parents told me to go along voluntarily in order to make something of my life. By becoming a laborer, I erased the prior sins of my family. Therefore, I could go to night school. Now my children ask me why I never told them about the nationalization of our family business or that I was brought up a Catholic.” Thus did he expiate the sin of being born to a bourgeois family.

With a roughly $2 million investment in the facilities after the purchase, plus a crash quality-control program for Hungarian employees of the old bicycle factory, the new American partner, Schwinn, made it possible for Nogradi to produce bicycles that are fit, he says, for sale to American soldiers in Germany. Which would put Hungary on the technological level of, say, China.

The one bright spot in the Hungarian economic scene has been the growth of a cadre of entrepreneurs, largely untainted by party membership. Hungary has been known as the freest of the East bloc economies. The reputation stems from reforms instituted in 1968 that allowed for a tiny amount of free enterprise.

The 1968 reforms made it possible for some individuals to start very small businesses: boutiques on the Vaci Utca, flower and vegetable stalls in the city and restaurants like the Kacsar and Nancsi Neni’s. Skilled artisan Edit Bukran, who makes ceramic sculptures, works out of a studio beside her beautiful home in the Buda Hills outside Budapest.

Edit Bukran’s grandfather had a small farm outside Budapest until it was expropriated in the late 1940s. Now her father and brother are hoping to repurchase that land, possibly with government loans. They have already accumulated 14 dairy cows and hope to go into business as dairy farmers. In Budapest, Fruszina Kacskovics’ husband, Levo, along with 30 of his fellow employees, has purchased part of the assets of the factory where he has worked for 12 years. Fruszina herself is working with a Swedish firm in a joint venture to build offices and hotels in Budapest.

Both of these families avoided joining the Communist Party, even though the defiance cost them dearly at first. Fruszina Kacskovics’ parents were imprisoned in the early 1950s because they were caught holding mass
The former could, by working night and day, provide their families with a decent living. They used to wait as long as 7 years to be able to purchase a Trabant automobile from East Germany, a car so shoddily manufactured that it became known as "the paper Jaguar." Even ordinary folks who did have money had to wait as long as 20 years to have a phone hooked up in their home, if they were lucky. The stress these people experienced often resulted in high levels of alcoholism, a death rate among men 35 to 49, nearly double that of the European average, and a suicide rate of 48 per 10,000 people, the highest in Europe.

The other segment of the population, about a third of the total, who couldn't—or wouldn't—take second and third jobs outside the state system, began to live in socialist poverty as inflation crept up to about 30%.

This poorest segment is going to be hurt in the forthcoming rescheduling of Hungary's debts, a staggering $20 billion. At almost $2,000 per capita, it is East Europe's highest. As the price of getting the creditors to make concessions on interest and repayment terms, the Hungarian government will have to impose further austerity on the Hungarian people. Subsidies will be reduced to noncompetitive heavy industries like mining and metal fabrication, followed by bankruptcies and unemployment, there will be free-market pricing and the inevitable inflation. Add to that list of woes the prospect of energy shortages caused by Iraq's invasion of Kuwait, and you have the perfect recipe for social unrest. The danger is that the resentment, particularly among the lowest third of the population, could be directed against the wrong people—the maszek, old and new.

Wilson Dizard III, author of a new book, Guide to Market Opportunities in Hungary: believes the situation could turn ugly. "Before the benefits of a free-market economy begin to trickle down to the man in the street, the government may have to find a way to blame the worsening crisis on previous governments," says he.

Anyone who thinks that the collapse of communism will quickly and painlessly bring about a better life for Eastern Europeans simply isn't in touch with the facts. Trouble lies ahead.

The awful truth

The nine visitors from Hungary have been on a 35-day tour (which cost U.S. taxpayers $120 per day per head) sponsored by the United States Information Agency. It is their last full day in the U.S.A. On this July evening they are dining in an apartment at the elegant River House overlooking Manhattan's East River. The Hungarians have been chosen by their government to oversee small business enterprises in their homeland. One of the most prominent among them is Dr. Gyorgy Marosan, head of the Hungarian Foundation for Enterprise Promotion, created in March to oversee the granting of $70 million in aid—mostly from the Hungarian government—to small businesses and entrepreneurs.

The hosts of the dinner are Vera Blinken and her husband Donald Blinken, managing director at Warburg Pincus & Co. Vera Blinken fled Hungary as a child a few years after her father died in 1948. Also among the guests this evening are influential people with an interest in Hungary: George Soros, Hungarian-born money manager, Mark Palmer, former ambassador to Hungary, and Estée Lauder's son Ronald. The party is elegant. Waiters serve white wine. The buffet includes poached salmon with dill sauce.

But somehow the chemistry isn't right. After dinner, the American guests retire to one side of the room and chat among themselves. They pay little attention to the rather scruffily dressed Hungarians like Attila Fejes, a Parliament member. Or to the equally nondescript Marosan. The Hungarians are treated like poor cousins by the expensively clad Americans.

The poor cousins reciprocate the contempt. "The Americans don't impress me," says Marosan. "Their small talk is cheap and a waste of time." The Hungarians know what they want: money. The Americans prefer to keep the conversation general; they already have pet projects in Hungary and they half know that investing in Hungary at this point is for do-gooders, not for go-getters. How (see story) could one possibly earn a good return in the circumstances? One of Blinken's colleagues at Warburg Pincus finally diplomatically tells a Hungarian: "Look, if I want to lose a few million I can go down the block. I don't have to go thousands of miles away." Shocked, the Hungarian finally admits: "At last someone has told us the truth."—P.B.
Taxing Matters
Edited by Laura Saunders

If you are still holding valuable incentive stock options you received years ago, be careful that you don’t wind up paying nearly 50% of your gain in tax.

All about options

By Roula Khalaf

Are you holding stock options your firm granted in the early 1980s? Wondering whether to cash them in and when to sell the resulting stock? Be careful. It’s easy to make a costly mistake.

We’re talking here about something that the tax code redundantly calls an “incentive stock option,” as if there were an option given by an employee that isn’t an incentive. ISOs were a great perk while they lasted. Created by the 1981 tax act, which also set the top federal income tax rate at 50%, the ISO enabled employees to take some of their employment income in the form of a capital gain, then taxed at a maximum 20%. Moreover, the capital gain could be deferred until the employee sold the stock.

Alas, ISOs lost much of their luster in 1986, when Congress scrapped the preferential treatment of capital gains. A lot of companies that were granting options stopped doing so.

For the companies that still offer them, ISOs have to meet certain requirements. One is that the option must be exercised within ten years. Many companies went the full ten years. Another is that an employee who leaves the firm before then must exercise the option within three months of leaving. Yet another rule says the exercise, or strike, price must be set at the market price of the stock when the option is handed out.

Assuming all the rules are met, the employee gets this tax benefit: The paper profit made on the day the option is exercised is not immediately taxable as income. Instead, the capital gain (or loss) is figured only when the stock is sold, which could be many years later. Example: You were awarded the option when the stock was at 100. Now it’s trading at 150 and you buy shares at 100. You’re already ahead $50 a share, but you don’t owe tax yet. If you sell years later at 300, you’d have a $200 taxable gain then.

Assuming the stock continues to appreciate, then the longer the employee can hold on to the stock, the more valuable the tax benefit is. Unfortunately, most people can’t hold on forever. They need to diversify, or pay college bills, or pay a divorce settlement.

What factors should they consider when deciding when to exercise an option and when to sell the stock?

First and foremost, don’t forget the first law of call options: Be patient. In most cases it makes sense to wait until just before expiration to exercise a call option.

Does that seem like a strange rule? Consider this analogy. You are the lucky owner of an option that allows you to place a bet on a horse race after the horses are out of the starting gate. Maybe your horse is three lengths ahead at the halfway point. Don’t let your exuberance overcome you. Something bad could happen in the final stretch. It makes sense to hold off deciding whether to place the bet as long as possible.

There is an exception to this rule, according to Barry Salzberg of Deloitte & Touche: Exercise if the dividend on the stock exceeds your carrying cost of buying it. Giant Food handed out a lot of ISOs in the early 1980s at strike prices near $1. The stock, now trading at about 25, pays a 60-cent dividend. To fork over the $1 to get the stock costs an option holder, in forgone interest, maybe 8 cents a year. Even cash-strapped managers who would have to borrow money to exercise should do so. (Remember that interest on debt used to make investments is deductible to the extent that you have offsetting income like interest and dividends.)

It’s a little harder to justify all the exercising going on at Pfizer Inc., which handed out a lot of ten-year options with strike prices in the high 20s to mid-30s in the early 1980s. The company says that a majority of option holders don’t wait the entire ten years. The stock has doubled to 71, and these bullish investors probably figure they can’t lose. Still, the stock’s $2.40 dividend barely covers the interest forgone on a $35 purchase price. Meanwhile, the early exerciser is taking some risk that Pfizer stock will fall below 35 in the next few years.

Okay, why not exercise early and sell the stock as soon as possible? You’d have to pay tax that year, of course. But that’s not all that is wrong with early exercise. You may also be giving up most of the value of having an option, says Gary Gastineau, an options expert at Salomon Brothers.

Take an extreme case. Let’s say you get a ten-year option with a strike price of 100 when the stock is at 100. A year later the stock has moved to 105 and you want to pocket the $5. The true theoretical value of the option could be more like $30, however. Why? The value of the option is that it gives you the opportunity to fully enjoy the gain if the stock goes to 200 or 300, while exposing you to no loss if the stock goes to 10—that combination of risk and reward is worth something considerably more than $5.

Exercise very early and you are missing most of the action in the horse race. Gastineau says most option holders should hang in as long as they can.

Once you have thought through your investment strategy, consider the tax consequences. When you exercise an ISO, the paper profit counts in...
RESERVED What a parking spot should be.

LINCOLN What a luxury car should be.
that same year as a "preference" item for the dread alternative minimum tax, which ensures that even people with a lot of deductions pay a substantial amount of tax. If you have enough other preference items—such as gifts of appreciated property or high state income taxes—then you pay alternative tax at a rate of 21% on the sum of regular taxable income plus preference items. That tax is in lieu of 28% on your regular taxable income. In short: You probably shouldn't be exercising an ISO in a year when you are in danger of paying the alternative tax.

Even worse, the ISO paper profit is counted all over again years later when you sell the stock and calculate your capital gain for the purpose of figuring your regular tax. Depending on what happens in a complicated alternative tax credit formula, you could wind up being effectively taxed twice, at a combined rate of close to 50%, according to Dean Jorgensen of accountants Grant Thornton.

Thomas Ochsenschlager of Grant Thornton has a clever way that may beat the alternative minimum tax. Ochsenschlager says that if you pay for exercising an option by handing in shares you already own in the company, then a quick in the law may allow you to avoid the alternative tax.

Another strategy for executives facing alternative tax is to elect to have the option "disqualified" from ISO treatment. Going this route especially makes sense if you are pretty sure Congress won't revive favorable treatment of capital gains, and you plan to exercise and sell immediately. If you plan to do this, tell your company, because it can take a tax deduction. According to Jorgensen of Grant Thornton, some firms have even shared the resulting corporate tax benefit with employees.

Should the U.S. end its unilateral embargo of Vietnam? Of South Africa? Is denial of trade by the U.S. alone an effective way of expressing political disapproval?

Standing on principle

By Patrice Duggan

FOREIGN INVESTMENT in Vietnam is booming, with some reports suggesting it has doubled in the past year, to $1.2 billion. Topping the list of investors are Britain, France, Australia, the Netherlands. The Japanese are not investing, but they carry on substantial trade with the Vietnamese. Thanks to a 15-year-old U.S. embargo, American companies remain locked out.

The situation is not very different from that with South Africa. Because many Americans object to white domination, Americans are forbidden to do business there or invest. Meanwhile, most of our trading partners, while expressing moral outrage, have stepped in and grabbed the business.

Vietnam is smaller than South Africa, but much the same dilemma is involved. Here is a government that waged a long war against the U.S. But is an economic embargo, without a blockade, an effective means of expressing political disapproval?

Vietnam's infrastructure is dilapidated, its legal system undeveloped, and the government is corrupt and bureaucratic. Worse, the nation hasn't really abandoned socialism, although most of the world has thrown the system into history's dustbin. Negotiating a large business deal with officials can easily take years. There are certainly better places to invest.

Still, since 1986, when Hanoi began its policy of doi moi—the Vietnamese version of perestroika—the country has moved toward a free market. Laws passed in 1987 allow 100% foreign ownership of businesses as well as repatriation of profits and favorable tax rates. Last year Vietnam's economy grew 5%, as against an estimated shrinkage of 20% in the early 1980s.

Why would Europeans invest? One lure is cheap labor. Workers make 15 cents an hour as against 23 cents in China and 50 cents in Thailand. There are also Vietnam's abundant natural resources, particularly oil. The companies with the most to lose by being shut out of Vietnam are U.S. oil outfits. Estimates of potential oil reserves range from 1 billion to 10 billion barrels, and Royal Dutch/Shell Group and British Petroleum have signed exploration and production agreements with the Vietnamese.

U.S. oil companies are still reticent, but are watching closely.

Senator Richard Lugar [R-Ind.], former chairman of the Senate Foreign Relations Committee, has sent a letter to the White House requesting that the embargo be relaxed to allow for "nonstrategic" trade.

Lugar's opponents on this issue see the embargo as the U.S.'s only leverage over the Vietnamese in negotiations over the future of neighboring Cambodia. Also favoring the embargo are groups lobbying for a full accounting of prisoners of war and soldiers missing in action from the Vietnam war.

The problem in using an embargo—without a blockade—to achieve political objectives is that an embargoed nation can turn elsewhere for what it needs. Gone are the days when the U.S. was the only source for the best and the latest. "Economic sanctions in the last 20 years have not achieved their policy objectives," says William Arcey, international vice president of the U.S. Chamber of Commerce. "But they have succeeded in the unintended objective of harming American business." South Africa all over again.
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Nature exposes aircraft to extreme conditions. Within a half hour the temperature can drop from 115°F on the ground in Las Vegas for example, to -50°F at 35,000 feet.

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CREATING THE RIGHT CHEMISTRY.
The Larger Context

Between 1980 and 1988, the rich got richer and so did the poor.

WHO'S ON THE BOTTOM?

By Michael Novak

Some of my best friends are radical leftists. “All right,” one of them told me the other day, “I admit we’ve had 93 straight months of economic growth. But that growth was unequal, and the bottom 20% of households received only 3.8% of the national income.”

But John, I told him, a period of economic growth is a lot better for those on the bottom than recession. Between 1980 and 1988, the total pie grew so much that the bottom fifth received far more income in 1988 than it did in 1980—almost 15% more. [In constant 1988 dollars, the bottom fifth divided up among themselves $120 billion, compared with $105 billion.]

“But the top 1% alone has more income than the whole bottom 40% put together,” he sputtered.

“They also have more books,” I said. John’s own income is in the top 5% easily [over $85,000], so I pressed on: “They are far more highly educated. A lot more of them work full-time year-round, and nearly all are married, with two or three workers in every household.”

For this he called me a cold-hearted reactionary, of course. So I asked: “Okay, what would you do to raise the income of the bottom 20%?”

“Raise the minimum wage,” he said. “Raise all wages at the bottom. I believe in work, but decently rewarded work.” Problem is, only 11% of the householders in the bottom 20% work full-time year-round; 65% do not work at all; the rest, part-time. Higher pay may help a few of the poorest, but not many.

“That’s because of discrimination,” he said. “Blacks can’t find jobs.” I reminded him gently that of every four householders in the bottom quintile, three are white. Blacks may be overrepresented, but are only a small part of the bottom.

We bandied some other figures back and forth—like, 40% of the poorest quintile are elderly, and 42% own their own homes. Being in the bottom fifth, we agreed, doesn’t mean you are poor, doesn’t mean you don’t want to work, and doesn’t [all by itself] mean discrimination.

What does it take to be in the bottom quintile? In 1988, a cash income under $11,400. At that level many retired persons, married or single, can live in reasonable decency, most often in their own homes, condos or apartments. They are statistically poor but not in the sense of having to go without necessities. In fact, households in the bottom quintile are the smallest of any; 54% of them consist of one person. The poverty level for one person living alone in 1988 was $6,024; for this and other reasons, a full third of households in the bottom quintile are above the official poverty line.

John tries to be fair. “I admit,” he said, “that at the bottom only about one household in five is a married-couple household.” In every other quintile, he knew, married couples make up two to four times that many households. None of this changed John’s feelings one iota, of course. The more difficult his position, the more angry he became. “It’s so unfair,” he said. “Something has to be done. We need a new system.”

Here I made a suggestion: “Why don’t you and all your buddies volunteer to surrender 10% of your income to those in the bottom quintile? You’re the majority party. Volunteer.” He grumped.

“Seriously,” I said, “what do you think we should do? You’re not going to get political support to force other people to pay you what you don’t want to pay. You know that.”

“Working people are generous. But not the rich.”

“Look,” I told him, “politically, nothing is easier than raising benefits for the elderly. It’s done all the time. People know they need help.”

“But not for ‘welfare mothers,’” he said with disdain.

“Come off it. You know as well as I do that the public has approved enormous sums for Medicaid, food stamps, housing assistance, school lunches and many other programs. But none of this counts in the income distributions. You can’t change income distributions by raising noncash benefits.”

John left the argument still thinking that the system is rotten. He felt trapped and frustrated. He knows he can’t raise the incomes of the bottom quintile by raising wages [too few work] or by increasing noncash benefits [these don’t count, officially, as income]. The only path open to him is outright cash supplements for healthy young householders of working age, who are currently not working [at least not full-time, year-round]. My last words to him were: “Go ahead, John, make that argument. Put it to a vote.”

The poor householders for whom John has most sympathy [as does the public] are single mothers and their children. These days, however, as Senator Moynihan has noticed, most mothers with small children are working, and it is not easy to make the political argument that working mothers should redistribute their income to mothers who are not working. John also sees this difficulty but that, alas, does not end his frustration.
SPECIAL ADVERTISING SUPPLEMENT

NORTH CAROLINA

The State Of Innovation Today
North Carolina has attracted more than $22.7 billion in combined manufacturing and non-manufacturing investment since 1986, ranking third in the nation in total economic development during the period.

Last year, North Carolina attracted 20 research & development operations, more than any other state; it was the only state with two metro areas — Charlotte and Raleigh-Durham — in the top five.

### STILL FIRST IN FLIGHT

In business, you need the right connections. And North Carolina has some of the world’s best.

It starts with two major airline hubs at either end of the Piedmont — USAir at Charlotte’s Douglas International and American Airlines at Raleigh-Durham International. Together, these hubs offer more than 700 departures a day to business centers nationwide.

And, with 1992 just around the corner, Europe is easily reached via American to Paris from RDU or USAir to London from Douglas, both daily and direct.

Terminal expansions are also bringing more flights and better service to other North Carolina airports, including Greensboro-High Point-Winston-Salem, Wilmington, Greenville and Asheville.

---

North Carolina has been the first choice of international manufacturers since 1986, with 63 new plants and over $3 billion in total capital investment.
OUR PEOPLE.
10,000 Reasons Why
We Like Calling
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For more than 115 years, Winston-Salem and
the Piedmont Triad have been our home.
We've recently completed an additional $2
billion-plus investment here, creating the most
sophisticated cigarette manufacturing facilities
in the world. But it's our 10,000 North Carolina
employees who make us the strong
company we are today. North Carolina has
shown that the more we invest in our
community, the more we receive in return.

RJ Reynolds
Tobacco Company

Part of the RJR Nabisco, Inc. organization.
North Carolina has the nation’s best manufacturing climate, according to the 1989 Grant Thornton Manufacturing Climates Study, thanks largely to its highly productive work force and low corporate tax structure.

North Carolina is the South’s new leader in attracting warehouse/distribution operations, with such recent arrivals as Sara Lee, K Mart, Ralph Lauren Polo, and Capital-EMI all making multi-million dollar investments.

Behind the recent winning streak stand years of careful planning and decades of old-fashioned hard work. Explains two-term Tar Heel Governor James G. Martin: “Economic development has been the number one priority of every North Carolina Governor for about as long as anyone can remember. For most of the 20th century, we’ve channeled a substantial portion of our tax dollars into creating the kind of climate where businesses can grow and prosper.

“We’ve built the largest system of state-maintained roads in the country. We’ve created one of the finest systems of higher education in the world. We’ve invested heavily in improving the quality of our elementary and secondary schools and upgrading the skills of our workers.

“That’s the formula that made us number one today, and it’s what we’re going to keep doing to stay there,” Governor Martin said.

Formula for Success

The Governor, a former Davidson College chemistry professor, listed several other elements of North Carolina’s success formula:

- Some of the nation’s most productive workers, who deliver more per $1 of wages than the national average, with few work stoppages and far lower absentee rates.
- A strong community college system that provides customized worker training programs at virtually no cost to incoming or expanding industries.
- Competitive incentive packages from state and local governments, plus additional support from local public/private partnerships and flexible pricing from utilities.
- An aggressively pro-business mindset at all levels of government, reflected in an ultra-low corporate tax structure.

A range of state and local programs for minority businesses and entrepreneurs, including start-up and development loan packages.

A modern air transportation system, anchored by two major airline

They Made It Easy to Stay at Home

“After North Carolina showed us what they could do, it wouldn’t have made sense for us to go anywhere else.”

That’s how Jim Risher, president and CEO of Raleigh-based Exide Electronics (1989 sales: $170 million), explains the decision to build a state-of-the-art plant in southeastern North Carolina, bolstering Exide’s position as the world’s largest manufacturer of uninterruptible power systems.

North Carolina’s incentive package was a prime reason behind the decision, Risher said. It included tax breaks, lower land and utility costs, access roads and infrastructure. Best of all, the local community college is custom-training workers at no cost to the company.

“We could have put our plant anywhere in the world,” Risher says. “But North Carolina made it easy for us to stay at home.”
We're ready to take off for North Carolina just about anytime you are, from just about anywhere you are. In fact, USAir and USAir Express fly to North Carolina from more places around the country, and at more times throughout the day, than any other airline. So choose USAir or USAir Express to North Carolina. Because in business, you can always use a strong partner.

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You didn't get where you are by thinking small, and neither did we. The fact is, helping businesses grow has helped NCNB become one of the largest banking organizations in the nation.

But we've got more than just money to lend. We also have the services growing businesses need, from checking to cash management and investment plans. And with more than 240 offices all across North Carolina, we've made sure there's a business specialist nearby, someone who can tailor our services to your company's needs.

Let us show you why we're big on helping businesses like yours grow. Call Rock Poisson today at (704) 374-5676.


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Why does the idea of moving to Charlotte keep growing on so many successful companies?

Because, quite simply, Charlotte keeps growing.

And because, despite this growth, Charlotte maintains one of the most attractive living environments in the nation.

In fact, in a recent Lou Harris Poll, Charlotte was rated for the second year in a row as the most attractive mid-sized city for business over the next five years. And by two national publications as one of America's ten best places to live and work.

But, that's really just the beginning of what Charlotte is up to. To find out more, contact Terry Orell at 704/378-1311.

Charlotte
NORTH CAROLINA

hubs — USAir at Charlotte's Douglas International and American Airlines at Raleigh-Durham International — both of which rank among the nation's top 35 airports.

- Two deepwater ports at Wilmington and Morehead City, which have become increasingly attractive to global shippers after undergoing significant renovation and expansion.

The Business Catalyst

The catalyst that makes all this work is the active involvement of North Carolina's business leaders in the economic, civic and cultural life of the state.

"If you come to North Carolina, expect to get involved," says Bill Lee, chairman and president of Charlotte-based Duke Power Co., the state's largest generator and provider of electrical power.

"Locating your business here is important to us, but we expect more.

Discover hundreds of recreational lakes at your leisure.
A move to the Carolinas. From an industry standpoint, it's good for lots of reasons. Environment. Transportation. Education. Economy. The Bad Creek Hydroelectric Station simply makes a good move even better.

Duke Power will complete the remarkable pumped-storage Bad Creek Station in 1991. With a history of long-sighted planning and providing energy at a cost below the national average via a mix of coal, nuclear, and hydroelectric stations, Duke Power has always been an engineering frontrunner. The Bad Creek Station strengthens that reputation.

Bad Creek will supply a million kilowatts of instant peaking power. That way, when energy loads skyrocket, Carolinas industries will have strong insurance against brownouts, blackouts, or mandatory power outages resulting in reduced operating hours.

And, from the standpoint of profits, that makes the Carolinas a very good move.

**DUKE POWER**

*We’re Proud To Be Of Service.*
We want you to pitch in and help us make North Carolina an even better place to live. That’s the way we do business here."

That spirit was crucial 30 years ago in the founding of Research Triangle Park, the cornerstone of North Carolina’s modern economic revival. Today the 6,700-acre Park is the world’s largest research complex, home to such corporate giants as IBM, Burroughs Wellcome, Glaxo, and Northern Telecom. All told, its 50 corporate, government and academic tenants employ more than 33,000 people with an annual payroll of $1.5 billion.

Business leaders are still on the front lines in the ’90s, helping North Carolina find answers to the decade’s most pressing issues.

For example, Governor Martin recently created the Workforce Preparedness Committee, a blue-ribbon panel headed by Tom Smith, president and CEO of Salisbury-based Food Lion Inc., to help ensure North Carolina’s young people are equipped with the skills to compete for the high-tech jobs of the 21st century.

“The committee’s goal is to make sure North Carolina workers are prepared for the technological changes that are coming to the workplace of tomorrow,” Mr. Smith says.

Activity at North Carolina’s two ports rose substantially during the 1980s.
Having Your Computers Go Down Is No Great Calamity. Provided Your Rivals’ Computers Go Down At The Same Time.

“I'm sorry, our computers are down. Could you call back in an hour?”

In today's frenetically-paced business environment, the answer is very likely to be “no.”

You're not the only fish in the sea. And there are undoubtedly some barracudas out there whose computers are more respectful of a businessman's time.

Most likely because their computers are protected by an Exide Electronics Uninterruptible Power System.

It's little-known but true that utility power is full of surges, sags and other power irregularities that damage sensitive computers and cause well over half of all computer crashes. An Exide Electronics system conditions and smooths out that power before it's actually fed into the computer.

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As the nation's premier power consultant, we have yet to meet the power problem that we could not solve.

Your business is too important to be at the mercy of blackouts and brownouts brought on by thunderstorms, earthquakes and the construction worker who accidentally slices through your main power line.

But perhaps the most compelling reason to look into an Exide Electronics Uninterruptible Power System is simply this: your competitor may already have one.

Call 1-800-554-3448 for more information.
“North Carolinians are known for their work ethic. They have a long tradition of high productivity. But we need to do more to help them stay out front. We need to reach them as early as we can. The sooner they’re introduced to basic skill training, the better off they’ll be.”

The business community is also out front in the effort to raise the performance of the state’s public schools. For example, Charlotte-based NCNB Corp. has given $2 million to help the Southern Regional Education Board improve Southern schools. Half the money will go to schools or districts that develop model plans. The other half will go to establish a Leadership Academy to acquaint school officials with plans that work.

In addition, several business leaders serve on the statewide Task Force on Excellence in Secondary Education created last year by state Superintendent of Public Instruction Bobby Etheridge.

The Road to the Future

In 1989, the state legislature took steps to bolster North Carolina’s reputation as “The Good Roads State,” passing a $9.2 billion road-building program to bring interstate-quality highways within easy reach of 96% of the state’s 6.5 million people by the year 2000. Tied to it is an Infrastructure Planning Program under the state Department of Economic and Community Development (ECD), designed to make sure quality industrial sites come on line when the roads do.

“We’re looking 20 years out, setting the economic development agenda for the 21st century,” ECD Secretary Jim Broyhill says. “These new roads should make it easier for industry to choose to move into rural areas, helping us spread development more evenly across the state.”

Jim Sineath, head of Cushman & Wakefield’s North Carolina office, expects the road program to enhance the state’s appeal as a distribution center. “When the road-building kicks in, it’s going to move us so far out front the rest of the southeast may never catch us,” he says.

"Our Customers Love Us. Our Competitors Don’t."

How’s this for innovative thinking? You offer the lowest prices in town, and don’t give an inch on quality.

That may not sound all that revolutionary, but it’s exactly how Salisbury-based Food Lion Inc. became the world’s fastest-growing food chain, with annual sales now exceeding $4.7 billion. It’s increased earnings for 22 straight years, and its net income to sales ratio is twice the industry average.

Food Lion’s long-range strategy is to keep growing and opening new markets. In 1989 it moved into Kentucky and West Virginia; this year it’s on to Pennsylvania.

“Our business philosophy is pretty simple,” says President and CEO Tom Smith. “We keep our costs down and our prices low. Our customers love us. But the competition wishes we’d just stay at home.”
Of all the critical high-performance parts on this aircraft, none are harder working than our mechanics. For every hour our planes spend in the air, the mechanics of American Airlines spend 11 man-hours fine-tuning them on the ground.

They work directly with our pilots to quickly pinpoint problems. They check and recheck every system, x-ray thousands of parts and track the maintenance history of each aircraft with detailed logs and computers.

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People and technology. That’s what Southern Bell is all about. And that’s why North Carolina’s telecommunications network is second to none.

North Carolina is also ahead of the game in preparing for the global economy. In fact, it’s one of a handful of states with a positive trade balance, totaling almost $1 billion in 1989.

Early on, the state recognized the importance of foreign business investment, creating an international division in the late 1960s. Foreign trade offices were opened in Düsseldorf in 1971 and Tokyo in 1985. A Canadian office opened last year.

Early this year, Governor Martin created the EXPORT NOW program, designed to help small and medium-sized North Carolina companies enter the export market. At the same time, he established an Advisory Council on International Trade.

The global focus should be enhanced next spring, when thousands of international entrepreneurs pour into Charlotte for a trade fair sponsored by the Trans-Atlantic Trade Association for Independent Small and Medium Enterprises. Charlotte’s selection stemmed from Lufthansa’s decision to begin direct service between Frankfurt and Charlotte’s Douglas International.
Meet Nine Of North Carolina's Most Valuable Players.

Our nine new regional economic development representatives, specializing in existing businesses, are just part of the team that provides so many valuable services to businesses all over North Carolina. We appreciate the companies that have located here and we want to insure that they have everything they need to flourish. That's where our regional representatives come into the game. They know every inch of their region and routinely furnish current information covering labor, vendors, environment, energy, utilities, marketing, financing and site location.

North Carolina is firmly committed to giving that kind of support—to a new business, to an expanding business and to an established business. That's why we were the first state to establish a regional office system, and why today, that system is the largest in the country.

So come and put the North Carolina team to work for you. We promise to go to bat for you any time you ask, to play an errorless game behind you, and not to forget you when your rookie season is over.

Contact Richard J. Roberson, Director of Client Services, Business/Industry Development Division—North Carolina Department of Economic and Community Development, Dept. 117, 430 North Salisbury Street, Raleigh, NC 27611, call direct (919) 733-4977, Fax (919) 733-9265.

North Carolina
The Better Business Climate
1. Large and Productive Labor Force. Our 850,000 person manufacturing workforce is the largest in the Southeast.

2. Free Workforce Training and Exceptional Educational Facilities. North Carolina's nationally acclaimed community college system offers free, customized skills training to new and expanding industries.

3. Excellent Labor Environment. North Carolina is a right-to-work state, with a unionization rate that is the second lowest in the nation. North Carolina offers low workers compensation insurance rates, while providing some of the highest benefits.

4. Low Energy and Construction Costs. North Carolina maintains efficient, economical utility services. Electric rates for industrial, commercial, and residential customers are well below the national average.

5. Unequaled Proximity to Major Markets. North Carolina's central location puts the state within a 700-mile radius of more than 150 million U.S. and Canadian consumers.

6. Comprehensive Transportation Network. The state offers an extensive highway system, 2 major airline hubs, a 4,000-mile rail network and 2 deep-water seaports.

7. A Great Place To Live. North Carolina's mild Sunbelt climate allows outdoor recreation at many of the nation's finest golf and skiing resorts and at numerous state and national parks.

8. Low Tax Burden. North Carolina's per capita state and local tax rates are low, ranking 34 among the 50 states.


10. Professional Development Assistance. The Business/Industry Development Division of the North Carolina Department of Economic and Community Development provides personalized help that few states can match in all phases of a prospective company's community/site selection process.

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**The State of Innovation**

Here's a look at some of North Carolina's leading innovators:

**SOUTHERN BELL:** The Charlotte-based BellSouth subsidiary has invested $1 billion in upgrading North Carolina's telecommunication network, laying 82,000 miles of fiber optic lines since 1987. It helped design and build VISTAnet, a prototype very-high-speed (2.48 billion bits/second) system that goes on line this year between Chapel Hill and Research Triangle Park, allowing cancer researchers at UNC to hook up to the Cray Y-MP supercomputer at the Microelectronics Center of North Carolina.

**NCNB:** The South's largest bank expects to occupy the region's tallest building by 1992. The 60-story, $150 million NCNB Corporate Center, designed by Cesar Pelli, will tower over downtown Charlotte, a monument to the aggressive spirit that has helped NCNB capture new

---

**You can build for the future with the nation's lowest building costs.**

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**21ST CENTURY TOBACCO PLANT**

The future success of R.J. Reynolds Tobacco Co. was assured in 1986 when the world's most advanced cigarette manufacturing plant was dedicated in Tobaccoville, 12 miles north of the company's Winston-Salem headquarters.

The $1 billion, 2 million square foot plant has helped make Reynolds the industry's low-cost producer, with the capacity to spin out more than 100 billion cigarettes a year, about 20% of the industry's total annual production.

"North Carolina has the kind of business climate that encourages you to be innovative," says James W. Johnston, chairman and CEO of R.J. Reynolds Tobacco Co. "It's a great area to do business, and our employees enjoy a quality of life that would be difficult to replicate anywhere else."
OTHERS TALK ABOUT TECHNOLOGY. NORTH CAROLINA DELIVERS.

- MCNC is a major technology commitment to economic development by the State of North Carolina — building on the success of its universities and Research Triangle Park.

- MCNC provides state-of-the-art technical resources in microelectronics, supercomputing, and advanced communications. It links North Carolina's universities, Research Triangle Institute, and industry — to leverage excellence in statewide education, research, and industrial applications.

- MCNC partners with leading corporations and government agencies in advanced research programs — to build strength in the enabling technologies of the electronic information industry.

- MCNC supports North Carolina industry through contract research, consulting, and technical services.

- MCNC and North Carolina — an outstanding technical resource in a supportive business environment.

Your opportunity for successful growth.

For more information contact Matt Kuhn, President 919-248-1810

a non-profit consortium of North Carolina, its universities, research institutes, and industry
Beware of companies with unclear ideas of the future.

Impel is different. Impel is a new company built for the future. We combine new products and services with proven products to give our customers-partners an innovative mix unlike any other. This means the relationships we have, and will have, will reap profits well into the 21st century. And that's the way the cookie crumbles.

**Impel doesn't just know the future. Impel is the future.**
Food Lion Reflects State Spirit
America's Fastest Growing Supermarket Chain.

Corporate Headquarters, Salisbury, North Carolina

Food Lion, Inc. sells more groceries in North Carolina than any other food chain. This Salisbury-based company has grown from one store in 1957 to one of the nation's largest grocery chains with some 715 stores in 11 states and is regarded as "America's fastest growing supermarket chain."

Each week more than 1400 Food Lion trucks leave distribution centers in Salisbury and Dunn to deliver groceries to 290 stores in North Carolina. And each day over 300 common carriers converge on these two centers to stock warehouse facilities that total 2.4 million square feet of space.

Food Lion employs 19,000 people in North Carolina to serve over three million customers. Sales exceed $45 million per week and last year Food Lion's annual payroll in North Carolina totalled $590 million.

Food Lion's dynamic growth reflects the spirit and integrity of a state and its people whose work ethic is admired and respected, not only in America, but throughout the world. We are proud to be a part of this heritage and hope to play a major role in the growth of North Carolina in the years ahead.

Tom E. Smith
President, Chief Executive Officer and Chairman of the Board of Directors
confirmed its status as a major-league city. Now metro leaders have set their sights on the NFL. A $100 million, 70,000-seat stadium will soon be underway downtown. "Charlotte's in a great position," says Terry Orell of the Charlotte Chamber. "We've got a low cost of doing business, with a lifestyle the equal of any city in America."

MCNC: Founded in 1980, the private, non-profit corporation provides North Carolina universities, research institutions and corporate sponsors with access to world-class research and communications facilities, including the new North Carolina Supercomputing Center that houses one of the southeast's most powerful supercomputers, a Cray Y-MP. In addition, MCNC's CONCERT network provides a statewide video network for teleconferencing and instruction. MCNC recently introduced the Bitzen, a prototype high-speed computer system that NASA plans to use for satellite image processing.

DUKE UNIVERSITY DIET & FITNESS CENTER: Founded in 1975, the Durham-based Center has developed a number of innovative weight control programs to help individuals achieve better health through weight loss, lower cholesterol and blood pressure, and lifestyle change. Special executive programs are available. The Center offers a level of care consistent with the standards of excellence for which the Duke University Medical Center is known.

MOORE & VAN ALLEN: One of North Carolina's largest law firms with 110 attorneys, Moore & Van Allen reflects the state's growth and healthy economic climate. The firm offers a broad range of practice areas, including corporate, business, banking, real estate and international law. The firm has offices in Charlotte, Raleigh and Durham.

This section was written by Jim Hughes of Hughes Public Relations of Raleigh, NC in cooperation with the North Carolina Department of Economic and Community Development.

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North Carolina's love affair with golf began in 1898, when a young Scotsman named Donald Ross began shaping the sandy loam of Pinehurst into an American classic, and helped turn North Carolina into the Golf Capital of the World.

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NORTH CAROLINA

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In a weak market, growth stocks get hammered. Defensive strategy: Buy a stock that has already been hammered.

By Gilbert Steedley and Robert Balancia

The stock market is looking pretty dreary these days, what with a 16% decline in the Dow industrial average since its July 17 high. One plausible defensive strategy, a short of exiting from stocks altogether, is to buy stocks that are already big losers. These are companies that have disillusioned investors, perhaps because of huge writedowns, and now trade on the strength of their potential for recovery. Case in point: Illinois Power.

Illinois Power sells for less than half its five-year high. Last year it lost $326 million, $4.30 a share, largely on account of a writedown on its Clinton nuclear facility. That hit forced the company to suspend its dividend.

So what wants a utility that doesn't pay a dividend? Linda Byus, a utility analyst for Duff & Phelps in Chicago, expects prospects to brighten for Illinois Power. The utility received a rate increase in June and has cut costs. Clinton isn't a total loss, and state regulators are expected to allow a larger portion of the investment in it to be included in the rate base on which the company is permitted an economic return. Byus expects to see a dividend reinstated in 1991. The average prediction by 17 analysts who follow Illinois Power is that it will earn $1.50 a share in 1991, giving the company an estimated 1991 p/e of 9.

In our search for potential turnarounds we screened the Media General Database to find companies with 1989 losses that were at least 10% of the firm's common equity. Next we compared stock prices to 1991 earnings, as forecast by the Institutional Brokers Estimate System. The objective: Eliminate companies that are likely to go on losing money until there is nothing left. (An earlier experiment with loss-making companies didn't work out. Our July 19, 1982 list of 50 companies with big losses, selected without regard to earnings forecasts, has produced a total return of 11% a year, 7 points behind the s & p 500.) The 15 companies in the table are expected to recover their profitability; all sell at less than 13 times expected 1991 earnings.

Control Data took giant writedowns last year, losing $681 million, or $16 a share. But Wall Street is expecting a 1991 profit of $1.75 a share. Says First Boston analyst Steven Milunovich: "The company is done with last year's writeoffs and is emphasizing services such as Arbitron," which measures radio and TV audiences.

Unisys, the successor to Sperry and Burroughs, is another sorry computer stock, trading at one-seventh of its 1987 high. At half of book value and five times expected 1991 profits, it may now be cheap enough to buy.

<table>
<thead>
<tr>
<th>Company/business</th>
<th>Price-earnings</th>
<th>1991 estimated EPS</th>
<th>Sales (Smil)</th>
<th>Loss (Smil)</th>
<th>Debt/equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>recent 5-year</td>
<td>high-low</td>
<td>P/E</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arkla/natural gas</td>
<td>20% 27%-15%</td>
<td>$1.65</td>
<td>12.2</td>
<td>$2,246</td>
<td>$-69</td>
</tr>
<tr>
<td>Borden/dairy products</td>
<td>32 38%-10%</td>
<td>2.95</td>
<td>10.8</td>
<td>7,953</td>
<td>-61</td>
</tr>
<tr>
<td>Boston Edison/electric utility</td>
<td>17 28 12%</td>
<td>1.92</td>
<td>8.9</td>
<td>1,269</td>
<td>-34</td>
</tr>
<tr>
<td>Brunswick/recreation equip</td>
<td>7% 30%-6%</td>
<td>1.13</td>
<td>7.0</td>
<td>2,826</td>
<td>-71</td>
</tr>
<tr>
<td>Control Data/computer sys and services</td>
<td>10% 38%-10%</td>
<td>1.75</td>
<td>.59</td>
<td>2,935</td>
<td>-681</td>
</tr>
<tr>
<td>Engelhard/specialty chemicals</td>
<td>19% 29%-14%</td>
<td>2.00</td>
<td>9.9</td>
<td>2,403</td>
<td>-78</td>
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<tr>
<td>Entergy/electric utility</td>
<td>19% 23%-7%</td>
<td>2.27</td>
<td>8.4</td>
<td>3,724</td>
<td>-397</td>
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<td>Hercules/specialty chemicals</td>
<td>28% 73%-28%</td>
<td>3.50</td>
<td>8.2</td>
<td>3,092</td>
<td>-96</td>
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<tr>
<td>Illinois Power/electric and gas utility</td>
<td>13% 32 -13%</td>
<td>1.50</td>
<td>8.8</td>
<td>1,313</td>
<td>-326</td>
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<tr>
<td>Long Island Lighting/electric and gas utility</td>
<td>18% 21%-5%</td>
<td>2.40</td>
<td>7.6</td>
<td>2,348</td>
<td>-175</td>
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<tr>
<td>Merrill Lynch/securities brokerage</td>
<td>19% 46%-19%</td>
<td>2.32</td>
<td>8.5</td>
<td>11,335</td>
<td>-217</td>
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<tr>
<td>National Convenience Stores/convenience stores</td>
<td>3% 18%-3%</td>
<td>0.35</td>
<td>11.1</td>
<td>1,073</td>
<td>-9</td>
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<tr>
<td>National Semiconductor/semiconductors</td>
<td>4% 22%-4%</td>
<td>0.70</td>
<td>6.4</td>
<td>1,648</td>
<td>-206</td>
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<td>Northrop/aerospace</td>
<td>16% 56%-13%</td>
<td>2.55</td>
<td>6.3</td>
<td>5,248</td>
<td>-81</td>
</tr>
<tr>
<td>Unisys/computer equip</td>
<td>7% 48%-7%</td>
<td>1.40</td>
<td>.51</td>
<td>10,097</td>
<td>-747</td>
</tr>
</tbody>
</table>

Sources: Media General and Institutional Brokers Estimate System (a service of Lynch, Jones & Ryan), via Lotos One Source

FORBES, OCTOBER 15, 1990
"The most beautiful thing we can experience is the mysterious."

Albert Einstein

The world is still full of mysteries we are eager to comprehend. Of questions we would like to answer.

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Talk about a strong franchise: Forschner Group's Swiss Army knife sales have grown 4,000% in 16 years. No wonder the company's extending the line.

Blade runner

By Fleming Meeks

Swiss Army knives can saw wood, open cans, scale fish, strip wire, open wine bottles, trim fingernails and drive screws. They cannot tell time, nor protect the human eye from the sun's rays.

These limitations are good news for Forschner Group, Inc., the Shelton, Conn.-based U.S. distributor of Swiss Army knives, the familiar red-with-
silver-cross multiblade pocketknives. Last year Forschner sold $33 million worth, up from less than $1 million only 16 years ago. All this with virtually no advertising.

The knives, however, are almost indestructible. So, to take advantage of the brand's strength, Forschner's president, James Kennedy, 39, is diversifying into Swiss Army watches and Swiss Army sunglasses, hoping the knives' allure will transfer to these items.

That the knives have reached almost a cult status is beyond debate. Victorinox Cutlery Co., Forschner's Swiss manufacturer, makes 295 different models, but Forschner sells fewer than 50 of them in the U.S.—ranging from a slim, $9 (at retail) twin-bladed model to an $80, 8-ounce behemoth called the SwissChamp with 29 different functions. The knives have names like Scientist—with tweezers and a magnifying glass—and the Waiter, with cork-screw and can opener. For $23 Forschner will sell you the Soldier, the real, authentic standard-issue knife Victorinox has made for the Swiss Army since 1891. The silver-colored knife has a special slip-resistant ribbed handle, an extra-thick stainless steel blade, two screwdrivers, an awl and a can opener.

Forschner also does a big business—$9.5 million last year—with corporate types who use the knives, imprinted with company names and logos, as giveaways. Drug companies, in particular, are big buyers. Ciba-Geigy has twice ordered lots of 100,000, imprinted with the name of a new drug, to give to doctors. And Forschner is negotiating with a major consumer products company on a deal for up to 3 million knives, potentially worth $9 million. They would be packaged along with products to induce buyers to switch brands.

Forschner does a brisk business in Swiss-made butcher knives as well, particularly to the slaughter-

Forschner Group President James Kennedy
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house trade, where, because of constant resharpening, knives are replaced every eight or nine days. The company says it sold more than half the knives used in slaughterhouses last year, worth $6 million in sales.

Overall, the company is expected to earn $2.5 million this year on revenues of $50 million. Revenues are expected to be up next year, but profits will fall because of the strength of the Swiss franc against the U.S. dollar. That's a big problem for the company, since it pays for virtually all of its goods in Swiss francs. Kennedy hedged part of his 1991 currency needs by buying Swiss franc futures. But he wishes he'd done more: He didn't count on the further weakening of the dollar caused by the Kuwait invasion and German reunification.

Forschner got its start 135 years ago as a New Britain, Conn. manufacturer of butcher scales. In the 1930s the tiny scale company broadened its line, importing butcher knives from Victorinox, one of two Swiss companies that made pocketknives for the Swiss Army. After the Forschner family sold the company in 1957, the butcher scale business was phased out, and the company took a stab at selling Victorinox Swiss Army knives. By 1974, a modest 20%, or $800,000, of its nearly $4 million annual revenues came from the knives.

That year the company changed hands again, bought this time for about $2 million by investor Louis Marx Jr. Marx, now 59, put Michael Weatherly, a Princeton classmate, in charge. Weatherly pushed the Swiss Army knife business beyond hunting and camping stores and specialty retailers like Hoffritz into mass merchandisers like Wal-Mart and Target.

Buyers responded. Without a nickel's worth of advertising, Forschner's Swiss Army knife sales rose to $11 million by 1981. Marx took the company public two years later, then sold his stake in Forschner, though he has owned the stock off and on ever since. He currently sits on the board.

Did Kennedy ever worry that broadening distribution and taking the product downmarket would sully its "quality" image? On the surface, explains Kennedy, broadening the knives' market seems to go against conventional marketing wisdom. But, he says, Swiss Army knives are "not something that's all puffery, like a $200 bottle of perfume, where there's a lot of mystique, and if you sell it at the corner drugstore you lose something. This is a product that's used."

In fact, the only market Forschner has avoided (for cash flow reasons, not image reasons) is department stores.
"They don't pay their goddamn bills," Kennedy fumes. "They never did, and they never will."

The son of a Bronx Federal Bureau of Investigation agent, Kennedy joined the firm in 1975 as a $175-a-week telephone salesman shortly after leaving the Army. When the head of sales for butcher knives suddenly quit in 1976, Kennedy took over and started working directly with the Swiss suppliers. He gained their confidence, which allowed him to take over the presidency in 1987 when Weatherly left in a flap with the board over the direction of the company. "I was the only guy in the company, besides Weatherly, who knew the guy who made the knives," says Kennedy.

Last year Forschner branched out into Swiss Army brand watches, compasses and sunglasses. These products have nothing to do with the Swiss Army, but to carry the "Swiss Army" trademark, they have to be made in Switzerland. The watches, which retail for about $95, are expected to add $4 million to revenues this year, twice Kennedy's initial projections. The sunglasses, which retail for $115, should add another $500,000.

Kennedy says he's looked at boots, guns, skis and pen-and-pencil sets, but has yet to find another Swiss-made product that fits the Swiss Army brand image and Forschner's distribution channels. Kennedy would also like to buy a small U.S. consumer products company to help ease the whipsaw effect of currency fluctuations. But for now, he says, "We're going to focus on the products we have."

Not a bad strategy, considering Victorinox' Swiss rival, Wenger, which also sells knives to the Swiss Army, has lately gained ground here. Though it has only about 15% of the U.S. market, Wenger has grabbed two big accounts, in Kmart and L.L. Bean, through its U.S. distributor. Wenger's knives look like Victorinox', though the Army logo is a bit different.

Largely because of the Swiss franc problem, Forschner's stock is dead in the water at a recent price of 6, for a market capitalization of $23 million. That's down sharply from 12 1/4 earlier this year. But two interesting insiders are buying. Charles Elsener, president of Victorinox, recently bought 112,000 shares, upping his stake to 9.4%. And Louis Marx is back in, putting up $2.6 million in August for a 13% stake.

If the dollar ever turns around, so will Forschner's profits. Meanwhile, knife sales seem likely to keep growing, slowly perhaps, but with typical Swiss precision.
How Bruce Flohr turned a lifelong love of transportation into a lucrative business running short-line railroads.

On track

By Toni Mack

If he'd followed in his father's and grandfather's footsteps, Bruce Flohr today would probably be the town banker in Wallace, Idaho. But ever since his youth, he's had another calling: transportation. The soft-spoken Flohr is one of the few people who count among their youth's highlights their first sightings of a diesel locomotive, a Greyhound Scenicruiser bus and a Boeing 707 airplane. Even today, says Flohr, "I can't see a train, plane or boat without wondering, 'Where is it going, and what is it carrying?'

Flohr these days is building a comfortable nest egg pursuing his childhood interest. He runs and partly owns San Antonio, Tex.-based RailTex, Inc., one of the nation's largest and fastest-growing operators of short-line railroads. These are feeder lines of less than 350 miles currently being shed by the big railroads, which want to concentrate on longer routes.

Today RailTex operates 11 short-line railroads carrying about 80,000 cars a year. Flohr is in the process of acquiring 5 more lines, which will add about 30,000 cars yearly. He predicts RailTex' revenues will grow from $16.6 million in 1989 to around $22 million this year. Flohr won't disclose profits but says the privately held company nets a healthy 5% to 10% on revenues.

Flohr is 51 but looks a decade or so younger. He started out in the rail business shortly after the Army in 1965—inspired by a Stanford professor who predicted the deregulation of the industry and the need for professional managers. One of his first jobs at the Southern Pacific was working in the Los Angeles rail yards, "trying to keep people from derailing our trains during the Watts riots," he re-

RailTex, Inc.'s Bruce Flohr.

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Dodge Shadow America $7699.
calls. He had risen to division superintendent for Southern Pacific in San Antonio when he got the idea for RailTex' original business in 1971. "A customer came into my office at the depot and pounded on my desk, demanding railcars to get his construction rock from San Antonio to Houston," recalls Flohr. "A light bulb went on in my head. The railroads wanted other kinds of cars [than the kind that carries rock]. No one was addressing the rock market."

But it wasn't until six years later, after a stint as deputy administrator of the Federal Railroad Administration, that he acted on his idea. The government job gave him interesting insights into how government works and whetted his desire to run his own show. Armed with a $3,000 consultant's study on the feasibility of shipping rock, he raised $450,000 from his family, local investors and San Antonio's Hixon family, members of The Forbes Four Hundred. He kicked in $50,000 of his own by selling the Southwest Airlines stock he held. (He had flown and been impressed by the fledgling airline when overseeing Southern Pacific operations.)

Flohr's new RailTex began buying open-top hopper cars and leasing them to rock shippers. But high interest costs in those inflationary years kept RailTex from turning a profit until 1984.

That was the year Flohr integrated backwards. He leased the San Diego & Imperial Valley line in southern California and Mexico from San Diego's transit authority. The previous, unionized operator had lost money, and an authority-sponsored study said the line couldn't make it without a subsidy. Nonunionized RailTex, with no subsidy but with lower operating costs, made money the first year. Flohr began leasing and buying outright other feeders.

The RailTex employee has located a warehouse across the tracks from the can plant that the aluminum supplier plans to use. "Our real growth is not through acquisition but through increasing the traffic on the lines we acquire," says Flohr.

Another key is a nonunion labor force. When owned by larger, unionized railroads, feeder lines must employ three or four crew members at an average hourly wage of $22. Says Flohr: "Our crews have two people at $8 to $10 an hour, plus benefits and a profit-sharing bonus." The bonus added $5,000 on average to most workers' pay last year.

"Big railroads have strict craft lines," Flohr adds. "All RailTex people are cross-trained. If one is done switching and still has two hours to work, he'll do filing, wash windows or call on customers."

To keep tabs on his far-flung railroads, which are now scattered from California to Virginia and from Texas to Michigan, Flohr has installed a management information system that produces a monthly revenue and expense statement for each railroad and compares actual with projected results. "The quality and timeliness of his information is very impressive," says Joseph Feeley of the Bank of Boston, a RailTex lender. RailTex executives visit each railroad once a year to discuss its business plan.

To sift through potential acquisitions, Flohr and two of his top executives (who have all invested in RailTex) devised a set of criteria. Among them: No commodity should account for more than 20%, or any geographic region more than 33%, of RailTex' revenues. No more than half of RailTex' traffic should feed to or from any single Class I carrier. These criteria keep RailTex from overdependence on any factor that could suffer economic weakness.

Last year Flohr sold RailTex' 435 railcars to Chrysler for an $8 million pretax gain in order to concentrate on short-line opportunities. [A Chrysler unit has a railcar fleet.] The big Class I railroads are expected to shed 17,000 to 20,000 miles of track in coming years. With cash from the sale plus more debt—RailTex' long-term debt is only about 40% of capital, half the level of many short-line operators—"we'll grow by at least three railroads a year," says Flohr.

After three privately placed equity financings, Flohr's original 50% stake in RailTex is down to about 20%, worth $2.2 million based on the latest stock transaction. Venture capitalists hold some 40% of RailTex, and the rest is held by company personnel and a few outside investors. Flohr plans to take the company public in two to four years.

For all his love of transportation, Flohr doesn't consider himself a trans nut. "A number of rail fans have taken over railroads and failed," says railroad consultant John Williams. "Bruce Flohr is a nuts and bolts railroad, not a fan." Says Flohr: "We're not doing this because it's fun to run trains. We're doing it to make money." So far, Flohr seems to be having it both ways.
HYUNDAI PCs ARE MAKING THEIR MARK IN NEW MEXICO.

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Building on the fitness craze, Henley International thrives in physical therapy equipment by using oddball technology and relying on managers who like to have fun.

The corncob special

Henley’s Kenneth Davidson—and guitar

"Nobody owned the market."

By Rita Koselka

YOU’D EXPECT the chief executive of a growing medical products company to look conservative, maybe even stodgy. At least very respectable. You’d probably be surprised, then, by Kenneth Davidson, 43, aging rocker and chief executive of Sugar Land, Tex.-based Henley International, Inc.

Davidson has curly hair halfway down his back. He plays a mean guitar in a rock band with other members of Henley’s senior management, and can often be caught shooting hoops with employees in the parking lot.

But don’t be fooled. Davidson is the force behind Henley’s rapid growth: Sales have been growing 50% a year for the past four years. Henley, which went public last winter, makes hospital supplies, home pain management products like electrical transmitters that block pain, and equipment for the booming physical therapy market. Its sales hit $17 million in 1989, and should top $27 million this fiscal year (ending Oct. 31). Davidson’s growth strategy is based on two uncontested assumptions: [1] that there will be growth in the physical therapy field because of mounting sports-related injuries and the physical degeneration of an aging population, and [2] demand will increase for medical products that lessen the cost of health care by making hospital procedures cheaper or facilitating at-home care.

Such is Henley’s strategy today, looking ahead. But the company didn’t start that way. In the early 1970s Ernest Henley, a chemical engineer, was thinking about his son’s tennis elbow. A classic inventor/tinkerer type, “Doc” Henley realized a dry-heat therapy could be an improvement over the standard whirlpool, because people can stand hotter temperatures when heat is dry. The question was how to apply it, since air isn’t a very efficient way to transmit heat through the skin to tendons and muscles. Henley came up with a solution in 1973 and refined it for years.

Commonly called the “corncob special” by therapists, Henley’s device uses ground corn husks circulating at temperatures of up to 120 degrees (whirlpools are rarely set higher than 105 degrees to avoid irritating the skin) inside a box where patients can stick arms or legs. Like a whirlpool, Henley’s device relaxes muscles and tendons, improves the range of motion and increases circulation to stimulate healing. Before settling on corn cobs, Henley tried glass beads and plastics, but the corn husks were
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lightweight and easy to circulate. While it’s difficult to establish whether Henley’s corncob machine produces results superior to a whirlpool’s when treating injuries or degenerative diseases, therapists say both they and patients often prefer it: There’s no cleanup, threat of bacteria transmission or need to get wet.

Henley and his tennis-elbow son started to market the product in 1979, though the effort didn’t go anywhere until 1982. The fledgling startup came to the attention of another Texan medical products company, Intermedics, one of the leading manufacturers of pacemakers in the U.S. Intermedics decided to invest $500,000 in Henley and took 30% of the company. It also put its head of business development—Davidson—on Henley’s board. Davidson and the “Doc” hit it off, but what really sealed Davidson’s interest was his first trip with Henley’s son Davis to market the product at an American Physical Therapy Association convention in Nashville.

Formerly a salesman and marketing executive with Merck and Baxter International, Davidson, a Canadian citizen, had been to many medical products conventions. The Physical Therapy conference was different. “When you walk in the door [of a typical medical convention] you see a bunch of little 10-foot booths of people trying to get someone to listen to their story, and a couple of 100-foot booths two stories high belonging to Baxter or Johnson & Johnson,” explains Davidson. “But when I first went to the APTA convention, I saw only 10-foot booths. Nobody owned that market.” It was a challenge Davidson couldn’t pass up. He made plans for bigger booths. This year Henley’s took up an entire wall of the convention center.

Doc Henley still does a lot of research for Henley and owns 32% of the company, but he prefers sticking to his lab or teaching University of Houston chemical engineering students. Davidson came over to run the company full time in 1986 and now owns an 8.6% stake worth $1.2 million. [Intermedics’ stake dropped to 17% after the public stock offering.]

Like Henley, the physical therapy profession is taking off. The number of physical therapists has grown to 70,000 from about 50,000 in 1983, and the number of physical therapy train-

ing programs has increased nearly 50% over the last 13 years.

These therapists need new techniques, better equipment and logistical help setting up clinics. This is where Henley comes in. As hospitals struggle to contain their costs, physical therapy clinics are increasingly moving off-site and are owned by the therapists themselves, or groups of doctors who pool resources. Henley has diversified beyond its founder’s corncob machine. It now makes treatment tables, traction equipment, state-of-the-art exercise machines, and computers that can measure muscle movement and the strength required to make certain motions.

A number of Henley’s products have come through its R&D investment—about 3% of sales—which has yielded 22 patents. Chempads, a bandage-like pad that transmits drugs via the skin, was introduced recently. Utah Jazz basketball player Karl Malone—known as “the Mailman”—wears them to anesthetize and minimize swelling in injured muscles.

New products are vital to support the company. The R&D effort needed for a large and specialized sales force, a complicated third-party billing operation and the required FDA approval process. To increase its product line, Henley has made several acquisitions, quickly paralleling expenses and pushing products through its system.

Henley, valued at nearly $15 million on the American Stock Exchange, earned $685,000 last year. Future earnings estimates are rosy, $1.3 million or about 50 cents a share in fiscal 1990. Managing that type of growth is never easy. Cash from operations and the public offering has been plowed back into acquisitions and product development. Henley has about $3 million in debt but also $700,000 in cash on its books.

However, investors run no more risk than insiders are willing to bear. Company insiders, including Intermedics, hold about 60% of the company’s 2.7 million shares of stock outstanding, the thinly traded shares were recently trading at $5.50 a share, down from their $8 offering price.

Among its other attributes, Henley is a fun place to work. Besides his rock band, Davidson has also started a Canadian curling team. There are only nine other teams in the state and just one ice rink in Houston that allows curling. Which is how Davidson made a success out of Henley: He found a field that’s not very crowded, produced good products, brought in people he could trust, and proceeded to make money and have some fun.
Your board selects the best legal and financial professionals to help cope with the problems you face as corporate leaders. But protection for your directors and officers isn't complete until you insure through Chubb.

Chubb helps you understand and minimize the personal risks inherent in corporate governance. For guidance on how to better protect your board, ask your agent or broker for Chubb's handbook "Directors & Officers Liability Loss Prevention."

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“Digital’s solution took TWA Getaway Vacations where we wanted to go—two years ahead of the competition.”

“Today’s customers want the ease of a package tour, while choosing their own dates, destinations, even accommodations. We needed a system to handle the complexity of servicing those choices, in real time. Digital found the perfect third-party software, custom-designed a system around it, then turned it on in under three months. No other computer company could have done that.

“With Digital, from a single desktop computer we book, price and confirm an entire vacation—flight, hotel, transfers, information that’s from different sources—in less than six minutes. We trust this system so much, we guarantee all reservations and all prices. So far, we’ve managed 60% more business this year with just 5% more payroll.

“What’s next? Repeating our success globally, wherever we set up shop. Digital’s given us two years of strategic advantage. That’s two years we’ve been able to offer our customers what Digital gives us: responsiveness and choice the competition is hard-pressed to match.”

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Marketing

Edited by Joshua Levine

Writing a punchy television commercial isn't as easy as it seems. Just ask our writer.

Inside Ad Land

HAVE YOU ever watched a television commercial and thought, “Gee, I could have done a better one myself”?

I’ve often thought that, watching—and listening to—the clutter of adspeak and images that assaults us at every turn of the dial. So The Martin Agency in Richmond, Va. called my bluff and invited me to try my hand at the real thing. The deal was, I would join a copywriter and an art director to work on a new commercial for Marriott’s Residence Inn hotel chain. Any contributions I made would be used—gratis, of course. I jumped at the chance.

Martin is a smallish ad agency with $165 million in billings, but it’s known in the business as a hot creative shop—smart, sassy, pungent.

Martin’s challenge for Residence Inn is to come up with something that will pull guests in on the weekends. Occupancy rates at Marriott’s 159 properties average close to 80% during the week, but drop by roughly 10 percentage points on the weekends. Residence Inns have bigger rooms than most hotels, full kitchens and fireplaces—all of which appeal to business travelers who stay an average of 4 to 14 days. But they lack room service and other, traditional hotel services—making them a tough sell for tourists and couples out for a sexy weekend.

I sharpened my pencils, rolled up my sleeves. First came the creative briefing by the “suits”—the account executives who serve as liaisons with the client. They help create the marketing strategy behind the ads and make sure that we shaggy creative types don’t wallow in self-indulgent wackiness at the client’s expense.

At Martin, relations between the suits and the creatives are much looser and friendlier than at many larger agencies. Still, the ad business fosters—even encourages—a certain mistrust between the two groups: The creatives want to win awards; the suits must please the client. Each camp secretly suspects the other wants to screw things up.

Dan Bartges, the head suit on Residence Inn, lays it out for us. Because there’s no room service, we can’t push weekend getaways—“We’d get slaughtered,” notes Bartges. So the idea is, push Residence Inn as a kind of guesthouse in which to stash relatives who are coming visiting for the holidays.

John Mahoney, the copywriter, and Robert Meagher, the art director, are
already conjuring up images of drooling in-laws when Bartges cautions: “We would be a bit worried about making this a commercial for in-law haters.” We creatives aren’t impressed. “Aw, lighten up,” Meagher shoots back. Mahoney’s reaction is good-natured but unprintable.

Determined not to let the suits cramp our style, we troop down to Meagher’s office to begin “concepting.” All this means is just thinking out loud. We’re supposed to think of an image, a line or an idea and just say it. Nothing is considered too off-the-wall. Even the lamest idea can spark the other guy’s brainstorm. Art director Meagher, a mild-mannered Midwesterner with a quietly lunatic imagination, props his feet on his drafting table. Mahoney, our senior member, a fast-talking Irishman with a smoky Boston accent and antic wit, sits cross-legged on the floor puffing cigarettes.

We imagine hordes of obnoxious nephews, blue-haired aunts in rhinestone glasses and bottom-heavy brothers-in-law with Bermuda shorts and black socks. Mahoney is sketching out the ultimate visiting relative nightmare: gypsies camped out in the living room, pigs roasting on spits, while the hosts look on in horror. Cute, but it won’t sell hotel space.

Mahoney throws out a line: “It’s that time of year when friends and relatives drop in unexpectedly. And stay.” Meagher eagerly chimes in with a word-picture: in-laws dropping out of the sky in parachutes, with hatboxes, beach parasols, suitcases all part of the airlift. “Honey, it’s the Steinbergs,” says Mahoney getting inside the role. We all like it—but no one can figure out where to go with it.

The rest of the day yields some pretty good lines and amusing images, but none of them are jelling. Mahoney is toying with the line, “Rid your house of pests,” but the suits would never buy that.

Next day Robert Meagher has a flash: Henny Youngman, the comedian. Youngman knows more relative jokes than there are relatives. You don’t really need to see the in-laws when Youngman is reeling off one-liners like: “I don’t know what I’d do without my relatives, but I’d like to find out.”

Great stuff, crisp and precisely to-the-point—“on strategy,” as the suits might put it. We picture Youngman in “white limbo”—the dimensionless white background that gives many modern commercials their spare, uncluttered look—doing 30 seconds of nonstop relative jokes. The problem is, how do we tie Henny Youngman to Residence Inn? More frantic fiddling. Mahoney figures we could use a few title cards with Residence Inn’s message flashing briefly while Youngman keeps talking.

My contributions up to now have been marginal at best—this advertising business is much tougher than it looks. Suddenly, my big moment. Youngman’s signature joke hits me and I pipe up tentatively, “Take your visiting relatives to Residence Inn. Please.”

Bingo. We’ve got it nailed, after only a day or so. After 5:00, we knock off and head for Davis & Main, a local bar where Martinites congregate. The other Martin creatives gathered at the wood-paneled bar love the spot, too. “Brush off the old tuxedos,” says one Martin art director, already talking about the spot’s possibly winning an industry award.

Next week, we proudly run the idea past Michael Hughes, Martin’s bearlike creative director, who instinctively completes the line before we do and starts giggling. Youngman, it turns out, is available and, better still, affordable. We can probably get him for between $25,000 and $50,000, and bring the whole thing in under $110,000—not bad on the cost side.

But before we can meet with the Residence Inn folks, we’ve got to get the spot past the suits. The suits don’t have veto power—Martin likes to give its creatives a long leash. But the suits do know what the clients are likely to buy. The suits have a typical suitly objection. “Love it, love it, love it, but
Marketing

we've got to get the sales message in," says John Boatright, Bartges' boss and a senior account man. Uh oh.

Boatright suggests adding more words so the spot would read something like: "Give your visiting relatives all the comforts of home. Take them to Residence Inn Please." Mahoney, Meagher and I protest bitterly. The extra words throw the pacing off completely, like a Henny Youngman joke with no timing. We appeal to Hughes, who backs us up. But as a concession to the suits, we agree to add the line "All the comforts of home" under the Residence Inn logo at the end of the commercial.

Cruel & unusual punishment?

You don't see many 60-second commercials anymore, and it's tough enough to keep viewers from heading straight for the refrigerator even for a 30-second spot. So what does Toyota do for its new Previa minivan? It creates an eight-minute videotape commercial and mails it out.

Maybe not as crazy as it sounds. Toyota's ad agency, Saatchi & Saatchi, recently mailed some 200,000 Previa videos, many to owners of other Japanese vehicles. [Toyota doesn't bother to check if its targets own VCRS, since most people do.] These people presumably have a heightened interest in Previa's pitch, and they might just sit through the production.

Those who do will see a sort of ad opera. The fragile story line revolves around an upwardly mobile, well-scrubbed family. She's an ad writer whose assignment is to push the new Previa. And while she's mulling over this problem, we see her, hubby and fresh-faced kids as they tool around in the sleek minivan, explaining its features.

Meagher comes away slightly miffed. Meagher hates clutter.

One more group to sell, the big one—the client. We arrive at Marriott's Washington, D.C. headquarters for an 11:00 meeting with Rufus Schrieber, vice president of sales and marketing, Joseph Okon, director of marketing communications, and Paula Butler, head of Residence Inn's public relations staff. We've got Boatright, Bartges, account supervisor Sarah Wood, Meagher and me—Mahoney, the master presenter, is off in Phoenix doing emergency surgery on another campaign.

Meagher breaks the ice. "We looked at the age of the target audience—25-to-49. It's young. Then we looked at the gender profile. Men. Young. Man. Young. Man. We figure, of course, Henny Youngman!" Everyone laughs at that, then Meagher lays out the spot. We know Okon's going to like it. But Schrieber arrived at Residence Inn three months ago. He's an unknown quantity—the scariest kind of person to have in an ad presentation. So when Schrieber breaks into a big grin at the end of Meagher's spiel, we're all immensely relieved. "Neat stuff," says Schrieber.

The commercial is due to be filmed Oct. 9, to air mostly on the CNN and ESPN cable networks during the holiday season. I've already brushed off my tuxedo.—J.L.
In 1860, when Willie Park, Sr. won the first British Open, Allendale had been a loss control champion for 25 years.

Prestwick, Scotland. Thirty-six holes in one day. 174 strokes. Few people thought he had the stamina. But as he approached the final green, they knew history was in the making. And when Willie Park, Sr. became the first person to win The British Open, Allendale Insurance had already been a leader in property coverage and loss control engineering for more than two decades.

In a changing world where events like this shape history, this is our way of reminding you of one progressive, stable company that's been building long-term relationships with clients since 1835. At Allendale, doing something right isn't good enough. We find ways to do it better. Like providing more stable pricing and coverage, better engineering and training, more in-depth research and testing and the fairest ways of doing business.

Isn't it time you started a history with Allendale?
Allendale Insurance, P.O. Box 7500, Johnston, Rhode Island 02919.

Allendale Insurance/Factory Mutual System
World leaders in property risk management since 1835.
While the Gucci family feuded, fashionable ladies began spurning their high-priced products. It’s not easy to restore a tarnished name—or heal a vendetta.

Watch your step, cousin Paolo . . .

By Laura Jereski

For nearly six years Maurizio Gucci fought his uncle Aldo Gucci and his cousins, led by Aldo’s son Paolo, for control of Guccio Gucci SpA, the Milan-based leather goods empire founded by his grandfather.

It was the nastiest of family feuds. Maurizio in 1983 inherited his father Rudolfo’s 50% share of the company and tried to wrest the chairmanship from his uncle Aldo. Uncle Aldo and his three brothers accused Maurizio of forging his father’s signature to avoid paying inheritance taxes. Maurizio fled to Switzerland.

While Maurizio was on the lam, Investcorp, a Bahrain-based group of Arab investors, bought Aldo and his sons’ interest in the company, and by 1988 had 50% of the company. Maurizio had been convicted for tax evasion in absentia, but his jail sentence was suspended. In 1989, after he was cleared of the charges, with the Arabs’ approval, Maurizio moved back into the driver’s seat.

It was a mess. During the feud, Aldo Gucci, eager for wide distribution and easy money, had freely licensed the Gucci name. By the time Maurizio took over, the Gucci name was scrawled on some 22,000 items, even cutlery and glasses; there were five versions of the interlocking GG logo. That logo and the signature red-and-green-striped leather and canvas goods were badly overexposed, the image cheapened. Counterfeitters made the proliferation worse.

Sales in the U.S., Gucci’s biggest
market, had fallen by 25%, to $120 million. New management, aided by Dawn Mello, former president of New York’s Bergdorf Goodman, is now trying to bring back the magic of the 1950s and 1960s, when sophisticated women would be caught dead with a Gucci bag.

To fix things, last November Maurizio brought in Mello, who had overseen the transformation of Bergdorf Goodman from a dowdy store to a fashion leader. Her mission as Gucci’s new product design chief: Restore an image so tarnished that few fashion-conscious women would be caught dead with a Gucci bag.

Gone now are the all-too-familiar stripes. Instead, the new Gucci look is toned down and retro. Just take a look at Gucci’s suede loafer. Women had been buying the men’s shoe for comfort, because the women’s shoe was too narrow for most feet. Mello produced a wider-cut women’s shoe in a panoply of colors, with a burnished brass buckle. It’s been acclaimed everywhere from Vogue to People.

Another hit: a $500 bamboo-handled leather bag—$3,500 in crocodile—which had been absent from the collection since the 1960s. Rescaled to a larger size, it’s “a fantastic idea,” gushes Irene Silvani, editor-in-chief of the French edition of Vogue. Oddball items like tumblers that used to bring in the crowds have already vanished.

But the big test lies ahead. Unlike Tiffany & Co., which under new ownership has made its luxury goods more accessible at lower prices, Gucci feels the only way to save the name is to move higher up the price scale.

Consider the basic handbag. Gucci had been selling a canvas shoulder bag for about $300 that was being knocked off and hawked in front of Bloomingdale’s for a fraction of that. Now canvas, and the few striped styles still left, go to the back of the store. Mello is pushing pigskin, in new designs such as a small fishing bag, a big hit with Japanese buyers at $550 a pop.

Gucci has already pared its product line to some 7,000 items, from 22,000, instead of 350 handbag styles, the company will offer about 100.

Last February Gucci yanked the handbags, shoes and clothes out of all department stores, cutting points of sale to the 60 or so Gucci stores he owns or franchises worldwide. That move cost $35 million in sales.

Dawn Mello has spent hours combing through company archives, as other luxury manufacturers such as Cartier have always done, searching for items for revival. Other design ideas have come from unexpected sources. Maurizio Gucci’s driver showed Mello a coin purse that Maurizio’s father had given him, its clasp made from an antique Roman coin. Mello tracked down the dealer who supplied the coins and plans to reintroduce the design.

The trick will be balancing this nouveau-retro with the suede knapsacks calculated to draw a younger crowd; the average Gucci customer had been over 50. “Now we hope to appeal to a different customer,” Mello says. A $9 million advertising campaign, in such magazines as Vogue and Vanity Fair, features both the classic loafer and a red suede backpack, the two looks reinforce each other and emphasize that Gucci is both classic and with-it.

The ad campaign is just a first step. Gucci and Investcorp, which still owns the other half of the company, will spend $100 million over the next two years to redo existing stores, open new ones and launch the new lines. Of that, $10 million is slated to refurbish the Villa Bellosuardo, a rundown palazzo overlooking Florence that Maurizio plans to turn into a training and manufacturing center. By 1992 he expects to be spending $25 million on advertising.

If things are looking up on the business front, hostilities still simmer on the family front. Aldo Gucci died last May, but his son Paolo, who started the brawl in 1983, could continue the family feud. In 1988 Paolo won the right to a limited use of the family name. He plans to open his first store, selling leather goods under the “by Paolo Gucci” label on Madison Avenue later this year.

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The sickest of the major insurance companies, Equitable Life is out of the emergency ward but still faces a long convalescence.

No more flowers

By Edwin A. Finn Jr.

No more fresh-cut flowers will adorn the Manhattan headquarters of the Equitable Life Assurance Society (assets, $62 billion). Chairman Richard Jenrette, after assuming the jobs of president and chief executive in May, put the kibosh on the Equitable's floral arrangements. Dumping the flowers will save the insurance giant only $50,000 a year, but it sends a signal: Cut the fluff.

Gone with the flowers are Equitable's 13 limousines, complete with uniformed chauffeurs [estimated annual savings, $900,000]. Also gone are the gastronomic pleasures of Room Ten, a luxurious dining room open only to Equitable's senior managers [estimated annual savings, $70,000].

Curbing nonessential expenses like flowers, limousines and charitable contributions will yield about $20 million in annual savings. Reductions in employee benefits should bring a further $50 million. But the biggest savings, perhaps $80 million a year, will come from eliminating operations and paring Equitable's payroll. Several divisions have been merged and about 7% of Equitable's 7,000 strong administrative work force has been dismissed, or will be, by year-end. In all, Jenrette hopes to save $150 million. The savings are badly needed: Equitable's financial performance and capital ratio have deteriorated in recent years.

The big question: Who will Jenrette, 61, choose as his chief lieutenant? On the 48th floor of Equitable's headquarters, Jenrette himself has moved into the office of John Carter, who was ousted as president in May. Robert Barth, executive vice president in charge of insurance operations, has been moved into Jenrette's old offices, just down the hall. This switch is being taken as a sign that Jenrette is giving Barth a chance to shape up the insurance operation, even though Barth was part of the Carter team that presided over Equitable's lavish spending and lackluster financial performance during the past decade [Forbes, Sept. 19, 1988].

People will be watching to see whether Barth comes up with new products for Equitable's 10,000 salesmen to peddle. They will also be watching to see whether he can win the sales force's loyalty.

Jenrette retains the strong support of his many allies in Equitable's investment subsidiaries. They include: John Chalsty, 56, head of the Donaldson, Lufkin & Jenrette brokerage (now owned by Equitable); Dave Williams, 58, head of Alliance Capital Management; and Brian Wruble, 47, head of Equitable Capital Management. In an interview, Jenrette claimed that the sales force is behind him, too: "I recently got 600 letters (from salesmen) in response to a letter I sent out about the changes, and the vast majority were positive."

Jenrette's job won't be easy. The biggest drain on the firm's capital recently has been Guaranteed Investment Contracts, or GICs. Equitable took in billions in pension fund money in the late 1970s from the likes of General Dynamics and GE, promising returns as high as 18%. This became impossible as rates fell in the mid-1980s. The result: Equitable will probably lose $1 billion on GICs.

The good news is that the GIC losses are almost over. The bad news is that now Equitable has to worry about potential losses on its junk bond holdings as well as some shaky loans to real estate developers and Wall Street dealers. Noting these problems, Moody's Investors Service in August downgraded Equitable's claims-paying ability from AA3 to A1.

The downgrading sounds grim. But the fact is, none of Equitable's current problems are likely to have the devastating effect on capital that GICs had. As for real estate, Equitable's $5 billion property portfolio is actually worth about $5.6 billion, according to a recent appraisal. True, the company has some doubtful loans out to developers William Zeckendorf Jr. in New York and John Portman in Atlanta. But Equitable is also sitting on many unrecognized gains. Example: The insurance giant owns a San Jose shopping center carried on the books at $28 million but worth $53 million.

On the junk bond side, Equitable holds an estimated $3.9 billion. If this portfolio is trading like most junk bonds—at a discount of about a third of its face value—it is worth only about $2.6 billion. Regulators could force Equitable to write down these bonds, but such write-downs are likely to be phased in gradually.

Although the insurance outfit will probably suffer losses on highly leveraged deals this year, there don't appear to be any deadly bullets coming. Equitable's operating earnings this year, perhaps more than $100 million, will most likely be wiped out by a $100 million charge for the cost-cutting restructuring and by other assorted hits. But Equitable's capital base—$1.3 billion plus a $700 million reserve—should remain intact. Next year the cost-cutting will take effect, bringing more than $100 million extra to the bottom line each year. Capital should gradually build.

Says Moody's analyst Antony Fisher: "Equitable will not go under. It's just in a transition period of recovering from the GICs."
TRACK RECORD. Deer, turkey and other animals love living in International Paper forests. It's because we manage our woodlands in imaginative ways that benefit man and wildlife alike. Take the methods our foresters use to control undergrowth that competes with trees for water and nutrients. Naturally, they improve tree growth. But they also assure browsing animals a food supply that doesn't outgrow their reach. Thanks to such resourceful practices, the flash of white-tails' hooves and the natterings of wily old gobblers are far more common sights and sounds in International Paper's forests than on unmanaged lands. Many kinds of creatures depend on the land. We're committed to managing the forests we control in the interests of all of them. INTERNATIONAL® PAPER. Use our imagination.
No time for complacency

By Gary Slutsker

One of the big stock market surprises of the late 1980s was the spectacular runup in telephone company shares, once thought of as stodgy investments. After they were created in 1984, the Baby Bells reported impressive earnings growth and began expanding all over the lot: into overseas ventures, cellular radio, and even experimental services like fiber-optic television and electronic Yellow Pages.

Now comes telecommunications analyst Victor Schnee, arguing that the popular perception of the regional phone companies—as innovators bursting with competitive energy but lettered by an autocratic Judge Harold Greene—is all wrong.

Who is Schnee and why is Wall Street paying attention to what he says? A former lawyer for the U.S. Justice Department who tried tax cases—he had nothing to do with the AT&T antitrust suit—Schnee has made a name for himself publishing reports that contradict conventional wisdom about the phone companies. He is now president of Probe Research Inc., a telecommunications research firm in Cedar Knolls, N.J., that counts among its clients AT&T, IBM and Nippon Telegraph & Telephone.

Schnee's argument is that the local phone companies are underachievers, interested more in preserving their monopolies than in building their businesses. He includes in this blanket indictment the seven regional Bells plus GTE-Contel, Centel and some smaller outfits. Their earnings gains, he says, came largely from regulatory changes and tax cuts, not growth or cost-cutting, the high-tech experiments are often public relations stunts, and the diversifications are siphoning much-needed capital away from local business, where investment is declining.

If telephone utility managements don't change themselves, claims Schnee, others will end up doing it for them. "We'll see another takeover wave that will revive Wall Street," he predicts in a newly published 561-page report entitled "Taking Over Telephone Companies."

These companies, he claims, offer juicy takings; market valuations for the Bell companies range from $13 billion (US West) to $25 billion (Bell South). Who could possibly buy them? IBM, maybe. British Telecom already owns about 20% of McCaw Cellular Communications and probably wants more communications ventures in the U.S. Schnee ticks off other possibilities: Northern Telecom, TeleCommunications Inc., the cable TV outfit run by former Bell Labs engineer John Malone, and even buyout artists KKR.

Schnee makes the case that local phone usage, despite all the new services, including faxes, is roughly flat. "Usage is the Achilles' heel of this industry—it isn't growing," says Schnee. Between 1987 and 1988 the number of local calls completed dropped from 379 billion to 378 billion, according to the Federal Communications Commission. "Have you ever heard of an industry where usage of the basic commodity drops and nobody notices it?" he asks. In contrast, the long-distance market has been growing 10% or better a year.

A big part of the phone companies' strategy has been to milk their local regulated business and invest the proceeds in new deregulated markets. Schnee thinks a wiser course would have been to invest in improving their networks with fiber optics and digital switches to add new services like voice messaging or fax broadcasting.

Meanwhile, competition is starting to appear on the fringes of their business. In big cities around the country, companies like Teleport Communications and Metropolitan Fiber are stringing optical fiber that lets customers bypass the local phone company. New technologies, particularly radio transmission of phone calls, will likewise start to threaten a phone company's local monopoly.

At the same time, legal and regulatory barriers to competition in local phone service are starting to crumble. Schnee points to a little-known FCC decision in 1988 that could easily become a precedent. The FCC ruled that an Arco laboratory in Plano, Tex., had the right to bypass the local phone company, a unit of GTE Corp., and hook up its 2,000 employees to phone lines purchased from Southwestern Bell in Dallas. GTE contested, the move, and the FCC ruled in Arco's favor. GTE claimed the FCC violated Texas utility regulations, but acquiesced in the decision after it lost on appeal.

In the future, Schnee says, people will be able to choose among competitors for local phone service, as they do now in long distance. Initially, an enlightened Bell top executive may create his own competition by selling off a portion of territory. Then he could begin nibbling at the edges of a competing Bell company. Bypassers would connect customers to their networks using radio links or by digging up sidewalks and attaching fiber optic cables.

Farfetched? During the early 1970s it would have been unthinkable to suggest that by 1990 AT&T would lose 30% of the long-distance market and half of the central office switch business. It seems equally unthinkable today that the Baby Bells and their competitors could ever lose their local markets. Warns Schnee: "This is an industry where the unthinkable is what has happened."
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Computers/Communications

The mind can see better than it can count. And so computer graphics may help people see what is not visible in a column of numbers or a stack of ledger pages.

Data and vision

By Kathleen K. Wiegner

In 1865 the German scientist Friedrich Kekulé had a dream in which he saw a snake biting its own tail. This image gave Kekulé an inspiration. He saw that the molecular structure of the chemical benzene has a ring structure, an insight that is of fundamental importance to modern chemistry.

Kekulé’s dream has drawn the attention of scientists today as an example of the kind of visual thinking that may keep them from being overrun by the numeric data spewed out by satellites, supercomputers, workstations and scientific instruments. What if the information hidden in these columns of numbers could be represented visually—like Kekulé’s snake—so that the meaningful patterns jumped off the page?

The idea that a picture or even a color is worth a thousand bytes is not new. The green-yellow-red warning systems used in nuclear plants and...
In the mind's eye

Computers are excellent devices for the analysis of complex atmospheric and oceanographic phenomena. They can digest thousands of bits of data and compute a solution to thousands of equations. But how does the weatherman digest that solution? The output is a blizzard of data itself: predictions of temperature, wind speed and moisture density, and how these conditions change over time. The software sold by Wavefront Technologies aims to make the meteorologist's job easier, by translating

Visualization: The Second Computer Revolution that computers can change numbers into pictures will have as great an impact on society as the personal computer.

Friedhoff's claim may be a bit hyperbolic, but it is undeniable that the PC has already unleashed an explosion of charts, diagrams and overhead projections from authors who, in the era of the typewriter, would probably have limited themselves to words and numbers.

The human vision system is itself a powerful computer, taking up about 50% of the brain. Why not enlist this visual system to help solve intellectual problems? Friedhoff argues that by restructuring problems into pictures computer users can process more information and be more creative. We can think with the visual part of the brain.

Computer visualization has already changed the way architects, graphic artists and product designers work. Now Wavefront Technologies, a small Santa Barbara, Calif. software company, is bringing that same capability to scientists, mathematicians and engineers.

Wavefront was founded in 1984 by three young men: Lawrence Barels, a marketing and communications major from Brigham Young University; Mark Sylvester, a Santa Barbara artist interested in computer-generated art; and William Kovacs, who had worked on the computer animation for the Disney science fiction movie Tron.

About this time Silicon Graphics had just delivered a desktop computer capable of turning out the three-dimensional graphics that had previously been available only on mainframe computers. What Silicon Graphics needed to make its hardware a success was some software to convert mundane information from text and numerical formats into three-dimen-

Comp/Comm

factories alert operators to potential problems better than streams of numbers on a screen. That we see animal shapes in clouds and meaning in ink blots is further evidence that our visual system has a powerful capability to organize even random information into meaningful patterns.

This insight is behind a flood of books on chart making. For a chart is nothing more or less than the visual representation of numbers. Edward Tufte, a professor of graphics and statistics at Yale University, has just published Envisioning Information, a book about how to convey data graphically. Richard Mark Friedhoff, director of planning for University of California, Riverside's Interactive Visualization Laboratory, argues in his new
the mathematics of a simulated storm system into color pictures from different angles. Different colors represent different water densities. Tracer ribbons injected into the storm inside the computer show the path, twist and speed of air movement through the storm. The transparent outline shows the "isosurface," or surface of constant rainwater density. By the time the simulation is complete, the computer will have generated millions of numbers and sorted them into meaningful visual patterns. The third picture shows another application of visualization software: the ocean's eddies of water. The multicolored shapes represent different water temperatures at different depths.

sional color pictures. That's where Barels, 42, now Wavefront's chairman, saw an opportunity. With some money from the founders and some local backing, Wavefront delivered its first product in 1985.

Broadcasting turned out to be Wavefront's first big market. "Broadcast demanded the highest complexity of images," says Barels. "Today you can't turn on a tv set without seeing our product." Examples: the ABC News logo, the dancing Coors beer cans, the NBC Sports' opening and Mattel's Hot Wheels commercials. All are turned out using Wavefront software. Architects, product designers, doctors and computer artists have made Wavefront the dominant vendor of software for creating three-dimensional graphics. This year Wavefront, still a private company, expects revenues between $14 million and $15 million.

Recently Wavefront turned its attention to the complex non-geometric problems encountered by scientists. Using Wavefront's new Data Visualizer, scientists can create "artificial realities." Such things as thunderstorms, eddies of ocean water (above) and tiny molecules are simulated on a computer screen. As new data points come in, the Data Visualizer updates the picture. Colored particle traces or ribbons can be inserted into the simulation to track air flows or water temperatures at various depths. The simulation can be sliced along various planes for viewing the data from different angles. A researcher can ask "what if" questions.

What all this means is that the interaction of things that are too remote or too complex to be tested in a laboratory can be tested on a computer's screen.

Even something as abstract as a computer program can be visualized. Two different algorithms used to sort a list of names alphabetically work with data very differently, something that is almost impossible to discern from a printout of the two programs. But if each algorithm were demonstrated with a rainbow of colors mimicking the sorting process, it would be instantly obvious how they differ.

"The purpose of a computer is insight, not computation," says Barels, who has had inquiries from an investment firm about using his software to track index arbitrage.

Barels aims to have his software endow an ordinary scientist or researcher with some of the powers of visualization that a great artist has natively. "Leonardo da Vinci could draw things that never existed, except in his head," Barels says, referring to the artist's drawings of scientific contraptions, such as an early version of a helicopter. Wavefront software won't turn an arbitrager into a Leonardo, but it might make him more creative.
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Ever wanted to throttle your computer for being so literal-minded, so picky? Why can't it figure out what you want to do?

Mindreading software

By David Churbuck

If you are the type to get angry with inanimate objects, you probably have on occasion wanted to take a sledgehammer to your computer keyboard. Perhaps, desiring a directory of the files stored on a disk, you meant to type the disk operating system command "dir," but typed "dor" instead. When you do that, DOS spits back the message "Bad command." Why can't the computer figure out that the only three-letter command that begins with a d and ends with an r is the one that lists the files? Why, if microprocessors are so smart, are they so stupid in some ways?

What you need is a fuzzy DOS, which would understand imprecise commands. Such a product is evidently not yet on the market, but perhaps one will be someday soon, if a new type of user-friendliness takes hold. The approach is called DWIM, for "do what I mean."

DWIM-inspired software accepts misspelled and imprecise names or commands or even scribbles, making plausible guesses about what the user intended. Among the companies selling or developing programs with DWIM features are Axon, which is working on sketch-making software; Franklin Electronic Publishers, which sells a "Friendly Finder" program that hunts a database for the name that most closely approximates the incorrect one you typed out; and Go Corp., which is developing software to read handwriting.

Seattle-based Axon is the creation of Jeremy Jaech, 35, a programmer who helped create Pagemaker, the desktop publishing program that turned into a big winner for Aldus Corp. Last year Jaech left Aldus to form Axon, which is developing a drawing program for the sloppy drawer. There are, to be sure, a multitude of drawing programs available. But most are too powerful, too precise for the casual user to master. If you draw a ragged circle with a mouse on one of these programs, that's what you get, a ragged circle. Or, you can order up a perfect circle, but in doing that you quickly become entangled in a confusing blur of "tools," pull-down menus and double-click mouse commands. Jaech's idea: a program for the unartistic, one with less flexibility but more tolerance. It will automatically transform a rough sketch into a polished one, smoothing jagged arcs, aligning boxes that aren't aligned and connecting boxes into organizational charts. Similarly: Vellum, a design program from Ashlar in Sunnyvale, Calif., calculates midpoints of lines and assists an engineer with tasks such as drawing perfectly equilateral triangles. You can be sloppy, but it will be precise.

This all fits into a concept called "constraint-based programming." In
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WHAT TO DO WITH THAT STACK OF RÉSUMÉS

If you've got a job opening to fill, you probably get a pile of résumés either from a personnel department or from an outside company performing the same function of screening applications, checking references and so forth. The problem is that talented workers don't stay on the market very long. The way to win this game, then, is to catch the good résumés faster than the next guy, to put them through the process quickly.

This was the situation that confronted Steve Leung, then an engineering manager at TRW/ESL's artificial-intelligence research center in northern California, when he was looking for engineers three years ago. One day he walked down the hall to his personnel department to complain about all the no-longer-available replies he was getting when he followed up on the department's leads. Four people were sitting in a room reading résumés from foot-high, weeks-old piles.

A year later Leung started Resumix in Santa Clara, Calif. to develop résumé-tracking software. His funding came from purchase orders from workstation maker Sun Microsystems and chipmaker Advanced Micro Devices, with a $2.5 million supplementary dose from venture capital firms.

The Resumix system scans the résumés, using optical character recognition to pick up name, address, number, education, job titles and employers. Then it looks for relevant experience—computer languages, varieties of consumer goods, whatever—and classifies candidates into job categories defined by the customer according to its industry.

Overall, its goal is not to be completely accurate [people aren't either] but to be fast and consistent and thorough, and to give every job hunter the same treatment.

Once the user gets some matches—he can adjust the number by tightening or loosening the criteria—he looks at the scanned image of each résumé. This image takes up much more space in the computer than the bare facts it sets forth, but the visual detail can be telling. Sometimes there's information in the way an applicant lays out a résumé or spells its words, or even in the fact that he used a résumé service. Also, some factual detail on the résumé is not captured in the main database, such as the fellow's sky-diving hobby.

Resumix delivers reports of hiring statistics and success rates by source of candidate or other criterion useful internally and for equal opportunity reporting. The software can also generate customized form letters complete with a scanned-in signature.

The system has already allowed BankAmerica to shrink its personnel staff by an undisclosed but real amount. Better yet, managers at fast-growing Sun are hooking into the system directly—a snap, given that most of them use networked Sun workstations.

The artificial intelligence in the system is not deep, but it doesn't have to be. Its most valuable function is to assign people to job categories, overcoming the fuzziness introduced by creative résumé writing. The software must go a little beyond finding synonyms, and understand jobs that involve combinations of skills.

The recruiter using Resumix tells it what job categories he's interested in and can add other criteria—companies, computer languages, kinds of goods, countries and so on. But the value of the system depends on the appropriateness of Resumix' job classifications. These are now best for electronics or computer jobs. Other industries should come with time as Resumix gets a broader customer base and builds from experience. The system has its limits. It can easily miss the talented but unconventional person. A company would doubtless have slotted a middle-aged Abraham Lincoln or Henry Ford as a loser.

Resumix' closest competition is MicroTrac of Newton Highlands, Mass., which recently added scanning capabilities to a personal computer-based applicant-tracking system it has been selling since 1983. MicroTrac doesn't bother with the job coding or images; it simply gets the basic facts to put into a database record, and then lets users do full-text searches to find what they need. That makes it better for people who don't trust computers to make too many decisions or who like to hire one-of-a-kind, uncategorizable people. But MicroTrac is less useful in matching new résumés to open jobs or sifting through a large stack of résumés for a manageable subset to be looked at individually. Among MicroTrac's customers: American Express, Avon Products and Travelers Insurance. Among Resumix': AT&T, Disneyland and Digital Equipment [on DEC stations].

Cost? A Resumix installation could start at $60,000, with a single workstation. The MicroTrac system starts at $20,000 and can run on the slower desktop equipment that the typical user is more likely to have sitting around.

People are likely to start with a system such as MicroTrac's, which simply helps keep things organized. But a further payoff comes with the use of high tech to do the categorization automatically, so the right résumés can flow more quickly to the people doing the hiring. I'm not suggesting that you'd ever want a machine to make the hiring decision, but a machine can certainly help speed up the routine work so the human can do his part more quickly.

Esther Dyson is editor and publisher of the newsletter Release 1.0.
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Environmentalists fought off Monsanto's first two biotech innovations for the farm. This time around they grudgingly concede that biotech is better than the alternative.

The lesser of two weevils

By Claire Poole

William Pearson, a cotton farmer in Webb, Miss., nearly lost an entire field of crop around the early 1970s to a tiny 14-legged pest called a tobacco budworm. Today, like most cotton farmers, he is fighting an all-out war against the little critters. He engages in insecticide bombing of his fields as often as seven times a year. "I've been through this thing once, and I don't want it to happen again," Pearson says.

He's not alone. Every year, U.S. cotton farmers dump 100 million pounds of agricultural chemicals on their crops. Around 15% of these chemicals are used to battle insects. Cotton farmers are the top users of insecticides in the country, employing 40% of the total sprayed on crops.

This infuriates professional environmentalists. "Insecticides are poisonous to farm workers, they kill honey bees, they kill other insects that affect the food chain, they kill ducks, fish, the bald eagle, they affect habitat," complains Jane Rissler, a biotechnology specialist with the National Wildlife Federation.

Maybe so, but farmers have to live—and the world needs cotton. How do you get farmers to stop using all those insecticides? St. Louis-based Monsanto thinks it has the answer. On a 1½-acre field outside Texas A&M University in College Station stand rows of 5-foot-tall, half-eaten cotton plants that have been a feast for insects. Next to these sorry plants is a patch of identical crop whose bilowy, white cotton bolls seem untouched by pests. These plants were genetically engineered to fend off bollworms and budworms.

Four years ago bio-Luddite Jeremy Rifkin fought so hard against a field test of soil bacteria designed to protect corn from worms that Monsanto eventually just walked away from the research. The Rifkinites have also had considerable success suppressing Monsanto's bovine somatotropin, the cow protein hormone that boosts milk output.

But this time around Monsanto's bug-resistant cotton is getting raves from environmentalists. Even Jim Hightower, Texas' populist agriculture commissioner, long a vocal opponent of agricultural biotechnology, was impressed after he visited the Texas A&M field trial this summer. Quoth he: "The development of pest-resistant cotton illustrates how the right kind of advances in biotechnology can benefit both farmers and the environment."

Monsanto hopes its new cotton will allow farmers to reduce insecticide usage by 60% to 80%. That would more than make up for the increased cost of the seed. While seed costs could nearly double on average, from around $8 an acre to $15 an acre, still, the treated seed could save cotton growers as much as $30 an acre per year on insecticides. (Monsanto, a leading supplier of agricultural chemicals, is not cannibalizing its business here. Roundup, its biggest seller, is an alternative.)
toxin in the bug's stomach, causing paralysis and death. (The toxin doesn't kill boll weevils, but those pests are a big problem only in some regions.) The microbe is harmless to other insects, animals and humans, which is why it's been a major ingredient in insecticides for home and commercial gardens for more than 20 years.

Cotton farmers could spray the microbe on their crop. But it would be expensive: B.t. washes away with rainfall and inactivates with sunlight, so multiple applications would be needed. Instead, researchers at Monsanto have taken the protein gene from the microbe and inserted it into the genetic structure of the cotton plant. That way, the plant itself emits the lethal protein.

An earlier effort by Middleton, Wis.-based Agracetus to create bug-resistant cotton foundered, but Monsanto achieved success by synthesizing the gene to make it more plant-like and inserting it into the cotton DNA (deoxyribonucleic acid). Final results of the test won't be available until November, but so far the trial looks like a success. "This time, it worked," says John Jenkins, a USDA geneticist who ran last year's Agracetus trial as well as Monsanto's trial at Mississippi State University in Starkville. Monsanto has had similar results at field tests in Alabama, Louisiana, Arizona and California.

If the product passes regulatory hurdles by the Environmental Protection Agency, Monsanto hopes by 1995 to begin marketing the cotton to seed suppliers, which will pay royalties to Monsanto. The next step would be to develop corn and potatoes incorporating a similar gene. Potatoes are already being tested in the field.

Meanwhile, back in Mississippi, cotton farmer William Pearson is willing to try anything. With the tobacco budworm now showing resistance to some commonly used insecticides, he fears another near wipeout of this crop. Pearson: "We need something desperately." It seems that a rescue is imminent.
UP STOCKS IN A DOWN MARKET

Even in depressed markets such as we have been having, on any trading day there will be stand-out performers, stocks that rise against the trend. A computer can be used to scan the market for such exceptional performers. Against a backdrop of steadily deteriorating financial markets during the crisis period of the past two months, certain groups and issues have nevertheless been climbing. Some of them will continue to do well. Some won’t. To help sort out which is which, it is useful to compare longer-term performers with short.

Consider first the short-term gainers—stocks enjoying sudden price runups of perhaps a week’s duration. With a computer scan one can easily identify the hottest current “idea” stocks—issues that seem attractive precisely because they stand to gain as the price of oil rises. We used the database of Tele- scan in Houston.

Recently, popular idea stocks included Landmark Graphics, a geo-physical analytical software firm (up 16% in one week), and a number of companies with geothermal energy or energy-from-waste recovery technologies (Ogden Projects, California Energy and Magma Power are examples). I have no objection to the specific thinking behind these energy plays—but idea stocks are typically marketed with great vigor by the brokers. As a result, the value of the idea (even if a great idea) tends to be quickly and fully incorporated into the market price of the stock.

But when you look for stocks that have been steadily rising over a six-week period, the idea stocks of the moment tend to fade back out of the picture. Now you get a different list. This one contains the more consistent and (in my view) sustainable performers.

On the basis of such a longer-term scan, the top ten rebound stocks in the science and technology group are listed (see table), along with their gains over the past six weeks. One pattern that is quickly apparent from the list is strength in the pharmaceu- tical and medical stocks. All but three (Borland, Novell and ECI) of the winners fall into this category. This is the market’s automatic defensive reflex. Medical stocks are widely regarded as a bastion of strength in troubled economic times, and indeed they are.

Elan, the top performer (up 26% in the six weeks), is headquartered in Athlone, Ireland. The ADR trades here on the Nasdaq. Elan’s new product, Verelan, licensed to Lederle for U.S. distribution, is moving this stock. Its active ingredient is an antihypertensive that is already widely prescribed (verapamil, a cal-

Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm, and editor of The Top Ten, its weekly computerized newsletter on investments in science and technology.
Metallurgical Masterpiece

High integrity castings of lightweight metal alloys are essential to the design and operation of today’s new generation of jet aircraft engines.

Typical of the intricate shapes and metallurgical complexity of these components is this magnesium alloy support frame sand casting (above), for the Textron Lycoming ALF 502 turbofan engine. This casting was produced by Fansteel’s Wellman Dynamics operation; and is one of many achievements the company has pioneered in support of major programs in the aerospace industries.

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The number of American visitors to London keeps rising, undeterred by the city’s skyrocketing hotel and restaurant prices.

London on $500 a day, maybe

By John Marcom Jr.

On a clear day the views of the Thames River from the Savoy Hotel are so breathtaking Claude Monet filled 75 canvases with them. Today you can stay in the same fifth-floor rooms Monet painted from at the turn of the century, but at strictly late-20th-century prices. A room at this inn costs around $500 per night with a river view, or about $350 without.

Yes, London is expensive, especially for Americans, with the pound recently nearing $2. Yet so far the prices seem not to have had the chilling effect on Americans one might have expected. In each of the past three years the number of U.S. visitors to the U.K. has increased, rising to 2.75 million last year. For the first half of 1990 there was another 16% jump. British Airways says bookings still look strong for the fall season. Moreover, demand for the best hotel rooms and restaurants in town is brisk from other Europeans and Asians—to whom sterling prices don’t look quite so astonishing.
even with other fine London hotels. Expect to pay $350 to $500 for a twin at the Connaught, the Berkeley, Claridge’s, the Ritz, Grosvenor House or the Hyatt Carlton Tower, which, after a lavish sprucing up a few years ago, offers a penthouse gym with a pleasant Chelsea view. (Probably London’s best in-hotel health club is at the Meridien, near Piccadilly Circus.)

For the same money, smaller hotels opened in recent years offer service and comfort comparable to grand dames like the Savoy, but with an altogether different feel. There’s the Halcyon, for example, in prime residential London near Holland Park. To the south, near the antique dealers of the Fulham Road, Blake’s makes up for small rooms with exotic decor, excellent cooking and well-appointed baths.

Other possibilities include the Beaufort, close to Harrods, and the Draycott, a short stroll from Sloane Square. The latter offers what even it says is a “tiny” single for about $150 a night. (Some guests have complained about the food, however, available only through 24-hour room service.)

No such problems are encountered at 47 Park Street, an all-suite hotel close to the U.S. Embassy in Mayfair. One-bedroom suites start at about $550, with 24-hour room service from the downstairs kitchen of Le Gavroche, the only London restaurant with a top three-star rating from the exacting Michelin Guide. Staying upstairs may be the easiest way to eat downstairs. Usually, Le Gavroche is reserved three weeks in advance for dinner, a week ahead for lunch. (Another sign of the times: In 1982 our advice was to book dinner three days ahead.)

Similarly, book very early for other top restaurants like Chez Nico and La Tante Claire.

But don’t overlook your hotel dining room. Especially recommended: the restaurant at the Connaught, the Chelsea Room at the Carlton Tower, and the Meridien’s Oak Room.

For an indelible experience, consider an excursion. In Bray, on the Thames barely a half-hour past Heathrow Airport, is the Waterside Inn, another three-star outpost of the Roux family of Le Gavroche.

Just a little further out, about an hour’s drive in off-peak traffic from Central London, is Le Manoir aux Quat’ Saisons, in the Oxfordshire village of Great Milton. Chef-proprietor Raymond Blanc is still trying for his third Michelin star, though other critics recognize him already as the best in Britain. Beyond the mansion, dating from the 15th century, are gardens where Blanc raises many of the herbs and vegetables used in his kitchens. At weekday lunch there’s a set menu at about $50 (excluding wine), but otherwise a meal with appropriate wine costs nearer $200 a head.

The recently opened Hanbury Manor tries to blend the country house with the country club. Under the management of Rockresorts, the U.S. hotel company, the hotel is about 20 miles north of London in Hertfordshire. With 98 rooms, its grounds include parkland, formal gardens and a nine-hole golf course [nine more will be added next year]. There is also a complete health spa. Food is under the supervision of Le Gavroche’s Albert Roux, who recruited experienced chefs and staff from highly regarded London restaurants. Meals are served in baronial dining rooms in the original Victorian mansion. Dinner for two, without wine, runs about $190. Double rooms start at $250, including breakfast.

After indulging at Le Manoir or
Hanbury Manor, you may be ready for
the simpler virtues of Clarke's, back
in London amid the antique stores of
Kensington Church Street. For a flat
price of about $60 at dinner—including
tips, cover charge, and coffee—
Sally Clarke serves a set four-course
menu that changes daily, depending
on what's freshest.

This fall's hot spot is the Ivy,
opened earlier this year by the owners
of Le Caprice. Both offer eclectic cui-
sine, served with panache, and some
of the best star-gazing in town. At the
moment the Ivy is much more likely
than Le Caprice to have a table on
short notice, but as its popularity
grows so will the wait.

Word has yet to spread about nearby
L'Hippocampe, a seafood-only restau-
rant opened early in the summer. The
smart decor illustrates Soho's ongoing
makeover from sleazy red-light zone
into fashionable media hangout.

Also handy to the theaters, with
food that sets it apart from its tourist-
trap neighbors, is Orso, an Italian res-

taurant run by the Yanks who run the
local clone of Joe Allen around the
corner. The pasta is good, the pizzas
great, the style forthright. Celebrities
also are usually plentiful. Orso, the
Ivy and Joe Allen all take orders until
late, even on Sunday—uncommon in
London.

Other possibilities include Le Café
du Marché, a charming restaurant
serving French fare in Charterhouse
Square not too far from the heart of
the City; Au Jardin des Gourmets,
an established Soho standby with an ex-
ceptional wine cellar; and Launceston
Place, hidden away at the end of a
dead-end residential street in Ken-
sington with a menu that celebrates
good English food. The homesick will
find passable hamburgers and a down-
to-earth atmosphere at Wolfe's, with
two branches in central London. And
if for some reason you hanker for Cali-
fornia food, now there's Columbus,
opened last year in Knightsbridge by
two American brothers.

After feasting, burn some calories
by indulging in London's greatest pas-
time, walking. Each year more back
streets in central London are being
closed to cars—tougher on traffic but

more pleasant for pedestrians. Smart
boutiques and galleries have sprouted
all over. The three-in-a-row shops of
Paul Smith on Covent Garden's Floral
Street are worth a browse. They repre-
sent to contemporary Britons what
Savile Row does to the tradition-
bound: the epicenter of style in men's
clothing and accessories. (Smith's
ready-made suits run from around
$900 to $1,400; Savile Row tailors
such as H. Huntsman now charge at
least $2,500 for a bespoke suit, rough-
ly double the 1982 price.)

On Saturdays kids throng Chelsea's
Kings Road, as they have since the
1960s. More discerning shoppers head
for Sloane Street and the Brompton
Road, where most famous designers
have their London outlets, or the
nearby junction known as "Brompton
Cross," with its centerpiece, the very
stylish Conran Shop.

Londoners of late complain about
Harrods, perhaps because of the well-
publicized background of its current
owners, the Egyptian Fayed brothers
(see Forbes, May 1, 1989). But the
Fayed have lavished millions on the
place, and the store's hallowed halls
gleam as they haven't for decades.

Charmingly dowdy as ever is that old
British stalwart, Fortnum & Mason,in
Piccadilly. Just follow the Japanese
tourists. The store's in-house eateries
serve good Welsh rarebit and great
rum-raisin milk shakes.

Even fusty bookstores have fresh-
ened up. Foyle has been outclassed by
a revamped Dillons, on Gower Street,
and Waterstone & Co., with big invit-
ing stores scattered around town that are open
late.

You can, of course, stroll through miles of
museum galleries. Monet's series paintings,
including some made during his stays at the Savoy, are
on display at the Royal Academy until Dec. 9.
The Courtauld Institute's Old Masters moved this
year to grand quarters in Somerset House, halfway
between Trafalgar Square and St. Paul's. The Tate
Gallery reorganized its collection this year; a few
years ago its Turner hold-
ings moved into a wing of their
own. New at the
British Museum is a Japa-
nese gallery.

As for theater, this year promises no new block-
buster musicals to join the
forever-running Lloyd
Webber shows or Miss Saigon. But
among new productions are Stephen
Sondheim's Into the Woods and a revi-
val of Noel Coward's Private Lives, fea-
turing Joan Collins of Dynasty fame.

Nightlife remains the least of Lon-
don's charms. The Dorchester will
resume its traditional after-dinner danc-
ing when it reopens. Jazz fans still head for
Ronnie Scott's in Soho. And the
swank private clubs, like Anna-
bel's in Berkeley Square, live on.

A recent reform of England's pecu-
liar licensing laws allows publicans to
stay open all afternoon, except on
Sundays. But they must shut their
doors at 11:00 p.m. At the appointed
hour, unpleasant throngs of inebriates
stagger forth into central London.

Buses and subways stop about an hour
later, and taxis vanish. Plan on a late
dinner, then head back for a good
night's sleep. You won't miss much.
India remains the oldest source of diamonds. Since first unearthed between the Godavari and Krishna rivers, the cherished diamond has been considered a harbinger of victory and an emblem of fearlessness. Hindu writers believed that if a flawless diamond were offered up to the gods, the donor could attain Nirvana. Through the centuries, the diamond remains among the most treasured and costly of time-honored stones. Yet isn't it worth it for the woman you love? A diamond is forever.
Collectors

In April the famous illustrator and sculptor Erte died; he was 97. But the assembly lines that mass-produce Erte art roll along, and the promoters insist that the best prices for the artist’s works are still ahead.

The Erte market

By Christie Brown

When Norton Herrick, a successful Florida real estate investor, flew to San Francisco in 1986 to buy a movie theater, he happened into the Dyansen Gallery off Ghirardelli Square. Herrick didn’t know much about art, but he liked some small sculptures by the Art Deco artist Erte (1892-1990). Two days later, Herrick, who had never heard of Erte before, went home to Boca Raton with 42 Erte sculptures bought from Dyansen for $250,000.

Once bitten, Herrick pressed on. In all, Herrick, 51, has amassed over 100 Erte sculptures. He has at least one example of each of the 64 Erte sculptures manufactured and sold in limited editions by Dyansen over the past decade. “I wanted the entire collection or nothing at all,” says Herrick.

The sculptures, all willowy women about 2 feet high, bedeck every room in Herrick’s house, from the bathrooms to the bar. Total cost: about $600,000. Herrick figures that to duplicate his collection now would cost about $2 million, using the prices at any of the 18 Dyansen Galleries, from New York to Tokyo.

Impressed with the Dyansen Galleries’ locations and marketing savvy, Herrick made a deal with the gallery in 1987 to market works by another popular artist, Leroy Neiman. The investor paid Playboy Enterprises, Inc. $3 million for the 160 original Neiman paintings that used to adorn Playboy clubs. Herrick kept six of those paintings, including “Hugh Hefner with Bunnies.” The rest have been offered for sale through Dyansen, priced between $50,000 and $300,000. About 50 have already been sold. He and Dyansen expect to make $5 million by the end of the venture.

Herrick also decided to become a major investor in Dyansen Galleries. Since 1988 he has accumulated 12% of the thinly capitalized company’s 6 million shares (recent o-t-c price, $1). But his biggest art investment hopes are with his Erte collection.

That Erte should become almost a household word is a credit to a shrewd promoter, rather than to the artist himself. Born Romain de Tirtoff in St. Petersburg 11 years after Picasso, Erte chose his sobriquet [his initials in French] soon after moving to Paris in 1912, where he designed fashions for couturier Paul Poiret.

When Poiret closed up shop during World War I, Erte found work across the Atlantic drawing covers for magazines like Harper’s Bazaar, which put him under contract from 1915 to
1937. He also designed costumes and sets for shows and reviews like the Ziegfeld Follies, the Folies Bergères, and Scandals, by George White. He even worked on William Randolph Hearst’s 1920 film “Restless Sex,” starring Marion Davies.

Meantime, Erte was also doing ads for Holeproof Hosiery, Henri Bendel and I. Magnin. In all he turned out 20,000 gouache paintings used in ads, theater productions and publications.

But it wasn’t until 1967, at the age of 75, that Erte got an agent, Eric Estorick. Owner of London-based Sevenarts Ltd. and of Grosvenor Galleries in London and New York, Estorick was the marketing genius who turned Erte into an industry.

In 1967 alone, Estorick organized five gallery shows of Erte’s work in the U.S. and Europe to heighten his respectability. Two big buyers were London’s Victoria and Albert Museum and New York’s Metropolitan Museum. That assured his stature as a fine artist.

At Estorick’s suggestion, Erte then went into the print market, designing over 300 works, usually produced in signed editions of 300. Published originally by Estorick’s Grosvenor Gallery, they were later licensed to Chicago’s Circle Fine Arts and then to Chalk & Vermillion in Greenwich, Conn. These prints included his famous alphabet series, in which letters are formed by sinewy females, bent into contorted shapes. Later came licensing deals—scarves for American Express, sportswear for Neiman Marcus, brandy bottles for Courvoisier.

Sufficient to say there is a lot of Erte artwork around today. But so far demand has more than kept pace with this supply; prices even of signed prints—some 90,000 were made—are on the rise, especially in Japan. Tokyo galleries routinely sell them for $4,000 each. Original cost to the publishers: about $200.

So brisk is the trade in Erte that there are even discounters. They can easily be found in the arts advertising section of major newspapers and magazines. Take Sherrie Boland, owner of the Metropolitan Gallery in Los Angeles, which advertises weekly “in over ten newspapers from Hawaii to New York. Promises Boland, “I’ll sell any work by Erte for about 60% of the retail gallery price.”

The discounting doesn’t concern Dyansen. “Most people would rather deal with a credible gallery than a voice from a newspaper ad,” says Harris Shapiro, president of Dyansen. There are plenty of fake and stolen Erte pieces around, complete with phony certification. Dyansen, says Shapiro, guarantees what it sells.

Since 1980 Erte’s major project was designing a series of 67 sculptures Estorick licensed to the Dyansen Gallery. Dyansen has so far manufactured, and his wife, Sawako, succumbed to the lure of Erte sculpture in 1987 at the Dyansen Gallery on Rodeo Drive in Beverly Hills. Sawako was looking for something for the house and liked an Erte she saw. Her husband spent two days culling information from galleries—and promptly bought 24 of the sculptures for $130,000.

He didn’t stop there. Cheng, 39, has since spent over $2 million on Erte works. “If not a Picasso, I think Erte could be another Warhol,” he says. “But the supply is better controlled, much like De Beers with diamonds.”

In all, Cheng owns 150 sculptures, 60 gouaches (opaque watercolors) and 30 signed prints. He does all his buying in bulk—such as his purchase from Dyansen of 24 gouaches for $630,000. “The galleries give discounts of 15% or so for purchases of more than a couple of hundred thousand dollars,” he explains.

Cheng reckons the replacement value of his collection is about $5 million, if sold all at once, he might get $3.5 million. But Cheng isn’t anxious to sell. “This is the best liquid investment I know,” says Cheng, “It’s much safer than shipping.”

Cheng is betting, of course, that lots of people will continue to pay many thousands of dollars for each of the tens of thousands of pieces comprising the Erte market. Will greater fools in adequate numbers materialize? They might, but it’s doubtful.
Do you sincerely want to be funny?

By Dyan Machan

Gene Perret was waiting for his flight to take off, only half listening as the flight attendant began reciting the safety instructions. Suddenly Perret's ears perked up. "There may be 50 ways to leave your lover," the attendant said, "but there are only 5 ways to leave this airplane." And then: "Please return your seat to its upright and most uncomfortable position. Later you may lean back and break the knees of the passenger behind you."

Perret, who has been writing for Bob Hope for 21 years, uses this story to make a serious point: In public speaking, humor can grab the audience's attention and get a message across. Some people can't tell a joke to save their lives, says Perret, but everyone can learn to use humor more effectively. The secret is developing your own style, learning a few tricks and taking the time to practice.

The first step Perret recommends is building a comedy collection. Find 25 jokes, asides or stories that you find funny and jot them down in a notebook. With these to analyze, you'll uncover patterns and discover your own taste. Then figure out if you do best with stories, like Bill Cosby, or with one-liners, like Johnny Carson. Whatever you do, Perret says, don't try to be what you're not. Matching people with the wrong material is "like teaching a pig to sing," Perret says. "It not only wastes your time, it annoys the hell out of the pig."

The night before a big speech is not the time to look for comedy material. Better to search for humor on a regular basis. Joke books are okay, but Perret recommends looking for material from your own memory. Your family, for example, is probably funnier than you think. Perret tells a story about helping his daughter with a kindergarten assignment to recite a poem. When he offered to write one for her she said, "No, dad, this is in front of the whole school. I'd rather it be good." Nothing puts people more at ease than this brand of self-deprecating humor.

Magazines and newspapers are also good sources for humor. Comedian Jay Leno, for example, gets ideas from the morning paper. Perret likes the "Morning Briefing" column in the sports section of the Los Angeles Times. That, he recalls, is where he first spotted Casey Stengel's directive to his players at spring training, "All right, everybody line up alphabetically according to height."

After you have your material, Perret advises, adapt it to your style and speech patterns. Perret complains that many young comics today learn their trade at local comedy clubs and all end up sounding alike. The material has to be put into the speaker's own words. W.C. Fields loved multisyllabic words and the stilted sentence—"What contemptible scoundrel stole the cork from my lunch?" Someone like Bob Hope would skip the phrase "contemptible scoundrel," and go for a simpler word, like "jerk." That's his style. And if you use a speechwriter, it is imperative that the writer know and internalize your personal style as much as possible.

Material should also be adapted to
"My husband and I always worked together. Now that he's gone, I need help managing our money. That's why I need my Chase Private Banker."

-Mimi Adler

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the audience. This is especially important when speaking at sales and other corporate meetings. When Perret was talking to franchise managers from one of the major fast-food chains, he used this line: “McDonald’s has sold over 75 billion hamburgers. They know that because they’re on their fourth pound of hamburger.” It went over big. “You need to find out what a group is thinking, and try to phrase it in a unique way,” says Perret. “The more pertinent and specific the humor, the funnier it is.”

A few more hints: Know and understand your punch line. It may seem simple, but an audience needs to be told when to laugh. No one wants to make a fool of himself and laugh at the wrong time. Keep your material short, tell it slowly and, no matter how hilarious, don’t laugh at your own jokes while you’re telling them. Wait for your audience.

Be careful with insult humor. Perret learned that lesson as he was just starting his comedy career. Back then he was working at General Electric as an engineer in Philadelphia, writing and performing comedy for retirement dinners and other company functions as a hobby. Once Perret did a whole routine based on a GE blueprint machine that never worked, and mid-speech the manager of the department that made the machine stormed out. It taught Perret never to cut too close to the bone. Don Rickles may get away with needling his crowd, but it rarely works in business.

On a trip through Philadelphia in 1964 Phyllis Diller heard about Perret and hired him to write some jokes. By 1968 Perret had moved to Hollywood and was writing full time. As his GE experience taught him, Perret now kids an audience only about matters that they kid themselves about, or things that don’t matter. When Bob Hope jests with a president, for example, he doesn’t go after foreign policy but after the president’s golf game, say, or his inability to catch fish. “You can always spot Gerry Ford on the golf course,” Hope once said. “His cart is the one with the red cross painted on top.” Perret’s rule of thumb on any critical jibe is: When in doubt, leave it out.

Perret advises people to forget a few of the old rules, among them the idea that a speech should open and close with a joke. That kind of formula speaking could signal insecurity, or even fear of humor. If you insist on getting that first guffaw before getting into your text, remember that an opening joke or story must have a strong point, one that will set up the entire speech. When Perret spoke to a group of GE employees after a huge wave of firings, he said, “It’s very nice to be here. Considering the recent evaluations, it’s nice to be anywhere.” What doesn’t work is the non sequitur, Henny Youngman-type humor. Bits like: “It’s great to honor Mr. Smith today, but let me tell you about my wife’s cooking.” It confuses the audience.

In the body of the speech, jokes can be either spaced throughout to reward and refresh the audience, or used to reinforce key points. If you’re using humor as a listener’s reward, you usually want to announce it. This way, the group feels like it’s getting a bonus, something free. This can be as simple as “We’ll get back to this in a minute, but first I gotta tell you what happened the other day.”

When you choose to reinforce your message with humor, put the joke after the message. You present your proposition, then hammer it home with humor. For instance, one executive told his employees he wanted them to attack their most pressing problems first. The reinforcement: “As we used to say back home, if you got a frog to swallow, don’t look at it too long.”

Again, if you feel you need to end your talk with a joke, make sure you do it with a bang. Carol Burnett, a Perret client, was always a stickler for this, never accepting a “this’ll do” closing line. If a closing joke bombs, it is almost impossible to recover.

Even the most experienced comedians have to be prepared for a misfire. That’s when the pros pull out what they call their saver, a line that helps make up for the bomb. Perret tells how Hope did a clinker on board a ship off the coast of Beirut. He told the cue card guy to “roll that joke up in a big ball and fire it towards the enemy—if we can ever figure out who they are.” Another favorite: “My wife told me that story would never work. I can see you all side with her.”

There are books out there that can help executives work humor into their presentations. The Light Touch, by Malcolm Kushner, is one. Another is Speaker’s Library of Business Stories, Anecdotes and Humor, by Joe Griffith. Perret wrote Using Humor for Effective Business Speaking, Comedy Writing Workbook, and Gene Perret’s Funny Business (a joke collection).

But don’t forget that, like tennis or golf, successful humor comes with doing. The next time that someone asks how to get to Carnegie Hall, remember to reply: Practice, practice, practice.
See how exciting perfection can be.

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**Faces**

**Behind the Figures**

Edited by Jason Zweig

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**The new Marshall plan**

In a sudden switch last month, financier Marshall Cogan sweetened his offer to buy back the debt of his '21' International Holdings, Inc., formerly Knoll International Holdings. Originally, Cogan offered 105 for $86 million (face value) of 16% subordinated debentures that are redeemable at 110. He also hoped to retire $70 million in variable rate debentures for just $42 million. But bondholders cried, "Rape!" and Cogan retreated. Now he'll pay the full 110 to redeem the subordinated issue. Cost: $94 million. The variable rate bonds, recently paying 12% and valued in the low 80s, will remain outstanding.

Why the hasty retreat? Cogan's right-hand man Frederick Marcus says bondholders did not go along. Cogan needed the deal to smooth a pending joint venture between '21' and Recticel, a foam-making subsidiary of the Belgian conglomerate Société Générale de Belgique. Cogan is contributing Foamex, his firm's polyurethane foam maker, to the venture in exchange for some $200 million of financing. Cogan will use those funds to take out the subordinated holders, while the joint venture will assume the variable rate notes.

If the Recticel deal does not fly, Cogan's smallish empire would be forced to continue groaning under $360 million in debt. Since 1987 Cogan has raised over $450 million through asset sales. But he has a mere $14 million in available cash, thanks to his huge debt and $16 million in annual overhead. His '21' restaurant in Manhattan lost $2.8 million last year, even though Cogan has sunk more than $25 million into it. In August he sold Knoll's office furniture business to Westinghouse for $105 million in stock, now worth just under $88 million.

Foamex, with some $400 million in sales, is the only hearty asset. Assuming everything works with Recticel, Cogan will pare his debt back to less than $100 million. But his future is far from rosy: Among other worries, United Technologies Corp. is suing Cogan for $173 million in damages, alleging that he falsified profits to inflate the 1988 sale price of Knoll's Sheller-Globe auto parts subsidiary.

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**Package deals**

Bad news for commercial banks is good news for Walid Chammah. A managing director at First Boston Corp., Chammah assists in buying up individual banks' automobile loans, boat loans, home equity loans and credit card receivables. Then he bunches them together in packages and resells them to investors as fixed-income securities.

This business—the asset-backed securitization game—is growing like a weed. Public issuance boomed from $1.2 billion in 1985 to $22.6 billion last year. For this year, Chammah pro-
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So far, Chammah’s dealings have raised a mountain of cash for the banks, without their having to sell dilutive equity in a hostile stock market or having to issue debt at near-junk-bond interest rates. Subsidiaries of New England-based Shawmut National Corp., for example, have raised more than $1.8 billion since January by securitizing mortgages and auto and credit card loans.

Thanks largely to 36-year-old Chammah, the son of a Lebanese import-export agent, so far this year First Boston has retained a commanding 25% share of the fiercely competitive asset-backed market, of which bank loans now account for about 60%. FORBES estimates that could be worth over $33 million in underwriting discounts and fees this year.

And there is more to come. Chammah is aiming to get some loans off the books of Japan’s capital-thin banking giants. In the U.S. he has an eye on commercial real estate and middle-market corporate loans. Because of their great variety, corporate loans have not yet been widely securitized. But in Chammah’s opinion, “That’s the next wave.”

West Side story

On the west side of Los Angeles, in the People’s Republic of Santa Monica, real estate developers are as popular as oil spills. But Jerry Snyder is one builder who knows how to get a deal done. Snyder, 60, who has been building homes and offices in southern California for 41 years, is putting up his most ambitious project ever: the Water Garden, a $450 million, 13-million-square-foot office complex on Olympic Boulevard.

The Water Garden is the biggest office development ever built in Santa Monica. How did Snyder get a passel of radical obstructionists to let him in? First he made sure to include local residents on his design and traffic committees. Then, of the $13.5 million Snyder pledged to spend on area improvements, $6 million went directly for street construction and to install new high-technology traffic signals to improve traffic flow in this already crowded area. In an effort to sway Santa Monica’s antidevelopment city council, Snyder plans to train some of Santa Monica’s homeless to work at the Water Garden as gardeners and maintenance people.

The 17-acre project, which consists of four office buildings surrounding a 1.4-acre artificial lake, is scheduled to be completed next June. Monthly rents will average $3 per square foot—top dollar, in a slow market, for west side buildings. Snyder hopes to lure law, entertainment and accounting firms from Hollywood, downtown Los Angeles and other areas.

As for financial backing, Snyder got a boost from billionaire Marvin Davis’ company, Miller-Klutznick-Davis-Gray. Over breakfast at Tamarisk Country Club in Rancho Mirage, Calif., Davis casually asked Snyder what he was working on, and Snyder raved about the Water Garden. Later that day, recalls Snyder, he was out on the links and saw “this golf cart coming toward me tipped over to one side. Marvin’s a big guy, so I knew it had to be him.” Davis told Snyder that his company would back a $250 million construction loan in return for 50% equity in the deal.—Ellen Paris

America-basher

One of Japan’s favorite America-bashers is an American. Bill Totten, 48, is founder and president of Ashisuto, one of Japan’s leading computer software companies. His book Don’t Blame Japan, published in Japanese in June, has become a bestseller—and given the 6-foot-4-inch Totten celebrity status—in Tokyo.

To those foreigners who claim that Japan is a closed market, Totten’s strongest rebuff is his own career. A native of Long Beach, Calif., and a former computer programmer for the Apollo space project, Totten went to Japan in 1969 to research the Japanese software market for a major American software firm. He founded Ashisuto (which means assist) in 1972 with $5,000. Ashisuto imported software packages for IBM mainframes and adapted them for mainframes made by Fujitsu, Hitachi and NEC.

With $65 million in sales in 1989, today Ashisuto is Japan’s largest independent supplier of software for mainframe computers. And just a year after entering the market for personal computer software, Totten’s firm puts out five of Japan’s ten bestselling PC packages—at about $70 each, far less than rival products.

Totten predicts that America’s commanding share—almost 100%—of the $1 billion Japanese software market will collapse because U.S. products are overpriced and lack many features that Japanese demand.

Like most Japanese America-bashers, Totten says U.S. executives are more concerned with their paychecks and short-term profits than with pleasing customers and employees. He insists that service, loyalty and persistence will penetrate any real or perceived trade barrier. Adds Totten, who taught himself to speak Japanese fluently: “Anyone who doesn’t try hard enough will fail in the Japanese market or in any other market.” It’s a tautology, but there’s probably some truth in it.—Hiroko Katayama
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Your sales people don't call on me.
Your dealers can't get to me.
You don't know what I do.
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starts the sale
or kills the sale.
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Richard L. Evans, chief market analyst of Dow Theory Forecasts, warns, "In some ways, the market looks like it did in the bear market of 1981, when stock prices declined for about a year until the dramatic recovery in August 1982." Nevertheless, Evans doesn't expect much further deterioration in stock prices. He thinks a major decline in corporate profits would make the market vulnerable to another long-term correction, but he considers this unlikely. His favorite group is the beleaguered retailing industry, especially larger outfits like Woolworth, Sears and Kmart.

Contrarians might be encouraged by all the pessimism on Wall Street, including the record-high short interest on the New York Stock Exchange (up 6% over the past month). And there is no shortage of cash on the sidelines. I/B.E.S/Money Fund Report says assets of nonbank money market funds have reached a new high of $400 billion.

Stock prices continued to slide during the latest two-week period. Over-the-counter stocks were especially hard hit as the Nasdaq index fell 3.8%. The Wilshire index shows a decline of 2.9% during the period and has dropped more than 13.7% since the start of 1990. Even with dividends added back, the average stock in the Wilshire index has dropped 11.6% since the start of the year. And its dividend yield is now 3.6%.

The Forbes Wall Street Review
By Eric S. Hardy

The overall market

<table>
<thead>
<tr>
<th>Performance</th>
<th>Price</th>
<th>Total return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last 4 weeks</td>
<td>1.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Since 12/31/89</td>
<td>-13.7</td>
<td>-11.6</td>
</tr>
<tr>
<td>Since peak (10/9/89)</td>
<td>-16.2</td>
<td>-13.6</td>
</tr>
<tr>
<td>Since 5-year low (9/25/85)</td>
<td>58.4</td>
<td>87.5</td>
</tr>
</tbody>
</table>

The Wilshire index as of 9/20/90
Market value: $2,802.1 billion
Price/book: 2.9
P/E: 14.4
Yield: 3.6%

The Best Performing Stocks

<table>
<thead>
<tr>
<th>Company</th>
<th>Price</th>
<th>2-week change</th>
<th>P/E</th>
<th>Avg vol (thou)²</th>
<th>Rel vol³</th>
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</thead>
<tbody>
<tr>
<td>Viacom</td>
<td>18½</td>
<td>19%</td>
<td>NM</td>
<td>175</td>
<td>1.2</td>
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<tr>
<td>United Artists Entertainment</td>
<td>12½</td>
<td>13%</td>
<td>NM</td>
<td>612</td>
<td>0.8</td>
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<tr>
<td>Centocor</td>
<td>40½</td>
<td>12%</td>
<td>NM</td>
<td>1,470</td>
<td>0.8</td>
</tr>
<tr>
<td>UAL</td>
<td>102½</td>
<td>11%</td>
<td>10</td>
<td>2,289</td>
<td>1.1</td>
</tr>
<tr>
<td>Consolidated Natural Gas</td>
<td>51½</td>
<td>11%</td>
<td>27</td>
<td>1,190</td>
<td>1.6</td>
</tr>
</tbody>
</table>

The Worst Performing Stocks

<table>
<thead>
<tr>
<th>Company</th>
<th>Price</th>
<th>2-week change</th>
<th>P/E</th>
<th>Avg vol (thou)²</th>
<th>Rel vol³</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBIA</td>
<td>25½</td>
<td>-31%</td>
<td>8</td>
<td>2,165</td>
<td>2.8</td>
</tr>
<tr>
<td>Oracle Systems</td>
<td>7</td>
<td>-29%</td>
<td>20</td>
<td>20,514</td>
<td>1.5</td>
</tr>
<tr>
<td>Control Data</td>
<td>10½</td>
<td>-26%</td>
<td>NM</td>
<td>1,279</td>
<td>1.0</td>
</tr>
<tr>
<td>Contel Cellular</td>
<td>10½</td>
<td>-25%</td>
<td>NM</td>
<td>256</td>
<td>0.4</td>
</tr>
<tr>
<td>Fruit of the Loom</td>
<td>8½</td>
<td>-25%</td>
<td>6</td>
<td>3,146</td>
<td>0.9</td>
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</table>

Closeup on the Market

<table>
<thead>
<tr>
<th>Index or investment</th>
<th>Price</th>
<th>2-week change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilshire index</td>
<td>2,951.37</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Wilshire index</td>
<td>18.66</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Dow Jones Industrials</td>
<td>2,518.32</td>
<td>-3.0%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>311.48</td>
<td>-2.8%</td>
</tr>
<tr>
<td>NYSE</td>
<td>171.22</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Amex</td>
<td>317.81</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>354.43</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Amex international market index</td>
<td>287.10</td>
<td>-3.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Index or investment</th>
<th>Price or rate</th>
<th>2-week change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe, Australia, New Zealand and Far East¹</td>
<td>774.90</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Institutional⁵</td>
<td>91.74</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Individual⁵</td>
<td>87.56</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>134.71</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Gold² (composite quote of 5 major dealers)</td>
<td>$389.70</td>
<td>0.2%</td>
</tr>
<tr>
<td>Yen⁴ (per $U.S.)</td>
<td>137.70</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Commodity index⁶ (CBOT futures index, 1967=100)</td>
<td>237.00</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Oil⁶ (W Texas Intermediate)</td>
<td>$34.70</td>
<td>10.3%</td>
</tr>
<tr>
<td>T-bills⁶ (90 days)</td>
<td>7.37%</td>
<td>-1 basis point¹</td>
</tr>
<tr>
<td>Broker loan rate⁶</td>
<td>9.25%</td>
<td>unchanged</td>
</tr>
</tbody>
</table>

Note: All data for periods ending 9/20/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. Capital International Perspective, For period ending 9/21/90. A. Arbet, Cornell University, using Ford Database from Ford Investor Services. Knight-Rider Financial Information. A basis point is equal to one-hundredth of a percentage point. NM Not meaningful.
Events in the Persian Gulf haven’t wreaked havoc with the commodities markets, despite rising prices and increased volatility in petroleum-related commodities. The Commodities Research Bureau’s futures index (see above right) is up 1.5% since Aug. 1. And both the bureau’s spot index (which reflects current prices) and the price of gold are near their pre-invasion levels. This is no surprise to William E. Byers, director of commodities futures research for Bear, Stearns, who notes, “Commodity prices now respond more to supply and demand rather than inflationary trends and expectations.” Byers thinks the current period is unlike the 1970s, when inflationary expectations and anticipatory buying played a large role in driving up prices.

Yet there is little argument that the economy is expanding more slowly than it was during most of the 1980s. Sam Nakagama, of Nakagama & Wallace, Inc, in New York, believes the economy has been in a “mini” recession for some time. He defines this as very low—but still positive—economic growth. Unlike many of his colleagues, who think that a recession is either prevailing or right around the corner, Nakagama does not expect a “classic” recession (two consecutive quarters of declining GDP) until next year or even later. Nakagama has one caveat: If inflation continues to heat up, the economy will have to grow faster just to stay even. That is, oil-price increases will have to be offset to a degree by expanded production just to keep the economy from shrinking in inflation-adjusted terms.

Precious metals, especially gold, are supposed to be an inflation hedge, but these hedges can be very costly indeed. Gold was one of the worst investments during the 1980s, and it quickly gave up the gains it posted immediately after the invasion of Kuwait. Its volatility is reflected in the December gold contract (above), since futures markets tend to amplify current trends. A barbaric metal, indeed.

---

**Notes:** All prices as of 9/17/90, graphs as of 9/14/90. ¹Comprised of 13 commodities. ²Comprised of the 13 raw industrial commodities plus 10 foodstuffs. ³Gold, platinum and silver. ⁴Comprised of 21 commodities. ⁵Prices from 6/1/90 through 9/14/90. ⁶Base for spot and futures indexes [1967 = 100]. Source: Knight-Ridder Commodity Research Bureau.
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The Funds

Sponsors of no-load mutual funds are getting in bed with financial planners. For a large subset of the investing population, this trend is good news.

Marriage of convenience

By Michael Fritz

Stanley Egener is the 56-year-old president of New York-based money manager Neuberger & Berman’s $3.1 billion no-load mutual fund group. To attract new customers, Egener’s outfit is trying hard to get fee-based financial planners to recommend his funds to their customers.

Why financial planners? Egener tells a story:

It was a blustery Saturday morning in the winter of 1983. Egener was slated to speak at an 8 a.m. seminar for fee-only planners at Pace University in lower Manhattan. A Friday night blizzard had paralyzed the city. Egener trudged to the seminar expecting a skeleton turnout. Instead, he found 95 of the 100 registrants at their desks with pads and pencils ready.

The meeting was Egener’s first introduction to the fledgling fee-only financial planning industry. Unlike commission-based brokers and planners who live off sales charges from the products they recommend, fee-only planners collect their pay based on an hourly rate or a percentage of managed assets, much like an accountant or institutional money manager.

In theory fee-only planners should do better by the investor, since they spare him the broker’s temptation to churn accounts or recommend complicated products merely for their high commissions. Nonetheless, fee-only planners are a tiny minority in the planning profession.

Egener learned that although no-load mutual funds were the cornerstone of fee-only planners’ recommendations, fund sponsors weren’t giving them the time of day. Here was a whole relatively unexploited new market for no-load funds.

Since then, many no-load families have warmed up enough to provide planners administrative support. But cooperation is sometimes less than enthusiastic. Vanguard, for example, still politely declines to supply planners with consolidated client statements. Vanguard isn’t much interested in planners because it thrives on self-reliant investors who make their own decisions. The folks who buy Vanguard funds are unlikely to pay someone a handsome fee to pick a fund for them.

But what about the financially helpless, who make up most of the population? Seven of every ten dollars invested in mutual funds came through commission-based brokers or financial planners. It is this broad audience that Egener wants to tap.

If you need help with your investing, remember that fee-only planners are not, any more than commission planners, in business for their health.

To place a $250,000 portfolio, expect to pay a fee-based planner a 1.5% advisory fee, or $3,750. In addition, you might incur $500 in discount brokerage commissions to implement the planner’s individual security recommendations. But if you put the whole sum into no-load funds and pick them on your own with the help of the Forbes Mutual Fund Survey, for example, you can save a bundle.

Okay, but suppose you lack the confidence to act on your own? Fee-based planners are a pretty good bet if you can find the right one. Among the no-load houses now actively reaching out to fee-based planners are Benham Capital, T. Rowe Price, Mathers, Neuberger & Berman, Jones & Babson and Twentieth Century. Fidelity is planning to join the crowd. The fund sponsors offer services, most without charge, that include everything from special phone banks and advance notices on income and capital gain distributions to on-line computer access to client account records.

Why should the funds be willing to provide you and your planner all these things for free? Because they want to manage your money. They want those annual management fees they levy, ranging downward from 1% per year. They like accounts that come from planners. Not only are planner accounts apt to stay with the fund longer than individual accounts, but planners bring in larger chunks of cash, which helps hold down costs.

No other no-load fund group has been as effective in courting fee-based planners as Neuberger & Berman. So far $700 million—nearly a quarter—of the firm’s fund assets are in financial planner accounts. Here’s one of its most important services, at least from the planner’s point of view. Last July the firm began offering to deduct planning advisory fees (typically 0.5% to 1.5%) directly from client fund accounts and remit the money to the planner. “It cuts down on paperwork and eliminates the worry of past-due billing,” says Mary Ann Batson, of Warwick Investment Management, a Bryan, Tex. advisory firm that uses the service.

Moral: If you are using a financial planner, and the planner is using load-charging funds for you instead of no-load funds, better find out why. You may be expecting disinterested advice but not getting it.
Environmental stocks are his bag, but even with the prices way down, Larry Greenberg, manager of Fidelity Select Environmental Services Portfolio, treads warily.

Some waste stocks aren't trash

By Ruth Simon

What do you do if you are running a sector fund and your sector gets ridiculously overpriced? You redefine the sector.

Lawrence Greenberg, manager of the $100 million (assets) Fidelity Select Environmental Services Portfolio, confronted this problem within a year of the fund’s startup in June 1989. By July of this year the environmental fad had gone beyond fad to lunacy. “We had initial public offerings coming out at 10 that were at 25 within two weeks,” he recalls.

What was Greenberg to do? The charter for his sector fund requires that Greenberg invest 80% of the fund’s assets in companies that get at least 50% of their revenues, assets or earnings from the environmental industry. The 27-year-old stock picker did the best he could under the circumstances. He stretched the definition of environmental a little. Betz Laboratories, a chemical company, probably wasn't too far out of line because its products are used in wastewater treatment. But Select Environmental also bought 3% shares in Archer Daniels Midland, Westinghouse Electric, Burlington Northern, coal companies, a gas pipeline and even a cement company. Why is a cement company environmental? Because it burns waste in its kilns.

“I was looking for cheaper plays,” explains Greenberg, who also helps run the giant Magellan Fund.

When the crash came, Greenberg’s fund suffered, but not as much as the sector it is in. Environmental stocks are down more than 25% on average since mid-July, according to First Analysis Corp. That’s nearly twice the drop in the s&p 500. Greenberg held the fund’s losses to 17%. Since its inception last June the fund is still up 12%, excluding a 3% sales charge.

The question for investors now: After the crash, are environmental stocks cheap enough? Greenberg’s answer: Some are, despite their high multiples. “We really see environmental services as one of the growth industries of the 1990s,” he says.

Greenberg is putting his biggest bets on companies that operate landfills and collect household trash and other nonhazardous garbage. This is a steady, contract-based business that generates fewer of the earnings surprises that so often send environmental stocks tumbling.

Waste Management is 8.5% of Greenberg’s portfolio. A giant with $4.5 billion in sales and a finger in everything from trash pickup to incineration to asbestos removal, Waste Management recently traded at 33 3/4, a hefty 25 times trailing earnings. Greenberg thinks it’s worth every penny. The company has, after all, been compounding its earnings at a better than 25% annual growth rate over the past decade. If you assume that the growth keeps up for even

Picking through the dumpster

Fidelity money manager Larry Greenberg likes these environmental outfits, despite their steep multiples. Trash haulers like Attwoods, Laidlaw and Waste Management tend to have the steadiest earnings growth.

<table>
<thead>
<tr>
<th>Company/business</th>
<th>Recent price</th>
<th>% change from 52-week high</th>
<th>Revenues ($mill)</th>
<th>Earnings per share 1989</th>
<th>1990E</th>
<th>1991E</th>
<th>P/E</th>
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<tbody>
<tr>
<td>Amer Capital &amp; Research/engineering, consulting</td>
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<td>-29%</td>
<td>$298</td>
<td>$0.69</td>
<td>$0.70</td>
<td>$0.85</td>
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<td>Attwoods Plc ADR/solid waste</td>
<td>38 3/8</td>
<td>-20</td>
<td>225</td>
<td>2.10</td>
<td>2.25</td>
<td>2.55</td>
<td>17.1</td>
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<tr>
<td>Brand Cos/asbestos removal</td>
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<td>Chambers Development/solid waste</td>
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<tr>
<td>Chemical Waste Mgmt/hazardous waste</td>
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<td>ERC Environ &amp; Energy Svcs/engineering, consult</td>
<td>12</td>
<td>-19</td>
<td>72</td>
<td>0.63</td>
<td>0.80</td>
<td>0.95</td>
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<td>1.13</td>
<td>1.37</td>
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<td>1.22</td>
<td>1.49</td>
<td>1.80</td>
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<td>Western Waste Industries/solid waste</td>
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<td>0.66</td>
<td>0.78‡</td>
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<td>1.81</td>
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<td>30.20</td>
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*Based on estimated 1990 earnings. †Actual. ‡Based on reported 1990 earnings. E: Estimate.

Sources: Fidelity Investments Institutional Brokers Estimate System, via Lotus One Source.
another two years, the stock doesn’t look so overpriced. It’s at 18 times the earnings Greenberg expects in 1991.

This enthusiasm for Waste Management extends to the three companies in which Waste Management has made big investments: Chemical Waste Management, a 77%-owned hazardous waste giant; Brand Companies, a 49%-owned asbestos remediation company; and Wheelabrator Technologies, a 55%-owned manufacturer of waste-to-energy plants. “Waste Management is smarter than I am in understanding this industry and I’m willing to follow them,” he says.

Greenberg’s other solid-waste plays include Attwoods Plc., a British garbage collection company that does most of its business in the U.S., and Laidlaw Industries, a Canadian collection and landfill company that’s number three in North America. Both trade for less than 16 times expected 1991 earnings.

Greenberg is leery of small hazardous waste companies. He learned that the hard way. The fund bought into Clean Harbors, a Boston-based waste service company that has $131 million in revenues. Clean Harbors tried to expand out of New England and ran into trouble. Earnings fell 75%. Then the company was denied permission to build a hazardous waste incinerator in Massachusetts. The stock has collapsed from 25 to 4½.

Another big loser has been EnvrionSafe Services, whose stock has tumbled from 15 to 6 over the last month. Investors were caught by surprise when the company was denied permission to expand its hazardous waste landfill in Ohio. “There are so few hazardous waste management companies that have been able to put together four good quarters in a row,” Greenberg says. “Time after time these companies go to 25 multiples, then they go in half.”

Greenberg’s advice is to stay away from most initial public offerings. “Companies are coming public earlier,” says Greenberg. “The longer the fad is in place, the less the quality names are coming up.” A case in point is Sanifill, which had no revenues prior to its public offering at 9½ in April. The company used proceeds of the offering, along with newly minted shares, to buy existing landfills. The landfills weren’t any bargain. As of the offering, the stock was going for 48 times pro forma earnings per share. Moreover, because the company has a short operating history, there’s no telling how well equipped it is to cope with any cleanup liabilities that may come with the landfills. So far, however, initial investors have not suffered. The stock has shot up to 23¼.

Despite the hazards, Greenberg finds value in an occasional small stock. He found his most obscure pick across from his Watertown, Mass. tennis club. Ionics, with $109 million in sales, provides water purification systems and produces bottled water. Its customers include oil drillers who use the company’s equipment to purify brackish water in the Middle East, and the city of San Francisco, Calif. Wall Street’s not paying much attention. “No one else comes out and visits them,” Greenberg says.
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Prices of convertible debentures have been hammered by the weakness in the stock market and by rising bond yields. The prices look mighty attractive.

BY BEN WEBERMAN

Convertible debentures—those exotic instruments that start life as a bond but can end up as equity—exist in a world of their own. Because of their odd, neither-fish-nor-fowl status, they're largely ignored by bond and stock analysts. And therefore, by many traders and investors. By one count there are about 20 convertible mutual funds, out of 1,600 stock and bond funds.

But market neglect can lead to market inefficiencies. Which, from time to time, can create bargains. This is one of those times—due to the pounding bond and stock prices have taken lately.

Many of the most active convertible debentures are selling at deep discounts, providing good yields and a good long-term investment for those individual investors who are betting that the stock market will rebound.

What's the lure of a convertible? The investor gets a valuable option, usually good for the life of the debenture, to acquire a specified number of equity shares at a set price. That option can be worth a lot of money when the stock price rises above the conversion price.

Meanwhile, the yield on the bond, while lower than on a conventional bond of the same issuer, is generally much higher than the dividend you'd get if you just owned the underlying common stock.

The current benchmark for new convertible issues is a 7% interest coupon for a high-grade issue. The conversion option typically works out to a price about 20% higher than the common stock.

The higher the interest, the higher the conversion price for the common. For instance, a new investment-grade debenture created with an 8.5% coupon in today's market can carry a conversion premium of as much as 35% over the stock's market price.

Erik B. Granade, convertible bond analyst with ING Financial Corp. of Philadelphia, sees some bargains in energy-related convertible issues, such as the 7.6% of Amoco Canada, due 2013, convertible into Amoco common. The debt issue trades at 124, to provide a current yield of 6%. Because the bond is at a premium over par, the conversion price works out to $65 a share, 12% above where the common is now trading. The dividend on the common stock yields only 3.6%.

So if you want to gamble on an energy play right now, buy the debenture, and take the higher yield while waiting for stocks to rally. When they do, convert the bond when Amoco common is well above the conversion price.

Because of the declines in bond and stock markets, some convertibles have given up 20% to 30% in price in the past two months. But that's often far less than the drop in the underlying common stock. Take the case of Huffy Corp. 7.25s of 2014. Trading at 100, the debenture pays 7.25% to an investor, while Huffy common pays a dividend of only 2.4%. If you owned the debenture, its value would have declined only by 12% from its high of 112 in June, while Huffy common is down about 50% from its high of 25 in July.

Thomas C. Nodding manages $100 million of convertibles using options, warrants, short sales and other techniques to seek stated objectives. He created limited partnerships with different premises, including one for income, one for growth and one for speculation, using hedges to soften risk.

Nodding's favorite is B-minus rated Chock Full O'Nuts 7s of 2012, selling at 70. The stock is at 6, down from a high of 8%.

While the common pays no dividend, a debenture holder receives a current yield of 10%. The debt is convertible into common at around 7, or about 11% over the current trading level.

For the superconservative investor, I'd recommend the AAA-rated IBM 7 1/2s of 2004, trading at 96 in the secondary market, callable at 104. The debenture is convertible at 147 at a time when the stock trades at 107%. The IBM debentures yield 8.2%, substantially more than the 4.5% dividend yield on the underlying stock. While the conversion premium is a hefty one—around 36%, you can consider it a long-term call on one of our prime growth companies. After all, as recently as June IBM stock sold for as high as 120.

Since the analysis of the convertible market is complex, most individuals will do well to get in via no-load mutual funds such as Calamos Convertible Income, with a current yield of 7.1%, or Nodding Convertible Strategies Fund, paying 8.1%.

The largest closed-end convertible funds include Bancroft Convertible Fund, trading at a 14% discount from asset value to pay a current yield of 6.8%, or Lincoln National Convertible Securities, trading at a 9% discount from asset value, paying a current yield of 7%. You can check these and other convertible bond funds in Forbes' annual mutual fund survey. For information on individual convertibles, there's RIMM Convertible Survey, published weekly in Glen Cove, N.Y., or Value Line Convertible Service in New York.
Portfolio Strategy
MONEY & INVESTMENTS

While value stocks have fared poorly for more than a year, their time will come.

RIGHT AROUND THE CORNER

By Kenneth L. Fisher

I keep hearing the same question from institutional clients: “We thought value-type stocks would be defensive if the market sold off. But they have fallen more than high P/E growth stocks. Why?”

Fair question. The answer, based on history, is: Value stocks show their defensive strength in the late stages of a bear market, not in the early stages. Investors make the mistake of presuming that what is true point-to-point—from peak to trough—also occurs steadily en route. Untrue. Markets are wicked. They love to deceive. Stocks with low P/Es, low price-to-book ratios and low price-sales ratios usually get hit first in a bear market. Value stocks best the market only in the later half of a bear market and the first phases of a bull market. They tend to underperform toward the end of a bull market and in the beginning of a bear market.

That’s what’s been happening the past year or so. Conversely, growth-type stocks do relatively best in the late stages of a bull market and the following first phase of a bear market. Take recent history. From 1972 to 1976 value stocks underper- formed the two-tiered Nifty Fifty stocks in the beginning of the decline, 1972 and 1973, then made up for it in the ravages of 1974 and surpassed the market in 1975.

Again, off the market’s bottom from 1982 to 1986, value-type stocks did so well they became faddish among institutions. But in the post-1987-crash era, growth stocks started doing best. In 1989, as you will recall, the fad became stocks that could grow through the expected “soft landing”—i.e., the big, high P/E, consumer products companies—ones thought to have “safe” growth, so their already high P/Es could bid up “safely.”

But a bear market started last October. The Value Line Arithmetic, by far the most reflective index of America’s average stock, has fallen rather steadily since then and is off 20% from its peak. Bear markets are seldom recognized until we are well into them—part of what makes them so wicked. Hence the Dow Jones industrials and s&p 500 hit new alltime highs in July, confusing most folks fully nine months into this major decline.

So, in the first half of a bear market, most folks are still playing bull market—fighting the last war. So they sell their value stocks, which were doggy in the late exciting stages of the rise, pushing them down in the first phases of a bear market. At the same time, folks hang on to growth stocks—their good recent performers.

As this goes on, the value stocks get oversold early in the bear market, setting the stage to do much better than the market late in the decline. As the bear market drags to its conclusion, people lose faith in growth, and the growth stocks are shunned. It’s a pattern that repeats again and again: Value stocks do badly early in a bear market and then come into their own late in the bear market and in the early stages of the succeeding bull market. Growth stocks, vice versa.

The action of these last 12 months has not been particularly unusual for early in a bear market. For example, as the s&p 500 rose to a new high this year, more stocks fell than rose—even within the 500 s&p stocks—a kind of index illusion. And big-cap stocks did much better than smaller-caps—another typical early bear market behavior. Hence, while the big-cap s&p 500 is now down about 10% since last October, the broad-based but small-cap-oriented Russell 2000 index fell steadily—fully 25%.

And, as said before, high valuation growth stocks did better than value issues. Whether looking at 1990 to date or only looking at the few weeks after Iraq rocked the financial markets, value stocks have sunk sadly. For example, even among the very largest market cap stocks there has been about a five percentage-point spread favoring high valuation stocks as the market stagnated and then slid.

But the good news is twofold. First, most major bear markets only last between 12 and 24 months. Two years is a very long bear market. Only the 1929-32 drop lasted longer. This one is a year old now, suggesting that it is soon to be time for the value stocks to start doing their thing—which is the second part of the good news.

The first signs of change are happening in the high-glitz growth areas. Case in point: previously red-hot Oracle Systems, which has done a $23 to $7 nosedive in just 75 days. To my thinking, this year’s fourth quarter and the first quarter of 1991 will be the time to start spending cash and loading up on value stocks. Not just yet, but in a few months, they should be coming into their own again. This fall I would focus on smaller-cap value stocks, particularly those that may suffer tax-loss selling pressure from earlier 1990 losses. Three good examples of value stocks that haven’t acted defensively yet but that should soon, and then should do exceptionally well in the next bull market, are Comstar (16), Crystal Brands (19) and Everex (6, o-t-c).
Advisory letters have been beating the market lately with their short positions. Why? And which stocks are they shorting?

SEASON FOR SHORTING?

By Mark Hulbert

One thing that investment letters do particularly well is respond quickly to changes in investor psychology. The latest stock market decline is no exception. As the market has sickened, more and more and more market letters have started providing advice on how to play the short side. My Hulbert Financial Digest investment letter monitoring service now counts a dozen advisory services that regularly offer short-selling strategies, including one that does nothing but recommend short-sale candidates.

In general, it pays to be cynical when advisers eager to the latest investor whim. But there appears to be value in these advisers' focus on short-selling. Much to my surprise, when I measured their performance, all but one of the letters that regularly offer short-sale candidates have done better this year than if they had shorted the average stock.

I hadn't expected this result, because advisers' performance on the long side is typically no better than mediocre. Indeed, it is the rare market letter [or stockbroker for that matter] whose buy recommendations equal the market, much less beat it. The more typical result is for them to lag. But not so on the short side. So far this year the average short-sale candidate among my subset of shorting letters has performed more than twice as well as the market. These market letters, as of the end of 1989, were recommending 250 stocks for shorting, and by the end of August they had fallen an average of 16.3%, in contrast to 6.6% for the S&P 500.

These letters didn't all use the same methods for choosing shorts. Some used fundamental measures of value, for example, while others used technical analysis. And while some were systematic in screening all stocks for potential shorts, others used a “rifle shot” approach, picking off stocks one by one that seemed ready to head south.

Two of the more systematic services with good records are the Value Line Investment Survey and the Zweig Performance Ratings Report. Value Line each week rates 1,700 stocks for performance over the ensuing year, and their Group 5 stocks—those with the poorest prospects—declined by 23.9% for the first eight months of 1990. Zweig's service categorizes an even larger number of stocks into nine groups, and then chooses a select few to sell short. That subset fell 24% over the same period.

The one advisory that does nothing but recommend short sales is the Overpriced Stock Service, edited by Michael Murphy and Lissa Morgenthaler. Those stocks it had in its model portfolio at the end of 1989 fell an average 15% through Aug. 31. Its model portfolio as a whole did much better, gaining 38%, reflecting the use of margin and active trading of the portfolio.

Why should market letters do better on the short than the long side? One theory, one which the random walkers no doubt would offer, is that this market-beating performance must have been achieved with above-average risk. But this hypothesis is wrong: The stocks these letters shorted were less risky than the average stock.

Others might wonder whether the paper gains I report for these letters could actually be achieved in practice. Short sales are allowed only in margin accounts, for example, and thus typically aren't permitted for stocks that trade below $5 per share. In addition, shorts can be entered only on an uptick. And when your broker can't find enough shares of your prospective stock for you to borrow, it can be difficult or impossible to short it.

But those factors can't explain away these market letters' success. In my calculations I eliminated all those stocks that began the year trading for less than $5, for example. And almost all of those that remained were exchange-listed with healthy volume.

What, then, does account for the letters' success? One possibility that intrigues me is that the market for short-selling might not be particularly efficient, making it relatively easy to identify stocks that are likely to decline by more than the market. The difficulties associated with selling short might account for some inefficiency. Another cause might be the bias among much of the investing public against selling short.

In any case, currently there are several stocks that are recommended for selling or selling short by two or more of the market letters that regularly offer shorting strategies. Two are engaged in the marine and pleasure boating industry—Bruswick and Outboard Marine—but the others come from a diversity of industries: Bethlehem Steel [steel], Chase Manhattan [banking], Digital Equipment [computers], McDonnell Douglas [aerospace], National Education [business training], and USAir Group [airlines].

No guarantees here, and remember: Many of these stocks have already had big declines. Still, if you think the bcar market has further to go, these make interesting short-sale candidates.
Financial Strategy

MONEY & INVESTMENTS

We are in for a worldwide recession, but most economists don’t see it because they are looking in the wrong direction.

THE OTHER BARREL’S LOADED

By A. Gary Shilling

Despite the growing signs of weakness in the economy before the Iraqi invasion, few economists were willing to use the "r" word. Now they speak openly of recession. It took the nosedives in stock prices and consumer confidence that flowed from the Gulf crisis to convince them. However, most of them still predict a mild, local downturn. They’re wrong. A major business slump started some time ago and will be deep and global.

Why are economists so reluctant to face the reality of big economic trouble? Afraid their bullish bosses will fire them? Maybe, and correctly so, as I can personally attest. But maybe it's also because they are looking at the wrong statistics. Economists are trained to study the economy's income statement: the GNP accounts that show where consumers, business, government and foreigners spend their money, and the wages, profits, etc. that generate the funding. Those accounts are well documented with reams of data, and forecasters swarm around data like bees around their queen.

From their beehive perspective, economists see no major imbalances that could unwind into a deep recession. Inventory holdings are moderate, they will tell you, and consumer spending, capital outlays and construction certainly haven't witnessed any recent unsustainable surges. Far from it. A mild recession is possible, economic forecasters proclaim, but no serious decline.

However, the problems that can turn a modest business dip into a disaster aren’t reflected in the nation’s—indeed not in the world’s—income statements, but rather in its balance sheets. That’s where all the undercollateralized debts lurk, but lack of data and lack of school and field training keep the average economist from poking around in the underbrush of indebtedness. Indeed, a new survey of National Association of Business Economists members on business conditions in their firms lists all sorts of questions on sales, capital spending, prices and profits, but not even one on balance sheet conditions.

Scratch that balance sheet and the hemorrhaging starts. Recession-caused layoffs are depriving consumers of the income needed to service their crushing personal debt loads. The downturn is drying up corporate cash flow, squeezing loans with tens of billions of dollars worth of junk bonds to service. It is constraining funds for real estate financing and putting further pressure on already depressed prices, much to the detriment of banks and S&Ls heavy with real estate. As the recession spreads globally—and Canada and the U.K. are already faltering—demand for Third World exports and their ability to service immense debts will crumble.

Of course there will be more $5 billion bailouts, as governments and central banks labor to preserve the financial system. But will confidence be preserved by these bailouts? I doubt it. What happens when Argentina and Brazil default at the same time that several household-name leveraged buyouts bite the dust and the FDIC runs out of bank bailout money and turns to Congress for funds? Instead of checking the panic, at a certain point the bailouts might fuel it. Especially since the weakening economy, military expenditures in the Gulf and bailout costs could push the true federal deficit toward $500 billion, with frightening speed.

I don’t know how this will end, because we haven’t been here before. Widespread financial crises aren’t new—the last was in the early 1930s—but this is the first since government bailouts came into style, and there’s no way of knowing whether confidence can be preserved. I do know, however, that the risks are on the downside and extreme caution is in order.

How should you position yourself? In your business, continue cutting down the hatches, as I suggested in my Nov. 13, 1989 column. In your investments, implement the recessionist’s portfolio I first discussed in my Sept. 18, 1989 column. You may not be inclined to pursue the many shorts it recommends on the stock markets here and in Japan, on real estate heavy banks, etc. But at least use any rallies in this bear market to unload stocks and accumulate cash to prepare for a tremendous rally in Treasury and other high-quality bonds.

This rally is in the cards, but probably not until later, despite the skyrocketing federal deficit and the credit tightness a possible $500 billion deficit might create. Why? As my Sept. 3 column points out, it’s because increases in the deficit caused by the recession and bailouts will, as usual, be more than offset by private sector retrenchment.

When an economist tells you that a deep recession is unlikely because few imbalances exist, he’s looking at the economy’s income statement, not its balance sheet—rather like a hunter looking down the empty barrel of a double-barrel shotgun. He doesn’t realize that the other barrel is loaded and about to go off in his face.

A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and asset managers. His firm publishes Insight, a monthly newsletter covering the business outlook and investment strategy.
Market Trends

MONEY & INVESTMENTS

All addictive lifestyles are economic dilemmas and are no longer socially acceptable. Big trouble for Las Vegas.

DON'T BET YOUR LIFE

By Frederick E. Rowe Jr.

Preston Carter, the former Texas real estate magnate, has always badgered his lunch or dinner companions into flipping a coin to see who picks up the check. Once during the glory days of Texas real estate, Preston and I flipped for a particularly expensive lunch. I won. Preston sat there dumbfounded. His expression registered genuine hurt and surprise. Finally I said, "Preston, if we flipped a coin 1,000 times, how many times do you think you would win?" "At least 900," he replied without blinking.

When things are going our way, we are said to be "on a roll." We feel lucky. Plenty of otherwise rational people fail to make a distinction between a random distribution of events [tossing a coin, rolling the dice, etc.] and a legitimate trend. The gambling industry has always capitalized on that failure.

In the last few months, publicly traded gambling stocks have dropped 30% to 50%. To cite a few examples, Circus Circus, which traded as high as 70 a share, now trades at 48; Golden Nugget, once 41, now 23; Caesars World, once 30, now 13; and Promus, once 30, now 16. Part of the drop may be explained by the stock market decline in general and part by the fear that rising oil prices will inhibit travel.

But there is more to the story than fuel shortages and a declining stock market. In my opinion, the sharp drop in gambling stocks stem from serious supply and demand miscalculations on the part of various casino managements and from changing American mores.

Deeply imbedded in the psyches of most casino operators is the idea that there is a direct correlation between capacity [number of rooms] and casino take [how much the casino wins]. The conclusion is obvious. In order to make more money, add to capacity.

Las Vegas likes to brag that throughout its history it has never had a down year. Las Vegas is the gambling mecca of the world. It currently has more than 75,000 hotel rooms, and in that regard is bigger than New York City. Atlantic City, in contrast, has about 8,000 rooms.

The 1990 hotel room count in Las Vegas is up 15% to 18% over 1989, depending upon whom you talk to. The visitor count is up 12% over 1989. Las Vegas, in short, is in the midst of an enormous boom. In mid-September I visited the city to see the boom for myself and to decide if and when this boom, like most others, will end with a bust.

Two brand-new hotel/casinos provide much of the current excitement. The Excalibur is owned and operated by Circus Circus; the Mirage is owned and operated by Golden Nugget. Each addresses a different segment of the market, and together they represent the future of the gambling industry. At a cost of more than $600 million, the Mirage is the most expensive casino ever built, and will also have to be the most profitable in order to service the highly leveraged balance sheet of its parent. It is a spectacular property. The Mirage caters to the "high roller" or "A Card Player," as he is known in the industry. The A Card Player is a gambler whose style of play indicates that he or she is capable of losing a six-figure amount of money in one visit and to whom the casino will extend a like amount of credit.

Where did the high rollers' money come from? Some of it came from the junk bond restructuring of corporate America. Some of it came from the real estate and stock market booms in the Far East. My suspicion is that the A Card Player is getting harder to find and that casino operators that rely on these characters are in for some unpleasant surprises.

The Excalibur caters to "low rollers" and bills itself to security analysts as a "one-of-a-kind, must-see entertainment megastore." One can get a complete prime rib dinner for $6.95, and be entertained by 1,000 years of English history and myth that have been shuffled and dealt in the fashion of a theme park. All of the entertainment and cheap food is there for the purpose of encouraging middle-class Americans to gamble.

Watching low rollers feverishly smoking, drinking and playing the slots at 8 a.m., I was struck by how miserably unhappy most of them looked. Missing were the smiles one might expect to find in an "entertainment megastore." Also missing was any feeling that these people could afford to lose.

The Mirage and Excalibur are successful so far and are providing brutal competition for the rest of the gambling industry. They are the most interesting places in Las Vegas.

But it seems to me that the economic and moral pendulums in this country are moving to the right. Gone are the days of free money and free sex. Addictive lifestyles—drugs, alcohol, cigarettes, gambling—are no longer socially acceptable. Compulsive gambling is a major economic problem.

Las Vegas may think it is on a roll, but I believe the trend is down. I would not bottom-fish this industry. I would avoid all of these stocks, including Circus Circus [48], Golden Nugget [23], Caesars World [13], Bally's [8] and MGM Grand [12].

Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

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**Forbes: Capitalist Tool**

**REACH THE PEOPLE WHO OWN AND RUN AMERICA’S BUSINESS**
Don't forget earnings

Well, we were right, but for the wrong reason. Streetwalker recently wrote that the stock of MCA Inc., then at 42 3/4, had fallen so low that it was cheap, not on all those old takeover rumors, but on its earnings prospects (Forbes, Sept. 17). Alas, the stock subsequently fell even lower, to 34 3/4. But then came word that the takeover speculation was real after all: Japan's Matsushita Electric Industrial Co. may buy the entertainment company for as much as $7.5 billion, or $90 a share. And we go to print, MCA is at 53 3/4.

The MCA experience raises a pertinent issue. Time was when everyone heard a great deal about undervalued assets, takeover premiums and so forth. That kind of talk has mostly quieted down since the death of junk bonds and the onset of the bear market. There's nothing like a recession to refocus investors on a company's underlying earnings power, or lack thereof. Perhaps that's why many of the brightest investments—by corporations as well as by investors—are often made in downturns. If an asset-rich company like MCA can continue to earn decent money in a recession, its assets are all that much more valuable to an acquirer. Expect to see more acquisitions of solidly profitable companies, around which takeover rumors used to swirl.

Roller-coaster stock for a roller-coaster market

If Wall Street has soured on theme park operators, you wouldn't know it from little (estimated 1990 sales, $119 million) Cedar Fair, L.P. Headquartered in Sandusky, Ohio, Cedar Fair owns and operates two amusement parks: Cedar Point, in Sandusky, and Valleyfair, in Shakopee, Minn. Cedar Fair was recently holding its own at 12 1/2 on theNYSE.

Over the last four quarters, Cedar Fair's payout was running at an annual rate of $1.25 per each of its 21.2 million limited partnership units. Then, in September, the company increased this distribution by 20 cents, to an annual $1.45. At current prices, that makes Cedar Fair's yield a rich 11.6% per unit. As a limited partnership whose profits are not subject to corporate income taxation, Cedar Fair must pay out most of its earnings to its limited partners.

Analyst Charles Cerankosky of Cleveland's Prescott, Ball & Turben, who has a buy on Cedar Fair, thinks it will earn $1.50 per unit this year and looks for an increase to $1.60 in 1991.

One reason Cedar Fair is a success, he says, is that Cedar Point, which accounts for most of its volume, is a "low-cost recreation destination for the Midwest." The company is building a $7.5 million, 160-foot-tall, 65mph wooden roller coaster at Cedar Point, which will be the tallest wooden roller coaster in the world. It already operates the 205-foot tall, 72mph, steel Magnum XL-200, the world's largest roller coaster.

In a market that itself resembles a roller coaster, Cerankosky thinks Cedar Fair's good management and good yield give you something solid to ride through any scary drops to come.

Selling opportunity

What a difference a military crisis can make. Earlier this summer the problems of giant aerospace contractor McDonnell Douglas Corp. were front page news. By late June the stock had nose-dived to 34 on the Big Board. Then came Saddam Hussein. By mid-September the shares had climbed to over 50, and lately were still trading around 46, up roughly 35% from the June lows.

No mystery about this rebound. Previously, investors were concerned about the impact of defense cuts on the $16.5 billion (estimated 1990 sales) company. Now they are focused on how it may benefit from military spending brought on by the Middle East affair. For instance, the U.S. has proposed to supply Saudi Arabia with more F-15 fighter jets, which McDonnell makes, although the deal has yet to be approved by Congress.

Still, it will take a lot more than a Middle East fracas to keep McDonnell flying at even its present altitude, worries analyst John Simon of Los Angeles' Seidler Amdec Securities. He doesn't look for a substantial increase in production of the F-15. Ditto the AV-8B and F/A-18 fighters and the AH-64 helicopter, also manufactured by McDonnell.

Meanwhile, McDonnell continues to be plagued by serious cost overruns on its fixed-price contracts for the T-45 training system and the A-12 attack plane. On the commercial side, the MD-11 passenger plane still hasn't been certified as flightworthy by the FAA.

Earnings per share? Simon offers no estimate. "At this point," he says, "about the only thing you can count on recurring are nonrecurring items."

Among the other, bigNYSE-listed aerospace contractors that Simon argues should be avoided are Grumman Corp. (recently 15 1/4) and Northrop Corp. (15 3/4). They have recovered 25% and 15%, respectively, from their 12-month lows. Persian Gulf or no, Simon says it won't be long before both stocks retrace their recent gains.

Euro-sticker

One company not fretting over the weak dollar is $456 million [sales] Loctite Corp., which makes adhesives, sealants, coatings and specialty chemicals for both the industrial and consumer markets. More than 70% of Hartford-based Loctite's profits are from overseas, primarily Europe. The positive currency translation effects Alexander Fabis foresees for many U.S. companies (see p. 126) will be very positive for Loctite.

Loctite is not nearly as vulnerable to recession as in the past. Whereas the U.S. original-equipment auto market accounted for 15% of profits in 1982, now it represents only around 7%. Too, Loctite has an excellent record with new products. Some 26% of current sales are generated by products that were introduced during the past five years.

For the calendar year ending this December [in September the company switched from a June 30 fiscal
year], analyst Robert Bartels of Chicago's William Blair & Co. thinks Loctite will earn $3.67 a share. He looks for a 10% gain, to $4.05 in 1991. At a recent NYSE price of 46½, down 25% from its 12-month high, he thinks the stock's cheap at just 11 times next year's anticipated earnings.

Loctite's international strength has also caught the eye of a big foreign investor, Germany's Henkel KGaA. In 1985 Loctite's founding Kriebel family sold 25% of the equity to Henkel, which currently owns nearly 27% of the 18.2 million shares. Henkel has the right of first refusal on the Kriebles' remaining 14% stake.

**MMT, mm-mm good**

Speaking of specialty chemicals, William Blair's Bartels also thinks there is great leverage in $2.4 billion [revenues] Ethyl Corp. Recent NYSE price: 25%. Headquartered in Richmond, Ethyl manufactures industrial chemicals and petroleum additives. It also owns $4.4 billion [assets] First Colony Life Insurance, which generates roughly 30% of profits. On the health of the insurance business, Bartels notes that it has never had a down quarter since 1982. As for chemicals, foreign markets account for about half of profits. Again, a weak dollar is helping.

But the real kicker in Ethyl, says Bartels, is something called MMT, a proprietary gasoline octane improver. MMT reduces total emissions. It has been endorsed by GM. Refiners like it because it is a cheap way to raise the octane rating of gas. In addition, it would promote lower oil consumption. According to Bartels, if MMT were used in all unleaded gas sold in the U.S. this year, it would save roughly 30 million barrels of oil, about as much as is set aside annually for the strategic petroleum reserve. Ethyl currently is applying for the EPA's approval of MMT. The agency is to decide by Nov. 5. Its chances, says Bartels, look good. But if the EPA says no? Canada already uses it; France, Mexico and others are considering it.

Bartels thinks Ethyl's earnings will rise only 7% in 1990, to $1.95 a share. But if MMT is approved, he's looking for $2.40 next year. Even without MMT, however, he still expects it to earn a healthy $2.20 a share. So the stock currently sells for a reasonable 11 or 12 times his 1991 estimate: MMT or no, Bartels says it's a buy. [There are 119 million-odd shares, the Gottwald family controls over 18%.]

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Flashbacks

Edited by Dero A. Saunders

"The more things change, . . ."
Items from past issues of FORBES

**Seventy years ago in FORBES**
(From the issue of October 16, 1920)
"Thomas A. Edison has just told me what started him on his quest for an electric light that would knock gas and the gas people into a cocked hat: 'I was paying a sheriff $5 a day to postpone a judgment on my small factory,' says Mr. Edison, recalling the days of 40 years ago. Then came the gas man, and because I could not pay his bill promptly, he cut off my gas. I was in the midst of certain very important experiments, and to have the gas people plunge me into darkness made me so mad that I at once began to read up gas technique and economics, and resolved I would try to see if electricity couldn't be made to replace gas and give those gas people a run for their money. I stuck to my search for four years, but I was so poor an economist that I didn't hurt them at all except lately, 40 years after having my gas cut off."

—B.C. Forbes

**Fifty years ago**
(From the issue of October 15, 1940)
"We need ships, we need aircraft, we need steel and other metals. But the likelihood is that our automotive manufacturers will be relied upon more heavily than any others to fashion the enginery of war. They already are supplying shells. Upon them will press the cardinal responsibility of providing our multiplied armies with tanks, small and monstrous, which have played so decisive a part in Germany's victories."

"Many companies are working out pay plans for employees who'll be called to military service. Two plans, however, are widely favored. Under one, drafted employees are paid the difference between their regular earnings up to $3,500 a year and their Army pay. Under the other plan, draftees are paid a bonus [in most cases two months' pay] when called to the colors."

**Sixty years ago**
(From the issue of October 15, 1930)
"Anyone who has traveled through Europe with eyes and ears open must return to the U.S. with [several] important impressions.
"First—He must be impressed with the resentment among the various countries of Europe in regard to our tariff ... resentment [that] has been in no way softened by the salve applied by our representatives.
"Second—In all parts of the territory of the former Central Powers ... there is a confident feeling that the present political subdivisions will not be permanent and that the former political subdivisions will at some time be restored."

"The aviation world continues to learn lessons but they are often exceedingly costly. The destruction of the British dirigible, R-101, on its first long flight, with the loss of nearly 50 lives, many of them famous, has again arrested public enthusiasm for air travel by dirigible. The ship was the largest and newest in the world, sister ship of the R-100 which recently visited America. The lessons are probably better weather reports, better navigation and safer [inflating] gas."

**Twenty-five years ago**
(From the issue of October 15, 1965)
"In 1946 Xerox Corp., or Haloid Co. as it was then known, had sales of $7 million—almost entirely in photographic papers—and profits of $101,000. By the end of the Fifties its sales had more than quadrupled, while profits were up twentyfold. At this point most companies would have lost at least some of their momentum. Not Xerox. In 1960 sales spurted 17%, net income 25%. And then, whooosh! Sales jumped 66% in 1961 to $61 million, nearly doubled the next year, climbed a further 53% in 1963, did the same in 1964 and will be up about 50% this year. The momentum will have carried Xerox in only five years from sales of $37 million to $400 million ... from earnings of 13 cents a share to around $2.75."

"Over the past decade [American Home Products'] earnings per share have jumped almost 200% to $2.65 in 1964 on a revenue increase of some 143% to $571 million last year. Its common dividend, boosted every year of the last ten, is almost three times what it was in 1955. In the ethical drug industry where it gets 43% of its volume and much more of its profits, its 32% return on equity is matched only by Smith, Kline & French."

**Ten years ago**
(From the issue of October 15, 1980)
"New Jersey lawyers have come up with a new way to ensure upfront payments for their services—installment bank loans for clients. Four years in the making ... the plan allows would-be litigants to borrow as much as needed to meet legal costs. ... The rates ... will be 'competitive' with credit cards, which means about 18%.

"Investors, that timid breed, dearly love risks that succeed, and will in fact pay big premiums for the stock of a company whose gamble has already paid off. By the same token, the timid breed dislikes risks where the outcome is still unclear. Citicorp is paying that price. The supergrowth era of the early 1970s, when investors cheerfully paid 24 times earnings for the stock, which sold for $51.50, is over, at least for now. Citicorp's shares sell at 22 1/8 and carry a price/earnings ratio of 5."
Memory: A child walking along a seashore. You never can tell what small pebble it will pick up and store away among its treasured things.

Pierce Harris

A good storyteller is a person who has a good memory and hopes other people haven't.

Irvin S. Cobb

She is an excellent creature, but she can never remember which came first, the Greeks or the Romans.

Benjamin Disraeli

Not the power to remember, but its very opposite, the power to forget, is a necessary condition for our existence.

Sholem Asch

There are many books which we think we have read when we have not. There are, at least, many that we think we remember when we do not. An original picture was, perhaps, imprinted upon the brain, but it has changed with our own changing minds. We only remember our remembrance.

G.K. Chesterton

Memories may escape the action of the will, may sleep a long time, but when stirred by the right influence, though that influence be light as a shadow, they flash into full stature and life with everything in place.

John Muir

A man's memory may almost become the art of continually varying and misrepresenting his past, according to his interest in the present.

George Santayana

A habit of debt is very injurious to the memory.

Austin O'Malley

Thoughts on the Business of Life

If you can read and don't, you're dumb.

People who can't see without glasses should wear them.

Over the years, I've evolved a somewhat heretical but time- and mind-saving approach to books, articles, editorials that deal with weighty matters. More often than not, by beginning at the end and contemplating the conclusions, one can determine if it's worth going through the whole to get there.

Malcolm Forbes

The one who thinks over his experiences most, and weaves them into systematic relations with each other, will be the one with the best memory.

William James

No man has a good enough memory to make a successful liar.

Abraham Lincoln

Diary: A daily record of that part of one's life which he can relate to himself without blushing.

Ambrose Bierce

Nothing fixes a thing so intensely in the memory as the wish to forget it.

Michel de Montaigne

A man's real possession is his memory. In nothing else is he rich, in nothing else is he poor.

Alexander Smith

Oh better than the minting
Of a gold-crowned king
Is the safe-kept memory
Of a lovely thing.

Sara Teasdale

A Text...

Be not rash with thy mouth, and let not thine heart be hasty to utter any thing before God: for God is in heaven, and thou upon earth: therefore let thy words be few.

Ecclesiastes 5:2

Sent in by Jean McClay, Palmerston, Ont., Canada. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Past: Our cradle, not our prison, and there is danger as well as appeal in its glamour. The past is for inspiration, not imitation, for continuation, not repetition.

Israel Zangwill

What was hard to bear is sweet to remember.

Portuguese Proverb

Life is all memory, except for the present moment that goes by you so quick you hardly catch it going.

Tennessee Williams
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Hyundai. Yes, Hyundai.
The year the rich got poorer

Welcome to The Forbes Four Hundred, 1990—the new edition of our annual compendium of the 400 richest Americans.

Like the rest of us, the very rich come in three ego sizes: small, medium and extra large. The extra-large egos can be difficult to deal with; they sometimes try to convince our reporters that they're richer than we think they are. Lisa Gubemick, one of the editors on the issue, tells this story: “Late in September I received a phone call from one of our rich-listers. A company of which he is a major shareholder was in talks to be taken over by the Japanese at a huge premium. We had figured his wealth at around a half-billion dollars, but if the Japanese deal went through, he would be a billionaire. Why don't we count him as a billionaire?” Gubemick thanked him for his interest but said not to worry about money that's on the way.

And with good reason: The above prospective billionaire notwithstanding, 1990 has been a year when most rich folks have been content merely to hold on their own. It has been a year when such famous rich-listers as Donald Trump fell off the roster, as did 42 others. More than a few of the survivors took multibillion-dollar hits to their net worths—especially people in media and communications.

Thus, for the first time in the nine years we have been compiling this list, the price of admission went down, from $275 million in 1989 to $260 million in 1990. Adjusted for inflation, the drop was over 11%. Harry Senneter explains why in “The Richest people in America” on page 116. (Harry ought to know; he has headed The Forbes Four Hundred operations back in their 1982 days.)

Here are a few other interesting facts and figures:

One hundred thirty-nine members of The Four Hundred are 70 or older. The average age is 64; only 13 are under 40. The oldest: Mansfield Freeman, 95. The youngest, self-made millionaire: William Gates, 34.

The average Forbes Four Hundred member has 3.02 children; the national average is 1.87.

Nineteen, or 4.7%, are immigrants—a smaller proportion than the population as a whole (6.2% in 1980).

Sixty-two are women; 338 are men.

The states with the most Four Hundred members: New York, 78; California, 64; Texas, 31; Pennsylvania, 20; Florida, 19; Illinois, 16; Ohio and Virginia, 12 each. The New York City and Los Angeles metropolitan areas accounted for nearly 27% of The Four Hundred but less than 10% of the U.S. population.

One hundred eighty-three members of The Forbes Four Hundred control fortunes that were mostly or entirely inherited; 217 built their fortunes from scratch or near-scratch.

Only 20 have fortunes derived principally from manufacturing. Real estate counts for far more: 60. The media took a bad beating this year, accounting for just 40 fortunes, down from 72 last year.

Unwelcome news for educators: Net worth of Forbes Four Hundred members who have graduated from college is around $625 million. The average for those who never attended college: $652 million.
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Performing Michael Jackson is rich but not yet among The Forbes Four Hundred, we estimate his net worth at around $175 million and counting but still $85 million shy of cracking our list. Six years ago, when he was 26, we estimated Jackson had amassed a personal fortune of $70 million (Oct. 1, 1984).

How come his fortune isn't growing faster? Despite the hit 1987 album *Bad*, he's had a few slow years in between. His expenses, especially when he's on the road, can run high. Folks close to him say he spends up to 35 cents on every dollar he earns. Recently, amid rumors that he's going through an emotional crisis, Jackson put touring and recording on hold. His split with longtime business and legal adviser John Branca will further delay any new album. On top of that, Jackson's future with his record label, CBS' Epic division, is uncertain. Jackson has been talking to record mogul David Geffen. Could he be considering a shift to Geffen's label at MCA?

Still, the way the money has been pouring in, Jackson should one year make our list of the 400 richest Americans.—Peter Newcomb

Blue jean blues

In retailing, you can make it mass or make it class, but it's not easy to make it both. VF Corp., the maker of Lee blue jeans, is learning this lesson the hard way. A serious deterioration in jeans sales during the crucial back-to-school season has forced the company to concede that its fourth-quarter earnings will be "well below recent estimates." This, after second-quarter earnings fell nearly 50%. Eager to boost sales, the jeansmaker began selling its venerable Lee brand

FORBES 400/OCTOBER 22, 1990
The legacy of the Movado® Watch is the ‘roots’ of the Esquire® Collection.

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The Movado Lunar Watch, 1945, "told" time from seconds to the lunar phases. It was recently auctioned at Sotheby’s for $5,500.
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Follow-Through
in mass-merchandise and discount stores such as Target and Venture. As Forbes said (Feb. 6, 1989), this began to hurt Lee jeans sales in the higher-end stores.

Lee's stock, traded on the New York Stock Exchange, has dropped to 15, from about 30 when our article ran. Retailing sources reckon that the company's troubles are still far from over. Says one retailer: "My business with them [Lee] is going to be zero this year. They've lost their true-blue customers—department stores and specialty stores. I don't see how they can recover."—Gretchen Morgenson

Together at last
Nancy Hoover has joined her former lover, J. David (Jerry) Dominelli, in the slammer. Hoover helped Dominelli bilk investors in a Ponzi scheme built on bogus foreign currency trading. The couple operated through an outfit called J. David & Co., based in San Diego.

Earlier this year she pleaded guilty to fraud; last year she was found guilty of evading $1 million in income taxes during the scam. The Californian golden girl is now serving a 10-year sentence. Dominelli has already served 5 years of a 20-year sentence for fraud. Dominelli's bankruptcy filing has left him one of the brokest people in America (Forbes Four Hundred, Oct. 27, 1986).

The couple's victims? They're coming out better than expected. After distributions from Dominelli's estate—and from the culpable lawyers, accountants and banks—investors will get about 82 cents on the dollar, a total of $70 million, net of fees. Thus they make out better than a lot of investors in allegedly legitimate junk bond deals.
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For the record

For a man who made his fortune in communications, CBS founder William Paley has always been remarkably tight-lipped. It turns out that Paley has quietly pulled the plug on an authorized biography, in the works since 1986. It was supposed to be published by Bantam about now to com-
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Forbes Informer

There are 13.5 million I.G. Farben shares, which have dozed between $3 and
$7.75 for the last two decades.
But Farben’s shares suddenly jumped to $20 this summer, before retreating to a recent $14. Why the
sudden interest? Investors are betting that Farben might get a big check from
the German government for assets confiscated by the Soviets in
1945. Farben’s factories in the East, centered in Leipzig and Chemnitz,
formed the base for what was East Germany’s chemical industry. Those
factories are decrepit nowadays, but under a quirk of German law Farben
may be entitled to restitution from the government if it can prove the
Soviets never legally took title when they nationalized the assets.
Farben Chairman Ernst Bartels says
the company stands a good chance of
getting some money. Better yet, manda-
datory liquidation is nigh, once that
remaining lawsuit is settled and the
last of Farben’s pensioners dies off. At
today’s book value, each share is
worth about $6.50, but other reserves
and real estate should bring in another
$8.50 per share. Toss in some settle-
ment money, and company watchers
figure Farben’s corpse could be worth
$20 a share or so.—Peter Fuhrman

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COSTLY COMPROMISE

Congress will begin repairing its reputation with the American people by rejecting the budget package hammered out by its leaders and the White House. That agreement would hurt the country by increasing deficits, undermining competitiveness and deepening the recession.

To boost taxes during a slowdown is folly, similar to the old medical practice of bleeding a patient. State and local levies have risen throughout the Union. Adding a new bevy of federal exactions will multiply our economic woes.

Failure to include a capital gains tax reduction is foolishness compounded. A lower rate would increase the value of real estate and financial assets, thereby stimulating new investment and reducing the cost of the banking bailout. The convoluted investment incentives in the compromise will have only a fraction of the impact of a straightforward tax cut and will invite tax-shelter abuse.

The summiteers are oblivious to the extraordinary number of new products, services and technologies Americans are inventing. But venture capital has dried up. We are giving foreigners an unfair advantage by not developing these breakthroughs here in the U.S.

The Federal Reserve will be tempted to resort to inflationary money printing to give the economy a new kick now that we cannot rely on individual initiative to do the job.

Deficit reduction is best achieved by a vibrant, not weak, economy. The quicker Congress scraps this deal, the better.

IMPERMANENCE OF WEALTH

For the first time since its inception, the cutoff for inclusion in The Forbes Four Hundred fell from the previous year's, from $275 million in assets to $260 million.

The drop underscores something Forbes has long emphasized, and that's how transient wealth can be. It is not hard assets, such as gold bars or cash in the bank, that count, even in illiquid times like these. It's owning, directly or indirectly, viable businesses. A vibrant economy is a changing one. What people value one year, they may discount the next. The past decade has seen this with a vengeance in real estate, oil and communications.

What is remarkable about the Forbes lists over the years is how much they change. The growth from 1982 to 1989 in the minimum wealth needed to make the list, from $92 million to $275 million, reflected both economic growth and the appearance of new industries, as well as the impact of technology on existing ones. The more changes in the members of this list, the healthier the economy.

Those who worry about the power of plutocrats should be in favor of a capital gains tax reduction and sensible deregulation. That's how you create conditions for people to start new businesses and to challenge existing ones.

This year's dip should be an aberration. This recession, though it may be unnecessarily deep thanks to Washington, will end in a few months. The Iraq crisis will conclude even before that. Today's pessimism will be no more enduring than the overoptimism that punctuated the past decade.

LESSON STILL UNLEARNED

The dollar has traditionally been a safe haven during an international crisis such as Iraq. This time, people are fleeing from it.

Why? A lack of faith that the U.S. will defend the integrity of the greenback. Treasury Department policymakers are quite content to see the dollar fall because they think this improves our trade balance. The idea that you can increase your wealth by trashig your money is ludicrous. Just look at Latin America to see where that thinking leads.

A weak dollar leads to more inflation. We overdid the devaluations from 1985-87 and paid for it in rising prices in 1988 through early this year. A weak dollar also hurts our high-technology industries, which are dependent on imports. The gains on trade are ephemeral: The increased inflation at home does away with the windfall within two to three years.

Why doesn't anyone challenge the Treasury on its myopic, destructive thinking?
Malcolm created it and exploited it to the hilt. Now that he’s gone, how well will son Steve market the family name? The answer will guide one of America’s most conspicuous emblems of capitalism.

Family Business: When problems come up, do you find yourself wondering what your father would have done in the same situation?

MSF Jr.: Not really. That would put me in a straitjacket. And it wouldn’t work because he didn’t have a formula. If I face a problem, I don’t wonder, “Gee, he would have done it this way, or he wouldn’t have done it that way.” I don’t know what way he would have done it. So what I miss is the imagination, the unpredictability.

FB: How do you plan to make your own mark?

MSF Jr.: If you start out by asking yourself that question, it’s a sure sign you’re going to trip up. Making your mark comes from enjoying what you’re doing and doing what you do well—and when opportunities come along, exploiting them aggressively.

FB: That was certainly true of your father and probably your grandfather, too. Let’s go back for a minute and talk about that first important decision your grandfather, B.C., made—to start the magazine and to hang the family name on the door.

MSF Jr.: My grandfather made his reputation as a business writer for Hearst. As many journalists do, he wrote far more than he could use in his column. He wanted to run his own show, so he started Forbes. By 1928, the magazine did very well and Hearst offered to buy it for $1 million cash, a huge sum in those days. My grandfather turned it down. Within four years the magazine was virtually bankrupt because of the Depression.

The only way my grandfather kept the publication alive during those years was through his earnings as a Hearst columnist, from freelancing, and by not cashing any of his paychecks from Forbes. He put them in a safe. One of his greatest achievements, years later, was being able to cash every one of those checks.

FB: Why did B.C. decide to use the family name on the magazine?

MSF Jr.: B.C. was originally going to call it something like Doers and Doings. Others pointed out he had a franchise on his name because of the Hearst column, so why not use it?

After World War II my grandfather offered my father $100 a week to work for Forbes Inc. He grabbed it. And he became very active on the magazine, and started the first investment newsletter, which sold in those days for $35 a year. The newsletter provided some of the capital that revived the magazine after the Depression.

One of my father’s other early endeavors, during the late Forties, was the launch of Nation’s Heritage magazine. It was large, like a big picture book, and the subscription price was $150 a year—that would be like charging $700 or $800 today. It was very lavishly done, but he spent so much money on the production, he didn’t have any left over for promotion, and the magazine folded. He never made that mistake again.

FB: Was this about the time he launched his political career?

MSF Jr.: My father wanted to be President of the United States. In the Fifties he was in the New Jersey legislature. He ran for governor of the state twice. The first time, in 1953, he lost the Republican nomination. Four years later he got the nomination and in the election, as he put it, he was “nosed out by a landslide” by a very popular incumbent. Finally, he realized his political career was not going to succeed, and he turned his attention to the magazine.

FB: How did he assuage his self-esteem? After all, he could easily have felt that he had failed at what he really wanted to do and used the family business as a way to bail himself out.

MSF Jr.: One of his more remarkable features was his ability to put behind him something that went wrong and go on to the next thing. A lot of people his age would have had a hard time revving up elsewhere if their life’s ambition had been thwarted. He never had that problem.

FB: One of his longtime employees claims your father’s flair for marketing brought about the Forbes success.

MSF Jr.: My father recognized that although the magazine was very strong editorially, it wasn’t going to sell unless he went out and brought it to people’s attention. He pulled out all the stops.

His early marketing activities sound rather mundane today, but they worked for us for a number of years: an advertising campaign in major papers and trade press; luncheons with CEOs at the townhouse adjacent to our offices—that was something he perfected. He also entertained corporate and political chiefs and foreign dignitaries on our boat, the Highlander, much more than his brother

(Continued on p. 380)
A ship batters through ice and drops anchor 600 miles north of the Arctic Circle. An intense man strains to focus a sonar image. Slowly, the ghostly silhouette of a three-masted bark takes form. HMS Breadalbane, at last. The three-year quest of Dr. Joe MacInnis is over.

But if finding the world’s northernmost shipwreck had been an epic challenge, exploring it was to prove a greater test. Even for Joe MacInnis, the first to dive beneath the North Pole. The 128-year-old wreck was entombed in 342 feet of water, under 6 solid feet of ice.

It took three more grueling years to establish a camp, bring in supplies, assemble and test equipment. Holes had to be hacked through the granite-like ice. Tents were then erected over them to protect the team and equipment from polar winds. Eventually, a diver descended into the hostile sea.

57 fathoms down, the evidence confirmed what the cameras had predicted. The vessel was perfectly preserved by the frigid, virtually pollution-free Arctic water.

Brandishing the Breadalbane’s coral-encrusted wheel, the exultant diver surfaced. Not only had the historic MacInnis expedition triumphed, but its pioneering methods and instruments had also advanced the science of Arctic underwater exploration.

In the unknown, inhospitable Arctic deep, choosing the right equipment can mean the difference between success and failure. For over 15 years, Dr. MacInnis has relied on Rolex.

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Other Comments

Golden Asset

The least physical ailment, like a gouty toe, or a dull ear, or a decayed tooth, will subtract more from comfort than all the riches in the world can add.
—Great Riches, by Charles W. Eliot, president of Harvard University (1869-1909)

Rude Awakening

Servants became a luxury that fewer could afford, and this wreaked traumatic changes in the lives of noblemen who had grown used to attendants dealing with every detail of their lives—even down to placing paste upon the noble toothbrush: The Duke of Marlborough’s rude shock at the reality of life without a valet was marked by a roar of dismay from his bathroom: “What’s the matter with my toothbrush? The damned thing won’t foam any more!”
—Aristocrats, by Robert Lacey

Can You Buy It?

I tried to phone Yoshiaki Tsutsumi to ask him if he is genuinely happy. The reason I wanted to ask is that he has been rated by Forbes magazine as the world’s wealthiest individual.

One of the glaring flaws in the magazine’s annual list of the world’s richest people is that they never ask all those billionaires if they’re really having a good time with all that scratch. And that’s an important question since most of us were told at an early age that “money can’t buy happiness.”

One of my uncles told me that when I asked him for a dime, and for a while I believed him. Then one day I saw his reaction when some horses came in and he hit on a daily double, and I knew that he had been lying.

So I’ll keep trying to reach Yosh to ask him if he’s happy. If it turns out he’s not, that’s worth knowing. Then the rest of us can stop grudging after our first billion.
—Mike Royko, Chicago Tribune

Palace Clot

Why is it that some people do better than others? You can be born in a palace and be an absolute clot, not get anywhere or do anything, or you can be born in a backstreet and do brilliantly. It isn’t only the environment but the way in which your parents can stimulate your imagination. Schools could do more, I think, allow a little unconventionality. Unconventional teachers tend to get knocked on the head.
—Prince Charles, interviewed by Rosemary Bailey, Engineering Today

Hooray! Hooray!

People are apt to say of whoever is this year’s Daddy Warbucks, “He could have fed a small country with what that party cost him.” Well, maybe he did feed a small country with what that party cost him. Which is why I say to the rich, “Keep it up!”

I do not want them to put any more money into art or antiques because that way it doesn’t get spread around. I want to see more parties, and more foolishness, and I pray for the emergence of a couturier who can unfold checkbooks. I want to see that money fly. I bless the rich for doing all that I do not do, and in spades.
—Mary Cantwell, New York Times

Immorality is the morality of those who are having a better time.
—H.L. Mencken

Perils of Publicity

The Medici policy was one that rich men through the ages have ignored at their peril: “Be as inconspicuous as possible.” It was only with the accession of Lorenzo as head of the house that the Medici name came to stand first of all for magnificence of life and splendor of the arts. While Lorenzo pursued his destiny as the central pillar of the cultural Renaissance, the banking house slid slowly downhill. By the time Lorenzo died in 1492 it was outshone by its rivals.

A Punishing Investment

Long after her death, John D. Rockefeller recalled an instance in which his mother switched him for an offense he had not committed. In the middle of the punishment, after he had finally convinced her of his innocence, she said, “Never mind, we have started in on this whipping, and it will do for next time.”
—The Rockefellers, by Peter Collier and David Horowitz

No Keyholes Either

Society should be exclusive, and the first necessity was to devise rules which would dictate who was to be kept out. Mrs. Potter Palmer, with typical Chicago directness, kept people out in the simplest possible way: There were no handles on the outside of her doors, so that admission might only be obtained at the discretion of those within.
—The Dollar Princesses, by Ruth Brandon

"Call me a sentimental fool, but I still worship the almighty dollar."

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one that was serious enough to deploy air bags, the drivers walked away without serious injury.

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**GERMANY . . .**

Germany has recently made two decisions that illustrate the really absurd results that can flow from following an obsession without regard to where it takes you.

First, Foreign Minister Hans Dietrich Genscher agreed to Soviet demands that the Russians can take four years in which to remove the roughly 380,000 troops they have in East Germany. Further, Germany will pay most of the costs of keeping those troops there for the four years.

Second, the same Mr. Genscher agreed that within four years Germany will reduce its armed forces by more than 125,000, down to 370,000. In addition, Germany will build and pay for housing for the German-based Soviet troops when they return to the U.S.S.R. When asked if that was going to cost as much as $6.5 billion, Genscher said, "Yes," but it is a "question of the price of German unification."

These concessions were made, of course, because Gorbachev demanded that the Germans do so as a condition of the Soviets' agreeing to let Germany, when newly unified, remain a member of NATO.

The absurdity of accepting such demands is partially demonstrated by the worries many Germans have about the huge cost of rescuing East Germany from the ruins of its socialist economy. Those worries may be unfounded: West Germany's economy is very strong. But is it strong enough to maintain two armies, one Soviet and one German, for four years? And then to have its economy absorb a part of one of those armies? And does any of this have any relationship whatever to Germany's defense needs?

The ultimate absurdity is that neither of these decisions was necessary. The U.S.S.R. is in no position to dictate terms to Germany on its unification, or on its decision as to what, if any, international organizations it will join.

But the word is out that Gorbachev should be given what he asks for: nothing must obstruct Germany's rush for unification; nothing must block the vote for a newly unified German government by December. So there must be agreement to any Soviet demands. This is easy for Mr. Genscher, who has long been known for his desire to accommodate the Soviets, sometimes even before they made demands.

What if Mr. Gorbachev survives as only a ceremonial leader, with the real power passing to Mr. Yeltsin and the leaders of the other former Soviet socialist republics? What then will Genscher's concessions have bought?

In the final analysis, as always, it is a better government that decides policies on their merits rather than on presumed political advantage it hopes to gain.

**. . . AND THE U.S.S.R.**

Headlines recently proclaimed, "GORBACHEV ENDORSES PLAN FOR FREE ENTERPRISE IN 500 DAYS." You had to read the story to find out he did no such thing. The issue came up in the Soviet's national Parliament. Gorbachev was much criticized for equivocating on his prime minister's plan for economic reform—a slow, very tentative proposal to ease some price controls, while keeping rigid central authority in Moscow and resisting private ownership.

On the other side was the Shatalin plan, by economist Stanislav Shatalin and favored by Boris Yeltsin, head of the Russian republic: The "500-day plan" gives the 15 republics vastly greater sovereignty and virtually total economic autonomy, and lets them move quickly to allow private ownership. It also creates a banking system and a stock market and permits many consumer goods to be imported.

After being heavily pressed by his own delegation as to which plan, if any, he favored, Gorbachev finally said, "I am more impressed by the Shatalin program." Prime Minister Ryzhkov was astounded and showed it. Gorbachev later compounded the confusion he caused by asking for a referendum on permitting private ownership, keystone of the Shatalin plan.

Then he demanded and received from his own parliament dictatorial economic powers. This is strongly opposed by the major Soviet republics. Yeltsin did not wait. His Russian Federation Parliament immediately endorsed the Shatalin plan. As Shatalin rightly said, the country's biggest republic's supporting his plan for private enterprise within 500 days "settles everything."

Gorbachev, far behind Yeltsin in the polls, is becoming more irrelevant every day, as the 15 republics, led by the biggest, begin traveling the Capitalist Road over 500 days.
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**Tips from winners in the game of wealth**

By Vicki Contavespi

At 76, John Werner Kluge has accumulated more wealth than anybody else in the country. In a year that has seen erosion in the fortunes of the richest Americans and the disappearance from The Forbes Four Hundred of familiar faces (see story, p. 312), Kluge emerges clearly as the richest man in the U.S., worth an estimated (and conservative) $5.6 billion. His wealth stems from a string of activities, ranging from peddling potato chips to trading in broadcasting and cellular telephone properties.

Recently, in a wide-ranging interview in his New York offices, John Kluge talked about his life and about what he thinks has really been important in business life. Like many people looking back over an extraordinarily long and productive career, Kluge probably romanticizes some aspects of the past. But buried in his homilies lie clues to how the country’s richest man got that way.

Successful business people often turn out to be avid gamblers. Whether the game is poker, bridge, blackjack or the horses doesn’t matter; what matters is the game itself. The essence of these games—the systematic weighing of risks against rewards against mathematical probabilities—is the essence of business itself. So it is not surprising that John Kluge has been a gambler since his school days.

Go back to the Depression years, when Kluge, the son of an engineer, was in college. “I worked three jobs,” he says, “and got a scholarship to Columbia. But I loved to gamble in those days. The dean called me into his office and said, ‘We just don’t understand. You’re up gambling half the night.’ So I said, ‘You will never catch me gambling...”
again." But I never said I wouldn't play. I had a book all ready and if there was a knock on the door, I had to fold my cards.

Then one night there was a knock on the door, Kluge recalls. "I can still see the cards. Five-card stud. The first card down was a five and the first card up was a five, so I had two fives back-to-back. Then there were two inconsequential cards. I looked around and nobody had anything and so the betting was going on and then came the third five. Three fives—and then a knock on the door."

Down went the cards, up came the book to fool the dean. "But the knock on the door was the fellow from next door with a headache. He wanted some aspirin. He might have gotten rid of the headache, but I immediately got one."

This experience, though it wasn't received in a classroom, was probably worth Columbia's $400-a-year tuition at the time. It was a young man's ultimate weighing of risk against reward: Kluge could play out the winning hand, but only at the risk of expulsion from Columbia. Better, he calculated, to fold now and play again later. And he was right. Thanks to his gambling skill, he says, "I came out of college [in 1937], with $7,000." That would be the equivalent in today's money of maybe $70,000. Not a bad nest egg for a young fellow just starting out.

Columbia was lucky not to have expelled him. Last month Kluge donated $25 million to the university for the recruitment and training of new professors and scholars.

Kluge is not shy about the gambling aspect of his business skills. "The greatest factor in my life," he insists, "and I know entrepreneurial people don't want to express it, they think it diminishes them, but luck plays a large part." As in cards—but in both, what really counts is how you play your good or bad luck.

He offers an example: "I was walking along a street in Washington and a young man that I knew said there's a possibility to buy the old Dumont Broadcasting. Now, if I hadn't run into him on the street, [Metromedia] might never have happened. Because [after bumping into him] I looked into independent television." Looked—and acted. The young fellow he lucked into was like turning up that third five. The chances of either event's happening were minuscule. But no one succeeds in business or in poker for very long on luck alone; conversely, all smart business people build into their plans exit strategies enabling them to limit their risks.

Kluge: "I think the ability to gauge risks is crucial. I never ordinarily take on things that I can't see some end to, where you pile risks on risks. We are seeing a time where risks on risks are being liquidated. There's just an awful lot of excesses. I think when this period is over, the people who have gone through it will be a lot more seasoned. One is very fortunate if one learns that early." At the card table, for example.

"My whole thrust has always been going into a business that I would like," he adds. But for people like Kluge, who still bursts with energy and enthusiasm at 76, the years of learning cannot easily be divorced from the years of doing: He always learned by doing, not by studying. And, before investing money, he would invest time and effort. "Young entrepreneurs should spend an awful lot of time thinking about what they want to go into. The last thing you want to do, unless it's a very unusual
situation, is to invest money. You should have a fund of knowledge of something and out of that you make up your mind. Money is not a fund of knowledge."

But appreciating the odds certainly is, and nobody seems to appreciate them better. Consider this tale of risk-taking:

"I flew down to Washington [in 1982] for a Comsat luncheon and a lawyer friend of mine said, 'You ought to be in telecommunications.' And I said, 'What's that?' Now this is where the luck factor came in. He sent me this information [about cellular telephone licenses]. I read the material, I thought about it, and I put $300 million on it without thinking it clearly through, I just had a certain instinct that I felt from experience. People say they don't want cellular phones, don't want to be bothered with it. People want to be bothered. Cellular will be much larger than it is now because the costs will come down."

At that time, $300 million may not have meant much more to Kluge than his $7,000 net gambling win from college card games, but it turned out to have been one of Kluge's best bets.

"Cellular is going to expand much more," says Kluge, who has kept his hand in the cellular game by taking some equity in LCH Communications Inc. as part payment from McCaw Cellular for his share of Metro One. LCH's subsidiary, LIN-Penn, owns 49% of Metrophone, Philadelphia's cellular franchise. But if Kluge thinks cellular will be so much bigger, why did he sell Metro One to LIN in the spring of 1989?

"When we buy an asset," he explains, "we look at it as a return on the investment. With cellular, you are buying a future price. In that light, the price we got [$342 per pop, last year] may not have been the peak, but it was a good value at the time. Sometimes I might not maximize an investment. But I don't deal in 100%, I deal in 80% to 85%."

It's the intelligent gambler's basic rule: Balance the risks against the rewards and go home with some money in your pocket, even if that means leaving something on the table.

Leaving the table doesn't mean leaving business, however. There's always another game somewhere.

A rigid mind, one that creaks every time circumstances change, is a terrible liability in an ever-changing market economy. Among Kluge's greatest assets is his mental agility—another aspect of the successful player of card games, in which the risk-reward tradeoff changes with every play.

"Whenever I have a plan, I keep it really very much to myself, because I make changes in my own mind," Kluge says. "It's been a habit of mine to do that, not because I want to look like I don't make mistakes—I make mistakes all the time—but rather so that people around me don't feel that every five minutes I'm changing my mind. I have to work things out, and I sometimes change in the middle of the course."

A good example was getting out of television in 1986 with the sales of seven TV stations for $2 billion. Kluge: "I felt that television was going to change. I just thought that it was going to get more competitive. I think, for example, the combination of Fox studios and the stations of Fox brings something to the table. I didn't feel I could take that risk, to go on and develop a fourth network. I'm not oriented to try to become bigger and bigger when the investment of the next step is so tremendous." You can almost hear his well-oiled mind readjusting the risk-reward calculus.

Does Kluge sound a bit disingenuous when he comes across as a fellow to whom business is no more taxing and every bit as enjoyable as a good
game of five-card stud? If so, Kluge makes no apologies.

"Work isn't really work for me," he says. "I don't think I've ever 'worked' in my life, because 'work' to me means that you're really doing something that you don't like. I hate to tell you this, but I've never liked the weekend in my life. I was enthusiastic about Monday morning from the day I left college."

Dennis Washington, $500 million

Like John Kluge, Dennis Washington is a consummate gambler, but his appetite for risk seems even bigger than Kluge's.

Washington originally made his fortune building highways in Montana and Idaho (Forbes, May 15, 1989). He was enamored of motors and heavy equipment as a youngster. "By the time I got out of high school," he says, "I could run bulldozers, cranes, backhoes. I got a job in Alaska, and off I went to make my fortune."

In 1964, when he was 29, he went into the highway construction business for himself in his native Montana. For years, Washington lived on the edge of the risk-reward curve, often betting everything, including his home, on each new contract. That is, he would often have to put his house up as security to the bonding company underwriting his project bid bonds. On paper he was a wealthy man; in reality he and his family could have been on the street the next day.

It wasn't until the late 1970s, when he was in his 40s, that Washington finally achieved his goal, first with the bonding company and then with the banks, of not having to sign his life away. He still takes risks, as does every business person every day, but he can now raise capital without gambling his homes, yacht and other personal property. Washington couldn't resist comparing himself with Donald Trump, whose huge debt has banished him from the ranks of the Forbes Four Hundred: "I don't want any more credit that I have to sign for," he's saying. "Trust your luck, but don't bet everything you have on a lucky draw."

"What makes a superstar is luck," says Washington. "None of those [very wealthy] guys is that smart." But luck, like a good hand at cards, is what you make of it.

Patrick McGovern, $450 million

Patrick McGovern's International Data Group spans a vast assemblage of computer publications, market research services and trade show production facilities. It is another hugely successful business based on what its founder enjoys. McGovern got hooked on computers in high school and actually built one for himself in the 1950s. It was a machine that could beat anybody at tic-tac-toe, and it got him a lot of publicity in his hometown of Philadelphia and an eventual scholarship to MIT.

McGovern's luck came in 1964 when he attended a press conference where RCA was introducing a type of random-access memory. Shortly after, he met the head of Univac, who voiced his frustration at not being able to get good information on the infant market for computers. McGovern had found his calling.

Compared, say, with John Kluge's, McGovern's appetite for risk is modest. "That weekend I wrote up a proposal and sent it out to about 20 companies, not really expecting to hear anything else about it," he recalls. "To my amazement, within ten days I had 12 people send a check for $10,000, half-payment in advance. That was the only capital we actually ever put into the company, those initial customer deposits."

For three years McGovern and his small band of employees collected and sold information. But it became clear that there was so big a market for computer information that it could sustain periodicals as well as surveys. McGovern decided to create his own computer publication. He aped the name of an existing magazine, Medical World News, and named his Computer World News—only to discover at the last minute that his chosen name had too many letters to fit across the top of the cover. Which is how Computerworld, the fat weekly magazine on which McGovern's fortune is based, was born.

IDC has grown because McGovern, now 53, has successfully delegated operational responsibilities. But he refuses to let his business outgrow its small-company culture. "The big advantage of that," he says, "is that you don't have a lot of internal staff meetings and go to a lot of internal political discussions. You can spend all your time going out and visiting customers; they'll tell you what they need."
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William Berkley, $325 million
Greenwich, Conn.'s William Berkley made his money buying companies in fragmented industries that were out of favor—life insurance, food service. His success formula: Focus, focus, focus. "You can't pursue a thousand ideas," he says, "you have to choose one. I could do a hundred things every day, and the end result would be nothing would get completed, nothing would be good, and nothing would be particularly profitable."

William Simon, $300 million
Luck kept Bill Simon out of the wrong business, he says. With two young children and a wife to support, he started looking for his first job upon graduation from college. He went to see a textile executive who was a friend of his father's. "You know what his first question was? 'Don't you have a hat?' I said no. And he said, 'Take my advice, son, don't ever go to another interview without a hat.' I didn't believe what I was hearing. I told myself I would rather work on a garbage truck." He also tried the advertising business, but couldn't even get an interview.

Union Securities, a small Wall Street firm long ago defunct, didn't want him either. But Simon persisted. "They got tired of me sitting in the front hallway waiting to be interviewed. They told me four times they didn't need anybody, and at one time the personnel manager actually came out with a list of people to go see about a job. I said, 'I don't want to see anybody else. I want to go to work for you in securities.'" He sat there for probably three or four full days, and so they hired me. That's how it all started."

About two years later, Simon says, he was the youngest officer in the company.

Eventually Simon would run government securities operations at Salomon Brothers, be U.S. Treasury Secretary in the Ford Administration and, with Raymond Chambers, score hugely in the 1982 leveraged buyout of Gibson Greetings Inc.

Simon has this advice for young people starting out: "If you're lucky enough to get a job on Wall Street, start there. Wall Street, the capital-raising mechanism of the world, is the wheel. And everything revolves around the world of finance. Getting your M.B.A. at Harvard is not essential to success. Set yourself big sights. Not the money, money is immaterial. You'll make it if you're successful at what you're doing. But don't worry about it."

And hope you get lucky: "I really feel," says Simon, "that the luckiest thing that ever happened to me was that I met a buffoon in the textile business and that an advertising agency didn't believe I was suited."
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Cornelius thrived. He repaid his mother, invested his earnings in other boats, and earned a reputation as the best boatman in the harbor. By 1818 Cornelius had accumulated $15,000 and secured a solid future. He had also married a neighbor girl who bore him 13 children and endured his coarse, stubborn, overbearing manner. Most men of his time would have been content with this level of success, but something separated Vanderbilt from his stolid peers. Apart from energy, he possessed a clarity of vision and a creative, competitive drive that would not let him stop.

The first leap came in 1818, when he concluded that the future of shipping belonged to steam rather than sail. He sold his sailing vessels and hired on as captain of a ferry between New Brunswick, N.J. and New York City. He ignored the advice of friends who thought he was crazy to surrender his own ships and work for someone else. Cornelius was more concerned with learning the rules of the new game of steam.

He could not have picked a better time—or employer. Thomas Gibbons was an irascible jurist who went into the ferry business challenging monopolies granted Robert Fulton and Robert R. Livingston by the New York legislature. From his bitter fight emerged Gibbons v. Ogden (1824), the landmark Supreme Court decision that did away with state monopolies and established Congress' authority over interstate commerce.

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penses, introduced tighter schedules and built a reputation for reliability. He persuaded Gibbons to build a larger ferry, which Vanderbilt helped design and captained. Thus Vanderbilt learned the art of steamboat design.

Vanderbilt struck out on his own in 1829, on the New York-Raritan route. The river routes had become notorious for treachery and ruthlessness in their newfound state of competition.

Vanderbilt wasted little time showing wealthier, more entrenched rivals his grasp of the game. He started with boats that were speedy yet comfortable, ran them with clockwork precision, trimmed costs but never service, and hustled business constantly.

When other lines admired his boats, Vanderbilt cheerfully sold them so he could design larger, faster and more luxurious models. A rival line, richer but unable to compete against Vanderbilt, paid him a handsome sum to leave the Raritan route. Vanderbilt took the money and transferred his ships to the Hudson River. Here he confronted the powerful Hudson River Steamboat Association, which conspired to maintain rates on these routes and determined to crush the interloper.

But in the savage rate-slashing and reckless races that followed, Vanderbilt held his own. While the association had more resources, it also had more boats and bled more freely from the rate wars. It quietly offered Vanderbilt a bonus of $100,000 and $5,000 a year if he agreed to leave the Hudson for ten years. Vanderbilt moved to Long Island Sound.

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al boat was like his Lexington, which had a beam engine so effective her boiler consumed only about half the wood of a competing steamboat—then, as now, in a competitive struggle, victory usually goes to the low-cost producer.

In 1848 the Commodore was, at 54, the envy of much younger men. Tall, erect, robust, the self-made millionaire still seemed as restless and hungry as the poor boy of 16 launching his first boat. Then the discovery of gold in remote California sent hordes of people on the interminable voyage around Cape Horn or the dangerous shortcut across the Isthmus of Panama, made nightmarish by malaria-infested jungle, to catch a steamer for San Francisco if one happened to be there.

Vanderbilt was not the first to eye the nearer route across Nicaragua, or even to try it, but he was the man who moved boldly to develop it. This route saved 460 miles, but Vanderbilt saw how to shorten this even more: build a canal.

At home Vanderbilt gradually sold off his other interests and said goodbye to the rivers and Sound. He was ready to try the open seas in an audacious project on a larger scale than anything he had ever attempted. In the end, he failed, but even in failing he made a new fortune.

After ordering new steam vessels designed for the Nicaraguan route, Vanderbilt went to London in search of financing, headed for Nicaragua, personally chose the port sites, and gave the sailors a few lessons in seamanship along the way. Back home, he formed the Accessory Transit Co. (ATC) to oversee the new line. In July 1851 Vanderbilt proudly sailed on the first voyage to ensure that all would go well.

The maiden voyage took 45 days, a saving of several days over the (pre-canal) Panama route, with fewer hardships and less exposure to tropical disease. The first return voyage eastward took only 29 days. Passengers flocked to the new line.

The Panama ships countered by lowering rates, a challenge the Commodore took up with relish. A stiffer blow came in August 1852 when British capitalists decided not to underwrite his proposed canal. Dejected, Vanderbilt resigned as president of ATC, sold his steamers to the company and took a long vacation in Europe.

Vanderbilt returned in 1853 expecting to reclaim ATC from Garrison and Morgan, the two men running it, but they double-crossed him. The news sent Vanderbilt into a towering rage—he delivered his most famous and quotable blast: “You have undertaken to cheat me. I won’t sue you, for the law is too slow. I’ll ruin you.”

Actually, he tried both. More ominous than his lawsuits were new ships he put on the Panama route at his now familiar cut rates. This hurt both ATC and the Panama lines so badly that within a year they presented Vanderbilt with the familiar offer; Garrison and Morgan agreed to honor his claims from ATC, buy his new ships—and he was paid $40,000 a month to leave the isthmus. These were huge sums for a time when $10,000 would buy a good-size house.

Vanderbilt gradually withdrew from steamships. By 1860 he had accumulated a fortune of $20 million, and at 66 could look forward to a pleasant retirement.

Yet he did no such thing. Railroads were working a revolution in the transportation industry on land even more profound than his steamships had done on water. The Commodore had in fact dabbled in railroads in the 1840s and 1850s, picking up securities in several roads. The Harlem, for example, was widely regarded as one of the worst properties in the country, yet Vanderbilt saw that it possessed an invaluable route into the heart of New York City. Another road, the Hudson River, reached East Albany from New York, and farther north a third line, the New York Central, linked Albany to Buffalo. That was the gateway to the rapidly developing Midwest.

Vanderbilt was the first to grasp that the parts of these three warring roads would be infinitely more valuable as a whole. Out of them he forged what became the New York Central, a mighty trunk line second only to the Pennsylvania Railroad.

For his railroads, the Commodore watered the stock shamelessly—and then proceeded to make the water good by unifying operations, reducing costs, improving facilities and running them well enough to pay dividends on even bloated capital. Seemingly he overpaid for the properties he acquired, but by running them more efficiently and at lower cost than the former owners, he made the thing work. It was an early example of what some leveraged buyout artists would try to do a century later.

During the depression that followed the panic of 1873, the Commodore astounded railroad men by adding another set of double tracks to the Central’s line between Buffalo and Albany, at a cost of $40 million, making it the world’s first continuous four-track road. He took active command in the savage rate wars being fought by the eastern trunk lines. Here again he established a basic rule of capitalism: In a price war, the low-cost producer almost always wins. He was still at it when death came in January 1877. He owned 60% of the New York Central; no other rail titan could boast of such complete control over the system he ruled.

Vanderbilt practiced capitalism on a scale on which it had never been practiced before and with a logical ruthlessness yet to be matched by the great captains of industry who made U.S. business the wonder of the world.
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Sumner Redstone's career suggests that superachievers can't easily slow down. The moral: If at first you do succeed, try again—and again. And be a competitor.

"I get exhilarated by it"

By Liz Roman Gallese

John Kluge is worth at least $5.6 billion. Sumner Redstone has fallen to 20th place, at $2 billion, but has quadrupled his wealth in four short years. So we asked Sumner Redstone if he wanted to be number one on The Forbes Four Hundred, and he replied, "I want to be off your list."

But he doesn't want off badly enough to give everything away and enter a monastery. Not Sumner Murray Redstone, an inspired competitor like Commodore Vanderbilt before him (see preceding story). Watch him in action for a while. He's in his 28th-floor office in Times Square, where at 67 he presides over Viacom Inc., a big producer and marketer of TV programming. Redstone took over the media giant in a bitterly contested $3.4 billion LBO in 1987, then took it public along with the debt used to acquire it. Three years and $2 billion later he is still bursting with pride.

"Viacom is a sleeping giant ready to explode," exults Redstone, ticking off its strengths like a hunter listing trophies: popular cable TV channels [MTV, and Nickelodeon for children]; lucrative syndication rights for things like The Cosby Show; cable TV systems; a Los Angeles radio station that recently ran up from 16th to 6th in that market. "We're really already everywhere in the media world, with the possible exception of a major studio."

As for Redstone himself, his calendar is packed. Take one recent day: Up at dawn to crib for a meeting with Congressman Edward Markey (D-Mass.) about pending cable TV legislation; off to Washington for an extended session; back to New York for a dinner with a Warner Bros. executive; and, finally, on to Boston for the evening. "My involvement is maybe 15, 18 hours a day, and yet, I get exhilarated by it."

Only four years ago Redstone was 63 and seemed dejected. In his old office, in Dedham, Mass., he was running his family's string of movie theaters, National Amusements. He spoke earnestly about doing things more "meaningful" than business. "I have a big sense that it doesn't make much difference to the world whether we have 300 theaters or 400 or 500," he said. He had seemed down for years. Some blamed it on the fire. In 1979 he was trapped in the burning Copley Plaza Hotel in Boston. To save himself, he crawled out to the ledge of his third-floor room and clung, with his right hand licked by the flames, until help arrived. "It seemed like forever," he said afterward. Today he has a gruesome reminder: his mangled right hand, its tendons gone, its little finger cut off at the first joint. In the days after the fire, Redstone slid into a depressed, "very, very tough period."

But what was there to fight for by early 1986? He'd already built the family business into a big success. A string of 50 or more drive-in theaters had become a modernized chain with some 350 screens. So he was also a rich man. But the trappings of wealth didn't matter much: In all his life, he has owned just one house, a modest three-bedroom home in Newton Centre, Mass. he bought in the 1950s.

In an interview with Forbes, Redstone wouldn't say much about his
Sumner Redstone pausing near Central Park on New York's Fifth Avenue as he walks to work.

It's not the 15- or 18-hour days, it's the challenge of the thing. And the success. John Kluge, watch out.
ly life until we got to Boston Latin School. Then he became positively effusive. Boston Latin was and is one of the country's toughest and most renowned high schools. It took only the cream of Boston's students—and then flunked half of them out.

Redstone scored at the top of his class [1940]. This was an environment so difficult that nothing that has followed has ever compared, he told *Forbes*. Harvard, to which he went next, he judged "like kindergarten" after Latin. His wartime experience—helping break the Japanese diplomatic and military codes, for which he got two Army commendations—doesn't compare.

And Viacom? He actually had to think about that. Was even the huge Viacom score comparable? "I can see the parallel you're drawing," he mused, "in terms of the amount of effort we applied, the amount of commitment, the hazards and challenges, the need for a will to overcome..."

Yet only a few years ago he was bored, depressed. What brought him bouncing back into the business arena at a time in life and in a state of wealth where most people are thinking of golf and fishing and reading?

Steven Berglas is a clinical psychologist with Harvard Medical School who specializes in treating business executives. He wrote a book called *The Success Syndrome: Hitting Bottom When You Reach The Top*. Berglas says people who've succeeded big often suffer a letdown, because they "have not built in an awareness of the need for an encore." That describes Redstone. He was depressed precisely because he had succeeded. He was a mountain climber with no more mountains left to climb. And then Viacom came along.

"He was bored here—the business had become routine," confirms Ira Korff, Redstone's 41-year-old son-in-law, who now runs the theater business in Boston while Redstone runs Viacom in Manhattan.

Hypermotivated individuals such as Redstone who achieve larger-than-life success tend to be shaped by family patterns, Berglas thinks. Sometimes, the achiever is "chosen by the mother as a favorite—very specifically—to supplant the father," who she feels has failed her.

Redstone himself will readily testify for his mother: "She was one of those great firm believers that nothing was more important than education," he says. "I can remember sitting there at the piano—she'd sometimes turn the clock back so that if I was going to practice an hour, I'd practice an hour and a half."

And his father? He says very little. For that, we had to talk to Sumner's nephew, Michael Redstone.

The Redstone patriarch, Michael Redstone, né Rothstein, the son of a Russian immigrant baker in Boston's old West End, sold linoleum from the back of a truck, worked as a liquor wholesaler and eventually became owner of two nightclubs, including Boston's famous Latin Quarter. He began buying land for a song along a proposed interstate highway. In 1934 he had his first drive-in movie house, on New York's Long Island.

According to Michael, the elder Redstone "felt his whole life had been a struggle." He felt he had to teach his sons to be tough. "They were raised oddly, very intensely. There was no room for error, for failure," says Michael, who speculates it was "very difficult for a child not to have any room except to be perfect and the best."

Boston Latin was Redstone's first unambiguous proof outside the family of how good he really was. As an adult, Sumner at first pulled away. He became a lawyer—a career of his own—and a partner in a Washington, D.C. law firm: Ford, Bergson, Adams, Borkland—and Redstone. In 1954 he returned to the family theaters.

But there was a third twist in the Redstone family conflict, and for growing young boys, perhaps a very frightening one: "Any time you pit two brothers against each other, someone has to win and someone has to lose," says Michael.

Few industry associates know that Edward Stanton Redstone, about five years Sumner's junior, even exists. Colleague A. Alan Friedberg does. Edward's existence "may be a very significant part of the answer" to why Sumner Redstone is so driven, says Friedberg.

Michael, 33, is Edward's son. He says the brothers were pitted against each other early on. Redstone vehemently denies any conflict: "I remember guarding my brother, wheeling his carriage."

On this point Sumner's memory seems highly selective. Other evidence suggests that Sumner's urge to win did not exempt his brother from the competition. When Redstone gave up his law career and joined the family company, his younger brother was already on board. They ran the business as a team, Sumner insists: He picked the films and expanded the business; Edward ran the internal operations. In nephew Michael's view, Edward left, in 1972, when it was clear "someone had to be president, and my grandfather chose my uncle."

Having sold his interest, Edward has apparently been successful in his own right: He bought and turned around a troubled bank and sold it for a handsome profit. He dabbles in real estate. But he didn't become a billionaire. He refused to return *Forbes*' repeated telephone calls.

Back at National Amusements, Redstone concluded the theater business wasn't growing. He began investing in other media concerns in the early 1980s. The killings he made helped push him onto the *Forbes* roster: at least $20 million selling his 5% interest in Twentieth Century Fox to Marvin Davis in 1981; about $25 million in Columbia Pictures stock to Coca-Cola Co. in 1982, roughly $15 million selling back his share in MGM/UA Home Entertainment to Kirk Kerkorian in 1985.

He began his play for Viacom in 1986. In fact it was a considerable leap of faith. First, he had to pick up stakes: physically, by moving to New York; mentally, by relinquishing day-to-day control of the theater company to Korff. What's more, he was up against a competing offer from a sharp group of longtime Viacom managers.

Simultaneously, he had to learn the leveraged buyout business from the ground up, for, as he says, he had never borrowed more than $25 million at National Amusements. "What he had to learn was how publicly traded companies change hands," says Ken Miller, Redstone's investment
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banker in the deal, now president of his own firm, the Lodestar Group.

The battle over Viacom lasted a full six months before he wrested control in March 1987. It was that battle that seems to have gotten Redstone's competitive juices flowing again.

In his corner office in Times Square, Redstone makes it clear that he isn’t about to stop with Viacom. It has long been rumored that he wants a major studio; he says he hasn’t abandoned that dream either.

The year after buying Viacom, he lost what appeared to be a bid for control of Orion Pictures. He made about $18 million on its sale to John Kluge, the Metromedia owner who is number one on The Forbes Four Hundred. Redstone now insists he hadn’t wanted control anyway.

Another goal, already partially realized with Korff’s running the theater business, is getting other family members on board. He’s still after his 40-year-old son Brent, an assistant district attorney in Boston’s Suffolk County—like his father before him, he took up law rather than join the family business. But Brent seems to prefer the prosecutor’s role, in which he feels there is “no winning and losing,” just helping people and society.

The competitive drive that obsessed two generations seems to have taken a gentler turn in the third generation. As for Sumner, a mere triple would make him number one on the Forbes Four Hundred.
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Canadian Pacific Limited
Human nature doesn't much change, but social customs do. The rich of yesteryear seldom shed their first wives, but neither were they habitually faithful to them.

The mating game

By John Steele Gordon

The tycoon, in a postcoital contemplative mood, turns to the luscious blonde beside him in bed and asks, "Darling, would you still love me if I lost all my money?"

"Oh, sweetheart," she coos sweetly, "of course I'd still love you. I'd miss you, too."

That is the stereotype, but life is always far more varied than the popular imagination would allow. There have been plenty of the very rich who stuck to the straight and narrow. The archetype of all robber barons, Jay Gould, was a devoted family man, whatever his reputation on Wall Street. He loved his wife and she loved him, and that was that.

William B. Astor II, on the other hand, did not love his wife. Although the guest list of her annual ball defined New York society in the Gilded Age, Astor himself was seldom home (which was just fine with Mrs. Astor). Astor consorted with the lowest class of streetwalker. His peculiar taste has its precedents. King Charles II could never understand the penchant of his brother, the Duke of York, for ugly women. "He chooses his mistresses," the king finally decided, "as a form of penance."

Of J. Pierpont Morgan it was said that he collected not only Old Masters but old mistresses as well. His patrician taste ran to upper-class women, sometimes married, and of a certain age.

So far as love and sex are concerned, Hemingway was right about the rich: Their only difference from the rest of us is that they have more money. The in-love affairs can be quite as complicated, unexpected, sometimes glorious and occasionally tragic as are the love affairs of the rest of us.

William Randolph Hearst and Marion Davies

William Randolph Hearst was accustomed to having his own way, in love as in business. In 1903, at the age of 40, Hearst married, over his mother's opposition, Millicent Willson, an actress aged 21. Mrs. Hearst gave him five sons and the marriage bumped along more or less contentedly for 15 years, despite several short affairs on his part.

Then he went to see the Ziegfeld Follies of 1918 and first beheld Marion Davies, just 21 and more than 30 years his junior. She was a dazzling beauty and Hearst fell head-over-heels in love. The affair—a marriage in all but the legal sense—would last through thick and thin until his death 33 years later.

When Hearst asked for a divorce in 1922, however, his wife flatly refused.

Determined to make his mistress a movie star of the first rank, Hearst bought a studio, hired a screenwriter at a then incredible $2,000 a week and had her properly tutored in acting. More important, he put the enormous publicity potential of the Hearst empire behind her.

Few of Marion Davies' pictures
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made money. How could they? One of her early silent cost $1,500,000 at a time when full-length features rarely cost more than $100,000. And Hearst refused to let Davies capitalize on her considerable comedic talents. He insisted she fulfill his personal image of her with ingenue roles in which, as the years went on, she looked more and more ridiculous.

By the 1930s Hearst’s empire was beginning to crumble. His newspapers were no longer as profitable, and a drastic retrenchment was needed. The bankers moved in, insisted on trustees and put Hearst, famous for his imperial lifestyle, on a strict allowance.

At this point Marion Davies showed how genuinely devoted she was to her lover. By now a wealthy woman thanks to her relationship with Hearst, she lent him $1 million interest-free. She devoted herself to entertaining him. As he sank slowly into senility, she took to the bottle (and an occasional dalliance) but nursed him faithfully.

He finally died in 1951, aged 88, at her house in Los Angeles. The Hearst family immediately and abruptly removed his body to San Francisco. Davies was not invited to the funeral. But she didn’t complain, saying instead: “He knew how I felt about him, and I know how he felt about me. There’s no need for dramatics.”

Ten weeks after the funeral Marion Davies, by then 54, married a man her own age. He bore a striking resemblance to William Randolph Hearst.

James Fisk Jr. and Josie Mansfield

Jim Fisk was an early giant of Wall Street. He and his partner, Jay Gould, snatched control of the Erie Railway from under Commodore Vanderbilt’s nose, and the following year, 1869, very nearly succeeded in cornering gold, setting off the greatest Wall Street panic of the 19th century. “A fellow can’t have a little innocent fun without everybody raising a hulloo and going wild” was Fisk’s comment.

In November 1854, when Fisk was only 19, he married Lucy D. Moore of Springfield, Mass. Theirs was to be a curious, and curiously successful, union. In 17 years the longest period they lived continuously under the same roof was six months. In the early years Fisk was continually on the road. For the last six years Mrs. Fisk lived in a grand house he built for her in Boston, while Jim lived in ever increasing notoriety in New York. Yet their relationship has every appearance of having been one of genuine mutual affection and support.

“She is no hair-lifting beauty, my Lucy,” Fisk remarked to one of his New York actress friends. “Just a plump, wholesome, big-hearted, commonplace woman, such as a man meets once in a lifetime, say, and then gathers her into the first church he comes to, and seals her to himself. For you see, the commonplace women, like common sense, are apt to become valuable as time goes on!” In Lucy’s case some of her value to Fisk seemingly lay in her
Brave New, Incredible Shrinking World:

Hoteliers Predict Global Business and Service-Orientation for the Year 2000

Anyone watching this summer's blockbuster motion picture "Total Recall"—featuring a Hilton Hotel on Mars—might expect hoteliers to be preparing for an onslaught of little green business travelers in the Year 2000. However, hospitality industry experts predict a more earthbound "total recall"—a renewed emphasis on basic values and services critical to the success of global brand name hotels. The green in this forecast stems from dramatic increases in international business travel.

**The Name Game: The World is Our Oyster**

Already, tourism is among the fastest-growing segments of today's global economy. In fact, tourism currently represents a $2 trillion industry and is the world's largest employer. Experts project continued increases in international travel, fueled largely by projected increases in international business in an economy that becomes more global each year. The key to successful hotel operations, experts say, will be brand name reliability and the delivery of top-notch services.

"We're already noticing increases in global travel and on the security worldwide travelers receive from brand names," said Barron Hilton, chairman of Hilton Hotels Corporation. "The very factors pushing us toward a truly global market—such as the easing of worldwide travel restrictions and increased international airline capacity—are prompting major hoteliers to polish their images. Reliability, a factor that is consistently important and readily available worldwide, will be a top priority to travelers in the next century."

Recent studies reveal that frequent international travelers select hotels based largely on their reputation. One recent survey conducted for Japan's leading business newspaper, Nihon Keizai Shimbun, reveals that Japanese business travelers consider "reliability" to be the most important factor in selecting an airline, overshadowing other amenities such as spacious seating and convenience.

The same survey ranks Hilton first across all six evaluation categories including "name recognition," "have stayed there overseas" and "would like to stay there." As noted by Hilton's U.S. advertising campaign, "It's All in the Name."

**Meeting the Demand**

Industry experts predict hotel marketing programs will become more flexible and creative throughout the 1990s to better meet the needs of international business and leisure travelers. For example, frequent traveler programs—originally the industry response to airlines' frequent flyer programs in the 1980s—will become more international in scope.

"Watch for hotel programs becoming more specialized, attuned to the needs of travelers worldwide as the decade continues," said Mike Ribero, Hilton's senior vice president of marketing. "Programs will be segmented to reward the kind of loyalty we see among international travelers. At the same time, the globalization of corporate hotel programs will encourage more travelers to extend their international travel."

As the hotel industry prepares for the Year 2000, one irony is clear: aside from advances in technology continually driving service and property enhancements, the outlook for the future is based on successful strategies of the past. The more international travelers favor brand names, the more large chains will emphasize consistency in worldwide services and amenities. The key to guest satisfaction is, indeed, "total recall."
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his lambent worth duchess. His appreciation of his plump and accommodating wife did not prevent him from falling deeply for a young gold digger named Josie Mansfield.

Josie Mansfield was considered a knockout. A New York Herald reporter described her: "She was tall and shaped like a duchess. Her skin was as fair in fibre and hue as the lily itself.... The lady's eyes were... lambent like phosphorescent streaks of light...."

Fisk supplied this paragon with enough timely inside information to allow her to buy a luxurious brownstone on West 23rd Street. He soon moved in with her.

Before long Josie Mansfield was far more interested in the very handsome Edward Stokes than she was in the roly-poly Jim Fisk. Stokes was a member of one of New York's richest families, but, because of his erratic behavior, he was kept on a very short leash financially. Fisk began suing Stokes up one side and down the other, forcing him to spend tens of thousands of dollars he didn't have to defend himself. Josie Mansfield wholeheartedly and publicly took up Stokes' cause and testified in his behalf.

When Fisk succeeded in getting Stokes indicted for blackmail, something snapped in the mind of the younger man. Intercepting Fisk at a downtown hotel in January 1872, Stokes pulled a gun and shot Fisk, mortally wounding him in the lobby in front of dozens of eyewitnesses. Imagine, if you can, Donald Trump gunned down in the Oak Room of the Plaza Hotel by a berserk young Rockefeller who had taken up with Marla Maples. That was the kind of sensation Fisk's assassination caused at the time.

Jim Fisk soon lay beneath a large monument, raised at public subscription, in the cemetery of his hometown, Brattleboro, Vt. Edward Stokes, supplied with the best criminal lawyers by his family, got off with just four years for manslaughter. Josie Mansfield, her only asset a rapidly fading one, moved quietly to Europe. There, soon grossly fat, she lived on and on in poverty, dying in 1931 at the age of 83.

always in delicate health, died relatively young, and he would feel guilty for neglecting her the rest of his life. He was soon remarried, to his dead wife's nurse, but the marriage was miserable. In 1891 Flagler met Mary Lily Kenan. Born into a wealthy southern family three years before Standard Oil was founded, Mary Lily was everything his second wife was not—charming, feminine, and well-bred.

In 1895 Flagler had his second wife committed to a mental institution [she claimed the Czar of Russia, whom she had never met, was wildly in love with her]. But New York State permitted divorce only on the grounds of proven adultery.

Flagler gave Mary Lily a necklace of graduated pearls, the largest the size of a robin's egg, and nearly $1 million in Standard Oil stock. Then he changed his legal residence to Florida, where he was the state's most influential citizen. He got a friendly legislator in Tallahassee to submit a bill making insanity grounds for divorce.

Many years later it was proved that a member of the Florida House of Representatives had been paid $14,500 in legal fees and had billed Flagler's railroad $106,942 for "expenses incurred." There is no doubt Flagler thought it worth every penny. A newspaper described him on his wedding day with Mary Lily as "a happy man, his advancing years hidden behind a beaming countenance."

Mary Lily, 39 years younger than her husband, made the last 12 years of his life happy. Upon death he willed her his great fortune, and three years later she married a Louisville lawyer named Robert Worth Bingham. Eight months after that she suddenly died, leaving her husband the $5 million that enriched the Louisville newspaper clan. A subsequent investigation would find no evidence of foul play.

Say this for Flagler: Though he shed the psychotic Ida, he didn't abandon her. When she died in 1930 at 82, she left an estate of $15 million.

Henry M. Flagler and Mary Lily Kenan

John D. Rockefeller once acknowledged that the idea behind his Standard Oil Trust was basically Flagler's, and Flagler owned about half as much as Rockefeller. Flagler also built the Florida East Coast Railway to Key West, almost single-handedly opening up southern Florida.

But Flagler would find happiness at home only at the end of his life. As a very young man he had married and had two daughters and a son. His wife,
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French strong neighboring man turned Joe not. Heim The and would have substantial financial ests, job her as substantial as well-known Gloria Producions. She needed a business partner and found Kennedy.

On meeting, the attraction between them was immediate, despite the fact that they were both married. Gloria had her third husband (of six), a French nobleman with more titles than money. Joe, of course, was married to Rose but not sexually faithful to her. Joe had many short liaisons, but Gloria Swanson was, so far as is known, his only serious extracurricular romance.

Soon he was in complete financial charge of the substantial enterprise known as Gloria Swanson, as well as being her lover. He gave Gloria’s husband a job running his European film interests, which kept his excellency away, and rented a house near Gloria’s in Beverly Hills.

While the couple was discreet (Swanson never spent the night at Kennedy’s house), the affair was soon common knowledge. Rose Kennedy always acted as if she knew nothing whatever about it whenever she encountered Gloria Swanson.

Joe Kennedy decided he wanted to do a major movie starring Gloria that would be a monument, both to her and to himself. The best director and screenwriter, Kennedy decided, was Erich von Stroheim.

Kennedy—no mean egotist himself—had no doubt he could handle the temperament von Stroheim. The movie, called Queen Kelly, had some scenes set in Africa. Von Stroheim didn’t like the central-casting animals available in Hollywood and ordered a whole shipload of monkeys, snakes and crocodiles sent over from Africa. His 53-day shooting schedule soon fell hopelessly behind as he spent hours shooting short scenes over and over. With the picture wildly over budget, Gloria walked off the set, called Kennedy in New York and told him he had better get the next train to Hollywood. Nothing could save Queen Kelly, which was never released in the U.S. It destroyed von Stroheim’s career as a director, although he continued as a well-known actor.

This cost the actress nearly $1 million.

Henry Ford I and Evangeline Cote

Henry Ford was widely known as “Crazy Henry” as a boy and young man. He preferred tinkering in his workshop to courting girls. In 1888, when he was 25, he married Clara Bryant, the daughter of a neighboring farmer. The Fords, and their only child, Edsel, were a close-knit, affectionate family, at least until Henry’s increasing eccentricity in his old age drove Edsel away.

As Henry became more and more eccentric he also developed a roving eye. One day in 1921 his eye was caught by a young woman named Evangeline Cote who worked at the Ford Motor Co. offices. Young, athletic and liberated, she was the women’s harness-racing champion of Michigan and the first woman in the state to have a pilot’s license. It was not long before the 61-year old Ford was having a full-blown office romance.

In order to keep Evangeline under cover, Henry married her off to his chauffeur. Henry built them an elaborate house on a large property next to his own. He also gave them a 300-acre farm and a summer house next to his in upper Michigan.

Henry, like so many husbands, thought his deception of his wife a complete success. Clara, like so many wives, actually knew all about what was going on. She also knew that she had by all appearances a solid, successful marriage and she seemed perfectly content to let her aging husband have his fun.

In 1923 Evangeline produced a son named John Dahlinger. The father of the child, however, is in doubt. There are, however, some clues. As a christening gift Henry gave him the bed he himself had slept in as a child. The boy was mechanically gifted and bore a strong resemblance to Edsel Ford. Henry’s son by Clara. John Dahlinger often introduced himself as “Henry Ford’s illegitimate son,” to the vast annoyance of the legitimate descendants.

In 1947, at the ripe old age of 84, Henry Ford died in Clara’s arms after 58 years together. It was a marriage that in a very real sense Ford had never left.
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From selling $5 posters on the sidewalk, Larry Gagosian has become art dealer to many of The Forbes Four Hundred. Why do so many people say such unkind things about him?

Must I be a saint?

By Dana Wechsler Linden

Even as he hawked $5 posters of kittens and seascapes on a sidewalk near UCLA in the mid-1970s, Larry Gagosian thought big. His poster supplier offered more expensive graphics; soon Gagosian was selling $100 limited edition museum posters signed by such prolific artists as Roy Lichtenstein and Picasso. About a year later he opened an art gallery and was selling $5,000 paintings to centimillionaire real estate developer Eli Broad and cold-calling dozens of other wealthy art collectors.

"Larry always had grandiose aspirations, even when he didn't have two dimes to rub together," recalls Los Angeles collector Ira Young, who occasionally lent money to Gagosian and later wound up taking legal action against him. "He talked about dealing in Picassos and Renoirs, and conquering the New York art world. He said art was just a commodity, like any other."

Agrees Michele De Angelus, curator for Eli Broad: "Dealing used to be a gentlemanly pursuit. Larry unabashedly wanted to make money."

Gagosian—known by friends and critics alike as "Go-Go"—does not deny that he is a quick-witted trader who rode the great 1980s bull market in art prices to the top of the art world. But he is quick to label as sour grapes the claims of many art dealers that his aggressive dealing tactics have somehow
corrupted the art business. Asks Gagosian acidly: “Is it written somewhere that only Sotheby’s and Christie’s should profit from the resale of art, and that everyone else should be some kind of saint?”

Now 43, Gagosian resides on New York’s Upper East Side in his landmark carriage house, complete with first-floor lap pool; its former owner was Schlumberger heiress Christophe de Menil. He is chauffeured around the city in one of his two Mercedes. He confirms he is about to buy a posh oceanfront estate on Long Island’s South Fork built by François de Menil, valued by local real estate agents at upwards of $5 million.

Raised in modest circumstances in Los Angeles, Gagosian achieved all this by changing the rules of the modern art business. Traditionally, dealers in contemporary art were a combination of agent and principal. Dealers such as Leo Castelli, who discovered Jasper Johns, searched for young artists they thought would be the stars of their generation. The dealer/principals sponsored the young artists and promoted their work over the years. In this they were similar to the venture capitalists and Wall Street houses that underwrite young companies.

The traditional approach requires time, patience and capital, little of which Larry Gagosian had. But he did have prodigious energy, and he shrewdly grasped that the contemporary end of the art market lacked liquidity. If a collector wanted to sell a paint-
Brains

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ing, he was at the mercy of the established dealers and auction houses. Likewise, if a collector wanted a particular painting, he had to wait until its owner decided to sell.

Sensing an opportunity, Gagosian became a middleman—or, in effect, a reseller. His specialty: aggressively locating salable artworks, prying them loose from their owners and reselling them to his growing network of collector clients. Depending on the circumstances, Gagosian sometimes acts simply as a broker, earning a commission of between 5% and 15%. Other times he purchases for his own account, but typically with an eye to a quick resale.

Los Angeles dealer Fred Hoffman, one of Gagosian’s longtime friends, recalls the time he mentioned to Gagosian that he had made an offer to buy three minimalist pieces by American sculptor Donald Judd from a collector. The collector had said no.

“How much did you offer?” asked Gagosian.

“Two hundred thousand,” Hoffman replied.

“We’ll go in together,” Gagosian said.

“Offer $400,000.”

The owner still wasn’t interested. But Gagosian, says Hoffman, “is a perpetual motion machine. He calls the collector every day, upping the offer or just keeping in contact.”

Eventually Gagosian and Hoffman snared the sculptures—for $550,000. But Go-Go knew his market. The partners sold one sculpture within 30 days, the second within 60 days, the last within six months. When the checks cleared, Gagosian and Hoffman had more than doubled their half-million-dollar investment.

After Gagosian ran his contemporary art gallery in a succession of ever larger spaces in Los Angeles in the late 1970s and early 1980s, it was time for him to take on New York’s art establishment. In 1985 Gagosian moved into a Soho loft he had bought some years earlier with $10,000 in cash and a Brice Marden painting then worth perhaps $30,000.

The loft was across West Broadway from the Castelli Gallery, owned by the dean of the contemporary art dealing scene, Leo Castelli, whom Gagosian had met while still a dealer in Los Angeles. He began dropping by the Castelli gallery regularly and courting its owner. Castelli, now 83, enjoyed the younger man’s furtiveness. The two became close friends, and ultimately partners in a small gallery in Soho.

The friendship benefited both men. The ambitious younger dealer showed Castelli how, in the bull art market of the 1980s, price didn’t matter. “When he wants a painting, he goes to any price to get it,” says Castelli of Gagosian. “He is always willing to pay more than anyone else.”

Castelli, meanwhile, offered Gagosian invaluable inside information. “I could give him a lot of information on where the paintings were because I sold most of them,” says Castelli matter-of-factly.

Also important to Gagosian were the contacts and respectability that accrued to him from the relationship with Castelli. Gagosian recalls strolling down Soho’s West Broadway with Castelli in 1983. A middle-aged man passed them and exchanged greetings with Castelli.

“Who was that?” asked Gagosian.

“Si Newhouse,” Castelli replied, referring to S.I. Newhouse Jr., head of the Condé Nast publishing empire and owner of one of New York’s best collections of contemporary art.

Gagosian, of course, asked to be immediately introduced and spun around with Castelli in tow. “Mr. Newhouse, hello,” said Gagosian.

Five years later, at Sotheby’s on the evening of Nov. 10, 1988, it was Larry Gagosian who successfully bid $17.1 million for Jasper Johns’ 1959 masterpiece “False Start,” on behalf of the client at his side, Si Newhouse. Other loyal Gagosian clients include British admn Charles Saatchi [who is slowly selling off his world-famous collection of 20th-century art through Gagosian], cosmetics heir Ronald Lauder, and many others on The Forbes Four Hundred.

As he raced to the top of his profession, Gagosian also cut some corners and made numerous enemies. One of them is Robert Feldman, a private art dealer and president of New York-based Parasol Press. In March of 1988 Feldman sold a Robert Ryman painting to Gagosian for $82,000. Feldman insisted on receiving a check before parting with the picture. “Everyone knows his [Gagosian’s] reputation,” says Feldman. “If you get money from him, make sure the ink is dry.”

According to Feldman, Gagosian gave him a check and took the Ryman picture. A few hours later, without warning, the picture was put back on Feldman’s doorstep. Feldman had already deposited the check, but it came back with a notice that Gagosian had stopped payment on it—hours after he had written it.

“It was sleazy,” says Feldman. “Obviously he had a client interested in buying a Ryman painting and knew I had one. Then his client didn’t like the picture, so he reneged.” Feldman claims that Gagosian misrepresented the picture to him.

Another incident led to a lawsuit by Gagosian’s onetime backer, Ira Young. Young claimed that he gave Gagosian 90 days in which to sell an Andy Warhol painting. Young heard nothing. Gagosian didn’t answer his calls. Then Young discovered the painting had been sold when he saw it being advertised by another New York dealer. He sued. Gagosian claims he had already paid Young for the Warhol, but he settled the case last year, giving Young artwork valued at some $150,000.

“I’ve had a very, very rapid climb in the art world, and obviously that makes some people uncomfortable,” snaps Gagosian when asked about such incidents. “But you don’t do as much business as I do by not following through on your commitments. Why don’t you write about that?”

In his current Gagosian Gallery, on upper Madison Avenue, Gagosian mounts exhibits of contemporary and modern art that have been hailed as museum-quality by critics and rival dealers alike. Shows of Jackson Pollock’s black chanel paintings, Roy Lichtenstein’s Picasso paintings, or Constantin Brancusi’s sculptures in Romanian museums (opening in No-
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$143 million in a collection of 20th-
century art in May.] Gagosian insists that the art mar-
ket's current weakness is actually
good for his business. "I'm getting far
more calls," he avers. "The auction
houses are less appealing because so
much didn't sell last season. The deal-
er has become the stronger option."
Indeed, one of Gagosian's biggest
sales last year was a Jackson Pollock
"drip" painting, one of the last re-
mainng in private hands. Gagosian
saw a reproduction of the work in an
art book, found out who owned it and
called the owner. Gagosian talked
him into parting with the Pollock and
almost immediately resold it to a pri-
vate collector for a price believed to
exceed $10 million.
"The pie is smaller, so it's important
to get more aggressive," says Gagosian,
sounding like a salesman of cars, condo-
miniums or any other hard-to-move
commodity. "I'm working my butt off."
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A high school dropout whose first business went bust, Russ Solomon was nursing a nasty hangover when he saw the storefront that would change his life.

Profiting well is the best revenge

By Gail Buchalter

On any given Saturday night in America, there’s probably no more crowded record store than the immense Tower Records on Los Angeles’ Sunset Strip, where Horn Avenue cuts in. Young couples often prolong their dates by spending an hour or so in Tower Records after a show at the Roxy or dinner at Le Dome. Amid the pulsating sound and bright lights, customers browse through racks of tapes and rows of CDs and stacks of records. They mingle with middle-aged executives out to buy Beatles and Rolling Stones CDs and try to maintain their cool when spotting, say, Mike Tyson, Bob Dylan or Bruce Springsteen.

Variants on this scene play at more than five dozen Tower Records stores.
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spanning the globe from Osaka to Glasgow, New York to Honolulu. The chain, one of the world’s largest recorded music retailers, is the creation of Russell Solomon, 65, who looks like a cross between Santa Claus and Allen Ginsberg. Solomon likes to dress like his customers and usually wears T-shirts, jeans or khakis and tennis shoes. A necktie? How bourgeois! Visiting business associates often remove their ties and “donate” them to one of the big collages outside Solomon’s office—which is nearly as crammed with records and tapes as his stores.

As if to say “I’m rich but not greedy,” Solomon lets interviewers know quickly that he’s a political liberal. He runs his business, though, with a tightfisted capitalist’s dedication to maximizing cash flow and making his money work hard. His privately held company is Sacramento-based MTS, Inc. It owns 74 record stores, 54 video stores and 13 bookstores worldwide, grossing $456 million last year. Since 1980 Solomon has opened an average of 4 Tower Records annually. This year he’ll add 7, he estimates, and sales will increase to $500 million. Were MTS a publicly owned company, it would probably be valued at around $325 million, a figure that puts Solomon on the Forbes Four Hundred list for the first time.

But it’s worth remembering that record store chains cater to a fickle crowd and can disappear quickly; holding his position after more than 30 years of growth is certainly his biggest challenge.

Born to a middle-class family—Solomon’s father owned a small, successful Sacramento drugstore, Tower Cut Rate Drug Store—he learned about retailing almost from the cradle. At 16 he bought used juke box records for 3 cents and sold them for a dime; he also helped his father sell new 78s in the drugstore.

School wasn’t a big interest; he dropped out of high school in his senior year, in 1943, and joined the Army. After his 1946 discharge he tried junior college for a while, but dropped out of that, too. Fortunately there was his father’s store, where he went back to work.

During the war, Solomon’s father had expanded the store’s little record department and built a separate entrance for it. In 1952 young Solomon took over the record inventory from his father. He immediately branched out and opened a record wholesaling business across the street.

Onward and upward? Far from it. By 1960 Solomon was broke. He’d expanded too fast, having floated too much inventory on too little capital. His creditors, mostly record manufacturers and distributors, moved in and forced him to liquidate.

“I felt an acute sense of failure,” Solomon recalls. “I wanted to show the record guys who had thrown me out that I could be successful.”

It was a powerful incentive. And luckily Dad was there again, to lend him $5,000. Solomon reopened his business in ten days, this time as MTS, Inc., and opened a second small store a month later.

Over the next seven years sales grew steadily, if not spectacularly. But by 1967 Solomon was 42, had a family, and was beginning to fear that life was passing him by. One hundred miles away, in San Francisco, the hippie generation was spreading its wings. Solomon started listening to the flower children who hung out in his stores.

As he watched them and talked to them, a commercial vision slowly grew in his mind. They bought wildly different categories of records, from San Francisco’s Grateful Dead to the Beatles and Rolling Stones, to soft rockers like the Blues Project, to acid rockers like Jimi Hendrix. The music business was exploding. To serve this market properly, Solomon figured, would require stocking hundreds, no, thousands of titles in stores with huge amounts of floor space. Sacramento wasn’t big enough for this.
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Here's how Solomon describes the events that immediately led to the opening of his first Tower Records megastore: He was in San Francisco in 1967, nursing a colossal hangover at a drive-in restaurant near Fisherman's Wharf. He gingerly lifted his pounding head from his hands, and found himself staring into an enormous vacant storefront with a "For Lease" sign in the window. He went across the street, wrote down the broker's phone number, and within a week had signed a five-year lease.

Four months later, in March 1968, Tower Records opened its San Francisco store. It quickly became its own happening. With its immense 8,000 square feet of selling space, it had no rival on the West Coast. Solomon stocked hits and esoteric titles alike. And, as Solomon says, "I accomplished all this on the cheap." He means that lots of Tower's inventory was remaindered goods—surplus records from record manufacturers glad to move them at all. But the unequaled variety added to Tower's allure.

"It was the perfect time to be in San Francisco," Solomon recalls. The "Summer of Love" had just ended, the Woodstock festival was a year in the future, and the music scene kept bursting with new rock 'n roll, acid rock, blues, folk and jazz acts. "We intermixed with it all," Solomon says. Lest those record industry people who forced his 1960 liquidation forget, he quickly adds that the San Francisco store made money from the day it opened its doors.

In 1970 Solomon opened his Los Angeles store on Sunset Strip. He opened 26 more, all still in business, in the next ten years. He shunned shopping malls since they closed too early for his midnight closing hours and often couldn't accommodate his "category killer" stores. Today, nearly half the Tower Records stores are 10,000 square feet or larger; startup costs have reached $7 million. The store in Boston, opened in 1987, is the largest: At 39,000 square feet, it stocks about 300,000 units. It will soon expand to 45,000 square feet.

Solomon's empire also includes the 13 bookstores and 54 video rental and sales outlets, all run on the record store concept—offering the most titles possible in a large space and staying open late. Books account for only 5% of its $456 million (1989) revenues; videos, 14%. Solomon's book and video businesses are relatively small change. But he says both divisions are doing well.

When it comes to payroll costs, the record business is a dream for a profit-minded entrepreneur like Solomon. He hires energetic young people who are so interested in the music scene that they'll almost pay Tower Records for the privilege of working there. The inept soon exit, creating a high turnover rate, but Solomon quickly promotes those who show a knack for the business, making them store managers. Solomon gives them a great deal of autonomy but not a great deal of money: The typical store manager makes around $30,000 to $40,000 a year, including a bonus of $5,000 to $10,000, depending on the individual store's profitability. It's enough.

Typical of Solomon's bright young up-from-the-ranks lieutenants is David Montes, 35. He started working in shipping and receiving at Tower's Berkeley store at 21. He rose to buyer of singles discs, then tapes, then assistant store manager. In 1985 Solomon sent him to London to help open Tower Records' store in Piccadilly Circus. Now he's manager of the Sherman Oaks, Calif. store Solomon opened in 1983.

But it's difficult to buy homes and raise families on $30,000 a year. At this year's annual managers' meeting the managers started asking about getting some additional benefits—including a better pension plan. Solomon listened but did not commit himself. "We'll help our people get home loans, when we can," he says.

Solomon knows he's got to keep his managers happy. Their market feel is an important reason Solomon can claim that his merchandise returns are among the industry's lowest, at 11%. This enables him to avoid manufacturers' penalties of 5% to 15% when returns exceed 16% to 18%. Astute buying also helps explain why Tower's daily sales per square foot for the chain as a whole, according to Solomon, average out at $589 a square foot. David Bolotsky, an analyst who follows the music industry for Goldman, Sachs, says that is more than twice the industry average.

But that's sales. Profitability is another matter. Tower's high rental costs for good store locations and heavy inventory investment are so high that pretax margins are probably no better than the industry's typical 5% or so. That would put Tower's likely earnings for this year at around $25 million a year, pretax.

Relaxing in the living room of his new art-filled Sacramento house, Solomon settles deep into a beige sofa and declares he's the happiest married man he knows. He has just celebrated his 45th wedding anniversary over dinner with his wife, Doris. Of course, he adds with a twinkle in his eye, he and his wife haven't lived together for 17 years; he's had several long-term romantic relationships since they separated. But the Solomons have no plans to get divorced. Both their sons are in the business. Michael Solomon, 42, is vice president and legal counsel; brother David, 28, is a computer programmer for Tower.

All in all, Russ Solomon has led a charmed life. His business is one that keeps him in constant contact with the youth culture, which helps him stay young. Best of all, he has shown the record industry people who forced him to the wall 30 years ago how to make a lot of money—and without having to wear a necktie.
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The business philosophy of Republic National Bank of New York goes far beyond a simple aversion to risk; our entire breath and being depends upon the concept of preserving and protecting our depositors’ money.

In every aspect of our business—private banking, retail banking and institutional banking—our focus remains where it always has been: on capital growth, liquidity and asset quality.

For these reasons, Oppenheimer & Co., Inc., recently cited us as “one of the most secure banks, if not the most secure bank, in the U.S.”

Oppenheimer also noted that “the company has the fortress balance sheet of an old-style Swiss bank.”

We rather like that description.

If a fortress is what you have in mind for your money, you might want to take a close, careful look at Republic National Bank of New York.

REPUBLIC NATIONAL BANK OF NEW YORK

A SAFRA BANK
It hasn’t been easy, creating an American social aristocracy as exclusive as the English variety, but generations of privileged men and women (mostly the latter) have put their backs to the task and have succeeded admirably.

High society illustrated

Transplanting the stately quo of England to America wasn’t easy. The wilderness was untamed, the natives were unfriendly and un-Episcopalian, and independence, when it came, brought with it the unfortunate idea that all men are created equal. Under such circumstances, organizing an aristocracy based on birth and breeding would seem to have been an impossible task, but the Van Rensselaers, Beekmans, Livingstons, Rhinelanders and Roosevelts somehow managed it. By the middle of the 19th century New York society seemed every bit as exclusive as London’s.

There were, to be sure, differences. In England a family’s social position was determined by the rank of the male. Here, where there were no inherited titles, it fell (and still falls) to the wives of the landed gentry to determine who was worthy of inclusion. Mrs. Stuyvesant Fish, Mrs. William Backhouse Astor and Mrs. John King Van Rensselaer were society’s sentinels, allowing entrance only to those born in the right brownstone or manor.

Still, cracks in the citadel began to appear. In 1874 a group of socially acceptable but shockingly irresponsible bachelors held a black-tie ball at Delmonico’s and invited various guests who lacked the luster of social rank. A further breach occurred when Mrs. Astor attended a ball given by the underpedigreed Vanderbilts. And when the sons of August Belmont (né Schönberg) married into some of New York’s most aristocratic families, it seemed to many that high society just wasn’t as high as it once was.

With the lines now blurred as to who was “in” and who was “out,” the only safe thing to do was flaunt wealth so recklessly that one’s social position could not be questioned. Masked balls requiring lavish costumes and perhaps a complete symphony orchestra were favored. Toward the end of the century these escalated into awe-inspiring extravaganzas of conspicuous consumption. Nor was it any longer sufficient to winter in Palm Beach and summer in Bar Harbor or Newport; one had also to go abroad to soak up culture and, if possible, snare a titled son-in-law. The strain of it all could be just too much, even for Mrs. Oliver Hazard Perry Belmont: “I know of no other profession, art, or trade that women are working in today as taxing on mental resources as being a leader of society.”

On the following pages is a pictorial record of just how taxing the last 130 years have been for our upper crust. And the required exertions show no signs of diminishing. Today a socialite must not only entertain extravagantly but cultivate her eleemosynary instincts as well. Finding just the right causes for one’s personal largesse is crucial.

What the pictures cannot show is the public’s insatiable curiosity about the rich—a curiosity that shows no sign of abating. Perhaps novelist William Dean Howells, who observed America’s Gilded Age at close range, had it right when he said, “Inequality is as dear to the American heart as liberty itself.”
News that the young Prince of Wales was to visit America quickened the hearts of New York socialites. At last the peacocks had a guest worthy of their feathers. To welcome him they would have a ball at the Academy of Music. Isaac Hull Brown, the 300-pound sexton of Grace Church, was put in charge of protocol and diligently drilled Mayor Fernando Wood, Hamilton Fish, Peter Cooper and other members of the welcoming committee on how to behave. On the long-awaited night, after the orchestra had played “Hail Columbia!” and “God Save the Queen,” Mr. Brown and other rotund notables rushed forward to greet the future Edward VII, only to have the floor collapse under them. No one was killed, and while makeshift repairs were being made the 19-year-old prince closeted himself in a private room with the mayor’s daughter. When the Duke of Newcastle observed that perhaps they had “been alone quite enough,” Papa Mayor smiled benevolently: “Let the young people alone—they are enjoying themselves.”

Some of society’s most glittering names were on the Titanic when it went down: Henry Sleeper Harper of the publishing house, Washington Augustus Roebling, the steel heir, Washington Dodge, the banker, and John Jacob Astor. Astor was traveling with his second wife, Madeline Force. Astor was 46 when they wed, Madeline a mere 18, with a decidedly unimpressive pedigree. Society sneered; the Astors retreated to London. In 1912 they decided to chance a return. They chose the Titanic for their trans-Atlantic trip. Madeline, five months pregnant with John Jacob Astor VI, was saved. As Cleveland Amory reported in *Who Killed Society?*, Astor was last seen on the deck trying to kick in the door of his dog’s kennel.
Although Mr. and Mrs. Bradley Martin (he was a lawyer who made his money on Wall Street) had married their daughter to an English lord, and had usurped a hyphen to become the Bradley-Martins, they were nevertheless cold-shouldered by families with longer pedigrees. To end these intolerable snubs, they determined to throw the most lavish ball in the history of New York. And they did. Five thousand orchids were tied in clusters to conceal vulgar electric lights in the Waldorf Hotel ballroom. Mrs. Bradley-Martin wore a necklace formerly owned by Marie Antoinette, while August Belmont dressed in a gold-inlaid suit of armor reputed to have cost $10,000. The 50-piece Twenty-second Regiment band was but one of several orchestras that played while 400 carriages, hired for the convenience of guests, waited outside. These and other excesses were reported in great detail, and the Bradley-Martins woke up to find themselves denounced on editorial pages and condemned from pulpits. Worse was to come: Their real estate tax was doubled. After that they packed up their hyphen and moved to England.
When Edward Molyneux opened his swank Acacia Tree nightclub in Paris, he sent for Clifton Webb and the Dolly sisters from America to perform. One night when the American ambassador was in the nightclub, Molyneux ignored prevailing etiquette by arranging a dinner party that mixed the exalted ambassador and Lord Derby with novelist Elinor Glyn and the socially unacceptable entertainers from America. The party was such a success that it lasted until 6 o’clock in the morning. The flowering of cafe society had begun.

Some aristocrats never forgave Franklin Delano Roosevelt for the New Deal. When, at the end of World War II, the Harvard Club was preparing its war memorial to honor fallen alumni, several members adamantly refused to have his name included, cloaking their distaste with the argument that he didn’t die in action. A passionate debate ensued, after which a compromise was reached. The late President’s name would be added, but his portrait would be removed from the main hall and placed behind the buffet table in the dining room.
1933

After the market crashed on Oct. 24, 1929, there was a brief flurry when word spread that the leading bankers were meeting in front of 23 Wall Street, home of J.P. Morgan & Co. But when, on Oct. 29, the market went through the floor, it was clear that the bankers weren't all-powerful after all. Later it became known that many fortunes had been built on deceitful business practices. Whatever awe the public still held for the wealthy turned to scorn and loathing. Just how far the mighty had fallen was illustrated by the impertinence endured by J.P. Morgan Jr. when he appeared before the Senate Banking Committee. While he waited to testify, someone placed a circus midget on his lap for the benefit of waiting photographers.

1970

Finding the right cause to back has never been easy. Just look at the recent troubles poor Gayfried Steinberg has had with her chosen charity, the literary group PEN. In late July writer Ken Auletta, a member of PEN's board of governors, griped to New York magazine that Gayfried and her husband, Saul, were "wealthy people gaining respectability on the backs of writers"; a month later Steinberg quit her role as PEN's chief fundraiser.

The pendulum had swung again. In the 1960s a clutch of uptown socialites championed the cause of the United Farm Workers strike. As fast as you can say "Power to the People," high-society activism became fashionable. Vogue ran an article on "soul food" and GQ featured styles suitable for storming the barricades. But later, when Leonard and Felicia Bernstein invited militant Black Panthers into their Park Avenue duplex to meet with social and cultural leaders, it was too much even for the New York Times. The Times devoted an entire page to an unflattering description of the cocktail party. The Times followed up with an editorial castigating the couple for having "mocked the memory of Martin Luther King" and for "elegant slumming." Mrs. Bernstein protested that they were merely trying to raise funds so that the self-styled revolutionaries could mount a proper legal defense, but the furor wouldn't die down. Six months later, Tom Wolfe's recollection of that night appeared in New York magazine under the title "Radical Chic: That Party at Lenny's." In it, he described how the spokesman for the Black Panthers began his speech by thanking Mrs. Bernstein, but committed the unpardonable error of pronouncing the last part of the hostess' name "steen." From the back of the room came Lenny's agitated howl—"STEIN!"

STEIN
It used to take money and a willingness to accept a certain kind of lifestyle to reside on Florida’s exclusive island of Hobe Sound. These days, it just takes money.

Permelia Reed’s disappearing black sweaters

By Ralph King Jr.

AFTER more than a half-century as an island paradise for Americans of very substantial means, Hobe Sound is losing its firm grip on its economic and moral helm. The tiny island enclave just off the east coast of Florida is the product of the late Joseph V. Reed, heir to a gold-mining and oil fortune, and his wife, Permelia, who ran the place with a lace-clad iron fist. Now 84, Permelia Reed still rides around in her red golf cart with her pet Pekingese, but as she becomes increasingly frail, the island has begun to lose the sense of stability and privacy much valued by its older-line members.

Hobe Sound is reached by passing through a tunnel of ficus trees and over a small drawbridge from the mainland 40 miles north of Palm Beach. (The town covering most of the island is officially known as Jupiter Island, Fla. But most people call it Hobe Sound, after the mainland rail station where visitors used to alight until the station was closed in the late 1960s.)

There are no condominiums, no shopping malls, no gas stations on Hobe Sound. The 2.5-square-mile town has a country club, the Jupiter Island Club, and 430 handsome, lushly landscaped homes with the owners’ names hand-painted on little signs out front. The names—they include Ford, Mellon, Vanderbilt, Searle, Stroh, Doubleday, H.J. Heinz, Marshall Field—are trademarks of American business, representing about a dozen listings in this issue of The Forbes Four Hundred. Others are reminders of once-great industrial fortunes like Armour (meatpacking), Hamm (brewing) and Ordway (3M).

“All the pharmaceuticals are here,” notes Frances Fentress, whose father, General Robert E. Wood, was chairman of Sears, Roebuck from 1939 to 1954. Her neighbors include G.D. Searle heir Daniel Searle (he dropped off the Forbes Four Hundred in 1989 because his net worth didn’t keep up with the minimum), retired Baxter International senior chairman William Graham, and Tyler Cain, son of an ex-chairman of Abbott Laboratories.

To imagine Hobe Sound, forget congested, arriviste Palm Beach. Conjure up instead a remote Caribbean hideaway where croquet tournaments, lectures on art market trends, and bridge lessons by New York Times columnist Alan Truscott are more popular than tulle and black tie. Leave the Rolls at home. Bicycles and golf carts outnumber cars along Hobe Sound’s shaded lanes. As opposed, say, to Beverly Hills. Hobe Sound’s reigning philosophy is: “The more money one has, the less one should show it. “We don’t talk about Hobe Sound,” says former Treasury Secretary C. Douglas Dillon, one of the island’s roughly 2,500 (peak-season) residents.

The Reeds first came to Hobe Sound on vacation from Greenwich, Conn. in 1931. They fell in love with the jungle-choked island, first building a home for themselves and then joining in buying up a ramshackle resort, which had languished following Florida’s big real estate bust, along with about 2,500 acres surrounding it. The price: $25,000.

Joseph Reed renamed the resort the Jupiter Island Club and plowed much of his inheritance into superb facilities, including an 18-hole golf course, dining rooms and informal lodging for about 100. He slowly sold off neighboring homestites to friends from Greenwich and to their friends’ friends. The Reeds then persuaded club members to help them buy additional land on the island and on the mainland as a buffer zone. They donated 1,500 acres to the U.S. Fish and Wildlife Service and the Nature Conservancy to protect the island from future development.

While Joseph Reed took charge of building, Permelia assumed responsibility for decorum. Members would always find their favorite cook.
Profile in Quality #19: Continued Recognition.

For the second time this year, Ford Motor Company has been honored by prestigious Motor Trend Magazine. Motor Trend has named the 1990 4WD Ford Aerostar "the hands down winner" as the Truck of the Year. The Aerostar joins the 1990 Lincoln Town Car which was recently named Car of the Year by Motor Trend. Receiving these awards is further evidence that Ford's total commitment to quality is producing results. When Quality is Job 1—you don't do it any other way.

Ford, Mercury, Lincoln, Ford Trucks. Our goal is to build the highest quality cars and trucks in the world.

Buckle up—Together we can save lives.
tails waiting for them as they arrived for dinner at the clubhouse. Her watchful eye rarely missed a scrap of litter anywhere on the flower-infested grounds.

Members broke Permelia’s rules at their own peril. At one black-tie dance in the early 1960s, Henry Ford II tried to persuade the band to play beyond the midnight curfew. Permelia would have none of it. Henry Ford was a man used to getting his own way—but not with Permelia. On another memorable night at the club in the 1950s, Permelia was offended at the sight of a rather décolleté young woman and insisted the young lady put on Permelia’s own black sweater. Next day, the young thing was gone.

That incident supposedly set Permelia’s precedent for dealing with wayward members. Whenever her code was violated, Permelia is said to have boxed up a black sweater and sent it off to the transgressor—an unsubtle signal that the recipient was deemed unfit for membership in the Jupiter Island Club.

But as one longtime Jupiter Club member describes the current state of things on the island: “The old people are dying off, and Permelia’s rules don’t apply anymore.” Then she quickly adds: “But don’t quote me on that. I really wouldn’t want to get a black sweater.”

No one has been black sweatered recently. But if the members had their say, the most likely recipient these days would probably be Nathaniel Reed. An avowed environmentalist who dabbles in politics, Reed, 57, is Permelia’s son; she turned over her position as president of the family-controlled Hobe Sound Co. to him six years ago.

Reed’s unpopularity among a growing number of Hobe Sounders has nothing to do with manners or dress codes. It has to do with the economic policies he has imposed upon his neighbors.

In January Reed assessed the Jupiter Island Club’s members $2,500 over and above the annual dues of nearly $6,000. It was the first assessment in the club’s history. If that sounds insignificant to Mellon, Searle and Ford heirs, note that it came on top of a local tax first levied in the late 1960s that already costs residents a total of about $1 million annually—more than $2,300 per household—just to pump new sand onto the beaches, which are battered every year by storms. Note, too, that it costs $50,000 to join the Jupiter Island Club; that’s after waiting at least several years. If a new member is not already a resident, it may take a few years more to acquire or build a house on the island.

An outcry over the last assessment forced Reed to call a membership meeting to explain why finances were so tight. Apparently the Reeds, who own a 60% interest in the club (the rest is held by longtime members), had for years subsidized the club’s operating deficit with the sale of house lots. Today, there are few parcels left to sell, which means that Nathaniel will have to continue to raise the club’s dues.

Further upsetting Hobe Sound’s delicate balance is the question of how the Reed family will cope with estate taxes upon Permelia’s death. Will Permelia’s five children, including Joseph V. Reed Jr., the U.S. chief of protocol, and, more to the point, her grandchildren try to hold on to the Jupiter Island Club? Or will they want to cash in by selling out to the members or to some condominium developer?

Development along Florida’s Gold Coast has boomed in recent years, bringing a different breed of home buyer to Hobe Sound. The new big spenders—some of them people who neither belong to the Reeds’ Jupiter Island Club nor have any great desire to join—have bid the price of even a modest beach house to over $1.2 million, up 200% from 1985.

Many members are still appalled by the 13,000-square-foot beachfront home built by New Jersey contractor (and non-club member) Neberue Brown a few years ago. One enters what neighbors derisively call “the gymnasium,” the house’s graceless entry hall, by crossing a bridge over an indoor pool complete with three waterfalls.

What undeveloped property remains commands at least $1 million per acre, and the larger lots are gradually being subdivided. Around the clubhouse, sniffs one resident, “it’s beginning to look like suburbia.”

Even nature seems to conspire against the island. Last winter a bad frost killed off much of the foliage, exposing many neighbors’ houses to each other and to nosey passersby. “You couldn’t see that house before the frost,” complains Frances Fentress. She gestures toward her pool, across the sweeping lawn, to the low-slung, yellow neighboring house. Sighs the octogenarian widow, “I may have to put up a wall.”

Nathaniel Reed can’t do much about frosts and beach-wrecking storms, but he is fighting a new community for 12,000 residents planned just 6 miles west of Hobe Sound on the mainland. He has some able opponents. Two fortunes listed in this issue are behind the $900 million project: New York City’s Arthur Belfer (the founder of Beleco Petroleum) and the H. Bert Maek family of New Jersey. Neither party has a residence on Hobe Sound.

One island veteran summarizes the allure of Hobe Sound this way: “It’s the last place you can go where there’s great privacy.” But it seems those days are clearly numbered.
Accept No Limitations.

A mountain climber caught forever halfway up the slope, frozen there by the Minolta Maxxum* 7000i. Because camera and athlete were equal to the challenge.

Here, Maxxum's multi-pattern metering captured the full contrast between climber and snow. While Maxxum's powerful telephoto zoom—one of over 30 autofocus lenses—spanned the distance between mountains.

Put simply, Maxxum technology can help you surmount any obstacle. With its unmatched autofocus system, the possibilities are as limitless as your imagination.

*Shipping and handling $4.95. For details or product information, see your Minolta dealer or write: Minolta Corporation, 101 Williams Dr., Ramsey, NJ 07446. In Canada: Minolta Canada Inc., Ontario. Look for Minolta's USA 2-year camera/5-year lens limited warranty cards in your package. © 1990 Minolta Corporation

Free* Series 1 videos. See your Minolta dealer.
The very rich have their share of problems, too: The cost of living lavishly increased in double digits last year.

The Clewí blues

By Manjeet Kripalani

The Forbes Four Hundred Cost of Living Extremely Well Index (Clewí) went up nearly three times as fast as the Consumer Price Index (cpi), jumping 11% between July 1989 and July 1990 versus less than 5% for the cpi.

Blame the weak dollar. Rich people and the things they buy are cosmopolitan by nature. Of the 43 goods and services that make up our index, 18 of them—from Gucci loafers to Purdy shotguns—are imported. As a result, the cost of living really well is highly sensitive to even minor jiggles in the international value of the dollar.

During the last few months the dollar has set post-World War II lows against the powerful German mark, the strength of which tends to lift other European currencies against the dollar. True, the dollar has been firm against the yen. But the Japanese don’t make very many things rich people buy.

Look at some of the prices below.

The price in dollars of a Swan 65 sailboat from Nautor of Finland has climbed 30%, to $1.7 million. (A North Carolina-built 60-foot Hatteras yacht’s price is up a relatively modest 8%, to just over $1 million.)

A Patek Philippe man’s watch is now $8,500, up 19%. Maintaining a bespoke wardrobe of men’s shirts from London’s Turnbull & Asser now costs over $160 a shirt, up 42%.

We priced dinner for one (including wine and tip) at Paris’ La Tour d’Argent at Fr880 ($164) the past three years; with the French currency advancing against the dollar, that bundle of francs now costs 23% more dollars than it did last year.

All told, the 18 foreign-produced goods and services the Clewí measures rose 21% on average; the domestically produced products increased just 5%—right in line with overall U.S. inflation. The rich who stuck to domestic consumption clearly fared better than those with foreign tastes.

For example, prices of a 2-bedroom suite at Manhattan’s Sherry-Nether-land, a domestic face-lift, and a home-grown psychiatrist didn’t even budge. And in the construction industry, where things are really slow, the cost of a tennis court has stabilized, while the cost of a swimming pool has actually declined by 5%.

Looked at this way, one can consider the cheap dollar as a kind of progressive tax that hits the wealthy much harder than it hits most other folk. If the tax pinches too hard they can always hole up in the Sherry-Netherland, sip California sparkling dinner, and consult a Park Avenue shrink instead of one in Vienna.
SHOES
MEN'S BLACK CALF WING TIP
BESPOKE, JOHN LOBB, LONDON
1976: $202 1990: $1,911
CHANGE 1989-90: +46%

EDUCATION
UNIVERSITY
HARVARD, 1-YEAR TUTION
ROOM, BOARD, INSURANCE
1976: $5,500 1990: $20,655
CHANGE 1989-90: +6%

TOYS AND HOBBIES
TRAIN SET
G GAUGE, BY LGB.
FAO SCHWARZ, N.Y.
CHANGE 1989-90: NONE

CATERED DINNER FOR 40
BY RIDDLEWELL'S, INC., WASHINGTON, D.C. (SOUP,
SALMON, VEAL, DESSERT, WINE NOT INCLUDED)
1976: $2,200 1990: $5,040
CHANGE 1989-90: +2%

ENTERTAINMENT
OPERA
2 SEASON TICKETS, METROPOLITAN
OPERA, SATURDAY NIGHT, BOX
1976: $500 1990: $2,070
CHANGE 1989-90: +12%

PREPARATORY SCHOOL
GROTON, 1-YEAR TUTION,
ROOM, BOARD
1976: $4,200 1990: $17,000
CHANGE 1989-90: +12%

At Canon, we've built a reputation solving your small copying problems.
FOOD AT HOME

CHAMPAGNE
DOM PERIGNON, CASE
SHERBY-LEHMANN, N.Y.
1976: $300
1990: $887
CHANGE 1989-90: +9%

CAVIAR
BELUGA MALOSSOL
1-KO TIN, AVERAGE RETAIL
1976: $283
1990: $1,478
CHANGE 1989-90: +3%

FILET MIGNON
7 POUNDS, LOBEL'S, N.Y.
1976: $50
1990: $125
CHANGE 1989-90: +19%

FOOD AWAY FROM HOME

DINNER
LA TOUR D'ARGENT,
PARIS, PER PERSON,
(INCLUDES WINE AND TIP)
1976: $34
1990: $164
CHANGE 1989-90: +23%

HOME FURNISHINGS

SHEETS
SET OF EMBROIDERED SILK,
BY PRATESI, QUEEN SIZE
1976: $1,218
1990: $5,090
CHANGE 1989-90: +48%

FLOWERS IN SEASON
ARRANGEMENTS FOR 6 ROOMS,
CHANGED WEEKLY BY CHRISTOPHER
& KOESTER, INC., N.Y., PER MONTH
1976: $1,400
1990: $4,628
CHANGE 1989-90: +15%

SILVERWARE
KIRK STIEFF CO., COLONIAL
WILLIAMSBURG SHELL PATTERN,
4-PIECE PLACE SETTING, FOR 12
1976: $1,341
1990: $3,000
CHANGE 1989-90: -5%

PIANO
STEINWAY & SONS,
CONCERT GRAND,
MODEL D, ENNED
1976: $13,500
1990: $53,400
CHANGE 1989-90: +7%
Now we want your big ones.
Depending on your social calendar, you can feel perfectly at ease stepping out of the LS400 in top hat and tails. Or something a good deal sportier.

Fasten Your Cummerbund.
ng through tight-banked turns.

Thrust is provided by a 4.0-liter, 32-valve, 250-horsepower V8 with racing-style hemispherical combustion chambers. The suspension system is Grand-Prix-race-inspired as well, featuring a double-wishbone design at all four wheels.

There's something else at all four wheels: large vented disc brakes activated independently by one of the world's most advanced anti-lock braking systems.

In short, everything about the LS 400 was engineered to deliver world-class performance.

To sample this performance, call 800-872-5398 for your nearest dealer and pay him a visit. He'll be the smart-looking guy with the tie.

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**SHOTGUNS**
Pair of James Purdy & Sons, at Griffin & Howe, N.Y.
1976: $20,000 1990: $87,400
Change 1989-90: +11%

**PAIR OF JAMES PURDY & SONS.**

**SAILING YACHT**
Nautor’s Swan 65
1976: $384,300 1990: $1,700,000
Change 1989-90: +30%

**SAILING YACHT NAUTOR’S SWAN 65**

**PUBLIC TRANSPORTATION**

**HELICOPTER**
Sikorsky S-76, Full Executive Options
1976: $1,300,000 1990: $6,000,000
Change 1989-90: +4%

**PRIVATE TRANSPORTATION**

**MOTOR YACHT**
Hatteras 60
1976: $231,097 1990: $1,086,600
Change 1989-90: +48%

**SUITCASE**
Loewe, Black Napa Leather, 27-inch-long
1976: $739 1990: $1,345
Change 1989-90: +82%

**SUITCASE LOEWE.**

**SAILING YACHT NAUTOR’S SWAN 65**

**OTHER GOODS AND SERVICES**

**MOTOR YACHT**

**AIRLINE TICKET**
British Airways Concorde, Round Trip, N.Y.-London
1976: $1,512 1990: $7,644
Change 1989-90: +10%

**MAGAZINE FORBES, 1-YEAR SUBSCRIPTION**
1976: $15 1990: $52
Change 1989-90: +8%

**MAGAZINE FORBES, 1-YEAR SUBSCRIPTION**

**PRIVATE TRANSPORTATION**

**HELICOPTER SIKORSKY S-76.**

**UTILITIES**

**TELEPHONE CALL**
10 Minutes, AT&T, N.Y.-London
Change 1989-90: -6%

**SUITCASE BLACK NAPA LEATHER.**

**HORSE**

**THOROUGHBRED**
Yearling, Average Price at Keeneland Select Sales
1976: $67,300 1990: $352,008
Change 1989-90: +11%

**THOROUGHBRED YEARLING.**

**PUBLIC TRANSPORTATION**

**SAILING YACHT NAUTOR’S SWAN 65**

**SPORTS FACILITIES**

**SUITCASE BLACK NAPA LEATHER.**

**SUITCASE BLACK NAPA LEATHER.**

**SWIMMING POOL**
Olympic, Standard Site
1976: $180,000 1990: $526,000
Change 1989-90: +5%

**SWIMMING POOL OLYMPIC, STANDARD SITE**

**SUITCASE BLACK NAPA LEATHER.**

**SUITCASE BLACK NAPA LEATHER.**

**HORSE.**

**HORSE.**

**FORBES 400/OCTOBER 22, 1990**
A Message from the President of the Republic of China on Taiwan

Hope of the Chinese People

The Constitution of the Republic of China was drafted in the spirit of the teachings of Dr. Sun Yat-sen, founding father of the ROC. The cornerstone of Dr. Sun’s vision for the new Chinese republic was his Three Principles of the People, namely, the principles of nationalism, democracy and the people’s livelihood. Dr. Sun’s Three Principles represent an effort to incorporate the best of Chinese and Western traditions to institute a sound system of democracy.

In accord with the principle of the people’s livelihood, a free market economy has thrived in the Taiwan-Penghu-Kinmen-Matsu region for the past 40 years. This system has been remarkably successful in striking a balance between rapid economic growth and equitable distribution of wealth, winning the ROC recognition at home and abroad.

Having spent the greater part of my career involved in the field of economics, I have found that the development of a country proceeds from quantity to quality, from achieving a broad base to gradual refinement. Quantity must first be achieved before the quantum leap to quality can be made.

The key question for the ROC on Taiwan today is: How can we make the best use of our quantity of wealth to make the crossover to quality? The ROC now needs not greater quantities of basic necessities, but a refinement of the overall quality of life. More specifically, what the ROC needs in its future economic development is to implement long-range, comprehensive planning, to elevate the quality of life and to reunify the country.

Domestically, our policies aim at rectifying various imbalances that have emerged in our economy expanding public investment, stabilizing prices, fine-tuning our financial system, maintaining economic order and promoting economic justice. On a global level, we will continue to play an active role in international trade and commerce, increase economic cooperation, expand trade relations, join international trade organizations and carry out our responsibility to the international community. Our objective is to foster prosperity and harmony in the international community, based on the principles of equality and reciprocity.

With our American friends, we hope to expand bilateral exchanges, enhance friendship and advance mutual interests based on the current foundation. With our neighbors in the Asia-Pacific region, we look forward to closer cooperation leading to continued economic growth and an early arrival of the “Age of the Pacific.”

We are full of confidence and optimism for our future. Our economic strength has made us a model for other developing countries. Our active efforts to join international organizations such as OECD and GATT are manifestations of our sincerity in contributing to the international community. Taiwan may be small in size, but its achievements compare favorably even with much larger countries.

With the welfare and future of 1.2 billion Chinese people both in Taiwan and on the mainland as my priority, I will do my best to lead the nation with determination and courage to make our goals a reality.

Lee Teng-hui
President of The Republic of China
SERVICE...AT THE CENTER OF IT ALL

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With double-digit growth in GNP for most of the 1970s and 1980s, Taiwan’s economy has expanded more than 40-fold during this period, compared with 10-fold growth for the world economy as a whole. Its GNP per capita rose from $50 in 1952 to $7,509 by the end of 1989, surpassing some of the developed countries. Moreover, Taiwan has an unusually equitable income distribution for a country that has been going through such rapid economic development. It has been touted by many economists as one of the world’s best economic performers in the last 20 years.

Since 1987, Taiwan’s political system has also been undergoing a rapid and far-reaching liberalization process. The country is moving steadily from its former one-party authoritarian regime toward a multiparty democracy.

Trade and Finance

Parallel to Taiwan’s political liberalization, measures have opened its trade and its financial sector to the world. Import controls have been relaxed almost completely. Wide-ranging tariff cuts continue and the effective duty rate will be reduced to 3.5% by 1992. Interest rate controls and foreign exchange controls on current account items have been eliminated and those on international capital transactions greatly relaxed. The banking sector is opening up to private banking and foreign banks, and foreign securities institutions have been invited to participate in Taiwan’s stock market.

The U.S. is still Taiwan’s biggest trade partner, but the Taiwan government is trying to reduce exports and its trade surplus with the U.S. Trade between the two countries was only 30.4% ($35.99 billion) of total trade in 1989, down from 38.4% in 1985.

In the first quarter of this year, the Taiwan-U.S. trade gap ($2.5 billion) fell 26% from the same period in 1989. As this trend continues, Taiwan will more than meet its target of a 10% cut in its trade imbalance with the U.S. by the end of this year.
Republic of China on Taiwan is ready to expand its role as a major, responsible, trading nation. Taiwan has undertaken to open up its market to foreign competition. Import tariffs on more than 4,800 items were reduced by more than 50%. The effective tariff rate is now less than 3.92%, only slightly higher than the U.S. rate of 3.68%. US exporters have also benefited from the rise in the value of the Taiwan currency, up by over almost 48% against the US dollar since 1986.

American companies in Taiwan enjoy VIP treatment ranging from tax incentives to having public works projects exclusively reserved for American industries. These efforts indicate that Taiwan is ready to become a more responsible member of the international community. Taiwan is applying to rejoin GATT and further commit itself to be a long-term partner with the U.S. for a better tomorrow.

When making your future business plans for Asia, think seriously about Taiwan which is not only the hottest market for American products in the region, but also an open market ready to buy American products.
Taiwan will continue to suffer deficits in its trade with its second largest trade partner, Japan, $25 billion or 21.2% of total trade in 1989, for the next few years.

Trade with Western Europe has been increasing slowly but steadily, from 11% in 1981 to 16.3% ($19.3 billion) last year. So has trade with Southeast Asian countries, increasing 140% from 1986 to 1989 and reaching a total volume of $17.8 billion, or 15% of total trade, in 1989.

Intensive trade promotion efforts in Eastern Europe are paying off. In the first seven months of this year, total trade volume between Taiwan and Eastern European countries reached $101 million, an increase of 81% over the same period in 1989.

Under its new governor, the dynamic Samuel Shieh, the Central Bank of China has taken a more active role in Taiwan's economic life. Shieh is determined to utilize Taiwan's huge forex reserves ($63.6 billion at the end of August) to help improve the economy and make Taipei an international financial and business center.

Shieh's first action was to allocate $5 billion of the forex reserves to set up the Taipei foreign currency call loan market in August 1989. This has contributed greatly to the development of Taiwan's forex market.

Although Taiwan's banking market will surely become increasingly competitive with the expected arrival of more foreign and local private banks, the changes will help channel the country's annual $8 billion of capital outflow and investment overseas.

Industry
Taiwan's industrial sector is moving rapidly toward high technology and high added-value products as, encouraged by the government, more and more of Taiwan's small- and medium-size labor-intensive enterprises are moving plants offshore to countries with lower labor costs and cheaper industrial lands and raw materials.

Most of the high-tech companies and their plants are located at the Science-base Industrial Park (Science Park) in Hsinchu, some 70km south of Taipei.

Since its establishment in 1983, Science Park has been the stronghold of Taiwan's fast developing high-technology industry. At present, the 111 enterprises in the park include nearly all the major Taiwanese companies in information technology.
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Telecommunications, automation, bioengineering and related enterprises. "We shall try to establish more Science Parks in Taiwan at the right locations," says director general of the Science Park Administration Steve Hsieh. "We want Taiwan to be the kingdom of high-tech niche-market products."

The development of Taiwan's industry as a whole is hindered by the high prices of industrial land due to a shortage of supply and to speculation. The government is trying to remedy this situation, according to John Ni, director general of the Economics Ministry's Industrial Development and Investment Center (IDIC). It is releasing lands occupied by government enterprises such as Taiwan Sugar Company for industrial use; actively reclaiming more land from the ocean; and encouraging developers to build high-rise factory buildings.

The Ministry of Economic Affairs created the IDIC to inform foreigners and overseas Chinese about investment opportunities, incentives and regulations, and to help investors with procedural formalities, contacting local suppliers or finding a location for a plant. The center can also trouble-shoot for investors who already have projects in operation in Taiwan.

Energy

Taiwan has significantly reduced its reliance on energy consumption for economic growth since the 1974 oil crisis. At present 40% of Taiwan's electricity is nuclear-generated, and only 25% is oil-generated, down from 49.1% in 1982. However, oil accounts for 60% of the island's fuel costs and uranium only 15%. Taiwan imports about 431,000 barrels of crude oil a day, 80% of which comes from the Middle East. Annual import of crude oil represents 2% of the GNP.

The state-owned Petroleum Corporation, CPC, is solely responsible for the production and supply of oil and gas as well as basic petrochemical raw materials. It is the country's largest enterprise, with revenues of $6.94 billion in 1989 and a work force of more than 22,000 people. As a national enterprise, the CPC has to assure stable oil prices and an adequate supply of oil products for the country while generating enough profit to assure its growth and development.

The CPC has been developing
Gourmet High-Tech Popcorn

High-tech is breaking out all over the R.O.C. No matter how you like it served, "plain" or "buttered", Taiwan's high-tech industry can handle it all.

Taiwan's high-tech skill is world class status and one of the most formidable in Asia. The recent development and production of the IDF jet fighter, comparable in performance to the U.S.'s F16, and the ranking of the Acer Group, which introduced a 32-bit personal computer before IBM, among the world's top ten computer companies are only the most visible examples of the R.O.C.'s high-tech accomplishments.

In 1989, the information industry ranked as the R.O.C.'s third largest export industry and had the greatest growth over the past few years. Taiwan ranks as the world's sixth largest manufacturer of information industry products and is moving within range of fifth ranked France. The ROC's information industry has experienced a 157% growth between 1986 and 1989.

Taiwan's universities/colleges produce over 35,000 engineering graduates a year. With this level of educated talent at hand it is no wonder that Motorola has increased its investment in Taiwan by 300% since 1984. In addition, IBM, Texas Instruments, Philips, and other international giants of the high-tech age have continued their heavy investment in Taiwan's "gourmet" information industry.

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onshore and offshore explorations in many regions of the world. It has set up an oil exploration and production joint venture with the Vietnam Petroleum Corporation and three other companies. CPC endeavors to strengthen its upstream potential by acquiring known oil and gas reserves.

According to CPC Vice President James Yu, the situation in the Middle East has a limited impact on Taiwan. "The CPC has a 97-day supply of refined oil and an additional 54-day supply of crude. Apart from our regular suppliers, we have concluded agreements with a number of other oil producers," says Yu.

The CPC is also committed to environmental protection, not only by efforts to reduce pollutants, in its installations, but also by improving the quality of oil products.

Transportation

By 1997 Taiwan expects to have 175 vehicles for every 1,000 people, giving it one of the highest vehicle densities in the world. The Taiwan government has several plans to improve the country's transport infrastructure, including a subway system in Taipei and a high-speed bullet train service linking Taipei, Taichung and Kaohsiung.

To meet the soaring demand of air transport service and promote the country's civil aviation industry, the Taiwan government adopted an open-sky policy in 1988, allowing the establishment of more Taiwanese international airlines.

This open-sky policy has taken the monopoly of international flights from the flagship carrier, China Airlines. But
Today, the Republic of China is quickly establishing a reputation for the impressive standards of its high-tech manufacturing.

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TAIWAN continued

for Peter Bien, president of China Airlines (CAL), this is a positive development for Taiwan's international civil aviation. “Our booming market is attracting more foreign airlines into Taiwan, and those already operating here have recently increased their flights to and from Taiwan, so we have to face increasing competition. Moreover, at present, our share of Taiwan's international air transport market is only some 22%. Now, with a stronger fleet, our country will be able to get a bigger market share.”

Meanwhile, CAL is carrying out an expansion plan, increasing its fleet from 23 to 35 by the end of 1994. Its 66% subsidiary, Hua Hsin Airlines, will soon be established and will offer direct flights to Sydney and Vancouver.

The Chiang Kai-shek International Airport in Taipei will presently begin its expansion project. A new international airport will be built in Kaohsiung, Taiwan's biggest port in the south, as part of a $12 billion development project.

Trade Services

The drive to enhance Taiwan's global profile and prestige has governed almost every aspect of the country's economic, social and diplomatic development in recent years.

The new Taipei International Convention Center (TICC), inaugurated last December, was designed and built to upgrade the international convention facilities in Taipei. With the Exhibition Hall of the Taipei World Trade Center, the China External Trade Development Council (CETRA) tower and the new Grand Hyatt Hotel, an integrated business complex is formed.

CETRA, a nonprofit foreign trade promotion organization, was founded in 1970. With 28 branches and offices worldwide, CETRA offers a complete range of trade services to help foreign and local companies develop products for import and export. It also manages the TWTC Exhibition Hall, a comprehensive exhibition facility with 163,000 square meters of exhibition space.

Accommodations

The Regent will join the Grand Hyatt and the other world-class hotels in Taipei this fall. Richard Chapman, the Regent's general manager, says his hotel is set to be the finest in Taipei for executive travelers and residents of the city.

New hotels mean tougher competition for existing international hotels. To meet this challenge, the 10-year-old Lai Lai Sheraton is undergoing a thorough renovation. As an additional marketing tool, the hotel is building a golf resort with a 27-hole course and recreational facilities on the outskirts of Taipei.

The Howard Plaza is also prepared for new competition. Frank Lu, general manager of the Howard Plaza, is confident his hotel's traditional Chinese ambiance combined with modern Western comfort will continue to assure it the preference of upmarket travelers.

Choi Hak-kim is a Hong Kong-based writer and managing editor of Hong Kong, Inc., an English-language business monthly.

Nike's Phil Knight and Reebok's Paul Fireman aren't like each other and don't like each other. That's one reason they're both on The Forbes Four Hundred.

The sneaker game

By Fleming Meeks

I think the biggest difference between Phil Knight and myself . . . ," says Reebok International Ltd. Chairman Paul Fireman. "Let's put it this way," he says, after a brief pause. "We're playing a game, okay. I know we're playing a game. I don't think he does."

The game is called marketing, taking a simple product that nine out of ten blindfolded sneaker wearers would be hard-pressed to identify, and attaching an image to it. And when all is said and done, the image Paul Fireman and Nike, Inc.'s Philip Knight are selling is themselves.

After all, neither of these companies is a sneaker manufacturer. They design sneakers they think Americans will buy and contract the manufacture out to low-wage factories in places like South Korea and Taiwan. The chief executives are essentially middlemen between manufacturer and consumer—but middlemen who add image and earn a major cut of the take. Not surprisingly, the two men, like the images their companies put forward, are clearly different. That's why Fireman can talk about business as a game while Knight sees it more as a battle. They share only one thing: This essentially simple business has made both of them Forbes Four Hundred rich.

The affable and easygoing Fireman coolly downplays his company's 1988 fall from the top spot among sneaker makers. "Hey," says the Stoughton, Mass.-based sneaker baron, "a game isn't a game if you can't win or lose."

Knight, on the other hand, projects no such casual attitude. Confronted with Fireman's remarks, the former University of Oregon track star snaps back, "It's more than a game. It's much more serious, because it's people's lives." Knight holds a grudge against Fireman on this very point. In 1986, after Reebok unseated Beaverton, Ore.-based Nike as the top U.S. sneaker company, Nike had to lay off 350 employees. "It was terrible," says Knight. "It's the worst thing that could happen to you in business."

And what a business it is. Though Nike and Reebok have battled unmercifully over the past five years, it's been the smaller sneaker makers and the casual shoe makers that have been bloodied. Not only has the two companies' combined share of the sneaker market continued to grow, but people are buying more sneakers and fewer loafers. The branded sneaker business in the U.S. has grown from about $2 billion at wholesale to nearly $5 billion in just five years, according to industry newsletter Sporting Goods Intelligence.

Get a look at these numbers: In 1985 Reebok, then just six years old, earned $39 million on revenues of $307 million. Last year Reebok earned $175 million on revenues of $1.8 billion.

In fiscal 1986 (ended May 31) Nike, after two years of declining earnings, rebounded to earn $59 million on revenues of $1 billion. In fiscal 1990 Nike's earnings rose to $243 million on revenues of $2.2 billion.

At $140 million, Nike's fiscal 1991 marketing budget will be greater than the revenues of all but a handful of its two dozen competitors.

And the personal stakes for the two rivals are also tremendous. Knight is a Stanford M.B.A. who teamed up with his college track coach to start Nike in his garage 26 years ago. He owns 37% of Nike's stock, worth nearly $1 billion when we priced it Sept. 5 for this issue. Fireman, who took over U.S. distribution rights for Reebok, then a tiny British running shoe maker, in 1979 and took over the company in 1984, is also no slouch. A college dropout and former fishing tackle salesman, Fireman had Reebok stock worth $220 million as of the cutoff. Stock sales and a lucrative bonus agreement have brought him another $130 million over the past five years. (Nike and Reebok have both taken big hits in the recent market decline, though neither Knight nor Fireman is
missing any meals."

But wealth isn't the image either sneaker tycoon is portraying to the customers. At Nike, the image is sweat and performance. Buy Nike shoes and—as the old ads for P.F. Flyers told the baby boom kids in the 1950s—you'll be able to run faster and jump higher. Now those kids are grown up, and Nike says it like this: "Just Do It."

So even if you do little more than put on your Nikes to pad around the house and drive down to the 7-Eleven [and, according to the Athletic Footwear Association, less than 10% of people who wear sneakers buy them just for the sports for which they were designed], you'll be allied with those who spend hours a week honing their bodies. Says Knight, who at age 52 still runs 15 to 20 miles a week. "Nike stands for performance."

A simple statement, but one learned through bitter experience. In 1984, buoyed by a five-year, 44% annual growth rate, Knight was trying to broaden his brand by slapping the Nike name on a line of casual shoes. Not only were the casual shoes a bust, but Nike, which had previously concentrated exclusively on running shoes, completely missed the trend toward aerobic shoes.

What went wrong? Hubris. "If you make ten decisions and ten of them are right," Knight says with a self-deprecating laugh, "you get to think you're pretty smart. I think that [the firm's early success] set us up for a fall." Between 1983 and 1985 Nike's profits fell more than 80%. "The big lesson," says Knight, who is riding high once again, "was, 'What does our brand stand for?'"

Ask the plump and distinctly unathletic Paul Fireman, 46, what Reebok stands for and you get a different answer. Says he: "Reebok is basically about freedom of expression."

How's that? Sneakers and freedom of expression? Here Fireman is being dead serious. In the early Eighties Reebok's product was principally aerobic shoes and its customers were 75% women. Brightly colored Reeboks were a way for otherwise conservatively dressed women trekking back and forth to work to express some individuality. But the aerobic craze has cooled, fewer women dress in business suits and sneakers, and Reebok is now going head-to-head with Nike right across the market.

Which means that Reebok has had to keep a distinct image; otherwise it would have been just a me-tooer. So two years ago Reebok launched the disastrous $35 million "Reeboks let U.B.U."

campaign, which featured vignettes of a fairy princess, a set of triplets, and a dopey-looking guy—all clad in Reeboks. Reeboks for folks who want to let it all hang out.

The "freedom of expression" image continues to be supported by sponsoring things like Nelson Mandela's trip to Boston and Amnesty International's 1988 Human Rights Now tour featuring Bruce Springsteen, Peter Gabriel and Sting. If you care about human rights and individuality, the image seems to say, buy Reeboks. Wearing them will make you feel good about spending all that money.

In such a business, personalities and business strategy are closely entwined. Both companies have prospered when their respective leaders have been in charge, and have withered when they walked away. In 1983 Knight, already a centimillionaire, did it first. He calls it "a bit of midlife struggling." Then 45, he began to wonder if he might like to start another company or go back to teaching (he once taught business classes at Portland State University). But four months into his semiretirement, Nike began to fall out of bed. "I began to realize how much it meant to me," says Knight, explaining why he took back the helm. "If Nike was going to fail, I wanted to be in it up to my eyeballs. I wanted to say I did everything I could to make it work."

Then Reebok, too, fell victim to hubris. In 1987 Fireman became convinced that Reebok was not just a sneaker company but a consumer products company. To help implement this reconceived vision, Fireman brought in Joseph LaBonte as president. LaBonte was previously president of Twentieth Century Fox. Also brought in were Mark Goldston, formerly president of Fabergé, and Frank O'Connell, formerly chief executive of HBO Video.

But the shoe business wasn't show business. The strategy flopped. Shoe retailers liked dealing with people who knew about shoes, and resented flashy Hollywood types. "I really abdicated responsibility," concedes Fireman. By early this year the flashy trio was gone. "A lot of damage has been done," he adds. All the same, since Fireman took charge of the company again last fall, business has been picking up. Reebok has refocused its marketing around style and performance, with a heavy emphasis on its expensive new Pump line of sneakers.

But comfortable fortunes and rising profits have brought no end to the sniping between the two men. Says Knight of Reebok and its Pump sneaker: "The Pump [which inflates across the top of the shoe for a snug fit] tends to put the foot to sleep. They'll get a short-term marketing punch from it. But we don't see it as a long-term threat. Basically, it's a long-term threat to people's feet."

Counters Fireman: "He's been focused on Reebok as a thorn in his side since we passed them in sales in 1986." Such sniping may sound unseemly, but it certainly hasn't hurt business.
With the end of the great 1980s credit binge, capital values almost everywhere are being marked down. Just as homeowners feel less wealthy than a year ago, so do most of the nation's rich.

In 1990 the rich have been getting poorer.

It's not just the year Donald Trump's and some other overleveraged fortunes hit the wall. This year the entire Forbes Four Hundred list seemed to stop going up and, on balance, start going down.

Trump is the most newsworthy loser, dropping right off Forbes' list of the richest Americans. As his bankers are learning to their dismay, his net worth may actually have dropped to zero.

For The Forbes Four Hundred as a whole, it takes a closer look. There are subtle and not so subtle changes that seem much more significant than the collapse of one more overreacher:

- For the first time ever, the minimum fortune required to get onto our list went down: Last year it took $275 million, this year $260 million might do. Eleven people—nearly 3% of the total—included here would have been rejects last year.

We wound up with one less billionaire—66 vs. 67. (But 4 people on our list, in hindsight, were already billionaires last year: Our research hadn't quite caught up with them.)
So there are actually 5 fewer billionaires this year.)

- We found ourselves marking more of last year’s estimated net worths down than up—172 down (including drop-offs), 157 up (the remainder were roughly unchanged).
- More significantly, the drops in The Forbes Four Hundred this year spread throughout the list. This reflected a general scaling down of capital values, brought about in good part by a worldwide shrinkage of credit and sinking stock markets. Years past, isolated pockets might be weak, but most of the list, on balance, would rise. For example, the number of oil fortunes went down in the mid-1980s, and the fortunes in publicly traded stocks were hurt by the 1987 crash. The beginnings of the real estate bust showed up last year, when the number of real estate fortunes dropped from 87 to 77. But despite these pockets of weakness, the overall list was generally rising. This year all kinds of things went down: real estate, media, banks, public stocks, private companies, you name it. (Among major categories, agriculture and oil were strong—thank you, Saddam Hussein.)

Last year’s deflation of large fortunes took place against an upward bias built into the list by our continuing research into the fortunes of the very rich. Each year we turn up new fortunes and get a better line on some of the old ones. Each find boosts the list up a bit. This year, for instance, we found out that the previously unstudied
Japanese subsidiary of Amway is a hugely profitable money machine. So profitable that even with Japanese multiples depressed by the Tokyo stock market crash, the two low-profile owners of Amway, Richard DeVos and Jay Van Andel, had to be upped about $1 billion apiece.

Then there was that Zurich foundation authoritatively reported years ago as the repository of much of the fortune of shipowner Daniel K. Ludwig. Turns out it’s not a foundation; add $850 million for Ludwig. George Soros, the proprietor of Quantum Fund! Financial documents filed in London revealed $600 million worth of previously unidentified shares in his own fund. At home, we learned from an inside source that the dozen Cargills and MacMills on our list don’t own 75% of the gigantic commodities dealer Cargill, Inc.; they own all of it. Another $1.6 billion. And the 27 entirely new additions to the list this year, each knocking off someone else worth a mere $260 million or less, collectively added another $3.1 billion or more to The Forbes Four Hundred tally.

These finds account entirely for the otherwise odd fact that this year both the total estimated net worth of the Four Hundred ($272.5 billion) and the average Four Hundred fortune ($681.9 million) seemed to be slightly up while everything was plainly edging down. Without all these research finds, the total would have been down $3.5 billion. The average net worth would have been down $8.6 million instead of up $10 million.

Okay, so what does all this mean?

Just this. That there is a larger trend here. There are plenty of easy explanations. There’s the sagging stock market. Real estate has been overbuilt for years, and gunshy banks afraid to lend are creating a credit squeeze. Advertising declines this year have hurt the value of media fortunes. The end of the cellular bidding war is the change that knocked three of the four McCaw brothers off the list. And so forth.

But the shift in the wind revealed in our Forbes Four Hundred research this year is so pervasive it suggests something much larger is happening.

We are seeing the world’s capital markets seeking a new equilibrium. A near record economic expansion and the inevitable overoptimism that resulted were impelled by easy credit into driving the market prices of assets to unjustifiable and unsustainable levels. If you wanted to buy anything, the money was there.

Think back a moment to September 1982, the first time we published The Forbes Four Hundred. It was at the bottom of our last recession. Inflation had just come down from double digits. The Dow Jones industrials at 850. The prime rate near 15% and Treasurys priced to yield 12%.

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This year’s Forbes Four Hundred biographees are color-coded according to the relative sizes of their estimated fortunes, using the spectrum shown on the right.
The month before, the New York Times proclaimed that "the recession's cruel effects are expected to cut deeply into . . . the economy for years to come." The media, especially the tube, dripped gloom.

In short, it was the perfect time to buy.

And our list? Its richest fortune was Daniel Ludwig's, estimated at $2 billion. The poorest, Armas Markkula of Apple Computer, a mere $91 million. The average fortune, $230 million. The total of all the estimated net worths that year, $92 billion.

From there, it has been almost straight up (the 1987 crash excepted) for most of a decade. This year, a pause and a modest retreat, with capital values still pretty high. Today John Kluge tops our list at $5.6 billion, Katharine Graham's son Donald, of the Washington Post fortune, brings up the rear at $260 million. Today's prime rate is 10%, long Treasurys around 9%, and a depressed Dow at 2500—still three times the level of 1982.

Still, some of the markdowns have been drastic. Cable TV magnate Charles Dolan's Cablevision Systems is one of the most leveraged companies going, with about $2 billion in debt. He's been rolling it over, "evergreening" as he goes, but he faces major debt maturities in 1992. Figuring all this, we cut our estimate of his net wealth by 56%. Bob Magness, another cable king, saw his fortune decline by 33%

Then there's Jane Bancroft Cook, whose share of the Dow Jones fortune is off 43%. The mighty Wall Street Journal and Barron's brought so low? Yep. A third of the Wall Street Journal's advertising normally comes from the battered financial sector. Its less known but significant Ottaway newspaper chain is concentrated in the similarly battered Northeast, where newspaper ad revenues are particularly weak.

And the startling drop in highflier McCaw Cellular Communications that dropped three of the McCaw brothers off the list and sent Chairman Craig McCaw's net worth down 45% when we priced it as of early last month, and more since. McCaw may not be able to generate enough cash flow to service its debt, but so what, argues Herschel Shosteck, an international telecommunications economist: "When you owe $3 billion, the banks are in trouble, not you."

Finally, just to get away from media and communications, consider William Hewlett, down 40%. After allowing for his 2-million-share gift of Hewlett-Packard stock to charity, there's the fact that HP stock is down sharply. And then there's Warren Buffett, whose Berkshire Hathaway stockholding went down $860 million; perhaps the 8% earnings gain in the second quarter was less than his investors are used to.

Note this: The general marking down of values did not stem from recession or even from a serious squeeze on earnings. Essentially it was a result of the vast shrinkage of credit, which ended the game of buying properties with other people's money. Junk bond buyers were no longer willing to play sucker for leveraged takeovers, and even the banks were discovering long-forgotten principles of creditworthiness. Suddenly, buyers of businesses and properties were having to commit much more of their own money, and prices slumped accordingly. Is this bad? It's painful but probably healthy for the economy.
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John Werner Kluge
Metromedia. Charlottesville, Va.; NYC. 76. Twice divorced, remarried, seeking third divorce, allegedly amicably; 3 children. German-born, poor, settled in Detroit 1922. Scholarship student Columbia University; economics degree 1937. Army intelligence WWII. Bought Maryland radio station; built string of radio, TV stations; formed Metromedia; added billboards, Harlem Globetrotters, Ice Capades, cellular phone. Convert to Catholicism before marriage to magazine model, actress Patricia Rose Gay, 1981 (now divorcing). Liquidated Metromedia assets 1984, realizing 2.5 times what shareholders got ($4.65 billion before taxes, debt). With cash started computerized billboard painting company, raised Orion Pictures stake to about 70%. Bought Ponderosa Steak chain; also has Bonanza, Steak & Ale. Metromedia recently sold NYC cellular for $1.05 billion cash and $850 million stock; still has half of Philadelphia's cellular franchise; Metromedia Long Distance telephone service, fourth-largest long-distance carrier in U.S. Has a 10,000-acre estate in Virginia; 80,000 acres and castle in Scotland; finishing new yacht. Net worth at least $5.6 billion.

Warren Edward Buffett
Investments. Omaha. 60. Married (separated); 3 children. Son of stockbroker who later became a congressman. Showed early interest in family business; first stock purchase age 11. M.S. Columbia.

Disciple of Columbia's financial guru, Benjamin Graham. Worked briefly with Graham in New York 1954, then adopted Graham's method of "value investing" to start investment partnership in Omaha 1956. Bought Berkshire Hathaway textile mills 1965 ($12/share); dissolved partnership 1969 after thirtyfold growth, decided to use Berkshire Hathaway as prime investment vehicle. Textile business floundered (ceased operations 1985) but investment busi-

ness boomed. Made fortune in long-run investments in undervalued companies. Large shareholder Washington Post, Geico, Capital Cities/ABC: "In the short run the market is a voting machine, but in the long run it's a weighing machine." Recently fond of playing white knight: received sweetheart deals for "saving" Salomon Brothers and Gillette from Revlon's Ronald O. Perelman. Says will give bulk of wealth to foundation devoted to population control and nuclear disarmament. Buffett: "[I] enjoy the process far more than the proceeds, though [I] have learned to live with those, also." Good thing: his Berkshire Hathaway stock worth $3.3 billion.

Ronald Owen Perelman
Leveraged buyouts. NYC. 47. Divorced, remarried; 5 children. Exposed to business at father's metal fabricating outfit in Philadelphia; Wharton business school. In 1978 borrowed $1.9 million to buy minority interest in jewelry distributor; proceeded to build into MacAn-

122
Henry Lea Hillman
Industrialist, venture capitalist, real estate developer. Pittsburgh. 71. Married, 4 children. Self-effacing son of fiery coal-steel-gas magnate John Hartwell Hillman Jr., who nipped at Mellon family heels, built Pittsburgh Coke & Chemical, Texas Gas Transmission, etc. Henry joined business 1946, took over after father's death 1959. "I'm not a table-pounder, and he was." Bought out 5 siblings (now deceased). Sold Drews & Forbes conglomerate, using debt from Drexel. Constructed money machine: buy undervalued assets, divest of all but cash cows, bag bigger game. Nailed Revlon for $3 billion 1985, failed in $4.1 billion bid for Gillette. Revlon now owns 80% of growth firm National Health Laboratories (medical testing); provides over one-third of profits, less than 15% of revenue. Sold 15% to public last summer to refinance some of heavy debt (said to be $2.6 billion on Revlon Group alone). Also has licorice business, most sold to tobacco companies (cigarette flavoring agent). Other businesses: Coleman Co. bought 1989 $545 million [maker of camping gear], took Andrews Group (Marvel comics, New World Entertainment) private this year; made $104 million profit in 1988-89 on Texas' First Gibraltar Savings Bank on $315 million investment. Recently reported buying $1 billion Oklahoma s&l to go with it. Can afford to live like billionaire, with net worth estimated at least $2.87 billion.

Barbara Cox Anthony

Anne Cox Chambers


Samuel Irving Newhouse Jr.

Donald Edward Newhouse

Brothers. Publishing, cable TV. Father Samuel born to Eastern European immigrants. Ran Bayonne...
Donald Edward Newhouse


Jay Arthur Pritzker

Robert Alan Pritzker


Robert and Jay Pritzker

Sam Moore Walton

S. Robson Walton

John T. Walton

Jim C. Walton

Alice L. Walton

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The Forbes Four Hundred

+ $2,000,000,000

William Henry Gates III
Microsoft Corp. Seattle. 34. Single. nicknamed Trey. Father prominent
Seattle lawyer; mother regent of U.
of Wash. Created first computer
program age 13. Dropped out of
Harvard prelaw age 19 to find Mi-
crosoft with Paul Allen (tebib see)
1975. Works hard, plays hard:
known for 16-hour days, awaits
Porsche 959 ($600,000) held up by
U.S. Customs. Building 35,800-
square-foot home into suburban
hillside, mostly underground but
with waterfront view. Built Micro-
soft as way of contributing to
computer crusade. Made first signif-
cant thrust into foreign markets
1980; gained prominence with DOS
(Disk Operating System) applicable
to PCs 1981. Quickly became lead-
ing software company. New pro-
gram "Windows 3.0" aims to
broaden market further by making
PCs more user-friendly. Gates' ag-
gressive strategy not endeavoring to
competitors [continuing feud with
industry rivals Jim Manzi of Lotus,
Phillpe Kahn of Borland]: "His goal
is to dominate every aspect of com-
puting." Maintains informal but
driven atmosphere at company
headquarters ( likened to college
campus), hangs out in cafeteria
talking shop with employees. Self-
described "hard-core technoid," but
employed masterful marketing
to take Microsoft to the top ($1.1
billion net revenues fiscal 1990).
His stock, proceeds from sales,
worth $2.5 billion.

Henry Ross Perot
Electronic Data Systems. Dallas.
60. Married, 4 daughters, 1 son. Son
of Texas cotton broker, various jobs
as teenager, including breaking
horses; "business school" watching
father deal with poor east Texas
cotton farmers. Eagle Scout. An-
apolis. Dissatisfied with pace of
advancement, left Navy after 4
years for sales job with IBM. Pio-
neered brokering of computer time
to increase sales; accepted commis-
sion cut to get sales quota in-
creased. Dissatisfied with pace of
advancement, formed EDS 1962
with $1,000 of wife's savings when
IBM mixed plan to sell data process-
ing services. Paper billionaire 1969.
Crashed. Recovered. Tried to help
bring supplies to POWs during Viet-
name War. Sold out to CM for $1.4
billion in cash, stock 1984. Paid
extra to go away 1986 after offering
"constructive criticism." Set up
Perot Systems 1988 to compete
with EDS. Also, 18,000 acres sur-
rounding Dallas; includes Alliance
Airport, where Ross Jr. plans world
manufacturing center: American
Airlines, Ishida Corp. [to build tilt-
ing aircraft] already signed on. Of-
fered to transport families to visit
Panama wounded. Net worth tops
$2.2 billion, "The bulk is in liquid
investments."

A. Alfred Taubman
Shopping centers et al. Bloomfield
Hills, Mich. 65. Divorced, remar-
ed [to former Miss Israel], 3 chil-
dren. Father was Detroit custom
home builder; Al, artistic as child.
studied architecture at U. of Mich.;
dropped out to start working. Start-
ed own firm with $5,000 loan 1950;
developed first shopping center
1953, built more. Large regional
malls 1960s; obsession with detail
leads to stringent leases, store de-
design requirements: "If they don't
like it, they don't have to rent with
us." Now has 20 malls. Led Irvine
Ranch buyout 1977; earned $150
million on 1983 sale. Was white
knight for Sotheby's 1983, took
public 1988. Got into retailing him-
sel: bought department stores
Woodward & Lothrop, Wanama-
kers. Also over 500 luxury apart-
ments Detroit, building 270 more;
A&W Restaurants; 100 movie
screens. Worth estimated at least
$2.1 billion.

Ted Arison
Carnival Cruise Lines. Miami
Beach. 66. Divorced, remarried; 2
children by first marriage, I adopt-
ed in second. Scion of Israeli ship-
n

A. Alfred Taubman

Ted Arison

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EXPERIENCE

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+ $1,500,000,000

Summer Murray Redstone

1989 sales, $155 million) to 650-plus screens U.S., U.K. Realized big gains 1980s as investor in Twentieth Century Fox, Columbia Pictures takeover, MGM-UA Home Video buyback. Survived 1979 Boston hotel fire by clinging to ledge. Bought entertainment giant Viacom (Showtime, The Movie Channel, MTV, cable, radio, TV stations) in $3.2 billion LBO hostile takeover 1987: "It was like a war." Took public next day; his 83% worth $1.7 billion. Net worth nearly tripled at one stroke. Battled John Kluge (which see) for Orion Pictures; lost, but $18 million profit. Viacom now negotiating settlement of $2.4 billion antitrust suit with Time Warner. His National Amusements, other investments worth at least $2 billion. Another near triple would top Kluge. "Great successes are built on failures and calamities and frustrations, not on small successes."
A FEW WORDS OF REASSURANCE FOR ALL THOSE DOING BUSINESS IN TAIPEI.
The Forbes Four Hundred

+ $1,500,000,000

Forrest Edward Mars Sr.
Forrest Edward Mars Jr.
John Franklyn Mars
Jacqueline Mars Vogel


Leslie Herbert Wexner


Charles F. Feeney

Duty Free Shoppers, real estate, etc. London. 59. Married, 5 children. Founded Duty Free Shoppers in Hong Kong 1960 with classmate at Cornell School of Hotel Administration, built into world's largest duty-free retailer. Focused on Pacific basin; Japanese tourists main customers. Lavished tour guides with hefty commissions for guiding tourists to stores. Left day-to-day management early 1970s to concentrate on investing enormous cash flow through Bermuda-based General Atlantic holding company, Hong Kong/San Francisco-based InterPacific. Resort hotels in Guam and Saipan; Tahiti shopping center; Taiwan watchmakers; Hawaiian retail clothing; Texas discount clothing chain; posh London cashmere store; investments in computer software and real estate. Called high-strung, fast-talking, fast-thinking, frugal. Flies economy class. "He's really most content at 36,000 feet." With at least 40% of Duty Free Shoppers and other investments, believed worth at least $1.9 billion.

Forrest Edward Mars Sr.

Leisure

Edgar Myles Bronfman

former Hollywood producer (The Border), working with father on diversifying through beverage market. Seagram's now owns Tropicana, Soho Natural Sodas, Martell Cognacs. 1989 gross revenues, $5.5 billion. Edgar Sr., president World Jewish Congress; travels globe in corporate jet [777 Sugar Whiskey]. With Seagram's stock, other assets, worth $1.9 billion.

Charles F. Feeney

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brusque, strong-willed, said to have inherited father's autocratic manner. Began in Australian operation, now co-president. Jacqueline: Bedminster, N.J. 51. Divorced, remarried; 3 children. Director. Siblings said to own Mars, yet still visibly insecure at mention of father's name. Four Marses share control of company estimated worth over $6.8 billion.

**Philip Frederick Anschutz**


**Walter Hubert Annenberg**


**Harry Brakmann Helmsley**

Real estate, nyc and Greenwich, Conn. 81. Divorced, remarried, childless. Started in mail room; collected rents for real estate firm; partner 1938. Began buying ordinary, unpretentious buildings, matching his means, unassuming manner, 1930s, brokered buildings, reinvested commissions for down-payment. First wife Quaker, he converted 1940. Pioneered real estate syndication with late 400 membr Lawrence Wien. By 1950s in prime Manhattan buildings; Empire State Building 1961; Helmsley took operating lease. "Money's the great motivator." Today Helmsley partnerships control 50 million square feet commercial, 50,000 apartments, 13,000 hotel rooms nationwide. Shoked associates with 1972 divorce, remarriage to star, broker Leona Roberts. Invaded nyc social scene, displayed Helmsley name on buildings. Leona still appealing 4-year sentence for tax evasion; Harry declared mentally unfit to stand trial. Helmsley-Spear, no successor in sight, losing leadership position in nyc brokerage. Harry, still collecting receipts from once-grand empire, worth at least $1.65 billion.

**Lester Crown and family**

Inheritance, industrialist. Wilmette, Ill. 65. Married; 7 children, 3 in business. Son of renowned Chicago financier Henry Crown [d. 1990] who with 2 brothers organized Material Service Co. 1919 to supply building materials. Strive for efficiency to outlast fierce competition during Depression; perseverance meant dominant market position when economy recovered. Henry got nickname "Colonel" procuring Army supplies during war. Then began diversifying,
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building fortune, taking advantage of leverage, tax-deferral: large stakes in stocks, real estate. Sold Material Services to General Dynamics for preferred stock 1959; forced to sell preferred, later bought common on open market, ousted management, effected turnaround. Son Lester, chemical engineer, Harvard M.B.A., currently controls fortune much tied up in family trusts; 23 relatives have interests. Forced to buy out stake of cousins who sued trust administrator to get control from Lester 1990. Separately, Lester's in-laws, the Schine family, suing over Lester's administration of trusts. Despite legal problems, Crown fortune still worth estimated $1.65 billion.

**Marvin Harold Davis**


**Donald Leroy Bren**


Too many cooks: "Each of their egos could fill the room!" bought out most partners for $518 million 1983. At buyout price, property worth $1 billion, partners Joan Irvine Smith and Athalie Clarke said $3 billion, sued (1989 Michigan judge awarded $149 million plus back interest). Bren now holding one-sixth Orange County (over 64,000 acres), building elegant condos and office parks, leaving his imprint on the world. Further development constrained by strong environmental forces. Fortune worth $1.6 billion.

**Samuel Jayson LeFrak**

Real estate. NYC. 72. Married, 4 children. Sam joined French immigrant father's construction firm after U. of Maryland, took over 1948. Became nation's largest private landlord: developed over 94,000 apartments (37,000 NYC), for "the mass, not the class." Continuing 600-acre, $10 billion, mixed-use waterfront site, Newport City, including 1.2-million-square-foot Newport Center Mall with Mel Simon (which see). "Eighth wonder of the world," reported to be experiencing "financial difficulties," now under watchful eye of FHA. Son Richard president LeFrak Organization. Also smaller interests entertainment, music publishing, copyrights. "The music business is like real estate, except you don't have to
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paint it every two years." Oil and gas interests. Knighted by Kings of Norway, Sweden. Collects art. Net worth still about $1.6 billion.

**Laurence Allan Tisch**

### Preston Robert Tisch


### Robert Muse Bass


### Ray Lee Hunt and family

Inheritance, oil, real estate. Runs fortune for the "second family" (of three) of H.L. Hunt, who married Ruth Ray and adopted kids 1957 after death of first wife 1955 (long kept families secret from each other—see Caroline Hunt, Margaret Hunt Hill). Ray Lee: Dallas. 47. Married, 5 children. His mother, Ruth Ray Hunt: Dallas. 73. Widowed, 4 chil-
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Edward John DeBartolo

Shopping centers. Boardman, Ohio. 81. Widowed; 1 son, 1 daughter. Father, Anthony Paoneessa, died months before birth of Mr. D, who took stepfather’s name. Wrote contracting bids for non-English-speaking stepfather age 13. Mother scut- tled plans to be truck driver, pushed him to Notre Dame. Studied civil engineering, Army engineer WWII. Broke off from stepfather with own firm 1948. Vision: “Stay out in the country. That’s the new downtown.” Built first strip a year later: “I would like to know that what I am doing could go on endlessly.” Giant gamble at time, but suited his nature. Gambled again 1960s: huge regional malls, large Florida landholdings. Now “King of malls,” over 80 million square feet owned. Also sports [son’s San Francisco football 49ers, Pittsburgh hockey Penguins, 3 race tracks], hotels, office space: “I stick my nose in everything.” Funded reckless Campeau acquisitions of Al-

Edward John DeBartolo

laid, Federated stores, but all his credits secured. Net worth at least $1.4 billion. Still maintains discipline of daily 5 a.m. rise: “I get here at 5:30 every morning and stay until 6:30 or 7:00.” He means p.m.

Stephen Davison Bechtel Jr. and family

Engineering, construction. San Francisco. 65. Married, 5 children. Grandson of Warren Bechtel, rail-

Sid Richardson Bass

Lee Marshall Bass

Brothers. Oil, investments. Fort Worth. Two of 4 sons of Perry Richardson Bass, whose uncle, oil legend Sid Richardson, started with $40 from Perry’s mother. Left bulk of reported $100 million estate to charity 1959, some to Perry, who built new $50 million oil empire by 1968. Retired, giving reins to newly minted Stanford M.B.A. son; Sid: 47. Divorced, remarried; 2 children. Brought on Stanford classmate Richard Rainwater (which see) 1970; learned to deal together: Marathon
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80 PROOF IMPORTED

ABSOLUT FAX.
Lee Marshall Bass

Oil ($160 million estimated profit), Texaco ($450 million), Disney turnaround (family stake tops $2.5 billion). Brothers Robert, Edward (see both) went separate ways mid-1980s. Now-ex-wife Anne became increasingly prominent at New York society affairs 1980s; Sid left her for other socialite, Mercedes Kellogg, 1986; Anne’s settlement 1989 worth $200 million at time. Sid’s alleged honeymoon spot: Disney World; Sid swears he’ll never sell his Disney stock. Lee: 34. Married, no children. Yalie (like other brothers), Wharton M.B.A. Invests with partner Sid; lives more quietly. Brothers’ share of family fortune estimated at $2.8 billion.

Daniel Keith Ludwig

Shipping, real estate. NYC. 93. Divorced, remarried, 1 daughter by first marriage, 2 stepchildren. Son of Michigan real estate agent. Quit school at 19, borrowed $5,000 to convert old steamer. In 1930s chartered tankers to oil companies, used leases as collateral to build the tankers. In WWII built substantial U.S. tanker fleet, got it back free after V-J Day; world’s third-largest tanker fleet. Built first supertankers in low-cost Japanese shipyards. Invested in real estate, mines, oil & gas around the world. Sank over $1 billion into Amazon wood pulp empire, towed power plant and paper mill from Japan. Shipping empire allowed to shrink. Invested in 4 s&ls, now managed by Resolution Trust. $1 billion N.J. development project opposite Manhattan stalled since 1983. Gave foreign assets to Swiss cancer institute 1971, but controls it as private corporation. Reclusiveness, lives in constant back pain since shipping accident 60 years ago. Once told employee: “Working on a deal is better than a climax.” Result: estimated net worth $1.4 billion.

David Packard


David Howard Murdoch

Investments. Bel Air, Calif. 67. Divorced, widowed, 2 sons. Son of traveling salesman, high school dropout. After WWII, landed in Detroit, borrowed $1,800 to buy a diner; sold for a profit. Moved to Phoenix, built homes, founded a bank, accumulated estimated $100 million fortune. Phoenix market collapsed 1963; Murdoch, with $13 million remaining, moved to LA. Invested in real estate, small companies, most now under Pacific Holdings (over $1 billion sales 1989). Helped merge Iowa Beef Proccesors into Occidental Petroleum; quarreled with Armand Hammer, relinquished Oxy stake for $100 million profit. Helped save Conti...
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nental Group from raider Sir James Goldsmith, then broke it up for $50 million profit. Merged Flexi-Van into Castle & Cooke, got 24% stake; now chairman, CEO. Miscellaneous real estate [Hay-Adams Hotel in Washington, D.C., Murdoch Plaza in Los Angeles, etc.], large stable Arabian horses, etc. Prominent Republican fundraiser. Very private. Fortune estimated $1.35 billion.

Gordon Peter Getty
Inheritance. San Francisco. 56. Married, 4 sons. Son of famed oilman Jean Paul Getty. “Gordo” more interested in music than oil; studied at San Francisco’s Conservatoire of Music 1960s; composes and conducts. Sued father for dividend income 1966; pilloried by father’s lawyers, but only relative at father’s deathbed 1976 (see also J. Paul Jr). Co-trustee of Sarah C. Getty Trust [named for his late grandmother] that held 40% Getty Oil; later sole trustee. Niece Anne Earhart (which see) filed first family lawsuit to oust him in 1976. Getty Oil board hostile to Gordo; he sparked Texaco-Pennzoil debacle by sale of family’s oil trust to Texaco 1984. Seemed as businessman, but managed to sell at height of oil prices, doubled family fortune (to $3 billion), tripled income. Suit settled December 1988 with dissolution of main trust into separate trusts run for and by family members (see Caroline Getty et al.) Gordon’s quarter-plus years of enterprises investments by his business team worth at least $1.3 billion.

Leonard Norman Stern

Richard Marvin DeVos
Jay Van Andel
Partners. Amway Corp. Ada, Mich. 64, 66. Each married, 4 children; all but 1 work for company. Next-door neighbors, high school buddies. After WWII tried flying service, then hamburger stand; then bought and sailed schooner to Cuba (it sank). Started Amway 1959, in base-
From The Power Of The Pacific.

Three essentials for financial success.
Alone, each is impressive, but together they speak of the highest quality.
The quality found at Pacific Financial Companies.
Performance. Our proven performance places us among the nation's leading financial institutions. With innovative products and insightful strategies.
Consistency. Growing with America for over 120 years, assets under management now total over $35 billion. With more than $26 billion of life insurance in force.
Stability. Secure in the ability to deliver tomorrow on what's invested today, we've earned the industry's highest ratings.* Year after year.
In Personal Financial Services, Employee Benefits, and Asset Management. We provide the power to manage your future.

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*Standard & Poor's AAA, AM Best A+.
The Future: Can We Really Get There From Here?
The future used to be so much fun. It had allure. It had enchantment. It had verve.

But sadly, it had very little to do with reality.

The future of today needs a little more focus.

Especially when it comes to business and computing systems. Novell networking software can unite your past with your future.

So you keep the equipment you have. Buy different kinds of computers if you want. And they'll all work together. More powerfully and more productively.

We planned it that way.

If linking your future with your past seems like a good idea today, just imagine how good it will sound ten years from now.
Robert Edward
(Ted) Turner III


Harold Clark Simmons

Investments. Dallas and Montecito, Calif. 59. Twice divorced, remarried; 4 daughters, 2 stepchildren. Son of Golden, Tex., schoolteachers, worked as bank examiner, bought Dallas drugstore with $5,000 equity at 29. Created 100-store chain, sold to Jack Eckard Corp. for $50 million stock 1973. Used hostile takeovers to build conglomerate: chemicals, oil services, timber, sugar, fast food, locks and hardware. Used own money to fund ventures. “I enjoy finding values in companies that are worth more than I have to pay. Everybody’s got to do something.” Most assets in Valhi Corp.; public 1987. Also real estate Texas, Louisiana, Colorado, Arizona. Increased stake in Lockheed to 20% this year, considered dissident stockholder. Active philanthropist: gave $10 million toward arthritis research center 1985 [longtime sufferer], $41 million to U. of Texas Southwestern Medical Center 1988. Says goal is to build foundation with assets equal to world’s largest [Howard Hughes Foundation, $5 billion]. Family man; skier, tennis player. Stock, real estate worth estimated $1.3 billion.

Kirk Kerkorian

Investments. Beverly Hills, Las Vegas. 73. Twice divorced, 2 children. Son of Armenian immigrant fruit farmer, junior high dropout, earned 40 cents an hour clearing lot for MGM building site. Lightweight amateur boxer. Repaired and sold junk cars—then DC-3s after WWII. Built charter airline, flew surplus Air Force planes across Atlantic, sold company for $104 million profit 1968. Paid $82 million for 40% MGM in hostile takeover 1969; $380 million for United Artists 1981, merged 1986. Shuffled assets in complex deal with Ted Turner (which see) 1986: sold 50% to Ted for $500 million, stock; bought back UA for $480 million; now subject of possible $220 million holders’ suit. Owns 81% MGM Grand: hotel-casinos, luxury airline, $700 million plan for Las Vegas: 5,000-room hotel-casino, 80-acrc movie theme park. Aborted attempt to sell MGM/UA Communications 1989. Trying again: sale under way to Pathé Communications, headed by Italian media magnate Giancarlo Parretti, for $1.3 billion. Deal supposed to close June, now October; financing difficulties, again. Described as trader not manager; once said, “The longer you stay, the more odds work against you.” If not staying past this month, worth over $1.25 billion.

David Rockefeller and family

Inheritance. Banking, real estate, NYC, Tarrytown, N.Y. 75. Married, 6 children. Grandson John D. Rockefeller, youngest of 5 brothers (see Laurence and family). Still chairman Rockefeller Group, but...
51% of this highly diversified investment firm (real estate finance, brokerage, development, LBOs, bridge loans, portfolio management et al.) now belongs to Japan's Mitsubishi Estate Co. Only brother with successful career in traditional family business (First Manhattan Bank), Ph.D. economics 1940, bank CEO 1969-80. Took up mantle of international statesman, arrival in South American capitals sometimes sparked riots. Major role NYC real estate (including ill-fated Westway project), 45% San Francisco's Embarcadero Center. Led family in 1985 cash out Rockefeller Center, acceding to wishes of cash-hungry younger relatives. His investments in real estate, share of family trusts, etc., believed worth $1.2 billion.

Paul G. Allen


Jack Kent Cooke

Real estate, investments, sports. Middleburg, Va. 77. Married for fourth time in May; 2 sons by first wife; daughter (he doesn't see) by third (when married he was 72, she 29); third divorce media event. Ontario-born to picture-frame maker ruined in Depression. Jack sold encyclopedias door-to-door; bought into first radio station age 25, then newspaper chain, magazines. Millionaire before 30. Sold all properties; naturalized by act of Congress 1960. Bought Los Angeles [basketball] Lakers 1965, brought in Kareem Abdul-Jabbar, Wilt Chamberlain; built Forum; sold all 1979. Bought NYC's Chrysler Building and other properties for $87 million 1979; refinanced for $250 million 1987. Owns Los Angeles Daily News. Bought cable systems for $1 billion 1987; sold 1989 for 1.6 billion "mostly cash." Probably won't sell 1988 Superbowl champion Washington Redskins: planning $160 million stadium; wants to build in District of Columbia. Trying to figure out what to do with all that cash, total fortune estimated at $1.1 billion.

James R. Cargill

Margaret Cargill


Keith Rupert Murdoch

BETTING THE RIGHT PEOPLE TO THE RIGHT PLACE - RIGHT AWAY. CREWS THAT FLY OR THE U.S. COAST GUARD SEARCH AND RESCUE TEAMS, DOCTORS AND NURSES WORKING WITH RESCUE GROUPS; ALL COUNT ON THE RELIABILITY OF AEROSPATIALE HELICOPTERS, WITH THE COOPERATION OF INDUSTRY EXPERTS AND AEROSPACE SUBCONTRACTORS. AEROSPATIALE DESIGNS AND MANUFACTURES THE WORLD'S MOST ADVANCED HELICOPTERS. HELICOPTERS WHICH ARE ASSEMBLED FOR NORTH AMERICA BY A 300 MEMBER WORK FORCE IN TEXAS FULL FILL THE DEMANDS FOR EFFICIENCY AND CONFIDENCE OF THE TEAMS FROM HOSPITALS, POLICE OR CORPORATE MANAGEMENT. CREATING AND WORKING TOGETHER KEEPS US UP THERE. MEET THE TEAM.

**Curtis Leroy Carlson**
Entrepreneur. Long Lake, Minn. 76. Married, 2 daughters. Father Swedish immigrant grocer; Curt worked various jobs; carried 3 paper routes, farmed 2 out to brothers, made small profit on each. U. of Minn. 1937; sold soap for Procter & Gamble, $85/month. With $50 loan started Gold Bond Trading Stamp Co. 1938: "The minute I got out on my own, I knew that I'd found my element." Built one-man conglomerate, 1989 gross revenues $6.2 billion: Radisson hotels (53,000 rooms, many franchised), Country Kitchen restaurants, TGI Friday's restaurants, Carlson Travel Network (formerly Ask Mr. Foster), largest travel agency in North America [1989 billings $3.6 billion], Carlson motivation and promotion divisions (sales $600 million 1989) help firms stimulate customer, employee enthusiasm. Also investments in real estate. Fortune believed to exceed $1.1 billion.

**William Bernard Ziff**
Publishing. Manalapan, Fla. 60. Divorced, remarried, 3 sons by first marriage. Father WWII aviator, not-ed lecturer, author, cofounded Ziff-Davis 1927; died 1953 [William was 23]. Bought out Davis at 27; expanded into upwardly mobile niches: Car & Driver, Boating, Yachting, etc., ultimately some 50 magazines, 6 TV stations. Liquidation while fighting cancer 1980s: sold stations for about $100 million 1983; 12 trade magazines to Rupert Murdoch (see) for $350 million, 12 consumer magazines to CBS for $362.5 million 1985. CBS filed suit against Ziff-Davis, claiming misleading financial information, inflated sale price; CBS sold out at profit 1987 but still seeks $40 million claim. Ziff still chairman Ziff Communications. Kept, built up computer-related titles, e.g., PC Magazine, PC Week, PC/Computing; has total circulation 2.5 million, prospering. Fortune, including $400 million trust for children, worth at least $1 billion.

**Margaret Hunt Hill and family**
Inheritance, oil. Dallas, 74. Widowed, 3 children. Eldest daughter legendary wildcatter H.L. Hunt (see Caroline Hunt); he taught her oil business when young. Controls trust for first-born son Hasie [exclusive, history of mental illness, childless]. Stayed away from famous brothers' silver debacle. Helped them out buying their repossessed land after 1980 silver crash. Reportedly insisted "the boys" use addi...
Ours is an age of vanishing loyalties. Partnerships bloom and partnerships perish. Yet the client relationships of one insurance company span decades. Year after year—in businesses large, medium and small—it retains nearly 90% of the property/casualty clients it served the year before. Perhaps clients stay with The Hartford for its remarkably advanced products. And uniquely responsive customer service. But perhaps they stay, decade after decade, for the fairness and thoroughness and integrity that have been The Hartford’s way of doing business for more than 180 years. ITT Hartford. When you need us most, we’re at our best.
national personal assets to secure company; she denies. With sister Caroline, pulled out her, Hassie's share family oil trusts 1983. Now, runs separate oil, real estate operation. Son Al runs Hunt Investments, partnership including Hill Holdings Co., trusts. Al dabbles in filmmaking, not much success. Fortune, including Hassie's trusts, worth around $1 billion.

Edward Lewis Gaylord
Broadcasting, publishing, real estate. Oklahoma City. 71. Married, four children. Toiled in the shadow of father, E.K., who bought into Daily Oklahoman 1903 and became one of state's most powerful individuals. E.L. finally in full charge when father died 1974, age 101. Making own business inroads: $250 million 1983 purchase of Grand Ole Opry, Opryland and now thriving Nashville Network (also owns television show I've Heard); made over $100 million selling Telerate stock; exchanged other half for Dow Jones shares valued at $149 million). Sold 2 television stations at 1987 market peak for $425 million. Oklahoma Publishing Co. has newspaper, share in Texas [baseball] Rangers; 4 tv, 3 radio stations. Conservative, opinionated:

"We're against liberal bubble-heads." E.L., like father, not likely to step aside soon. Fortune conservatively estimated at $1 billion.

Carl Celian Icahn
Finance. Bedford, N.Y. 54. Married, 2 children. Grew up middle class in nyc's Queens; mother taught school, lawyer father (frustrated opera singer) read Schopenhauer to Carl. Princeton scholarship, studied philosophy, award-winning thesis: "An Explication of the Empiricist Criterion of Meaning." Mother pushed medical school; stuck it out 2 years. After Army, finally found Wall St. But had to sell his convertible after 1962 market crash. Went to night school, traded options, published newsletter. Borrowed to buy NYSE seat 1968; success. Bought into firms, forced managers to improve, buy back or spin off. First takeover bid Tappan 1977, $2.7 million profit. Over $100 million profits next 10 years. Bought ACF 1984, took TWA private 1988; both were used to house huge stock holdings: usx, Texaco. TWA suffering labor problems, big losses. Major profit realized on Texaco last year; paper gains on 13% usx but lost proxy fight. With TWA faltering, net worth will require legendary financial wizardry to stay $1 billion. Carl the philosopher: "If you lose an opportunity, there will always be another one. But if you don't hang on to your cash, you've got real problems."

Philip Hampson Knight
Nike, Inc. Hillsboro, Ore. 53. Married, 2 sons. U. of Oregon track star, M.B.A. Stanford 1962, wrote marketing paper on potential of Far East athletic shoe production for U.S. market: "Everybody was writing about computers and electronics, but all I really knew about was running." Price Waterhouse CPA, moonlighted importing Japanese track shoes with former college coach. Developed Nike (Greek goddess of victory) running shoes in time for 1972 Olympic trials. Established market niche through "word of foot," advertising targeted "performance driven" market. Competitive edge gained 1970s lost to Reebok (see Fireman) 1986-88; now back in the lead with 29% market share (Reebok: 23%). Jock-filled $60 million ad budget knows how to sell shoes (fiscal 1990 sales, $2.2 billion). Diversifying into apparel, dress shoes. Philip still avid runner (tests new models), tennis player. Stock, proceeds from sales worth over $1 billion.
Get Rich Slowly...And Carefully

By John L. Steffens

AN URGENT NEED TO INCREASE SAVINGS

ne of the greatest financial challenges facing many individuals is how to translate today's success into security for the future. Statistics compiled by Merrill Lynch Market Planning highlight major demographic shifts that are adding a new sense of urgency to the need to save:

• By the year 2000, the ranks of Americans over 75 will grow to nearly 17 million people. One-eighth of the population will be over 65.

• The aging of America means many individuals may spend nearly as many years in retirement as they do working.

• Health care costs are expected to continue rising dramatically, potentially reaching $1.5 trillion by the year 2010, up from $600 billion in 1989.

• Eight out of 10 children of baby boomers are expected to attend college, and boomer parents may spend $30,000 per year on each child.

No matter how well off you are, there is good reason to consider whether you are preparing adequately to meet future financial needs. While your efforts may never make you a member of The Forbes Four Hundred, there are a number of smart moves you can make now to position yourself for prosperity, not just in the 1990s but on into the century.

Increased saving is the key to maintaining a high standard of living for our aging population. It will also fuel the infrastructure investments we must make to remain competitive in today's global economy. A new study commissioned by Merrill Lynch to analyze America's saving crisis provides strong evidence that saving is vital if Americans are to have quality lives in retirement. The study also points out that government policies—especially the use of well-designed tax incentives, such as tax-advantaged saving programs—can be extremely effective in stimulating new personal saving. Copies of this report, Save Ourselves: The Human Dimension of the Saving Crisis, are available by calling 1-800-637-7455, Ext.7498.

LIVING WELL WHEN YOU RETIRE

Many people do not have a realistic idea of what retirement might cost or how they will pay for it. Many anticipate that Social Security and employer pensions will be major

John L. Steffens is President and Chief Executive Officer, Merrill Lynch Consumer Markets, as well as National Chairman, Alliance for Aging Research.

sources of income. But even today, these two sources only provide about 35% of total income for higher income retirees. And as life expectancies continue to increase, each individual may need to fund $20,000 or more annually, over and above Social Security and employer pension benefits, for 30 years or more.

In a recent Merrill Lynch survey of preretirees aged 45 to 64, more than 80% said they expect to maintain their standard of living in retirement. Unfortunately, most preretirees are taking a "cross their fingers" approach to planning—saving just what they can

This chart shows how much an investor might be able to accumulate over a lifetime to achieve all four goals of a home, college education, comfortable retirement and estate preservation.
Only about one-fifth allocate 20% or more of their income to a retirement account and almost one-quarter are setting aside nothing at all.

MAXIMIZING SOURCES OF RETIREMENT INCOME

"According to a widely used rule of thumb, retirees usually require 60% to 80% of preretirement pretax income to maintain their standard of living in retirement," says Donald Underwood, Vice President of Retirement Plans at Merrill Lynch. "But that is only a general guideline and it doesn't consider inflation. Even at a fairly moderate inflation rate of only 5% a year, prices could double in about 14.5 years."

The more diversified your income sources, the better you can protect your capital against inflation, fluctuating investments and legislative changes affecting pensions and Social Security. To estimate your income in retirement, consider what you might receive from these sources:

- **Social Security.** Call Social Security at 1-800-234-5772 to get your Lifetime Saving Projections

<table>
<thead>
<tr>
<th>Age</th>
<th>Savings</th>
<th>Total Annual Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>$910</td>
<td>$15,999</td>
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<tr>
<td>30</td>
<td>$10,741</td>
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<td>65</td>
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<td>70</td>
<td>$1,750</td>
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<td>95</td>
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<tr>
<td>100</td>
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</tbody>
</table>

Assumes you will use these savings to pay for each goal.

- **Home**
- **College**
- **Retirement**
- **Long-Term Care**

This chart shows Merrill Lynch's estimate of the annual savings necessary at various stages to pay for lifetime financial goals, singly and cumulatively.

Studies conducted by the National Institute on Aging show that people can live longer, healthier lives when they enjoy financial security.

Your Retirement Lifestyle Checklist

The following are some important areas to evaluate in assessing your retirement expenses:

- When will you retire and what is your life expectancy?
- What will your household expenses be? Will your mortgage be paid off? Will you rent? Will you move?
- What will you spend on basic living expenses and on travel and leisure activities?
- What will you spend on health care in retirement? Will you pay for medical and long-term care insurance? Will you need life insurance?
- Will you keep working, either full or part-time?
- Will your overall tax rate be lower or higher?
- Will you still be paying off tuition loans or other large loans?
- Will you be caring for elderly parents or other dependents?
past Social Security earnings record and an estimate of future benefits.

- **Employer-sponsored plans.** Ask your company benefits office for an estimate of your retirement benefits or current account values for any pension, profit-sharing, 401(k) or other plans in which you participate.

- **Individual resources.** One of the best ways to build retirement assets is to contribute the most you can to tax-deferred retirement accounts—such as Keogh, Simplified Employee Pension (SEP) and other plans for small business owners, and Individual Retirement Accounts (IRAs). Earnings in these accounts—and in many cases, the money you invest—grow without current taxes until you make withdrawals. Similarly, if you get a distribution from a retirement plan when you retire or change jobs, consider rolling it into an IRA to avoid current taxes.

Other tax-favored ways to invest for retirement include fixed and variable annuities, certain types of whole life insurance, and tax-exempt municipal bonds. Stocks, mutual funds, zero coupon instruments and LYONs® also offer abundant opportunities for meeting retirement goals. For more retirement planning strategies, call 1-800-637-7455, Ext.7502, for a copy of **Ensuring an Independent Lifestyle.**

**GETTING READY FOR POTENTIAL LONG-TERM CARE COSTS**

One important part of planning for retirement is anticipating long-term care costs. According to government data, individuals over age 65 have a more than 40% chance of spending some time in a nursing home. The costs run high: nursing home charges often range from $25,000 to $55,000 a year. Home health care services are also expensive. Medicare coverage for these costs is limited, so individuals and their families shoulder the burden.

If you have fairly significant assets and income to protect, one option is to buy long-term care insurance designed to cover nursing home and home care costs. Generally, the younger and healthier you are, the lower the premiums will be, which is why some people consider purchasing these policies when they are in their 50s. Before buying, look closely at the level of care covered, any restrictions requiring prior levels of care before benefits will be paid and whether benefits will be adjusted for inflation.

**PLANNING TO PRESERVE YOUR ESTATE**

"We're on the brink of an unprecedented inheritance boom," says Rodney I. Woods, President and Chief Executive Officer of Merrill Lynch Trust Company. "As much as $6 to $8 trillion is projected to change hands over the next 20 years as the current generation of older Americans—the richest this nation has ever produced —transfers wealth to their children and grandchildren."

However, without proper planning, a large part of that wealth could be needlessly lost to the IRS. Federal estate tax rates today range up to 55%, and there are fewer ways to avoid those taxes, which lends even greater urgency to the need for careful planning. Furthermore, probate can be a time-consuming and costly process for poorly planned estates.

The objective of a well-crafted estate plan is to make sure that your assets will go to the people or charities you choose, in a way as to let them keep as much as possible after taxes. At a minimum, you should prepare a will and review it regularly with your attorney to keep up-to-date with changing tax laws and personal circumstances. If you're married consider how your assets are owned. The unified estate and gift tax law gives a credit that shelters up to

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**Get Smart About College Financing**

A college degree can add almost $1 million to a person's lifetime earnings, which makes it well worth the high and rising cost. An undergraduate degree from a prestigious private university can easily top $60,000 today. In ten years the price tag could well be over $120,000. Fortunately, there are a number of effective ways to meet spiraling college costs:

- **Establish a separate account** such as a custodial account or trust, to help keep tabs on your progress in building a college fund and possibly receive certain tax advantages.

- **Consider zero coupon investments,** which pay principal and all interest at maturity. Buy bonds that mature during your child's college years so you'll know how much will be available. **CAPITALIZE ON LYONs® (Liquid Yield OptionSM Notes).** LYONs combine the advantages of zero coupon instruments with many of the variable features of traditional convertibles and the additional feature of a put option, which allows holders to sell the securities back to the issuer.

- **Build assets with stocks and diversified, professionally selected stock mutual funds and unit investment trust portfolios.**

- **Pay for education with certain newer types of life insurance** that combine life insurance protection with a tax-favored asset accumulation plan. You can borrow against the policy at a low net cost, and policy loans may even be tax-free in certain cases.

- **Borrow advantageously with home equity credit for immediate college bills.** Interest expense on home equity loans up to $100,000 is generally fully tax-deductible, and you can usually write checks as needed, so you avoid needless interest costs.

Call 1-800-637-7455, Ext. 7501 for a copy of **Investing In Your Child's Future (College Financing Strategies).**
$600,000 of each person's assets from federal estate taxes. In addition, the marital deduction allows you to leave any amount of property to your spouse estate tax-free.

With proper use of the unlimited marital deduction, there may be no need for liquidity for estate taxes until the death of the second spouse. One excellent and inexpensive way to cover the tax liability may be to purchase a survivorship or "second-to-die" life insurance policy, which pays a death benefit only upon the death of the second spouse. For more strategies on estate preservation call 1-800-637-7455, Ext. 7503 to get a copy of Enjoy Your Retirement Years.

**TRUSTING IN TRUSTS**

Trusts are an effective way of managing your assets the way you want, now and after your death. A trust is a legal arrangement that transfers ownership of assets to a trustee, who manages them for your beneficiaries. Trusts can be designed to reduce

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**Building and Managing Wealth with Asset Allocation**

In today's volatile financial markets, one of the smartest approaches to investing over the long term is asset allocation. With asset allocation, you systematically distribute your portfolio among stocks, bonds and cash in order to reduce portfolio risk, preserve profits and improve total return. (See chart.)

To begin the asset allocation process, review your overall finances and identify your investable capital. Then define your investment objectives, set your time horizons and assess your personal tolerance for risk. The greater your financial resources, the greater the risk you can afford financially, provided you feel emotionally comfortable assuming that level of risk.

"Merrill Lynch has developed a dynamic allocation matrix using four investor profiles that correspond to ways in which investors often characterize themselves," says Charles I. Clough, Jr., Chief Investment Strategist at Merrill Lynch. "So individuals working with their Merrill Lynch Financial Consultants can adapt the firm's overall investment strategy to their specific needs."

The asset mix for each profile is a variation of the firm's benchmark asset allocation strategy for large institutional investors. These are the four profiles:

1. **Conservative risk, income-oriented investors** are primarily concerned with safety of principal and the security of dividend and interest payments. Growth of capital may be a secondary objective.

2. **Conservative risk, growth-oriented investors** also emphasize security of principal, but they are willing to accept some volatility of return if that means increased growth possibilities. These investors often seek to make their capital grow through compounding of reinvested dividends and interest income.

3. **Moderate risk investors** seek to achieve the highest return possible while controlling risk. They are willing to shift between different asset classes as risk/reward trade-offs change.

4. **Aggressive risk investors** are willing to move aggressively among asset classes to take advantage of relative value or superior growth opportunities. They are also willing to commit a substantial portion of their portfolios to a single asset class if unusual opportunities emerge.

Although the profiles in our matrix may not cover all investors, they can be useful tools to help investors tailor portfolios to suit their risk tolerance levels and investment goals. Also remember that asset allocation is a continuing process that should be reviewed and updated as individual needs and overall market conditions change.

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**1980-1989 10-Year Avg. Total Returns**

<table>
<thead>
<tr>
<th>Year</th>
<th>Stocks</th>
<th>Bonds</th>
<th>Real Estate</th>
<th>Money Market</th>
<th>Diversified Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Year</td>
<td>32.42</td>
<td>40.35</td>
<td>18.06</td>
<td>14.71</td>
<td>20.43</td>
</tr>
<tr>
<td>Worst Year</td>
<td>-4.91</td>
<td>-3.95</td>
<td>5.40</td>
<td>5.47</td>
<td>3.35</td>
</tr>
</tbody>
</table>

*Latest figures available through 1988 year-end only.

The numbers indicate that while stocks have provided the best average performance for the 10-year period, the diversified portfolio reduced the risks associated with investments limited solely to one asset class; in that no negative annual returns were experienced. Additionally, the variability of returns between the best and worst years in the 10-year period was much lower for the diversified portfolio than it was for either stocks or bonds. Furthermore, despite this lower volatility, the diversified portfolio produced an attractive 10-year average return—a higher return than that achieved on more stable real estate and money market investments. The diversified portfolio also remained relatively liquid. The diversified portfolio represents an equal weighting of the four classes. Performance based on total returns for the S&P 500, 20-Year Treasury Bond, 30-Day T-Bill and the Frank Russell Company Business Real Estate Index. Of course, past performance is no guarantee of future results.

Source: Ibbotson Associates and Merrill Lynch Investment Strategy
income and estate taxes, and meet a variety of other needs, such as safeguarding the inheritances of children, providing security for your family after death and making gifts to charity.

Revocable living trusts have become a popular estate planning option. In such a plan, title to securities, real estate and other assets is placed in a trust while you are alive, but you retain full control over the assets. The trust document outlines instructions for managing the assets and distributing them after your death.

**A STRATEGY FOR GIVING APPRECIATED REAL ESTATE**

Another alternative, the retained life tenancy, allows you and your spouse to currently give ownership of your home to a charity but reserve the right to remain in the home for your combined lifetimes, or for a term of years, with the property going to charity after both your deaths. You would receive an immediate income tax deduction for a portion of the home’s value. Or, you may want to transfer your home to a charitable remainder trust, which could qualify for income, estate and gift tax deductions. The trust pays no capital gains tax when the appreciated property is sold, leaving 100% of the value for reinvestment. Your tax savings can be used to make cash gifts to your children, who can make premium payments on an insurance policy on your life. With this strategy you can replace the property transferred to the trust, your children receive the insurance proceeds free of gift and estate taxes, you increase your after-tax income and can make a significant contribution to charity.

**PROTECT YOUR BUSINESS WITH SUCCESSION PLANNING**

If you own a closely held business, your personal and business wealth are usually closely intertwined, and a large percentage of your estate may be comprised of your business. Planning now for your estate and for your business successor is the best way to ease estate tax consequences and ensure the survival of your business.

Without a succession plan in place, your heirs could have problems raising cash to pay federal estate taxes. You can help heirs avoid liquidating estate assets by carrying adequate life insurance, such as survivorship life insurance.

A buy-sell agreement, which is often funded with life insurance, is critical for closely held businesses. It can help ensure that you, or your heirs, have a measure of control over the business so that it either remains in your family, or that your company has enough money to buy out your interest.

"To ensure a smooth business transition, you should decide now which options best suit your needs, after consulting your financial advisor, accountant, attorney, and valuation and business brokerage experts," stresses Arthur Urciuoli, Senior Vice President and Director of Merrill Lynch Business Financial Services.

At Merrill Lynch, we believe the dreams of an ideal home, the best college for your children, a secure retirement and an ample estate can be attained more easily than people realize. To help you on your way, we have developed *The Merrill Lynch Guide to Lifelong Money Sense*, a series of brochures that addresses each of those four areas. In addition to the ones offered in the article, you can get a copy of *Tapping the Equity in Your Home* (home financing strategies), by calling 1-800-637-7455, Ext. 7504.

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### Year-End Tactics to Trim Your Taxes

Here are 11 tactics to reduce your 1990 taxes if you act before year-end. Before taking action, consult your tax advisor. A Merrill Lynch Financial Consultant can help execute the transactions.

**Tax law changes under consideration in Washington could affect the strategies discussed below.**

**Further, many state and local governments are also considering possible tax increases, which could impact tax planning moves.**

1. Project your 1990 tax liability, including any alternative minimum tax liability, while there is still time to act.

2. Defer income until 1991 and accelerate deductions into 1990 if you expect to be in the same or a lower tax bracket next year.

3. Conversely, if you expect to be in a higher tax bracket in 1991 [because of higher income or a change in tax rates], or are subject to the Alternative Minimum Tax, accelerating income and deferring deductions will reduce your tax bill.

4. Go short against the box, or buy put options, to lock in capital gains this year but defer taxes until 1991.

5. Realize capital losses to offset capital gains; consider municipal bond swaps.

6. Avoid the tax on appreciated securities by donating the shares to charity instead of selling them and donating cash.

7. Invest in tax-exempt municipal bonds for higher after-tax returns.

8. Contribute the maximum you can to tax-deferred retirement accounts.

9. Ensure deductibility for interest expense by substituting tax-deductible home equity credit for consumer debt with very limited deductibility.

10. Take advantage of deductible investment interest by using securities-based credit to buy stocks and bonds and use cash for consumer purchases.

11. Shift investment income to children up to the 'kiddie tax' limit (up to $1,000 for children under age 14).

For more information about these and other strategies, call 1-800-637-7455, Ext. 7499 and ask for 43 Tax-Saving Ideas for Investors. If you own or run a business, call 1-800-637-7455, Ext. 7500 to get *How to Cut Your Business Tax Bill*.
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Mail to: Merrill Lynch, Pierce, Fenner and Smith Inc.
Response Center, P.O. Box 30200
New Brunswick, NJ 08989-0200

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Laurence Spelman Rockefeller

Inheritance, investments. NYC and Tarrytown, N.Y. 80. Married, 3 daughters, 1 son. Grandson John D. Rockefeller. Big returns on early venture capital investments seeded with principal from huge 1934 trust; Eastern Air Lines, McDonald Douglas, $100 million gain Apple Computer. Also developed remote, exclusive resorts [some resorts and management arm sold 1986 to csx; little activity since]. Supported NYC Westway project with brother David (see below). Gave $36 million to Memorial Sloan-Kettering, recently pledged $21 million to Princeton; donated thousands of acres to national parks, preserves. His, immediate family's portion Rockefeller fortune estimated $975 million.

Edward Perry Bass

Oil, investments. Fort Worth. 45. Single. Second son of Perry Richardson Bass (see other Basses). Yale-trained actor, Coast Guard, Yale architecture school: only non-M.B.A. Bass brother. Taught briefly at Andover, then built adobe structures in New Mexico. Influenced by intellectuals in commune outside Santa Fe, funded worldwide projects including Nepal hotel: "One thing my travels have given me is an understanding of culture and an appreciation of culture." Spending $30 million on experimental enclosed ecosystem Arizona: Biosphere II. Spends half year at 500,000-acre Australian cattle station. Giving $20 million to establish Institute of Biospheric Studies at Yale, planning risky $25 million downtown Fort Worth housing development: "A city full of parking lots is like an old mouth with missing teeth. It can't chew very well for all the missing spaces." Despite nonprofit ecological orientation, net worth believed over $975 million.

Michel Fribourg

Grain trader. NYC. 77. Widowed, remarried. 5 children. Michel's great-great-grandfather started trading grain Belgium 1813; son prospered trading gold for wheat during 1848 famine. Family started Continental Grain Co., Chicago 1921. Michel fled to U.S. 1940, served in army intelligence in France, took over on father's death 1944. Diversified into other agribusiness areas [e.g., animal feed, specialty baking, flour milling, financial services, now merchant banking. Approaching $15 billion revenues, mostly low-margin grain trading. Made specialty of selling to Soviets for almost 30 years. Still chairman, son Paul executive vice president. Worth estimated $960 million.

Harry Weinberg


Edward Crosby Johnson III


Winthrop Paul Rockefeller

Inheritance. Winrock Farm, Ark. 42. Divorced, remarried, 3 children by first wife; 2 by second. Great-grandson of John D. Rockefeller, only child of "black sheep" Winthrop (d. 1973), of third generation Rockefellers, leveled mountaintop for Winrock Farm; twice corp governor. Win Paul offspring of brief marriage with Barbara (Bobo) Sears, European schooling, suspended from Oxford after first year. Runs Winrock, one of largest private cattle operations in Southeast; also president, chairman of the Billfish Foundation. Set up Law Enforcement Assistance Foundation, cruises with local sheriffs on duty; very philanthropic. Net worth estimated $950 million or more. (See other Rockefellers, family.)

Joan Beverly Kroc


Donald Worthington Reynolds

Publishing. Las Vegas. 84. Thrice divorced, 3 children. Son of door-to-door grocery peddler. "We never
missed any mcals, but that was about it." Worked through U. of Missouri journalism school. Fired from first two jobs, but saved enough to invest in printing plant. Then WWII; shrapnel hit in forehead: "It got rid of my sinus trouble." Helped publish wartime magazine Yank. After, built highly profitable Donrey Media Group to 55 dailies, 62 nondailies, TV station, 5 cable companies, billboards. Hats union, cost-cutting fanatic. Children uninterested; foundation to inherit estimated $915-million-plus empire when Reynolds heads to "that big newsroom in the sky."

Roger Milliken

Gerrish Milliken

Anne Franchetti

Minot Milliken

and families


Stephen Wozniak and Steven Jobs with the first Apple computer, 1976. Nowadays we wouldn't call it a computer at all, but rather a "mother board," roughly analogous to the engine of an automobile. Regardless, it sold like hotcakes to electronics hobbyists, even with an initial price of $666.66. Today, only 14 years later, that same sum (about $1,500 in 1990 dollars) would buy you a motherboard—and the rest of a computer along with it—that is hundreds of times more powerful.

Text for this and succeeding pictures by John Steele Gordon: photo research by Ellen Horan

Milton Jack Petrie

Petrie Stores, NYC and Southampton, N.Y. 88. Twice divorced, widowed, remarried; 1 son, 2 daughters. Son of Russian immigrant pawnbroker. Indiana junior tennis champion 1917. Opened Cleveland hosicry store with $5,000 (half won playing craps). Went bankrupt 1937, but repaid creditors in full by
If only for a moment, she defies gravity. Her grace and form are flawless, a tribute to perseverance and tenacity.

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For more information on how you can help these athletes, please write to: Executive Director, United States Diving, 201 South Capitol Avenue, Suite 430, Indianapolis, Indiana 46225.
Occasionally, Mergers Product
Would Find Impossible To P
It's not surprising that two can sometimes accomplish things that one never could. What is surprising, however, is just how beneficial the merger of McCormack & Dodge and Management Science America (MSA) promises to be. Together they are combining their talents and energies, along with an unprecedented wealth of experience, to form D&B Software.

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**MSA Software Merged With McCormack & Dodge To Become Dun & Bradstreet Software.**

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**The Results That Either Party Produce On Their Own.**

D&B SOFTWARE
1939. Expanded chain of moderately priced women’s clothing through acquisition to 1,600 stores today with sales approaching $1.3 billion: “We cater to the masses.” Demand ing employer: Grandson Matthew Miller resigned 1988 after 2 years. Self-described “sales manager”; Obsessed with details. Reputation for spontaneous charitable contributions: known philanthropy over $125 million—established trusts for families of slain policemen, slashed model, etc. “I try to pay the good Lord back for what he’s done for me.” Avid bridge player: partners include Laurence Tisch and Alfred Taubman (which see). His 60% stake, other investments, worth at least $890 million.

The Forbes Four Hundred

+$800,000,000


George Soros
Money manager. NYC, Southamp ton, N.Y. 60. Divorced, remarried; 5 children. Hungarian born, hid in attic with family to avoid Nazis. Paris after war, then London School of Economics; Wall St. 1956 as analyst, currency trader. Started Cura çao-based fund, now Quantum Fund 1969, with colleague Jim Rogers (they split up), for non-U.S. investors only. Compound annual rate of return 32.9% over 20 years; constantly globe-trotting to recon noiter. Funded Budapest business school, first in East Bloc. Set up Hungary Fund 1989. Foundations provide money to individuals battling communist governments. Class B shares in Quantum, dividends, management fees top $240 million.

Ewing Marion Kauffman

Marc Rich
Pincus Green
In any monetary system: ensure your new facility's bottom line

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And it pays well.
Jeno Paulucci in his Chun King Co. kitchen in Minneapolis, 1952. Paulucci combined the rapidly growing market for convenience food with the rising interest in ethnic food. First he tried Chinese, then Italian (Jeno’s Pizza). He made a fortune in each.

Marvin Maynard Schwan

O. Wayne Rollins
Rollins, Inc. Atlanta. 78. Married, 2 sons, both in business. Farm boy, worked 72-hour week for $10 in Depression textile mill. After WWII, interest in radio stations piqued while bedridden; started first station 1948. Using novel LBO financing, purchased Orkin Exterminating 1964. “What we did was buy a company we thought we could pay for out of earnings; now they buy them with debt and hope to spin off parts.” Expanded media holdings; added oil and gas service, security systems, lawn care. Sold Rollins Communications 1986; his share $290 million. Farms, hunts quail. Holdings worth over $800 million. “Money makes a good servant but a poor master.”

Carl Henry Lindner II
How First Chicago stays steady when interest rates don't.

In theory, the banking business is pretty straightforward. Buy money at one price and sell it at another (hopefully higher) price. But in reality, buying and selling billions of dollars amidst interest rate gyrations can make it hard to stay on track.

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If you're looking for ways to balance off interest rate risk but still aren't sure about futures and options, here's First Chicago's point of view—"If you know you have an exposure and don't do anything about it, you are a speculator." Think about it. Then think about the Chicago Mercantile Exchange. We help smart businesses manage risk.

CHICAGO MERCANTILE EXCHANGE

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This, of course, should come as no surprise. Because Hitachi isn't just an electronics company. Or a computer company. Or a household appliance company.
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We're a US$45 billion international corporation. Our 20,000 products include telecommunications equipment, construction machinery, rail transportation. Everything from vacuum cleaners to power plants.

Including consumer electronics. Such as you see here in our 115,200-pixel, 5" liquid crystal color television. It's super clear. And it, too, is imbued with the technological excellence found in every Hitachi product. No matter how big or small. And that's the bottom line.

*US$44.797 million, net sales for the year ending March 31, 1990. US$1=¥158.
Paul Mellon
Inheritance. Upperville, Va. 83. Widowed, remarried; 2 children by first wife. Grandfather Thomas started Mellon Bank forerunners. Father Andrew: U.S. Treasury Secretary, founder National Gallery, with brother Richard B., venture capitalists in Gulf Oil, Alcoa, Koppers, etc. Died 1937. Paul floated into and out of family businesses. Fifty years of fox hunting on 4,000-acre estate, collecting art on grand scale. Famous for impressionists, English painters. Donated some $250 million artworks to Yale, National Gallery, Virginia Museum of Fine Arts. They will also get remaining art, which alone may be worth $700 million or more; some say $1 billion. Paul putting estate in order.

Neil Gary Bluhm
Judd David Malkin

James Martin Moran

John D. Hollingsworth

Donald Joyce Hall

Barbara Hall Marshall
Elizabeth Ann Reid

Doris Duke

Jack Rudin
Lewis Rudin
The Volvo 240 has done a fine job of surviving accidents. And we, at Subaru, have always admired that. So we gave the new Subaru Legacy unibody construction like the Volvo 240.

But at Subaru, we think there's something even better than surviving accidents. And that's not getting into them in the first place.

So unlike the 240, the Subaru Legacy offers an optional anti-lock braking system (ABS). A feature that pumps your brakes automatically for maximum maneuverability and gives you much greater steering control during heavy braking.

Unlike the 240, the Subaru Legacy is available with full-time four wheel drive. A more civilized form of four wheel drive giving you greater traction on smooth high speed highways as well as on washboard dirt roads.

And unlike most cars in the world, the Subaru Legacy comes with both four wheel disc brakes and independent suspension.

At Subaru, we know that even cars not involved in accidents can eventually come apart. So every Subaru is put together to stay together through conditions which drive other cars into the ground. Of course, we can't guarantee how long every one of our cars will last. But we do know 93% of all Subaru cars registered in America since 1979 are still on the road.*

And the new Subaru Legacy may even surpass that record for durability. A Subaru Legacy has broken the FIA World Speed/Endurance record by running 19 days at an average speed of 138.8 mph for more than 62,000 miles.**

So you see, it wasn't just accidents the Subaru Legacy was designed to avoid. But junk yards as well.

The Forbes Four Hundred

+ $700,000,000

Betsy Cushing Roosevelt

Whiteley


John T. Dorrance, III

Bennett Dorrance

Mary Alice Dorrance Malone


W. Duncan MacMillan

John Hugh MacMillan III

Marion MacMillan Pickett


Whitney MacMillan

Cargill MacMillan

Pauline MacMillan Keinath


Johnson & Johnson workers with rolls of gauze destined for use in World War I. 1917. The company was founded in 1886, just as the antiseptic revolution was sweeping medicine. Demand for the prepackaged sterile bandages made the company—and the Johnson family. But far better was 1921. That is when the company entered the retail market with the Band-Aid.
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The first fully-ceramic scratchproof watch.

RADO
Switzerland
James Howard Marshall II
Oil. Houston. 85. Married, divorced, 2 sons. Native of German town, Pa. Yale Law School 1931 [magna cum laude, assistant dean at 28]. Worked on WWII govt. petroleum boards; later, high-level posts with Ashland Oil, Standard Oil. Wrote law against "hot oil" [oil produced above levels set by Texas Railroad Commission]. Best move: invested in Great Northern Oil Co. with friend Fred Koch, father of present Kochs (which see); eventually swapped stock for interest in Koch Industries. Now owns about 16%. Vehemently denies wealth, but with Koch Industries revenues now over $16 billion, his share believed worth more than $725 million.

Joseph Albert Albertson
Albertson's Inc. Boise, Idaho. 84. Married, 1 daughter. Dropped out of college during Depression, took $26-a-week job at Safeway. Started first grocery store with $5,000 of own and $7,500 borrowed from the father of future partner, L.S. Skaggs. Told Skaggs of vision that "one day there would be drugstores and supermarkets under same roof." Fulfilled prophecy, pair started drugstores-supermarkets 1970. Company now 17-state empire of 523 stores, $7.4 billion in sales last year. No longer runs company but still comes into work every day. Refused to cooperate with company biographer: "No one's going to do a damned glorified obituary on me." Shares worth $725 million.

William Morse Davidson

Samuel Curtis Johnson

Barbara Piasecka Johnson

Wallace Henry Coulter

Morton K. Blaustein

Louis Thalheimer
Ruth Blaustein Rosenberg
and families
Style is never out of fashion

BOSS
HUGO BOSS

**Robert H. Dedman**


**William Michael Cafaro**

Shopping malls. Hubbard, Ohio. 77. Married, 3 children. Immigrants' son, built first strip center 1954 with brother John [d. 1987]. Validated, with other developers, suburban sprawl by constantly building shopping centers, later enclosed malls across country: "Every time we open a mall, 1 get the same thrill." Currently 6th-largest mall manager in nation, concentrates on middle market; rarely sells properties, uses little debt. Two sons in business: conservative Tony says Dad doesn't belong on Four Hundred; flashy J.J. thinks position should be higher. Bill, with family trusts, now worth at least $700 million. "I don't think the money accumulated in life is as important as what you leave behind."

**Michael Robert Milken**

Junk bonds. Encino, Calif. 44. Married, 3 children. CPA's son; Berkle-

ley, Wharton M.B.A. program. Joined Drexel 1969; conceived market for high-risk, high-yield "junk" bonds, built $200 billion industry. Bankrolled Laos for Perelman, Posner, Lindner, Peltz (see all) et al. Received $550 million salary 1987 alone. Fingered by convicted felon Ivan Boesky. Pleading guilty to 6 felony counts [conspiracy, fraud, etc.] April. Permanently barred from securities industry; $600 million fines, sentencing set for Oct. date; lost $250 million from Drexel bankruptcy, falling junk bonds, legal fees. Even so, believed still to have $700 million left.

**George Phydias Mitchell**


**Carl Ray Poblad**

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NIKKEI. It’s the business information network that offers direct access to world-class profits for years to come.
Andrew Jerrold Perenchio

John Richard Simplot
and family
Potatoes. Boise, Idaho. 81. Divorced, remarried; 4 children. Quit school, home in 4th grade; invested in hogs age 17. Saw opportunity in WWII: Bought vegetable dryer, sold dried onions, potatoes to Army. Ensured fortune when company scientist developed process for freezing cut potatoes 1950s. Now “Mr. Spud” produces 1.5 billion lbs. annually; 70% of McDonald’s spuds. Potato peelings feed 275,000 cattle; also manufactures fertilizer, retails farm products through Simplot Soilbuilders. Now moving into frozen vegetables; plants in Mexico, Canada. Diversified holdings, run by sons, son-in-law, worth estimated $660 million.

William Redington Hewlett

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iscopic arms & panels right, slide in for carrying, extended.
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Polyester on top & bottom for buckle permitness to outside keys.
Nylon open like for free packing.

Jerry J. Moore

Leon Hess
Amerada Hess Corp. NYC, Deal, N.J. 76. Married, 3 children. Father, Lithuanian immigrant and kosher butcher, started small New Jersey fuel delivery firm; Leon took charge after firm went under in 1933. Pushed into exploration, refining and retailing, merged with Amerada Corp. in 1969 to expand into fuel exploration business. "Stickler for tidiness," has given executives half-length hose at Christmas to put an end to sagging socks. Son John, vice president, groomed since age 7 for top slot. John may have a long wait: Leon's father stayed on until age 92. Hess: "As long as I live, have my health and can justify my existence, I expect to stay." With Amerada Hess stock, New York (football) Jets, worth at least $650 million.
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The Forbes Four Hundred

+ $600,000,000

**Oveta Culp Hobby**


**William Ingraham Koch**

**Frederick Robinson Koch**

Brothers. Oil services. Two of 4 sons of Fred Koch (d. 1967), facilitated deal with James Howard Marshall II (see below) for Koch Industries ($16-billion-plus oil industry behemoth). Family split early 1980s when brothers Charles, David (see both) challenged for company control. Bill claimed bad management, poverty: “I’m one of the wealthiest men in America, and I had to borrow money to buy a house.” Fred, nyc arts patron, joined Bill in fight; bought settled feud 1983. Bill (David’s twin): Palm Beach. 50. Married, 1 child. Founded Oxbow Corp., diversified energy trader) with half buyout money; runs Nevada geothermal electric plant; markets, trades coal, etc. Keeps other half of buyout money hidden; assuming capital gains tax, worth at least $650 million. Fred: Monaco, nyc. 56. Single. Went to Harvard, then to Yale drama school. Reclusive art collector, restorer. Worth at least $500 million.

**Amos Barr Hostetter Jr.**


**Helen Kinney Copley**


**John Murdoch Harbert III**

Construction, investments. Birmingham, Ala. 69. Married, 3 children. Won $6,000 playing craps on ship home from WWII. Unsuccessful taxidermist: “I skinned a crow, it looked like a duck when I got through.” Then bought concrete mixer and tools, went broke 3 times first 20 years: “Our statements were not worth the paper they were typed on.” Local bridge contract led to highways, pipelines, buildings. Overseas: risky Third World projects, Israeli air base, U.N. Sinai facilities. Controls 10 million Amoco shares from 1981 sale of coal, limestone reserves, now worth $560 million. His 76% Harbert Corp. worth $625 million.

**Richard Mellon Scaife**


**Howard Butcher Hillman**

**Tatnall Lea Hillman**


**Mesublam Riklis**

Finance. Beverly Hills, nyc. 66. Divorced, remarried (to Pia Zadora); 3 children by first marriage, 2 by sec-
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William Clay Ford
and family

Josephine Clay Ford
and family


Fred A. Lennon
Valves, pipe fittings. 84. Chagrin Falls, Ohio. Married, 2 children. Started with customer service at IBM, salesman for Office Machine Co., then Weldon Tool, both Cleveland. Met Cullen Crawford, designer innovative high-pressure pipe fitting ("Swagelok"), partners started Crawford Fitting Co. 1947. Lennon was marketer; Crawford, production. Bought out Crawford "for next to nothing." Expanded mid-1950s, added companies: Cajon Co., Nupro, etc. Very secretive. Recognized premier manufacturer high-pressure fittings. Much government contracting, sometimes sole source. If typical margins, company worth over $600 million; but his margins may be twice that.

Frederick Woodruff (Ted) Field

Marshall Field V

Half-brothers. Inheritance, media. Original Marshall Field started as Chicago store clerk; saved money,
Melvin Simon


Ralph Lauren

Polo Ralph Lauren Corp. NYC. 51. Married, 3 children. Born Ralph Lifshitz, son of Russian immigrant, grew up in Bronx dreaming of sports. High school ambition to be millionaire. Attended City College of N.Y., apprenticed at Alexander's, Brooks Brothers. Fashion designer, sparked wide necktie fad late 1960s. Started Polo, Inc. 1967 with $50,000. Near bankruptcy 1972, but moved into preppie clothes 1970s. Led U.S. designers into retailing on large scale. His Old World styles grossed $2.7 billion 1990, much of it in licensing. Real estate (including 12,400-acre Colorado ranch) and 90% Polo believed worth over $600 million. "I don't design sleeves and jackets. I design a world."

James Lawrence Walton


Alexander Gus Spanos


Shelby Cullom Davis

Investment banking. Tarrytown, N.Y. 81. Married, 2 children. Graduated Princeton 1930, Columbia 1931, Ph.D. Geneva 1934. CBS' Swiss correspondent before WWII. N.Y. deputy superintendent insurance 1945. "I got to know who were the bluffers and who were really professionals." With $100,000, started investment firm Shelby Cullom Davis & Co. 1947, one of first to specialize in insurance stocks; still chairman. Ambassador to Switzerland 1969-75. Philanthropic to higher education. Chairman Heritage Foundation, has also been member National Right to Work, Accuracy in Media, etc. Intends to leave "high portion" of estate to Heritage: "I can't imagine a better place." Firm, other investments worth $575 million.

Charles Henry Dyson

Conglomerator. NYC. 81. Married, 4 children, 1 son in business. Price Waterhouse CPA, decorated WWII Air Force colonel; represented Treasury Department at Bretton Woods 1944. Left Textron vp post 1949, felt it was diversifying too slowly. Launched Dyson-Kissner (now Dyson-Kissner-Moran) with
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former colleague Franklin Kissner. Built conglomerate—acquired over 30 companies last 6 years alone. Interests in several public companies (Esterline, Varlen, Conquest Exploration, etc.), private companies with sales over $1 billion. Extensive real estate, developing actively; also oil and gas. With 91% DKM, net worth estimated at least $575 million.

Roy Edward Disney

William Wrigley

Donald John Tyson

Barbara Tyson

Jim Moran the Courtesy Man selling cars on Chicago television, 1952. Moran was a born salesman who in 1948 was among the first to discover the marketing power of television. His Courtesy Motors Ford dealership was soon the largest in the world. Moving to Florida, he booked his star to the new Japanese imports. By the 1980s he was the world's largest independent Toyota distributor.
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**Nelson Peltz**

**Peter May**

Leveraged buyouts. Peltz: Palm Beach, Fla.; Bedford, N.Y. Divorced, remarried; 4 children. May: NYC; Bridgeport, Conn.; Palm Beach, Fla. Married, 2 children. Both 48. Peltz Wharton dropout, built up family food distribution business, sold 1978 for $8 million profit. May: A.B., M.B.A., U. of Chicago. Started with Peat, Marwick as CPA 1965; joined Peltz 1972. Due met Mike Milken through friend Saul Steinberg 1979 (see both); built empire on junk debt: bought control Triangle Industries 1983; National Can 1985 in Victor Posner bailout; American Can Packaging and Uniroyal chemical operation 1986; lots of internal expansion, total [leveraged] investment, $4 billion. Peltz reportedly the "high liver," flamboyant; May, the detail man: "We complement each other very well." Invested in, rather than stripped, businesses. May: "The excitement is building." Sold Triangle year-end 1988 to Pechneray S.A. [France] for notes bearing 10% annual interest, bought back nonpackaging entities, including large real estate assets like Hollywood, Inc. in Fla. May: "I'd just as soon not be on your list, but it's always frustrating to look and say, 'Gee, I'm worth a lot more than that.'" Worth more and more: Peltz' net worth now estimated at $560 million, receiving $13.8 million/quarter interest; May over $280 million [7 million/quarter interest].

**Thomas Stephen Monaghan**

**Henry R. Kravis**


**Jerome Spiegel Kohlberg Jr.**

**George R. Roberts**


**Jeremy Maurice Jacobs**


**Thomas John Flatley**

Real estate. Milton, Mass. 59. Married, 5 children. Emigrated from Ireland 1950 with $32 in pocket. Managed to scrape up enough to buy first small apartment building 1959. Began building, created apartment empire; now owns 5,500 units Boston, N.H., R.I. Also expanded to office, retail space all over New England, 14 Tara Hotels. Made brief ill-fated entry into media with small tv station. Frustrated with poor showing, literally pulled plug, left station in dark. Later sold for $1 million profit. "I am a builder, period." Advises local
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Howard Kaskel


Louis Larrick Ward


Estée Lauder

Leonard Alan Lauder

Ronald Steven Lauder


Robert William Galvin


Cordeia Scaife May


Laszlo Nandor Tauber

Real estate. Potomac, Md. 75. Divorced, remarried; 2 children. Born Budapest; champion Hungarian gymnast. Hungarian medical school. Survived Nazi labor camps; escaped on second try. “I just walked away one day.” To U.S. 1947; set up medical practice; soon built first apt. project on lot bought for $9,500. Built offices, primarily for U.S. government, at initial low rent; raised on re-lease. Eventually, Uncle Sam’s biggest landlord. “We don’t look for that huge income and we don’t want to take chances.” Thinks current market “very, very much overbuilt.” Still working full time surgeon. “I hate to even think about it [retirement].” Real estate et al. worth over $525 million.

James Levy Sorenson

Medical devices. Salt Lake City. 69. Married, 8 children. Considered medical school; instead, Mormon missionary work 1942. Then Upjohn salesman. Staked uranium claims, big profits 1950s: “Look at your environment and see how you can get control of it.” Next look saw unnecessary hospital deaths, developed medical devices: “I am always trying to fill a market need somewhere.” Sorenson Research turned out series of patents; sold to Abbott Labs 1980. America today: “We’re losing it because our value systems are out of control.” Developing office park, Salt Lake City. Said to retain Abbott shares worth $525 million. “Carve your names on hearts, not on marble.”

cardinal, $2 million for Boston College chair in Catholic Theology. Estimated worth over $550 million.
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New Rochelle, New York, 10801.
**Frank Batten**

Media. Virginia Beach, Va. 63. Married, 3 children. Nephew of Samuel Slover, who arrived Virginia 1906; was offered interest in Virginian-Pilot newspaper if he made it profitable. Black ink within year. Frank raised by uncle; Harvard M.B.A.; publisher 1954. Inherited. Aggressively built Landmark Communications from 1 paper (flagship now Virginian-Pilot /Ledger-Star). First cable franchise 1964, now over 622,000 subscribers; 9 dailies, 32 weeklies; 1 TV station, 1 radio. Started Weather Channel with meteorologist John Coleman 1982; now very profitable. Recently sold San Jose TV station for $59 million. His 35% Landmark worth over $520 million. “We’ve always had good people.”

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**David Geffen**


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**Roy Hampton Park**


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**John G. Rangos Sr.**

Solid waste. Pittsburgh. 61. Divorced, 3 children. Chambers Development one of fastest-growing in waste disposal [1986 sales $31 million; 1989 sales $182 million]. Son of Greek restaurateur, used shrewd management to cut haulage charges; acquired landfills in anticipation of shortages. “We’ve been one of the innovators in bringing this business from the Stone Age to the Space Age”—new Charles City landfill touted for myriad safety features. Also increasingly involved in recycling plants. Archon [highest lay office] in Greek Orthodox Church. Rangos, sons John Jr. (vice operations), Alexander (vice corporate development) run company. Owns stock worth $505 million.

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**Dorrance Hill Hamilton**

**Charlotte Colket Weber**

**Hope Hill van Beuren**


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**Joseph S. Gruss and family**

Investments, oil. NYC. 87. Widowed; 1 son, 1 daughter. Learned finance from banker father in Po-
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B. Francis Saul II


John Orin Edson

Leisure craft. Seattle. 57. Married, 2 children. Founded Bayliner (powerboats) 1955. Company sped past rest of boating competitors; sales, profits doubled in each of last 3 years before sale to Brunswick in late 1986. Basic manufacturing tack: simplify production, lower per-unit cost by producing a single product in great quantity, and attract buyers with subsequently lower prices. Edson, made wealthy by Brunswick buyout, conservatively invested proceeds. He and wife now travel extensively. Maintains 105-foot yacht; owns and pilots several planes; he, wife fly their his-and-her helicopters. Net worth exceeds $500 million.

Harold Brown


Sheldon Henry Solow

Real estate. NYC. 62. Married, 2 sons. Small-time builder sank everything into landmark Manhattan skyscraper 1972. "We're in barmuda land. You can only get away with this once." Avon building [9 West 57th Street] 1.5 million square feet, catchly architecture (sloping sides, big red "9") on side-

land, left 1939 with $40,000, speaking no English, bought stock exchange seat. Frugal—used to pound on office wall to summon accountant in lieu of intercom. Formed investment house Gruss & Co.; put profits into oil and gas starting 1952 with drilling partner John Cox (which see). Oil very profitable, but stopped drilling in pre-Iraq oil price decline. Deeply religious, donated $100 million to Jewish causes: "This is my monument." Son Martin runs business, [also Pegasus Group], sold half of oil, put proceeds into stocks, mainly private deals. Worth over $500 million.

Henry John Heinz III


Robert Alfred Lurie


Robert Staples Howard


Dennis Washington

Mining, railroads, etc. Missoula, Mont.; Sun Valley, Idaho. 56. Married, 2 sons. Heavy crane operator in Alaska, then back in Montana (loved big machines). Got $30,000 business loan and got married. First job visitor center in Glacier National Park, but soon Montana's largest contractor. Saw opportunity in unaggressive big companies' assets: Bought closed Anaconda copper mine for $20 million 1985 from Arco. Copper prices surged. Sold 49.9% 1989 for $125 million. Also, bought rail system from Burlington Northern 1987; renamed Montana Rail Link and turned around; profits now $33 million/year pretax. Owns about 55,000 acres Montana, horses, yacht, airplane. Worth at least $500 million.
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Mark Goodson, left, facing camera, appearing as a mystery guest on his own show, What’s My Line?, along with his late partner, Bill Todman. In the chancy world of big league broadcasting, Goodson created some of the longest-running game shows in television history. Then he put his profits mostly into real estate and newspapers, and prospered accordingly.

walk), prime location, great views said to fetch highest nyc office rents. Worth over $500 million: “It’s the kind of building the Japa-

ese would love.” Also invested in other nyc office space and luxury

apartments. Skillful dealmaker, doubtful manager: full-fledged rent rebellion in East Side luxury apart-

ment building. Sheldon’s estimated net worth: at least $500 million.

Joe Lewis Allbritton
Broadcasting, banking, publishing.
Washington, D.C., Houston. 65. Married, 1 son. Native of D’Lo ("Damn Low"), Miss., son of Houston cafe owner. Made first million age 30 cofounding Texas s&t, buy-
ing and selling Texas acreage in path of expansion with bank loans. Repeated turnover propensity with properties like Washington Star, still has wjla-tv in D.C., alone worth $275 million. Allbritton Communications now 5 tv sta-
tions, small newspaper. Reputation for toughness, abrasive personality. Took over “blue blood” Riggs Na-
tional Bank 1981 in semihistine maneuver: “It’ll be the principal bank in the capital of the Free World.” Worth est. $300 million.

William Edward Maritz
and family
Maritz Inc. St. Louis. 61. Married, 4 children. Grandfather Edward F. Maritz began making watches 1894. Father James, to boost falter-
ing Depression sales, convinced businesses to use watches for em-
ployee performance incentive. Soon abandoned watches, focused on selling motivation services, Bill chairman, ceo, president 1983. Now sells performance improve-
ment primarily to large corpora-
tions, e.g., ibm, auto big three: travel, merchandise incentives to bolster productivity. Also, travel services to companies. Over 20% per year revenue growth 1983-89, now tops $1.2 billion. Bill, sister, control 100% of company’s voting, dividend stock worth estimated at least $500 million. Bill disputes valuation.

Richard E. Jacobs
Shopping centers. Lakewood, Ohio; nyc. 65. Divorced, 3 children. Raised Akron, father sold Goodyear blimps. Dick, brother Dave sold real estate after WWII; assembled sites for then-fledgling mall developer Edward DeBartolo (which see). With partner Dominic Visconsi, built own mall Columbus, Ohio 1962, now over 40 malls, near 36 million square feet nationwide. Visconsi still financially involved. Dick driving force, dealmaker, Dave handles architecture, con-
struction, has minority position. Into Wendy’s franchises, Marriott hotels, Cleveland (baseball) Indi-
nans; building 2.5 million square feet office space, hotels downtown Cleveland. Net worth estimated around $500 million.

Henry Earl Singleton
Teledyne. La. 73. Married, 5 chil-
dren. Son of Texas rancher. Annap-
olisis, Mit; then Hughes Aircraft, Lit-
ton Industries. Met George Koz-
metsky at Litton, pair started Teledyne with $450,000 1960s; fin-
canced by Arthur Rock. Built con-
glomerate in aviation, electronics, etc.; sales over $3.5 billion. Archi-
tect of large-scale stock buybacks and divestiture. Major spinnoffs: Argonau
t Group (insurance), American Ecology, Unitrin (financial). Tight-lipped strategist: Teledyne president learned of $400 million stock buyback after fact. Retired unexpectedly from day-to-day manage-
ment 1989; still chairman, “intel-
tellectual guiding light.” Stock-
holdings, etc. worth $500 million.

Erskine Bronson Ingram
Barges; book distribution. Nash-
villa. 58. Married, 4 children. Weyerhaeuser friend through great-

grandfather. With brother Fritz, took over Ingram Corp., an oil re-

fining, marketing and liquid barge company, after father’s death 1962. Built by acquisition in barge, coal, oil production and wellhead equip-
ment. Entered book distribution at urging of family friend 1964, distri-
bution now major part of business. Split up firm 1978 after Fritz con-

victed on bribery charges; Bronson acquitted. Kept distribution, most domestic assets. Ingram Industries now over $2.1 billion in revenues, over 80% distribution [books, videos, computer hardware and soft-
ware]. Bronson estimated worth well over $500 million.

Peter Stephen Kalikow
Real estate. Nyc. 47. Married, 2 children. Grandfather built row houses nyc boroughs 1920s-30s; father split from brothers 1968 to form h.j. Kalikow & Co. Peter took over 1973, built Manhattan apts.; has 4,000. Built risky 101 Park Ave., 1.28 million sq. ft., 1982 for $160 million; hit booming office market just right. Renovated for-
mer art&tel hq downtown, building 50-story hotel next door. With $24 million union concessions, bought
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struggling N.Y. Post for $37.5 million 1988; recently $20 million more in union cuts. "The more people tell me not to do something, the more I want to do it." Believed worth over $500 million.

Caroline Rose Hunt
Inheritance; oil, real estate. Dallas. 67. Twice divorced, 5 children. Second daughter of H.L. Hunt. With sister Margaret (which see), split assets from those of brothers William Herbert, Nelson Bunker 1983, after latter failed to corner silver. Expanded her Rosewood Corp. into real estate (Dallas' Mansion at Turtle Creek, the Crescent); held oil and gas. Other investments include disastrous $100 million venture with First Executive. Rosewood needs liquidity after real estate drop; sold some real estate, offering more, also oil and gas. T rying hotel management. Sons run business; Caroline tends her antiques, believed down to her last half-billion.

Charles Cassius Gates Jr.
and family

Maurice Raymond Greenberg

Mansfield Freeman

Alan Ashton
Bruce Bastian
Partners. WordPerfect. Orem, Utah. Ashton: 45. Married, 11 children; Bastian: 59. Married, 4 children. Brigham Young U. computer science professor Ashton teamed with graduate student, band director Bastian 1979, to write program diagramming and band formations, next word processing program for city of Orem's Data General Corp. minicomputer system. Program made commercially available in 1980 without venture capital. In 1982 IBM PC version appeared with new name: WordPerfect. Now company profits around $83 million (as much as 50% profit margin); no debt. Each owns 49.9%; at prevailing multiples, each should be worth $475 million or more. Both new to Four Hundred list.

A. Donald McCulloch Jr.

William S. Paley
CBS. NYC, Southampton. 89. Divorced, widowed, 4 children, 2 stepchildren. Grandson of Russian lumber magnate, son of successful Philadelphia cigar manufacturer. Joined father after Wharton 1922, bought into ailing radio network for $500,000 in 1928. Built into casino with eye for talent (Bing Crosby, Jack Benny, Edward R. Murrow et al.). Longtime socialite, ladies' man, said he would quit work at 35. Retired 1983, age 83, returned as chairman 1986 with CEO Larry Tisch (which see): "It's like having a child ... it's pretty hard to jerk yourself away from that entirely." Tisch calls shots, but Paley still shuttles in by helicopter. Modern art, real estate, CBS stock worth over $460 million.

William Gordon Bennett

William Norman Pennington
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Kmart end of the business’ led to success, expansion. Now operate 432,000 square feet casino space, 10,184 hotel rooms [7 properties]. Latest addition, Excalibur, largest hotel ever built (4,032 rooms), casino as large as 4 football fields. Great example of Circus Circus philosophy: Breaks even at $200,000/day as opposed to $1,000,000/day for other big casinos. Pennington now retired. With stock, Bennett worth $460 million; Pennington, $375 million.

**Patrick Joseph McGovern**

Publishing, Nashua, N.H. 53. Divorced, remarried; 4 children. Built computer from scratch as teenager; won MIT scholarship, worked on MIT computer magazine. Saw need for computer market data, launched International Data Group 1964—flagship publication Computerworld. Now over 120 magazines in 40 countries, including U.S.S.R.; also related info services. Slowly selling stock to employee trust (about 25% so far), “to build a total, common family.” Believes in letting employees have autonomy: “If you have the right people, all you have to do is meet once a year and say, ‘How did it go?’” Lives modestly, flies coach. Net worth estimated at least $450 million.

**Samuel Zell**


**John Jeffry Louis Jr.**


**John William Berry Sr.**


**Bernard F. Brennan**


**Franklin Parsons Perdue**

Chickens. Salisbury, Md. 70. Twice divorced, remarried; 4 children from first marriage. Dropped out of

---

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teacher's college for father's egg business. Switched to broilers 1940; company took off in post-WWII chicken boom. Added feed, processing, built one of first integrated chicken outfits, brand name. Perdue Farms now 4th largest in U.S.; sales over $1 billion. Frank regional celebrity from clever advertising: "It takes a tough man to make a tender chicken." Met with another tough guy, NYC mobster Paul Castellano, to block union drive 1980. Drives Mercedes: since 1968, 34 moving violations, mostly speeding. Frank's 90% worth estimated $450 million.

Luigino Francesco Paulucci

Jon Meade Huntsman

Alfred James Clark

Robert Lee Moody

Steven Anthony Ballmer
Microsoft. Bellevue, Wash. 34. Married. Son of Swiss immigrant. Grew up Detroit; father worked for Ford Motor Co. Steven, while Harvard undergrad, lived down hall from William Gates (which see). Assistant product manager Procter & Gamble. Year at Stanford Business School. Got call 1980 from classmates Gates; dropped out of B-school to be first employee Microsoft other than computer programmers. Currently senior vice president in charge of systems software group [ms-dos, etc.]. Received 1.7 million shares when Microsoft went public 1986; bought 950,000 on open market when the stock dropped in April 1989. Estimated net worth: over $445 million.

Francesco Galesi

Jack Crawford Taylor

Bob John Magness
Cable TV. Englewood, Colo. 66. Widowed, remarried; 2 sons. Oklahoma-born, worked as roughneck cottonseed buyer. Pioneered bring-
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The Diners Club Corporate Card System can strengthen the power of management information in your corporation. You will be the beneficiary of MIS capabilities that can enable you to better manage your travel and entertainment costs, as well as negotiate superior rates with travel suppliers.

The productivity and savings benefits of a travel management program won't reach the bottom line unless travelers support that program.

Best of all, for the first time in a corporate card program, your business travelers will have an added incentive for supporting your travel management program. Through Club Rewards, travelers can earn points for all business spending charged to the Diners Club Card. Points that they can redeem for exceptional travel packages, distinctive gifts and extra frequent travel point awards from any of
16 major travel suppliers—at no cost to your organization.

Club Rewards is a unique and meaningful way to gain the support of your travelers while demonstrating your appreciation for their efforts on the road.

Business travelers can choose from spectacular rewards such as golf weekends at Pebble Beach, skiing in Switzerland, and tickets to the Kentucky Derby—at no cost to your organization.

Bottom line savings for your corporation. Spectacular rewards for your business travelers. Finally, travel management is a win-win situation for all.

For managing T&E, no other program is more effective than the Diners Club Corporate Card System and Club Rewards. Club Rewards encourages your travelers to consolidate all their business spending on one payment instrument. As a result, it improves the power of your MIS, creates administrative ease, and provides value-added benefits to your travelers.

We Take Care Of Business.
Our Corporate Club Rewards Program is just one innovative element of the Diners Club approach to comprehensive business T&E management.

Our flexible, customer-driven approach is why more than half the Fortune 500 companies, the Federal Government, many state governments and hundreds of progressive institutions have chosen Diners Club to help manage their business travel investment.

To learn how your organization can improve its bottom line with services like Corporate Club Rewards, call 1-800-458-4085. Or complete and return this reply card.

For more information about the Corporate Club Rewards Program from Diners Club, complete this reply card and mail it to:

Diners Club Corporate Club Rewards, Dept. 5043, 8430 W. Bryn Mawr Ave., Chicago, Illinois 60631

NAME ____________________________

TITLE ____________________________

COMPANY ____________________________

DIVISION ____________________________

BUSINESS ADDRESS ____________________________

PHONE ____________________________

# OF EMPLOYEES ____________________________

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**Claude Bernard Pennington**

Oil & gas. Baton Rouge, La. 90. Married, 1 son [killed in oil rig accident 1958]. Father was eye, ear, nose and throat doctor. Followed Dad's lead, studied optometry in Chicago, joined family practice 1925. After father died "Doc" left medicine for oil business. Endured dry holes in Tuscaloosa Trend; hit first big gusher in 1952. Late 1970s made deep drilling economic; major oil companies flocked to Doc's field. Today has interest in at least 100 fields. Says he's taking it easy: now "only" working half day on Saturday and briefly on Sunday as opposed to old 7-day-a-week schedule. Donated over $125 million to LSU for Biomedical Research Center. Believed worth more than $430 million.

**Grover Connell**


**Arthur Bejir Belfer**


**Michael Robert Forman**


**Charles Allen Jr**

**Herbert Allen**

**Herbert Anthony Allen**


**Sigfried Weis**

**Robert Freeman Weis**

Cousins. Weis Markets. Founded 1912 as neighborhood grocery store in Sunbury, Pa. by respective fathers. Now 120-store chain [5 to be opened in 1990], sales over $1.2 billion. Mostly Pa., some stores N.Y., W.Va., Md., plans for northern Va. Sigfried: "We are devoted to expansion." Famously high margins (6.7% net for 1989) for industry. Strict cost controls, no debt. Applying successful methods to in-house drug stores: "We think that pharmacies belong in a supermarket, it saves people from making other stops and ... our prices are lower." President Sigfried: Lewisburg, Pa. 74. Married, 3 children. Interests include education and health care; past chairman Bucknell University, current chairman Geisinger Medical Center [largest U.S. rural hospital]. Sigfried, largest stockholder in Weis Markets, is worth over $420 million. Vice President Robert: Sunbury, Pa. 71. Married, 3 chil-
dren; worth over $355 million; sister Ellen [Wasserman] worth another $114 million.

George L. Lindemann
Cable TV, cellular phones. Greenwich, Conn., W. Palm Beach, Fla. 54. Married, 3 children. NYC born, Wharton 1958, into family cosmetics business. Formed pharmaceutical company through acquisitions, sold to Cooper Labs for $75 million 1971. Dove into cable with no prior experience: "I was looking for something new to do." Bought franchises N.J., Pa., Fla., etc., sold to Newhouses (which see) for $260 million 1981: "It got a little boring, no challenge left in it." Kept mobile radio. Limited partnership with Bass brothers (which see). Metro Mobile cts; took public 1986. Initial $4 million investment became most of estimated $420 million net worth. "New technologies will come."

Leonard Samuel Skaggs Jr.

Gordon Earle Moore

The OK Committee of Hallmark Cards, 1947. Approval from the committee, with company founder, Joyce G. Hall, seated center, was required for everything designed for the company. With his greeting cards featuring the greeting already written, Hall packaged, in effect, convenience food for the emotions. Went public 1962, now over 950 offices worldwide, sales $1.35 billion. Employed over 580,000 people 1989, at temps. Adopted son, Terence Adderley, president, chief executive officer. Kelly's stock worth over $405 million.

William Alfred Cook
Medical supplies. Bloomington, Ind. 59. Married, 1 son. Illinois boy drove cab, Northwestern grad 1953. Worked 5 years as salesman for American Hospital Supply in Chicago. Left to form own hypodermic needle manufacturing company. Tired of big city, sold company, packed family into Corvair, moved to Bloomington 1963. With $1,500, bought soldering iron, blowtorch, plastic tubing, made then-new cardiovascular catheters. Today, Cook Group also makes pacemakers, urological supplies, etc., insurance sideline. Also extensive Bloomington real estate. Worth more than $400 million; he vigorously denies estimate.

William Russell Kelly
Kelly Services, Inc. Troy, Mich. 84. Married, 1 son. Father, international oil pioneer, died 1928 leaving 7 children, no estate. Kelly dropped out of University of Pittsburgh to support family. Car salesman; Army fiscal analyst WWII; accountant. Foresaw need to staff new office business machines with trained operators. Moved to Detroit, founded Russell Kelly Office Services 1946: "I thought the automobile business would require a mass of paperwork." Proved right.
The grandest hotel is recognized in the smallest details.

Success in any enterprise, however grand, depends upon the specifics of its execution. And so, in the world of Westin—from Houston to Hong Kong, Tulsa to Tokyo, Seattle to Singapore—our people render the arts of personal service with a subtle eye to detail. And travelers look forward to an experience uniquely caring, comfortable, civilized.
The Forbes Four Hundred

+$400,000,000

**Lawrence Fisher**

Zachary Fisher

Brothers. Real estate. NYC. Larry: 80. Zachary: 79. Both married, 1 child each. Third-generation New York real estate family. Larry: "We've been in business for over 100 years." Two brothers started in Philadelphia, 1926, buying bank building; then Queens apartments over next two decades. Built, ran prime midtown office towers 1960s. Now near 7 million square feet in 5 class A buildings, including Burroughs Bldg., Burlington House, Park Ave. Plaza. Willing to wait years for perfect location to build. Larry: "I don't have to build just to build; if the timing is right we will do it. A sensible company does not build just because the bank will loan the money." Played stock market with excess cash 1980s: pocketed about $60 million from runs on Disney, cbs. Larry denics last year's characterization as Yankees fanatic: "I can't get past the fourth inning in baseball. Football I like." But his box at the Stadium is next to George Steinbrenner's. Together brothers worth $800 million.

**Stanley Irving Stahl**

Real estate. NYC. 66. Divorced, remarried; 1 son, 2 stepchildren. Began as broker 1947, bought first Manhattan apartment building with commissions 1948; added more. Staked everything 1962 to build 1.5 million square feet at 277 Park Avenue; now Chemical Bank Building, worth almost $400 million. Also interest in several NYC office buildings, 3,000 apts. (not competing: "too much of a hassle"). Recently reported under investigation for tax fraud, accused of responsibility for collapse of ceiling in ill-kept Ansonia Hotel [killed a balkerina. In recent $174 million hostile bid for Apple Savings Bank. Fortune estimated over $400 million.

**Roy Michael Huffington**

Oil. Houston. 72. Married, 2 children. Geology Ph.D. Harvard, rose to chief Gulf Coast geologist Humble Oil [now Exxon]. Abandoned safe corporate womb to prospect 1956; moderate success for 12 years. Then tipped off to Indonesia: formations reminded him of southern Louisiana. Took rights to explore from government with terms majors wouldn't accept. Gave up shares but insisted on remaining operator; major gusher 1972 made it worthwhile to have only 17%. Quietly acquired equivalent of 11 blocks downtown Houston 1980s; this year cashing out: "I'm already overdue for retirement." New ambassador to Austria. Netting estimated $400 million to get by on.

**Guilford Glazer**


**Mark Les Goodson**

Game shows. NYC, Beverly Hills. 75. Thrice divorced, 3 children. Son of Russian immigrant who opened first health food store in Berkeley, Calif. Mike-fright ended radio announcer hopes; produced radio soaps. With partner Bill Todman [d. 1979] did game shows 1940s. Entered television 1950 with What's My Line? "I gave it 10 weeks." Later, I've Got a Secret, The Price is Right, Password, Family Feud, etc., etc. Profits plowed into newspapers; now chain of 60, most small town, some bigger towns. Managed by Ralph Ingersoll Sr. and son for three decades; acrimonous breakup 1989. Goodson untouched by Ingersoll's junk bond woes; fortune estimated at $400 million.

**John Edward Anderson**


**Jack Monteith Berry**

Citrus. Winter Haven, Fla., Blowing Rock, N.C. 73. Married, son, 2 daughters. Tennessean took lessons to lose accent; to NYC age 22. Successful fruit broker: earned $75,000 a year 1940s, age 30. To Florida 1960s, bought orange groves at "outlandish" $1,500 an acre, now average $12,000 an acre. One of last, biggest independents: over 20,000 acres mostly south of freeze zone; 3 plastics plants, box plant. "Hurricanes, floods, freezes, disas-

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**James Emmett Evans**

Citrus. Dade City, Fla. and Highlands, N.C. 90. Widowed, remarried, divorced; 1 son, 1 daughter. Former Georgia Ford salesman drove Model T to Florida with $500. Bought first orange groves mid-1920s; became mayor Auburn-dale 1925. Quit politics 1930 "to tend to my own business." Tended until one of largest independent growers: over 33,000 acres orange, grapefruit groves. Coming off "best year ever," preparing to plant 6,000 additional acres in 4 years. Known as "The Wheel" for his love of wheeling and dealing. Daily gin rummy game with same card-playing pals for 40 years. Retreats to N.C. "playhouse" 5 months a year. Net worth over $400 million.
Malcolm Austin Borg

Seymour Cohn
Real estate. Palm Beach County, Fla. 80. Widowed, 2 children. Great-grandparents left Germany, settled nyc 1860s. Tried real estate; became familiar calling. Seymour

The birthplace of Silicon Valley. This garage in Palo Alto, where Bill Hewlett (standing) and Dave Packard started in 1939 with $538, is a designated landmark. Classmates at Stanford, Hewlett was the inventor, Packard the manager. Their first product, an audio oscillator, was an immediate success; Walt Disney used it in making Fantasia.

The Forbes Four Hundred
+$400,000,000

Alpheus Lee Ellis
Banking, real estate. Tarpon Springs, Fla. 84. Widowed, 1 daughter, 3 granddaughters. "Dean of Florida banking" bought first bank 1943. Slowly acquired, with wife, 15 Fla. banks, formed Ellis Banking Corp. 1972. Merged with NCNB 1983 for 4 million NCNB shares (now largest stockholder), plus lifetime guarantee of job, car and driver, personal secretary and office. Also has acquired west Florida real estate estimated at $100 million. Still works 6 days a week. "I don't do anything but work: I used to play golf. I made a hole in one once, so I quit." No debt: "I am 84 years old, I ain't got any business being in debt." Worth over $400 million.

Cyril Wagner Jr.
Jack Brown

ers. I'd get out of the business if we didn't have them." Half-hearted attempts to sell company; claims low Forbes Four Hundred estimate kept potential buyers from taking him seriously. Now says son wants to keep the business. This year's "low" estimate: $400 million.

quit Rutgers 1931, joined family firm. Younger brother, Sylvan Lawrence, joined him 1946; firm put in Sylvan's name for good luck. Seems to have worked: took chances—bought risky properties that lost in short term but gained in long term. Bought old Port Authority Building for $26 million 1973; now worth at least $250 million. Brothers controlled some 120 buildings mid-1970s. Since Sylvan's death 1981, sold properties worth over $800 million. Seymour's half of fortune at least $400 million.

"I'd get out of the business if we didn't have them." Half-hearted attempts to sell company; claims low Forbes Four Hundred estimate kept potential buyers from taking him seriously. Now says son wants to keep the business. This year's "low" estimate: $400 million.
with Charles Feeney (which see) in Duty Free Shoppers. Sales now estimated $2.6 billion, up despite increased competition, lower Japanese spending. Low profile home in Southampton, N.Y.: chalet in Gstaad. Also runs New York real estate investment firm CAP Properties. Believed to hold at least 10% of Duty Free Shoppers, worth over $390 million.

Also building-management firm, runs 15.5 million square feet office space. Big-time Democrat backer. Daughter Carole successful stage producer (Tony award-winning Fences, etc.). Grooming son as successor. Worth over $375 million, he estimates $380 million.

M. Larry Lawrence
Real estate. San Diego. 64. Twice divorced, remarried; 3 children. Chicago boy, worked in deli age 9: "You develop a work ethic." Played pro football, worked as carpenter, then built homes himself. Headed to booming San Diego 1951 "to build." Bought dilapidated Hotel del Coronado to get land 1962; cost, under $10 million. Saw his future: "I found myself in a romance with a hotel." Scraped demolition, began repairs, achieved "black lines" after 10 years, over $100 million investment. Today, principal asset. Democratic National Committee member 20 years, still active fundraiser. Net worth estimated $400 million. "I've always been a deal junkie, but I'm doing less of that."

Wilton Robert Stephens
Jackson Thomas Stephens

Anthony Martin Pilaro

Walter Herbert Shorenstein
Real estate. San Francisco. 75. Married; 1 daughter, 1 son. Son of Long Island clothier. Air Force, then real estate broker for sf firm 1946. Became partner 1951, bought company outright 1960, after death of founder. Built into major player in sf real estate: bought famous Bank of America building 1985 for $660 million [almost all debt], but much equity in over 2.5 million square feet other office space, 3 theaters.

Also building-management firm, runs 15.5 million square feet office space. Big-time Democrat backer. Daughter Carole successful stage producer (Tony award-winning Fences, etc.). Grooming son as successor. Worth over $375 million, he estimates $380 million.

Stanley Stub Hubbard
Broadcasting. St. Mary's Point, Minn. 57. Married, 5 children. Father Stanley Eugene, 93, founded first [but unsuccessful] U.S. commercial airline. Built one of Minneapolis' first radio stations 1923 [WAMD—"Where All Minneapolis Dances"], added tv 1948. Son Stanley Stub took over 1981 after Dad's stroke; Hubbard Broadcasting now 9 tv, 2 radio stations; aggressively expanding into satellite tv. Owns transponders; Conus satellite news service with at least 135 member stations; invested $100 million All News Channel joint venture with Viacom; also 20 channels on future Sky Cable network. "I'm always working, always on the phone." Worth at least $380 million.

William Shivers Morris III

Theodore Nathan Lerner
Real estate. Chevy Chase, Md.; Palm Springs. 64. Married, 3 children. Father born Palestine; became clothing salesman in Phila. Ted, af-
Gaining an edge on your Executive Material competition requires shrewd strategy. Dillard's professionals are right on target with a successful wardrobe plan. One key element is the classic business suit. Interpreted for today by Hart Schaffner & Marx in a melange of charcoal blue, navy, tan and rust. The worsted wool weave gives you the edge in unparalleled comfort, precise fit and distinctive looks. From the Gold Trumpeter collection—the mark of the finest quality and the most masterful design. Sizes 38-46 regular, 40-46 long, 575.00. Made in America. Specially selected for Dillard's Executive Material.

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The transcontinental Learjet 60 will routinely operate in the smooth air up to 51,000 feet. There you can relax in the quiet comfort of the large, functional cabin featuring executive seating for 6 to 9 passengers, in-flight baggage access and a full aft lavatory.

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Learjet

Richard Allen Smith

Jane Bancroft Cook

Daniel James Terra

Lawrence J. Ellison
Oracle Systems. Atherton, Calif. 46. Divorced, 2 children. Theoretical physicist [M.S., U. of Chicago], with $2,000, systems designer Ellison cofounded computer software supplier Oracle. Incredible success: 1981 sales $1 million, 1989, $584 million. Other side of 100-1 a-year growth: complaints about product quality, service, etc. Ellison: "One of the things we are doing is putting a renewed focus on quality. . . . Absolute maximum growth is probably incompatible with maximum quality." But wants largest database management software company after IBM: "It's very possible we may achieve that this [summer] quarter." They did, but overdid: earnings fell, stock tanked. His 27% recently worth $365 million and falling.

Jane B. Engelhard

Motorola Corp. founder Paul Galvin had an early winner in 1930 with the first affordable car radio. Seventeen years later the company produced the first television set to retail for less than $200 (the equivalent in today's money of about $1,060). Priced within reach of the middle class, TV transformed the nation's living rooms and the world's culture.
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Oracle database software lets businesses take advantage of each new generation of low cost computing.

Whatever types of computer a business buys today, there’s sure to be something significantly better and cheaper tomorrow. Yet companies continue to sink money into software that runs on only one kind of computer. Locking themselves out of newer, more cost-efficient computers. This trap is avoidable for most companies. All they need is the right software. Software that works with virtually every computer and network, present or future.

Oracle has become the world’s largest database software company by providing just that. Software that runs on virtually every type of mainframe, minicomputer, workstation and PC.

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Fortunately, you no longer have to predict the future to take advantage of it.
Oakleigh Blakeman Thorne
Commerce Clearing House, Millbrook, N.Y. 58. Divorced, remarried, 3 sons, 1 daughter. Thrifty namesake great-grandfather bought c.c.h. 1907, 6 years before federal income tax law. Company became largest publisher updateable tax guides for law, accounting, government professionals. Chief subscriber: IRS. Oakleigh not in day-to-day management: “I don’t really have a management function.” Visits Riverwoods, Ill. office once a month. Oldest son, Oakleigh, 33, oversees Thorne’s legal information services group out of Chicago, aspires to CEO. Chairman Oakleigh lives at family’s 200-year-old, 700-acre farm, “Thorndale,” raises thoroughbreds, orchids. Total wealth exceeds $360 million.

Eli Broad

Norton Clapp
Inheritance. Seattle. 84. Twice divorced, widowed, remarried; 6 sons [3 deceased], 5 stepchildren. Grandfather Matthew G. Norton co-founded lumber company to supply homesteaders; put up $1.2 million to start Weyerhaeuser Co. Father Eben Clapp married 2 Norton daughters, making Norton Clapp principal heir, largest Weyerhaeuser shareholder. Law degree 1928; Navy WWII. Dabbled in law, real estate; active in timber 1955.


Irinée du Pont Jr.
Irene Sophie du Pont May
Margaretta Lamott
du Pont GreeneWalt
Constance Simons
du Pont Darden
Eleanor Francis du Pont Rust
Mariana du Pont Silliman
Octavia Mary du Pont Bredin
Lucile Evelina du Pont Flint
and families

Alexis Felix du Pont Jr.
Alice Francis du Pont Mills
and families

Eugene Paul (J. Paul Jr.) Getty

James Elsworth Davis
Winn-Dixie Stores. Jacksonville, Fla. 83. Married, 1 son, 1 daughter. Father William’s Idaho general store sold on credit to compete with local Skaggs outlet; failed 1921. Opened grocery store in Lemoine City, Fla., strictly cash basis; James kept books. Had 8 stores by 1931. Became Winn-Dixie 1955: “To win Dixie was our ambition.”
When the city of Los Angeles wanted to give more power to the people, who did they turn to? ABB invented and pioneered the first High Voltage Direct Current (HVDC) system; an advanced method of transmitting electric power over long distances. The Pacific HVDC Inter Tie, for which ABB designed and constructed converter stations, is one of the largest power transmission systems in the world. It carries power between the Bonneville Power Administration and several Southern California utilities, helping make more efficient use of the Pacific Northwest’s power surplus. In summer, Californians get the electricity they need for their air conditioners. And on cold winter days, consumers in the Northwest can get extra power for heating.

This is just one example of how ABB helps to meet many of the country’s important economic needs. With over 35,000 employees at facilities in nearly every state, ABB is addressing America’s needs for clean, reliable electricity; efficient industrial processes; improved mass transit; and environmental protection. And each year around the world we invest $1.3 billion in researching and developing new environmentally sound, cost-efficient technologies.
In a country where hepatitis is not only common but frequently fatal, an Indian woman has received a vaccination that prevents it. The Hepaccin B vaccine was mass-produced and exported to her country by Samsung.

A businessman in Belgium can send and receive data and information via the most advanced telecommunications system in the world. It was made possible by an exchange of technology and equipment between his country and Samsung.
Last year, a major U.S. consumer advocate publication conducted a survey comparing 14 brands of microwave ovens. The results: When a grandmother from Pittsburgh bought a Samsung, she bought the most reliable microwave oven made.

On February 14, 1989, a Hungarian engineer and 19 fellow countrymen began an intensive technical training program sponsored by Samsung. Our commitment to exchanging technology has also aided development in Malaysia, Pakistan, India and Egypt.

In 205 locations around the world, we’re doing what we’ve done in our own country of Korea for the past fifty-two years: Applying technology to make seemingly impossible dreams come true.

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Advance Outboard Marine, the forerunner of Bayliner, in 1954. Orin Edson was the Henry Ford of boats, developing much-simplified production techniques that turned what had been a custom craft for the rich into mass production for the middle class. What had been an ordinary outboard motor franchise became the largest manufacturer of pleasure boats in the world.


Jack Parker

Joseph Dahr Jamail Jr.
Trial lawyer. Houston. 64. Married, 3 sons. Started in D.A.’s office, then small law firm, formed own firm. Took up personal injury, got rich on “sore-back” cases. Got richer from 1987 Texaco-Pennzoil case (estimated $420 million fee, pretax): 1,500 calls next 3 days; now ratio of cases accepted 1 in 300. Self-described “goddamn good” lawyer, personal staff of 3 lawyers, 4 assistants, 4 secretaries. 1990 settlements far $65 million. Hands out $100 bills to Houston’s homeless; but also unpublicized scholarships, grants. Investments in oil and gas, real estate. Visible assets at least $350 million; he has bragged $500 million. “This country doesn’t have enough good trial lawyers.”

Dwayne B. Reinhart

Patrick George Ryan

William Lyon

Robert Edward Rich Sr.
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The Forbes Four Hundred

Robert Drayton McLane Jr.

Dean Stanley Lesher
Newspapers. Orinda, Calif. 88. Married, 3 children; daughter in business. Son of WilliamSPORT, Md. physician. U. of Maryland, Harvard Law. Trial lawyer 9 years. Represented newspaper clients who "seemed to be doing exceptionally well. I thought the Lord was pointing a flaming arrow in my direction to say even you can do well at that." Moved to Calif., consulted with newspaper broker, bought first paper there March 1941. Then, WWII newsprint shortage; "I sat there and bawled like a baby." Beneficent banker kept afloat with loan. From nadir built slowly to 7 dailies, total circulation of 200,000 in Bay area. Today's worry, estate taxes: worth some $350 million.

Richard Edward Rainwater
Investments. Fort Worth. 46. Married, 3 children. Fort Worth native, son of middle-class, Lebanon-Cherokee wholesaler. Math-physics major U. of Texas, then Stanford business school, where met Sid Bass (which see). Joined Sid to run $50 million Bass family fortune 1970. Torrent of deals, especially Disney, Texaco. "I've played as many positions in the investment world as there are to play." Left Basses, now billionaires, 1986 to manage own big portfolio: $5 bil-

lion LBO of Hospital Corp. of America, many oil-related deals. This year snapped up Penrod Drilling from Hunt brothers bankruptcy. Net worth now reaches $350 million, "As clean and simple as you can have it."

Allen Eugene Paulson
Gulfstream Aerospace Corp. Savannah, Ga. 68. Twice divorced, 3 sons. Poor Iowa farm boy, became TWA mechanic. Army Air Corps WWII. Founded series successful small airline firms beginning 1951. Pledged airplane conversion company as collateral to buy money-losing Gulfstream, maker of luxury private planes, 1978, for $52 million; "I jumped in my own Learjet to be the first on the scene." Sold to Chrysler for $636 million 1985; with Forstmann Little bought back for $825 million this year: "Big companies, they have different ways of running things." Planning joint venture with Soviets to build first supersonic business jet. Net worth now estimated at $350 million.

Charles C. Butt

Paul Fireman

Richard Louis Duchossios

Burton Paul Resnick
Real estate, nyc and Rye, N.Y. 53. Married, 3 children. Father Jack, 83, started small Bronx construction firm 1928; built in Manhattan 1950s. Burt joined Jack Resnick & Sons after U. of Chicago 1956; developed residential projects; still has 1,200 Manhattan apartments, frequently partners with Arthur Beller (which see). After 1970s real estate crash, bought older Manhattan buildings, built others; recently bought 70-year leasehold on elegant (but in need of rehab) 40 Wall Street for $77 million from the estate of Ferdinand Marcos. Now controls some 6 million square feet nyc office space. Jack retired in Florida. Burt runs show estimated worth over $350 million.
In 1889, when Eiffel's engineering masterpiece towered above Paris, Allendale had been a top property insurer for 54 years.

When Gustave Eiffel began construction on his thousand-foot tower for the 1889 Paris Exposition, many thought it was impossible. But, in spite of formidable engineering challenges, the Eiffel Tower was completed in just 2 years. And when the first visitors gazed up at his triumph, Allendale's engineers had been pioneering loss control technology for 54 years.

Today, Allendale is an international company bringing engineering expertise to clients around the world. After a century and a half, we're still shaping the history of loss control with engineering, training, research, responsiveness and fairness in the way we do business. Allendale Insurance, P.O. Box 7500, Johnston, Rhode Island 02919.

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World leaders in property risk management since 1835.
Robert Einar Petersen
Publishing. Beverly Hills. 64. Married. Son of Calif. auto mechanic; worked as short-order cook, pumped gas; was movie studio publicist. Turned hobby into magazine with $400 and partner. hawked Hot Rod for 25 cents at races 1947. Bought out partner 1950, expanded. Petersen Publishing now 16 monthlies [Motor Trend, Guns & Ammo, Skin Diver], 7 bimonthlies. Bought Sport magazine 1988. First man to kill polar bear with revolver 1965. "It was shoot or be fatally mangled." Pursues what his magazines cover “except for ‘Teen.’” "We’re a good medium for a lot of what advertising is—beer, cigerettes, cars, all those good things.” Est. worth over $350 million.

Richard Alexander
Manoogian

John Quentin Hammons

James Mclothlin and family

Daniel Mauck Galbreath
Real estate. Columbus, Ohio. 62. Separated, 3 children. Father John [d. 1988] made money through Depression buying foreclosed properties, reselling. Then, took land option, building blueprints, signed corporate lease to bank as collateral to build. Daniel now manages at least 40 million square feet office space in U.S., Hong Kong; owns about 6 million sq. ft., also prestigious Darby Dan stables. Family in messy, long-lasting lawsuit by descendents of John’s late wife, Dorothy Firestone [formerly married to son of Harvey S. Firestone]; they claim her estate plundered while Dorothy incapacitated. Tax audit confidential. Net worth, apart from suit, could be over $340 million.

Howard Brighton Keck

William Myron Keck II

Norman E. Alexander
Sequa Corp. Scarsdale, N.Y. 76. Married, 4 children. Native of South Bronx, son of spats manufac-
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The Forbes Four Hundred

+ $300,000,000

turer. Columbia Law School. Entered family business and switched from spats to leggings. Then expanded into new fields; purchased printing pigments firm, merged into Sun Chemical [printing inks], took over. Diversified Sun into aerospace, machinery, transportation, financial services via acquisition. Renamed Sequa 1987, 1989 revenues, $1.9 billion. “Wily and patient” when it comes to corporate takeovers, “does things his own way.” Also owns small plastic resins company, Ampacet, on side. Worth over $340 million.

John Arrillaga

Richard Taylor Peery

Sydney Mark Taper

Carl Clement Landegger

George Francis Landegger

Anne Catherine Getty Earhart
Caroline Marie Getty
Claire Eugenia Getty Perry
Inheritance. Daughters of George Getty [d. 1957], son of famed oilman Jean Paul Getty; collectively known as “Georgettes” by family. Anne: 38, married, last known to
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reside in Seattle, 2 children. Began brouhaha over half-uncle Gordon’s (\textit{which} see) control of Sarah C. Getty Trust, then core of Getty family fortune, and handling of Getty Oil. Married to former Peace Corps volunteer. Claire: 36, also married to former Peace Corps man, last known address New Haven; has illegitimate son. Amid initial Getty Oil-Pennzoil deal, petitioned California judge and got temporary restraining order giving Bruce Wasserstein chance to bring in Texaco; ultimately resulted in Getty Oil sale. Caroline: 33, single, last known to be living near San Francisco. All reportedly environmentalists, all very private. Share portion of Getty trusts worth over $1 billion.

Anne Burnett Marion

Inheritance. Fort Worth, NYC. 51. Divorced 3 times, remarried (to Sotheby Chairman John Marion); 1 daughter. Great-grandfather, by leg: sad, won prize family ranch, the 6666, in poker game. Burk Burnett eventually amassed 448,000 acres, mostly west Texas. Found big oilfield on 6666. Mom, “Big Anne,” like little Anne, married 4 times (twice widowed, twice divorced). “Little Anne” product of second marriage, to oilman Jim Hall. [Mother’s fourth husband, Charles Tandy, founder Tandy Corp.—Radio Shack.] “Little Anne,” “keeper of Burnett traditions, quietly adding land, collecting oil royalties. Also art. Directs $190 million Tandy Foundation. Worth estimated over $330 million.

Max Martin Fisher

Oil, investments. Franklin, Mich., NYC, Palm Beach. 82. Widowed, remarried; 5 children. Father, Russian immigrant peddler, built small refinery. Max joined 1930, got gasoline brokers to finance new refinery; “I guess I must have hoodwinked them.” Developed one of Midwest’s largest independents, sold to Marathon Oil 1959 for stock, tendered to U.S. Steel 1982. Invested in Irvine Ranch, Sotheby’s with buddy Al Taubman (\textit{which} see). Also majority owner First Fed of Michigan, Midwest Savings & Loan. Big fundraiser for Republican Party, Israel, at White House table when Gorby came for dinner. Estimated net worth over $330 million.

Saul Phillip Steinberg


Ernest Gallo

Julio Gallo

Brothers. Wine. Modesto, Calif. Ernest, 81; Julio, 80. Each married, 2 children. Italian immigrant father Joseph bought 230-acre Modesto vineyard 1930s; despondent over Depression and ill health, shot and killed wife, self. Six weeks later sons went to local public library, learned how to make wine, started winery with about $6,500. Fifty-seven years and a billion-plus dollars later (estimated 1989 $61 Gallo revenues) Julio still squeezes the grapes, Ernest still sells the juice. First major success: Thunderbird (connoisseurs reject, winos don’t). Constant effort since to upgrade product image: recently withdrew fortified wines (Thunderbird, Night Train Express) from many stores nationwide. Gaining shares in premium, “superpremium” wines, brandy. Chairman Ernest considered “intuitive marketing genius.” Dairy farmer younger brother Joseph from same tough mold; sued by Ernest and Julio for putting family name on cheese; he countersued for third of winery. $61 won both. The brothers jointly own company worth at least $600 million. Ernest believed to have large personal stock portfolio.

John Charles Haas

Fritz Otto Haas


Richard Palmer Kaleioku Smart


Bill Daniels

Cable TV. Denver. 70. Four divorces, 2 stepchildren. Navy fighter
Good ideas do grow on trees.

Nature thinks of everything. In the case of the coconut, a fibrous husk keeps it from breaking when it falls to the ground. Along the same lines, Schott's coated "Duran" glass bottles have a special protection to keep them from shattering.

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August Christopher Meyer
Broadcasting. Champaign, Ill. 89. Widowed, 1 son in business. Was successful lawyer in hometown Champaign. Invested in local tv station 1953; came to the investment’s rescue: “We started out losing a lot of money. I had to get more involved than I had intended to.” Now owns. Bought San Diego tv station 1964 for $11 million; now worth about $140 million. Midwest Television owns 4 tv, 4 radio, practically debt free. Chairman family-controlled Bank of Illinois (assets over $200 million) from 1962. Son August Jr. (Chris) running stations since 1976; Sr. still active chairman. Net worth down a bit as network tv stations battle cable—estimated worth over $325 million.

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Figures like these speak for themselves.
The Forbes Four Hundred

+ $300,000,000

Jud Sedwick

Cable tv, Butler, Pa. 76. Married, 2 children. Local lineman for phone company 1930s; formed own firm doing contract line work. Wired rural areas for phone service, ran resulting local phone companies. Introduced cable tv to Butler 1963. Good new business: added systems throughout region, grew with superior service, marketing: "It's just hard work." Now 190,000 rural subscribers, high, steady cash flow. Still operates phone companies, branching into real estate, security systems. Strong Christian beliefs said to guide business practice. Family partial to 3-letter names: Jud, Jay, Gay, Dex. Jud estimated over $315 million. On The Forbes Four Hundred: "I don't know that this would do us any good."

Thomas Mellon Evans

Investments, NYC. 80. Divorced, widowed, remarried, 3 children by first marriage. Introduced to business by distant relative, Gulf Oil boss W.L. Mellon, early conquista-

dor of undermanaged companies. Big success: turnarounds included bankrupt H.K. Porter 1938; Crane Co. 1959; over 80 others. Appreciates today's market atmosphere: "Takeovers weren't respectable. Now they are." Quit top slot at Crane after losing board battle with son Shell. Sold 22% MacMillan (publishing) stock despite pleas of chief executive officer—his other son, Edward—not to. Still large stockholder Fansteel. Also horses and art. Net worth estimated over $315 million.

Ian Woodner

Real estate, art. NYC and East Hampton, N.Y. 87. Divorced, 2 children. Minnesota-raised, Harvard-educated architect. Protégé of Robert Moses, with whom designed Central Park Zoo. Also worked with Salvador Dali for 1939 World's Fair. Built housing for WWII munitions workers. First apartment project 1943, developed other low-cost housing, early FHA project. Now 3,500 units New York, 1,400 D.C., etc. Built well-respected art collection, over 900 pieces, some Old Masters, estimated $125 million. "If you want to make a great collection, you have to be prepared to make a deal on the spot and you take your kicks when they come." Estimated at least $310 million.

Russell Solomon

Records, Sacramento. 65. Separated, 2 sons. "A hippie who learned to run a business." High school dropout, college dropout, worked in dad's drugstore. Went broke rack-jobbing. Reopened first record store Sacramento 1960; then-largest in U.S., San Francisco 1968. "It was the year after the summer of love." Tower Records now 55 U.S. stores, 15 abroad, grows 15% a year: 1989 sales $456 million. Prices not necessarily lowest, selection necessarily widest. "We have an eye to the collector's mentality." Store managers pick some stock. "There are 300 buyers out there, instead of 1 or 2... a lot of extra brainpower." Not retiring, but hopes son Michael, 42, will run business worth at least $310 million.

Hugh Franklin Culverhouse


Floyd Dewey Gottwald Jr.

Bruce Cobb Gottwald


Craig O. McCaw

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Jonathan Swift

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1969 with cable company mired in debt. Family forced to sell all but one system. Craig ran company while Stanford undererged; rebuilt 1970s. Saw cellular phone potential, sold most cable. Visionary: working, with 3 brothers, for “single, integrated national network known as Cellular One.” Took on $2.5 billion debt to buy urban cellular franchises, Lin Broadcasting ($3.4 billion 1989). Stock has nose-dived; company has yet to show profit. With stock options, highest-paid CEO ($53.9 million) in U.S., net worth estimated $305 million.

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**Edith du Pont Pearson**

**Willis Harrington du Pont**

and families


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**William Alvin (Tex) Moncrief Jr.**

Oil and gas. Fort Worth. 70. Married, 4 sons. Son of legendary Texan-born wildcatter W.A. [Monty] Moncrief. Had 4 years of dry holes, then blew one out on northernmost extension of vast east Texas field, 1931. ’My father had a nose for oil.’ Until 1985, a year before Sr. died, he and son had oil business from east Texas to Gulf of Suez. Father’s remaining estate split among other relatives. Tex joined father 1945; 1985 gas find in Wyoming (possible 1 trillion cubic feet), other oil and gas. Never takes long vacation, but relaxes on 100,000-acre Colorado ranch, plays golf with John L. Cox. Fortune estimated over $300 million.

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**Fitz Eugene Dixon Jr.**

Inheritance. Lafayette Hill, Pa.; Palm Beach, Fla.; Winter Harbor, Me. 67. Married; son, daughter. Primary heir of 2 great-grandfathers: streetcar magnate P.A.B. Widener [d. 1915; reportedly worth $100 million], William Elkins [d. 1903; reputedly $30 million]. Harvard dropout, taught 16 years at his prep school, Episcopal Academy, “the happiest days of my life.” Philanthropist, especially medicine, education. Fortune mostly blue-chip stocks, bonds; owns most of Grindstone Neck, Me., faded resort where he was born. Owns 10% Philadelphia [baseball] Phillies. Wears opal ring grandfather George [d. 1912 Titanic] gave to wife as she stepped into lifeboat. Net worth believed over $300 million.

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**Arthur G. Cohen**


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**David Theodore Chase**

Real estate, media, investments, insurance. W. Hartford, Conn. 61. Married; 1 son, 1 daughter. Born David Ciesla in Kielce, Poland; survived Holocaust but lost parents, sister to Nazis. To U.S. 1946 speaking 6 languages. Door-to-door sales-

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**Roger Penske**


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**D. Dean Rboads**

Industrialist. N. Palm Beach, Fla. 63. Divorced, 3 sons. Poverty-stricken Fort Wayne childhood; walked to one-room schoolhouse. Attended Indiana U. Liked to invent. With $1,000 formed Lincoln Mfg., age 29, to make, market over 50 personal inventions—e.g., containers that kept food hot more than 4 hours. Added products; grew to international company; products to more than 3,000. Sold to Alcoa 1976. Formed Worldmark Group [holding company] 1976. Expanded, this time by diverse acquisition: radio stations, metal processing, travel, real estate, etc. Forty companies worldwide, sales $655 million. Believed worth over $300 million.

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**Kenneth Eugene Behring**

Developer. Blackhawk, Calif. 62. Married; 5 sons, all in business. U.
The history of the civilized world.
One month at a time.
The Forbes Four Hundred

+ $300,000,000

of Wisconsin dropout: football knee injury. Leased gravel lot for $15/month, bought 27 cars for $900; Lincoln Mercury dealer at 24. Sold out; bought developed Florida land. Went west 1972: 3,300-unit development Calif.; new 5,000-acre site near Seattle; already, environmental protests. Built $10 million museum to house "world-class" car collection, to go to U. of California, Berkeley. Recently changed investment portfolio from 80%-90% stock to 40%-50%: "Lots of people are going to get hurt in the stock market." Active civic leader; 75% Seattle (football) Seahawks. Net worth believed over $300 million.

Richard Jerome O'Neill

Alice O'Neill Avery

Brother and sister. Inheritance, real estate. Grandfather Richard left cattle business in Ireland to manage friend's vast southern California ranch in exchange for half the land. Grandchildren inherited 52,000 acres 1943, sold parcels steadily. Developed 10,000-acre Mission Viejo tract mid-1960s with Donald Bren (which see); purchased by Philip Morris for $72 million. Currently developing 5,000-acre planned community Rancho Santa Margarita, Orange County, headed by Alice's son Anthony Moiso. Richard: San Juan Capistrano, Calif. 67. Married, no children. "Uncle Dick" known for disheveled appearance. Ranching interests Mexico, Nevada; also Calif. restaurants. Involved in state's Democratic politics. Alice: Los Angeles. 73. Divorced, widowed, 3 sons, 7 grandchildren. Dick and Alice share ranch, other investments worth over $600 million.

Peter Jay Sharp

Real estate. NYC. 60. Widowed, 3 children. Father successful real estate developer, owned parts of 22 hotels; built NYC's Volney, Stannahope, where Peter grew up, died young 1941. Interior decorator wife took over, passed to Peter intense and fastidious approach to hotel business. After Princeton, Peter argued with mother, struck out on own. Assembled own real estate empire: Manhattan office buildings, apartments; picked up Carlyle Hotel for $16 million 1967, co-operated over half. Considered finest New York hotel, but maybe not by old money: devoted to pampering new rich, first ladies, rock stars: "Our clientele doesn't take taxis." Estimated net worth over $300 million.

William Edward Simon


Lillian Goldman

Inheritance. NYC. 68. Widowed, 4 children. Widow Sol Goldman, billioniare NYC real estate baron (see also DiLorenzo family), d. 1987. Filed for divorce 1983; reconciliation deal gave her 33% of Sol's estate. Lil sued to void deal, lost 1987. Her 33% in trust, suing (again) for cash. Children say she should get nothing. Grandchildren suing parents. Lil's lawyers (now on 17th set) suing for compensation: "The Goldman family is the best thing to happen to lawyers since the Magna Carta; they're singlehandedly fighting the legal depression in New York City." Lil's 33% worth over $300 million, kids' share (before inheritance tax), $500 million.

Edwin Loebridge Cox Sr.

Oil and gas. Dallas. 69. Widowed; 2 sons, 1 daughter. Born Mena, Ark.; to Texas 1946. Built Cox Oil & Gas into one of largest independents. Wells in Tex., La., Okla., Colo. Extensive interests and talents: former chairman of Sedco, Keebler; founding director InterFirst Corp. (now First RepublicBank Corp.). Chairman smu board of trustees, E.L. Cox School of Business named for him. Hurt by meteoric rise and fall of son Ed Jr., whose billion-dollar agribusiness empire (Val-Agri, Swift meatpackers) crumbled after $78 million loan revealed procured on false pretenses. Jr. drew 6 months in jail. Despite paying off

The 1939 New York World's Fair. Ian Woodner, architect, designed a fair building for Robert Moses. But Woodner made his fortune as a developer, starting, he has claimed, with low-cost housing for black people.
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some of son's debts, Sr. still believed to have fortune worth at least $300 million.

David Graves Mugar


Harry Lebowski


Marshall Edison (Doc) Rinker


and family

Concrete. Palm Beach. 85. Widowed, remarried; 3 sons. Nicknamed "Doc" after family friend; arrived Florida in Model T 1925 "flat broke." Founded Rinker Rock & Sand Co. 1926. Lifelong devotion to work: 12-hour days standard "for fun. It's all a big game. You relax all the time, you die.” Slow start; eventually built largest Florida supplier ready-mixed concrete. Handled operations to son 1982, returned to old work schedule 1983 after son departed. Finally sold to Australian C.S.R. Ltd. 1988 for $515 million, Rinker stake 71%. Doc consultant to old firm, handles portfolio worth some $300 million. "I'm going to keep going until I die. Then God will handle it.

Orton Gene Autry


Joseph Alexander Hardy


Bella Wexner


The Limited, Inc. Columbus, Ohio. Mid-70s. Widowed, 2 children. Mother of Leslie Wexner (which see).

founder of vast women's apparel empire. After working as department store buyer, Bella opened women's clothing store with husband Harry (d. 1975). Joined son's store when specialized retailing boomed. Still active, occupies peach-colored office across from her son. Director, company secretary, adviser to Leslie. Supports local charities, wary of publicity. Stake in Limited, courtesy of Leslie, worth $300 million.

Robert J. Congel


Kingdon Gould Jr.


Viola Sommer


Inheritance. Great Neck, N.Y. Late 60s. Widowed, 3 children. In 1930s, 1940s, husband Sigmund Sommer
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### The Forbes Four Hundred

#### UNDER $300,000,000

- **Jesse Mack Robinson**
  Banking. Atlanta. 67. Married, 2 daughters. College dropout, used car salesman, built chain auto finance companies. Financed Yves St. Laurent 1960; sold 1966 for $1 million. "One doesn't always keep the right things." Bought or opened 22 banks, often only bank around. Mini-conglomerator: lumber mills, billboards, insurance, pest control, waste management. "I have made a lot of people millionaires." Heart attack 1986 prompted slow sale of businesses, to simplify things. "Never know what they're worth until you sell them." Horse breeder, golfer, fisherman. Hopes daughters will succeed him. Net worth estimated at $295 million.

- **Jack N. Mandel**
  Joseph C. Mandel
  Morton L. Mandel

- **Victor Posner**
  Financier. Miami Beach. 72. Twice divorced, 4 children. Says made first million by 20. Started buying Florida property 1950s, began buying undervalued, asset-rich companies via complicated pyramid structure 1960s; at one time had stake in over 40. Known as rapacious, abrasive corporate raider; captive companies lost money big while paying him huge salaries. Shuns publicity, never leaves home without bodyguards. Nailed for tax evasion 1987. Penalty: set up $3 million program for homeless, serve food to street people, etc. Now back; bought into Talley Industries, National Convenience Stores, etc., early 1990. Years of looting add up: worth over $290 million.

- **George Leon Argyros**
  Real estate. Newport Beach, Calif. 53. Married, 3 children. Born Detroit, raised Pasadena; decided early real estate was the way to wealth.

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**Billie Jean King and Bobby Riggs mugging for the press before their 1973 battle-of-the-sexes tennis match. Billie Jean, then 29, clobbered the 33-year-old self-styled male chauvinist before a television audience of millions, and the career and fortune of the event's promoter, Andrew Jerrold Perenchio, took off. The following year be teamed up with Norman Lear and hit the really big time.**
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THINK AGAIN. THINK CANON.
worked zealously: "If you work hard, it's one of the frontiers that are left." Michigan State, Chapman College; real estate license 1962, sold for less than a year before opening first brokerage; planned first subdivision 1963. Found good banker and built creditworthy reputation; first apartments 1968; now owns some 5,200 units. Also office parks, land. Bought baseball's Seattle Mariners for $13 million 1981; for years endured big league's worst record but sold 1989 for aftertax profit over $50 million ("Patience is for losers"). Net worth at least $290 million.

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**Dwayne Orville Andreas**

_and family_


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**Lucille Carver**

Inheritance. Bandag, Inc. Muscatine, Iowa. 73. Widow; 3 sons by Roy James Carver [d. 1981], who acquired rights to retread process discovered 1957 during trip to Germany. "Bandag" method employs "cold bonding" as opposed to more common "hot-cap": longer-wearing treads. By 1989 sales over $500 million. Youngest son Martin, 42, chairman since father's death, now CEO: "We are not one of the companies that spend all of their time looking for deals, we try to run our business." Brother Roy Jr., 46, owner of small 100-person Carver pump producer [Dad's original business]. Mother Lucille has more than half of Bandag, worth $285 million; sons have smaller blocks.

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**Fayez Shalaby Sarofim**


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**Clemmie Dixon Spangler Jr.**

_and family_


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**Timothy Mellon**

**Catherine Mellon Conover**


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**Lavinia M. Currier**

**Michael S. Currier**


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**Clarence Scharbauer Jr.**

_Inheritance, oil. Midland, Tex. 65. Married, 4 children. Family moved from New York City, settled in_
Midland 1889; father became leading citizen—built the hotel, ran the bank. As rancher, bought up thousands of acres to feed cattle; much turned out to be in one of richest U.S. oil provinces, the Permian Basin. First strike; 1935; has produced over 725 million barrels of crude to date. Clarence Jr. reputed one of most powerful men in Midland. Doesn’t drill, just collects millions in royalties from those who do on his land. Also owns former Kentucky Derby winner Alysheba, retired to stud, reputedly worth $20 million. Very private. Net worth believed at least $275 million.

**Virginia McKnight Binger**

Inheritance. Wayzata, Minn. 74. Married, 2 children. Only child of William McKnight, South Dakota farm boy who climbed then-tiny 3M’s corporate ladder from bookkeeper, 1907, to head of company. William died 1978, left $500 million fortune to foundation, daughter. Virginia honorary chairwoman now $1 billion McKnight foundation. Recently started own foundation, VMB. With husband James (former CEO Honeywell), runs Broadway’s Jujamcyn Theatre chain (now showing Gypsy, etc.), Tarton (Fla.) horse farms (Tarton-bred horse, Unbridled, won 1990 Kentucky Derby). “I don’t have a typical day.” With 3M stock, other assets, worth over $275 million.

**Seymour B. Durst**

**Royal H. Durst**

**David M. Durst**

Brothers. Real estate. Father Joseph emigrated from Austria 1902; founded Durst Organization 1915 to manage Manhattan properties. Sons shifted emphasis from residential to midtown office space 1940s (“and we’re very happy we did”). Built several Third Ave. office buildings 1950s, moved over to Sixth Ave. 1960s, recently to Times Square area [Seymour: “I’m not old—I look this way because I tried to develop the West Side.”] Dursts control about 5 million sq. ft. midtown NYC office space. Very conservative financially, rarely take on partners. Seymour: NYC. 77. Widowed, 4 children. Trained as accountant, now heads Durst Organization; less active these days. Roy: Westchester County, N.Y. 73. Married, 3 children. Handles construction side. David: Mount Kisco, N.Y. 65. Married, 6 children. Shares construction management with Roy, also leasing. Brothers’ fortune estimated over $275 million apiece.

**Gertrude Ramsay Crain**


**Nan Tucker McEvoy and family**

Publishing. San Francisco. 71. Divorced, 1 son. Granddaughter San Francisco Chronicle founder, Michael H. de Young [d. 1925; see family]. Said to be only liberal member of family: former Peace Corps administrator, journalist, founder abortion clinic. Nan inherited largest share Chronicle Publishing af-
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IT PAYS TO BE CAREFUL.
John Jay Moores
Software. Sugar Land, Tex. 46. Married, 2 children. Raised in Houston, married high school sweetheart at 19. Attended law school with wife, never practiced. Began programming for Great Southern Life 1963; at IBM 1966-74: programming, some marketing. Started Bmc Software 1980 with $1,000 to make systems software for IBM mainframes. Wrote first few products, used proceeds to hire others. Went public 1988 at $9—recently over $20 after stock split. Over 350 employees worldwide; generating 30% pretax margins. Also homes Colo., Calif.; collects '60s, '70s Corvettes, Ferraris, Mercedes. Spending more time away from company—stock recently worth $270 million.

Seward Prosser Mellon
Richard Prosser Mellon
Cassandra Mellon Milbury

Armas Clifford Markkula Jr.

Donald George Fisher
Doris F. Fisher
and family
The Gap. San Francisco. Husband and wife. Donald, 62; Doris [new to Four Hundred], 59. Cofounded first Gap store 1969; name allusion to generational rift late 1960s. Don pioneered customer conveniences: e.g., arranging clothes by size, not style or brand; records and tapes as shopping incentives. Seventies jean craze, clever marketing boosted revenues. Jean-centric Gap opened first store outside Calif. 1972; into private labels 1975: "We want to provide a product that we’re recognized for." Gap family now includes Banana Republic (acquired 1983), GapKids (established 1986); BabyGap line debuted 1989. All told, 1,020 stores, 1989 sales $1.6 billion. Fisher family worth $530 million.

Irene Carpenter Draper
and family

Mary Jane du Pont Lunger
and family
Inheritance. Wilmington, Del., nyc. 76. Widowed, 5 children. Father Philip du Pont (see other du Ponts, family) rare bird who increased small share of family fortune by own efforts: took $10 million, parlayed it into $58 million by playing market until death, 1928. Mary Jane favored daughter; she got $50 million to sister's $2 million. Astute businesswoman, owns and still active in profitable Christiana Stables. Raises stock, has various trainers in Kentucky, Maryland and Virginia. Fortune should exceed $260 million by now.
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Some major U.S. families have fortunes already so divided that no individual among them qualifies for The Forbes Four Hundred. This listing is extensive but not intended to be as complete as our listing of the richest individuals in America. Most are the heirs of persons who would have been members of The Forbes Four Hundred if it had been compiled in earlier decades; some are families still building.
**Andersen**

Bayport, Minn. Heirs of Danish immigrant Hans Jacob Andersen, arrived Portland, Me. 1870. First words in English: “All together boys,” became company motto. Founded Andersen Lumber Co. 1903 in Hudson, Wis., with sons Fred, Herbert. Standardized wood window frames with interchangeable parts revolutionized building industry 1904. Moved to Bayport 1913; signed first profit-sharing check hours before his death. Fred took over, emphasizing advertising: “Only the rich can afford poor windows.” Privately held Andersen Corp., nation’s leading windowmaker with 15% market share (1989 estimated sales $1 billion). Generous profit-sharing plan gave employees bonus equaling over 62% 1989 annual salary. Guarded family’s 70% worth $450 million or more.

**Annenberg**

NYC. Five daughters of Moses Annenberg (d. 1942), founder of Triangle Publications. Estate divided among 7 daughters and son Walter (who died). Triangle’s golden goose, TV Guide, provided generously for family, but $3.2 billion sale in 1988 to Rupert Murdoch was bonanza for Esther Simon, 89; Janet Hooker, 86, and Lita Hazen, 80, who each made about $185 million on sale. Sisters Enid Haupt, 84, and Evelyn Hall, 79, cashed in most of their Triangle stock years ago. Children of 2 other, deceased sisters share small stake. Five sisters (and families of deceased) share GM stock, proceeds from sale believed worth $825 million.

**Bacardi**

Puerto Rico, Miami et al. Descendants Don Facundo Bacardi y Maso (b. 1816), Spanish-born wine merchant, who immigrated to Cuba 1830, made “civilized rum,” formed Bacardi Co. 1862. Now world’s most popular spirit, selling almost 22 million cases worldwide (80% of rum market). Generations of Bacardis work in various private companies: Bacardi Corp. of Puerto Rico sells to Bacardi imports of Miami; both pay royalties to Bacardi & Co., Ltd., Bahamas. Family factions embroiled in four-year-old dispute: less powerful shareholders want more voice in decisions; claim financial information withheld. sec wants financial data; company says it’s private, needn’t comply. Some 500 Bacardis have interest in business worth over $800 million.

**Bancroft**


**Bean (Gorman)**

Freeport, Me. Descendants of Leon Leonwood Bean (b. 1872), sportsman, founder L.L. Bean, Inc. Tired of cold, wet feet, put rubber bottoms on leather shoes. After 90 of first 100 pairs returned defective, introduced L.L. Bean money-back guarantee, still in effect. Maine’s first hunting licenses 1919 inspired first-ever direct-mail marketing campaign; sales passed $1 million 1937. “That wasn’t bad for a boy who never got through the eighth grade.” Today’s president grandson Leon Gorman, 55; encouraged advertising, broadened women’s line; now scaling back expansion to protect quality, service. 1989 sales, $600 million. 15 reclusive descendants believed to control company worth over $500 million.

**Belk**

Charlotte, N.C. Descendants of brothers William and John Belk, who opened N.C. general store 1888. Gave no credit, bought out credit-granting rivals for pennies on the dollar. Empire grew out of 13 stores 1913, today some 320 stores, estimated sales $2.2 billion: “I don’t reckon we got a system; we just sell goods.” Belk Stores Services division acts as corporate office. Some 25 descendants share ownership with local owner-partners; each store a separate corporation. Family history of internecine feuds, lawsuits. William Jr. ousted as chairman 1950s, tried, failed to thwart brother John’s Charlotte mayoral career (1969-77). John now chairman of 70s; brother Tom president. Family’s interest estimated about $500 million.

**Bingham**


**Block**

Drugs, inheritance. Heirs of Alexander Block, Russian immigrant who opened Brooklyn drugstore 1907; today N.J.-based Block Drug Co. produces pharmaceuticals. Low-profile family: Alexander’s son Leonard, 78, senior chairman; his son Thomas, president, Leonard’s nephew James, chairman. Niche brands: Polident denture cleanser, Poli-Grip denture adhesive, Tegris dandruff shampoo; expand positions with brand exten-

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Family Fortunes

sions. Also prescription drugs. Spurning aggressive expansion, big takeovers; conservative Block now sitting on $150 million in muni bonds. Family holds all voting stock, majority of nonvoting. With other assets, over $450 million.

**Bratton**

Dallas. Dallas-born brothers Jack and Robert founded Dal-Tile Group in the 1940s, made company one of the largest U.S. ceramic tile makers. Sold this year for $650 million to AEA Investors Inc., an exclusive New York-based investment group composed primarily of former corporate CEOs and ends like Henry Kissinger. Buyers just as secretive as sellers. Brother Jack, a.k.a. Juan, moved down to Mexico to run company’s manufacturing arm. Robert ran Dal-Tile, kept out of sight; retained as consultant for at least 1 year. After the full allowance for taxes, they net at least $470 million.

**Brown**


**Bullitt**


**Busch**

St. Louis. Heirs of Bavarian immigrant Adolphus Busch, who married Lilly Anheuser 1861; sold his brewery supply business, joined father-in-law’s brewery 1860. During Prohibition, survived, prospered through diversification—company spent $18 million making plant “dry”, spent another $7 million making it ready for repeal. Under Adolphus III, still small; August Jr. brought modern age with Busch Gardens theme parks, St. Louis Cardinals, intelligent long-term marketing making Budweiser the King of Beers in U.S. Died Sept. 1989. Some 46 million shares Anheuser-Busch to family members, who share fortune worth estimated $1.9 billion. Family members start young at company and work their way up. August Busch III now chairman of company.

**Campbell**

Hawaii et al. Progenitor James Campbell left Ireland as 13-year-old stowaway to join brother in NYC 1839. Survived shipwreck, capture by cannibals en route to Hawaii, arrived 1850. Bought vast tracts of arid land against skeptics’ advice; irrigated them with artesian wells, built prosperous sugar plantation. Dubbed “Kimo Ona-Million” [James the Millionaire] by native islanders. Estate now 76,000 Hawaiian acres; committed to preserving agriculture on islands. Slowly selling off well-located Hawaiian parcels, buying mainland office buildings, shopping malls at depressed prices. Last surviving daughter, Beatrice Campbell Wriley, died 1987; trust dissolves 2007; numerous family members will divide fortune currently estimated at $700 million.

Ray Kroc’s first McDonald’s, in Des Plaines, Ill., in 1955, when he was still trying to peddle the second million hamburgers. Ray Kroc bought out the McDonald brothers and made it a world hamburger power. McDonald’s has not abandoned the attempt to keep track of how many it has sold over the years. It recently claimed “Over 75 billion served.”
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Family Fortunes

Caruth

Real estate. Dallas. Walter Caruth, 1848 settler, started general store. Bought land with profits—$5, $10 an acre; by early 1900s up to 30,000 acres of land in Dallas and north of city. Son William held on; grandson Will Jr. wrote self out of Sr.’s will, left majority to grandchildren with Will Jr. managing estate: “Grandfather acquired the land, father held, and I harvested.” Most land gradually liquidated, but family’s company, Central Control, manages current holdings. Grandchildren not active in business. Will Jr., 78, terminally ill, suicide May 1990; family no longer buying land. Left hand-picked managers at company helm. Had amassed $100 million for Caruth Foundation; family has given away more than $300 million. Still believed worth at least $500 million.

Chandler

Los Angeles et al. Times Mirror Co. Descendants of Harry Chandler [d. 1944]. Ambitious clerk at Los Angeles Times; in 1880s married daughter of Harrison Gray Otis, owner of Times, rose to chairman. Used smart way of doing business instead of downtown. Built real estate/media empire. Son Norman won readers’ favor by opting for news instead of ads in newspaper shortage WWII. Company diversified under family into 8 dailies including Newsday, Baltimore Sun; 11 magazines, including Field & Stream, Popular Science; broadcast, cable tv, etc. 1989 revenues: $3.5 billion. Grandson Otis stepped down as editor-in-chief 1986, leaving company in hands of professional managers. Over 100 descendants share in Chandler trust worth $1.1 billion.

Clark

Cooperstown, N.Y. Descendants of Edward Clark (1811-82), lawyer, helped Isaac Singer market sewing machines 1850s. Came to own 40% Singer Mfg. Co. Built the Dakota, nyc landmark building, Fortune to surviving child Alfred [d. 1896]; then to Alfred’s 4 sons, including racehorse owner F. Ambrose, art collectors Stephen and Robert. Family generous to Cooperstown. With dubious claim that game was invented there, started Baseball Hall of Fame 1939. Also other museums, hospital, big hotel, golf course, town gym, etc. Three sons died heirless. Family leader: Stephen C. Clark, Jr., 79, only surviving great-grandchild. Niece Anne Labouisse Peretz, 52, co-owner New Republic magazine. Nephew Alfred, 47, has nyc investment company. Trusts, prudent investment by nyc-based Clark Estates Inc. responsible for intact wealth: about 12 Clarks share fortune worth about $375 million. Equivalent amount in foundations.

Cohen

Nyc area. Mortimer, former optometrist; Edward, former men’s clothing retailer; younger brother Sherman tried Oldsmobile dealership 1949, built first apartment project 1950s, focused full time on real estate. Switched to nyc office buildings 1970; now control over 6 million square feet. Traded 6 properties for 3 prime Manhattan office buildings during office glut 1977 (“the most ingenious deal of the year”). Sold 666 Fifth Ave. 1987 to Sumitomo for over $100 million profit; since then, modest activity. Brothers are litigious, difficult. Sherm: “I don’t concern myself with what people say. My bank love me.” Sherri, 65; Ed, 69. Sherm’s only son, Charles, 38, president. Said to be tough negotiator as well, but less lawyer-intensive. Mort’s widow, Estelle, shares in family fortune estimated at $400 million or more.

Collier


Coors


Cowles (Gardner)

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Cowles (William)
Spokane. Descendants of William Hutchinson Cowles, Chicago Tribune heir (also distant relative of Gardner Cowles, see above); police reporter for Tribune, moved west 1891, bought into Spokane Spokesman-Review. Gained control 1894, bought rival Chronicle 1897. President Truman called Spokesman one of “the two worst papers in the country.” Taken as a compliment. Invested in nearby timberland, paper mill, started Inland Empire Paper Co. William Jr. added radio 1946, TV 1952. Now grandsons: James, 56, manages downtown Spokane real estate; William III, 58, runs the papers. Very private. Eight descendants share Cowles Publishing, large Tribune stake, paper company and real estate valued at $440 million.

Cullen

Davis

Dayton

de Menil

De Young
San Francisco et al. Descendants of Michael H. de Young, founder San Francisco Chronicle with brother Charles, 1865. Paper epitomized “yellow journalism,” entertained...
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DiLorenzo

NYC. Descendants of Alex DiLorenzo Jr., Brooklyn pharmacist who collected rents for older brother. After law school 1951, went into business with neighbor Sol Goldman (see widow Lillian) 1930s. Goldman-DiLorenzo became NYC’s largest landlord, heavily leveraged. Lost 40% of properties in 1973-74 real estate crash. On his death 1975, son Alex III and Goldman split remaining properties with flips of a coin. Family now owns more than 250 parcels; mostly small commercial, retail, unglamorous outerborough buildings (including site of infamous Bronx social club Happy Land fire in which 87 died). Alex III under fire from brother Marc and sister Lisa, who claim he is running fortune into ground. Alex says he’s waiting out weak market with $650 million fortune. Even in weak market, should be well over $500 million.

Donnelly

Chicago origin. Scattered descendants of Richard R. Donnelly, Canadian saddlemaker’s apprentice who went to Chicago, started print shop 1864. Destroyed in Great Fire 1871; rebuilt by family into R.R. Donnelly & Sons. Son Reuben H. Donnelly established publishing firm; produced Yellow Pages, sold to Dun & Bradstreet for $80 million stock 1961. Meanwhile, family company world’s largest commercial printer (1989 revenues, $3.1 billion); serves Time Inc., New Yorker, Newsweek, etc. Nonunion, wins contracts because strike-free. Diversified into mailing lists, direct mail, catalogs, books. Grandson Gaylord, 80, now honorary chairman, owns largest individual stake, worth $166 million. Cousin Charles Haffner III, 61, retired as employee 1990; continues on board of directors with James Donnelly. Over 75 descendants share over $900 million.

Duda

Oviedo, Fla. Czech immigrant Andrew Duda (d. 1958) left homeland, arrived Fla. 1909 as part of Lutheran farming community; family joined 1912; went broke, headed to Cleveland 1916. Returned to Fla. 1925, produced first cash crop 1926: planted 10 muckland acres of celery, plowed profits back in. Incorporated mid-1950s: “By that time they were an agricultural giant.” Use of migrant workers sparked controversy. Three sons, John (d. 1988), Andrew Jr. (d. 1986) and Ferdinand, 80, planned smooth transition to third generation 1977. A. Duda & Sons ($192 million sales 1989) today one of nation’s largest vegetable growers. Under CEO Ed Duda, three-pronged approach: citrus, real estate development, vegetables: “Instead of just considering ourselves farmers, we consider ourselves asset managers.” At least 60 descendants share estimated $350 million.

Heirs of Pierre Samuel du Pont II

Wilmington, Del. Descendants of Pierre Samuel du Pont de Nemours (1739-1817), French Physiocrat who fled revolutionary Terror for America 1800. Son Eleuthère Irénée, chemist’s apprentice, founded gunpowder factory on Brandywine Creek 1802. Company and family prospered, dominated Powder Trust late 1800s. After family schism over control, Pierre S. du Pont II emerged as leading figure 1915. Lucrative WWI munitions contracts led to despised sobriquet “Merchants of Death.” Founded Christiana Securities as family holding company for Du Pont (merged into Du Pont 1977). Rescued nascent General Motors 1920s, about one-third interest. Also Hercules Powder Co., U.S. Rubber (later Uniroyal), etc. Childless, Pierre divided bulk of fortune among siblings, nephew before death 1958. His family branch built up Wilmington Trust Co. Dissident branches established Delaware Trust Co. (see William du Pont family). Numerous descendants of Pierre II siblings still control over 15% of Du Pont, the wealthiest du Ponts by far. This branch (including listed individuals) estimated to be worth over $8.6 billion.

du Pont (William)


Gore

W.L. Gore & Associates. Newark, Del. Patriarch Wilbert L. Gore (d. 1986), Du Pont employee, worked on Teflon 1957; top management interested only in selling Teflon, not final products. With company blessing, formed own company with wife, Vieve, 1958. First commercial product: insulated cable; later, Gore-Tex. Astronauts wore Gore-Tex space suits on moon. Son
Hoover Dam under construction, 1934. Edmund O. Wattis founded Utah Construction in 1900 to finish building a bankrupt railroad. Afterwards he specialized in mammoth construction jobs, such as the San Francisco-Oakland Bay Bridge and this, the then-named Boulder Dam, one of the largest in the world. In later years the company moved into mining, and was sold to General Electric in 1986.

Bob, Ph.D. chemical engineering, joined W.L. Gore & Assoc. 1963, took over 1975. Best-known application is sportswear, but also medical (surgical patches, artificial ligaments), telecommunications (cables), industrial products (filters). Expiration of original patent 1993, but: “We’ve patented hundreds of uses, and we expect to come up with hundreds more.” Company encourages innovation, risk-taking: “If you’re not making mistakes, you’re doing something wrong.” Family interest worth over $500 million.

Gund

Haas

Haseotes
Family Fortunes

Horvitz


Houghton


Hixon


Hughes (Howard)

Inheritance. Fortune built by legendary, famously reclusive tycoon Howard Hughes Jr. began with oil-well drill bit patented by Howard Sr. 1909. Jr. inherited age 18; made movies, set flying records, created Hughes Aircraft, owned TWA. Died 1976, no will. Bulk of fortune in Howard Hughes Medical Institute. Cousin William Lummis took over Summa Corp., holding company created 1972; assets estimated in 1976 at $168 million. With his old law firm, Andrews, Kurth, Campbell & Jones, sought heirs 5 years, fought off 3 dozen claims. Summa sold assets, built up real estate; today, with partner, holding 900 acres LA; developing 25,000 acres near Las Vegas. Law firms, through contingency fees, etc., may be biggest heir. Lummis next at about 3.5%. Over 100 people share estate worth estimated $1.8 billion or more; $500 million disbursed so far.

Idema

Wege

Hunting

Steelcase. Grand Rapids, Mich. Peter Wege [d. 1944], sheet-metal craftsman and holder of six patents, had idea for fireproof metal office furniture; launched own firm 1912. Instant success with first metal wastebasket. Prospered in 1920s, survived Depression [worked veteran employees part-time to keep them]. Patented modern-day suspension file cabinet 1934. Changed company name to Steelcase 1954. Henry Idema [d. 1951] one of origi-
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Family Fortunes

Ireland
Crushed slag. Birmingham, Ala.; Fla. Vulcan Materials. Children and grandchildren of 3 Ireland brothers who developed crushed slag (used in highways) business into $1 billion supplier construction materials, industrial chemicals. Patriarch Charles Lincoln Ireland purchased Vulcan for his three sons 1916. Family ran company to 1956. Charles W. Ireland (d. 1987, son of H. Glenn) last of clan to head company, president 1951-59. Moved to Florida 1965 to avoid clashes with hand-picked president, Bernard Monaghan. "Charles decided," said Monaghan, "that it was important for his public company to show that a non-Ireland could run it." Professional management runs it well enough to make Irelands worth at least $400 million.

Jenkins

Johnson

Jordan

Kelley

Kennedy
Boston origin. Joseph Patrick Kennedy (d. 1969) rose from humble Irish south Boston beginnings to bank president at 25. Wall Street speculator, sold stock before 1929 crash, shorted for huge gains. Later outlawed some of own methods as first head of SEC. Ambassador to England 1937. Married Rose Fitzgerald, daughter of Boston mayor (Honey Fitz), 1914. From 9 children emerged political dynasty, tragedy. Son Joe killed WWII; daughter Rosemary mentally retarded; John F. senator, President, and Robert F. senator, attorney general, presidential candidate; both assassinated. Edward M. senator, presidential chances destroyed at Chappaquiddick. Third generation includes Joseph Jr., 37, Robert's son; holds Tip O'Neill's old congressional seat. Family fortune managed by Park Agency Inc. (NYC); highly secretive. Real estate (including Chicago's Merchandise Mart and Apparel Center), stock, oil and gas, fuel family fortune estimated over $850 million.
King

Short Hills, N.J., NYC, Calif. et al. Charles King (d. 1972) pioneer radio syndicator 1930s, formed television syndicator King World Productions 1964. Sons Roger, Michael took over early 1970s, hit jackpot early 1980s with syndication rights to Wheel of Fortune, Jeopardy!, Oprah Winfrey Show; top three syndicated shows: average viewer shares, upper 20s. Monopoly, new game show, and Super Jeopardy! gave King World 2 prime-time game shows back to back this summer—renewal uncertain. Instant Recall, magazine show, premiered this fall. Sixteen-hour days not unusual for devoted, aggressive brothers. Siblings own 35%: Roger, 46, chairman; Michael, 42, chief executive; Diana, 41, vice president and secretary; Richard, 49, director. Sister Karen quit 1986; eldest brother Robert sold out for $1.7 million before company went public 1984. With other investments, family wealth estimated at least $400 million. “We do our homework.”

Kleberg

King Ranch, Tex. Richard King [1824-85], Rio Grande steamboat captain, bought Spanish land grants south Texas 1850s, started country’s most famous ranch. Bulk (over 800,000 acres) to daughter and her husband, Robert Kleberg. Robert formed King Ranch Corp., which runs family’s operations to this day. His descendants, with Exxon, found huge oil reserves on ranch; family built up other ranches Argentina, Venezuela, Spain, Morocco, Australia (7.6 million acres), Brazil. Family company now headed by non-family member Leroy Denman, recently sold off all foreign operations except Brazil. Schism over payments to family led to buyout, departure of former managers Robert Shelton, Belton Kleberg Johnson in mid-1970s. All told, Robert’s descendants believed worth over $1.25 billion.

Kohler

Kohler, Wis. et al. John M. Kohler bought iron foundry 1873; enamelled hog scalders sold as inexpensive bathtub to swelling immigrant market; expanded to other bathroom fixtures. Son Walter thought big: instituted 50-year plan (this one worked, unlike Mao’s), brought in Frederick Olmsted’s firm (designer NYC’s Central Park) to design company town; governor Wisconsin 1929-31. Walter Jr. also governor 1951-57. But uncle Herb took over firm in 1940s until his death 1968; weathered bitter UAW strike 1954-62. Herb Jr., 51, formerly “one of the great unwashed” (i.e., a hippie), became chairman 1972. Herb’s “hipness” didn’t hurt: sales now estimated over $1.3 billion. However, firm carries much debt. Family’s share of company estimated worth over $570 million.

Krebbiel


Lawrence

NYC area. Heirs of Sylvan Lawrence [né Sylvan Lawrence Cohn], whose great-grandparents began building NYC real estate empire 1860s. Sylvan dropped out of college twice, sold bikes for father-in-law NYC Drugstore soda jerk 1946, big brother Seymour Cohn (which see), already in real estate, invited Sylvan to join him. Together launched impressive Manhattan real estate empire; at peak some 12 million square feet office space. Seymour: “Being brothers we had a tremendous edge. We went to work together, we came home together. We always worked Saturdays. Sundays we’d talk real estate.” Sylvan battled cancer; after death 1981, company sold many properties for over $600 million, held on to 4 NYC buildings. Seymour: “I never looked at it as if we were two people. We were one.” Sylvan’s heirs’ interest exceeds $400 million.

Lilly

Indianapolis et al. Descendants of Colonel Eli Lilly, Civil War veteran who opened chemist’s shop. Started Lilly’s Laboratory with 4 employees, 14-year-old son 1876. Son

Lykes
Tampa, New Orleans et al. Descendants of Dr. Howell Tyson Lykes [d. 1907], who altered career path when inherited 500 acres near Brooksville, Fla., became ranchers 1870s. With 7 sons, amassed fortune raising, shipping cattle to Cuba. Lykes Brothers diversified starting 1940s: insurance, real estate, steelmaking, natural gas, banking, citrus. Lost Cuban acreage in Castro takeover. Merged steel operations with LTV Corp. 1978; escaped mostly unscathed from infamous LTV crash 1986. Family bought famed steamship line back from LTV 1983. Own some 350,000 acres Glades County, Fla.; 250,000 acres Texas ranchland. Great-grandson Thompson Lykes Rankin, 50, now heads empire. Some 200 family members quietly share fortune worth at least $650 million.

Mack

Marriott

McClatchy

McGraw

Mead
Consolidated Papers. Wisconsin Rapids, Wis. George W. Mead left Illinois furniture store for Grand Rapids 1902 to settle deceased father-in-law’s estate, intended to stay few weeks to run hydroelectric paper conglomerate until qualified paperman found. Took over construction of dam, paper mill; stayed 59 years. Built first electrically powered paper machine. Reinvested profits. Consolidated Paper expanded under son Stanton 1950-66 [d. 1988]. Grandson George II, 63, joined company as chemical engineer; industry’s youngest president at 39. Still has first paper account, also FORBES. Challenged by competitive market, paper surplus: “We’re selling very hard.” Aggressive reinvestment program spearheaded by two paper machines, cost: over $800 million. At least 80 family members share 39% stock worth over $625 million.

Mellon
Pittsburgh area. Original Andrew Mellon arrived America 1818. With
Last year, George Fenton was involved in 465 burglaries, 217 fires, 35 high-speed chases, 13 stock car races and 2 hurricanes.

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Where quality starts with fundamentals

Murphy Oil Corp. El Dorado, Ark. Banker Charlie Sr., "Mr. Charlie" [d. 1954], built 100,000-acre timber farming empire, discovered oil Louisiana 1907. Son Charlie Jr. invested $5,000 gift from grandfather in own oil company. Took over Murphy Oil at 21 after father suffered stroke, had to forgo college but taught self classics, foreign languages. Built integrated company with international reserves, refineries through mergers, exploration, reinvestment. Now 69, still chairman. Three sons, 3 other relatives in business. Secret of family company: "See that your sisters marry outstanding men." Some 50 descendants, family owns 35% Murphy stock, Arkansas timberland, etc. worth $625 million.

Norris

O'Connor
Victoria, Tex. Descendants of Thomas O'Connor [d. 1887], Irish immigrant who moved to Texas as teenager early 1830s. Fought in Lone Star War of Independence 1836. Built up 400,000-acre ranching empire south Texas. Two sons expanded ranching empire, added 200,000 acres out of state, raised Bradafo cross-breed of cattle more adaptive to Gulf Coast climate. In mid-1930s discovered huge oil reservoir on land. "Tom O'Connor" oilfield one of most productive in Texas. Family also owns 39% Victoria Bancshares—a place to keep the money. Steeped in ranching tradition, emphasis on preservation. Senior family member: "We're just caretakers for the next generation." About 30 family members share fortune believed to be worth over $560 million.


Family Fortunes

Pigott


Pitcairn


Pulitzer


Reed

Seattle et al. Descendants of Sol G. Simpson, who cofounded Simpson Timber with A.H. Anderson in 1890. "Sleepy lumber company" until 1950s, when papermaking was added. Reputation for quietly buying timber properties at bargain prices, replanting for long term. Now has 750,000 acres West Coast timberland, including 200,000 acres redwood. Value rising because of exports to Asia, environmental pressure to limit cutting on public lands. William Reed Jr., 51, chairman and chief executive since 1971. In 1987, after three-year legal battle, last 37½ nonfamily shares bought out for $195,000 each; former owners crying foul. Fewer than 50 descendants share a company valued at $1.4 billion.

Richardson


Rockefeller (John D.)

NYC et al. Descendants of John D. Rockefeller, world's first billionaire, founder Standard Oil. Frugal accounting clerk who invested in
merchant grain business 1858; put $4,000 into oil refining 1863. Did better than okay: 7 years later Standard Oil; went on to form legendary monopoly. Furor led to Standard Oil trust breakup 1911. To marry Abby Aldrich, only son John Jr., gave her father long, earnest recitation of his financial prospects (Mr. Aldrich was won over). Between them, two John D.'s gave over $1 billion to charity—when a billion was still a billion. Jr. had 6 children: daughter Abby, sons J.D. III, Nelson, Winthrop (all deceased) and surviving sons Laurance, David (whose see). Abby (d. 1976), widow of banker Jean Mauez, had 2 daughters: Abby Milton O'Neill and Marilyn Milton Simpson (d. 1980). John D. IV (Jay), one of 4 children of John D. III (d. 1978), was West Virginia governor (1977-84), now U.S. senator [spent over $12 million on race]. Nelson (Rocky; d. 1979) left 6 children; 4-term liberal GOP New York governor, 3-time contender for presidency, Ford's vice president. Combined family fortune estimated over $5.2 billion.

Rockefeller (William)

Rosenwald
NYC et al. Julius Rosenwald (d. 1932) moved to NYC from hometown Springfield, Ill.; opened small clothing factory. Invested $35,000 in Sears, Roebuck & Co., bought out Alvah Roebuck 1895, Richard Sears 1913. Pioneered mail-order retail for rural, suburban market. Had $270 million sales 1927, became world's largest retailer. Donated $50 million to educational, other causes. Five children sold most of Sears stake, diversified into real estate, cable TV, magazines, etc. Son Lessing (d. 1979) former Sears chairman, donated large art collection to Library of Congress. Daughter Edith Stern (d. 1980) civil rights activist. Son William still runs own investment firm, American Securities Corp.; chairman United Jewish Appeal. Over 100 family members share fortune believed over $500 million.

Sammons
Dallas. Heirs of Charles A. Sammons (d. 1988, at 90), founder of Sammons Enterprises, diversified life insurance, cable and distribution firm. Born Oklahoma 1898, raised by aunt after early death of parents; moved to Plano, Tex. 1918 to trade hay and grain: “I couldn’t find a job and I didn’t know a business.” Invested profits in bank stock; bank went bust. Consummate entrepreneur then started insurance business; Reserve Life Insur ance Co., Dallas 1938, still Sammons flagship. Much later, cable: Sammons Communications now 854,000 subscribers. Arranged estate to avoid dismemberment of Sammons Enterprises: 60% now owned by charitable foundations, 10% by esop; but 30% remains in trust for benefit of Sammons descendants: only daughter, her nearly 20 children and grandchildren. Low-profile family worth estimated $550 million.

Scripps (E.W.)

Scripps (J.E.)
News you can use.
BEFORE THE STRIVE PROGRAM
THIS WAS THEIR ONLY
HOPE FOR A CORNER OFFICE

Hopelessness. It’s the number-one cause of unemployment in inner-city neighborhoods.
It’s not a lack of jobs but a lack of self-esteem. Due to such things as a shortened education. Or a language barrier. Or a lack of appropriate role models.
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### Family Fortunes

Lion 1985; former president and great-grandson Peter Bruce Clark (once Yale assistant professor), 61, now Gannett director. Over 50 descendants share fortune estimated over $850 million.

### Searle


### Segerstrom


### Smith

Chicago. Banking family with large holdings in Northern Trust, financed two Swedish toolmakers who founded Illinois Tool Works 1912. Family eventually assumed control of tool company, which later expanded into fasteners, screws, washers. Today also makes packaging systems, medical and computer supplies, engineering components. Famous for developing now-ubiquitous plastic 6-pack carrier 1960s. Recently acquired division of Eagle Industries, DeVilbiss, a manufacturer of industrial finishings and coatings. 1989 sales over $2.2 billion. Family still active: Edward Byron Smith, 61, on the board, Harold Jr., 57, chairs the executive committee. Smiths’ 28% Illinois Tool Works and 20% Northern Trust stock worth more than $770 million.

### Stroh

Detroit. Family started with small brewery 18th-century Germany. Bernard came to Detroit 1850 with $150; brewed beer, delivered barrels door-to-door with wheelbarrow. Weathered Prohibition making ice cream (still sold in Michigan, Ohio, Illinois). Great-grandson and CEO Peter, 60, persuaded family to buy F&M Schaefer for $70 million 1981. Schaefer for $500 million in 70%-financed deal, 1982: “I knew it was either grow or go.” It may be go. Schaefer down sharply. Bread & butter low price brands (Old Milwaukee, Schaefer) now declining margins due to fierce competition from other brands. Total Stroh’s revenues declining, total barrels sold expected down 10% this year. Also real estate: developing large multiuse facility, RiverPlace, downtown Detroit. Family’s shrinking company believed still worth some $500 million.

### Sulzberger


### Swig

San Francisco. Heirs of Ben Swig, Bostonian partner with Jack Weiler (see family). Jack stayed NYC, Ben to San Francisco 1946. Extremely philanthropic: “Given it away while you’re alive, because there are no hoping in shrouds.” Families built, bought commercial, hotel, residential properties. Swig, Weiler & Arnow now control over 5 million square feet, mostly office space in NYC, SF. Swigs own posh SF Fairmont Hotel, 4 sister Fairmonts nationwide, bought out “non-growth-oriented” Weilers’ 50% 1982. D.C.
Family Fortunes

Fairmont in works. Ben’s sons, Richard, 65, runs hotels; Mel, 73, does deals. “It’s hard to say if we would be friends if we hadn’t been brothers.” Brother-in-law Richard Dinner, 69, retired. “We’re being very cautious in this market.” Estimated worth $600 million.

**Taylor**

*Publishing.* Boston origin. Fading Boston Globe revived 1872 by General Charles H. Taylor with funding from Jordan family patriarch, Eben Jordan (see family). Jordan rewarded Taylor’s good work with option to purchase half of company [he did]. Paper’s management dominated by three succeeding generations of Taylors. William O., 57, great grandson of the general, current chairman of umbrella company Affiliated Publications. Fifth generation now entering fray; executive editor Ben Taylor, business manager Steve Taylor elected to Boston Globe’s board this year. Investment 1981 in small cellular startup company called McCaw Communications reaped huge rewards. To avoid takeover, company forced to “spin off” to shareholders. With Affiliated, McCaw stock, family worth over $500 million.

**Temple**


**Upjohn**


**Watson**


**Wattis**

San Francisco performing arts, recently dissolved trust, giving $26 million. Cousin William Kimball supports higher education. GE stock provides deep pockets, worth $1.1 billion.

**Weller**
NYC. Family of Jack Weiler, 86, son of Ukrainian Talmudic scholar, operated in NYC while partner Ben Swig (see family) handled Boston, then Sr. Top lease broker for big retail chains 1940s, 1950s. Now Swig, Weiler & Arnow owns some 5 million square feet office space. Sold half of Fairmont Hotel chain to Swigs 1982. Still partners in all else. Jack devoted to Jewish charities: “Philanthropy comes first, ahead of my business.” Built homes for Israeli immigrants after WWII. Son Alan, 56, company attorney; son-in-law Robert Arnow, 66, also active. Conservative Weilers share fortune estimated at $570 million. “Take us off the list, you won’t hurt our feelings.”

**Weyerhaeuser**

**Whittier**
Southern California. Descendants of Mercios H. (Max) Whittier, co-founder Belridge Oil 1911 with 4 partners: purchased option on property in Bakersfield, Calif. when he found oil seeping from ground, president until death 1925. Son George president 1925-79. Two families sold out to Texaco, Mobil 1930s; Whittier, Buck, Green families sold to Shell for $3.6 billion 1979, largest takeover to date. Max’ 4 children got $475 million (total) after taxes. Leland (d. 1984), Helen Whittier Woodward [d. 1984], Donald (d. 1983) and N. Paul, 86. Family maintains oil company, M.H. Whittier Corp. Charitable acts include Helen’s donation of eye institute to Scripps Foundation, Asia Complex to San Diego Zoo. Proceeds from oil, other investments believed worth $750 million.

**Wolfe**
Columbus, Ohio et al. Descendants of brothers Robert and Harry, who created 19th-century fortune from Wear-U-Well shoes. Family invested in media: bought Columbus Dispatch 1905; later 2 TV, 2 radio, Ohio magazine; also banking, real estate interests. Grandson Edgar Jr. died in plane crash 1975. Edgar III died of AIDS 1985; family feud ensued over estate. Politically powerful Republican family considered one of Ohio’s most influential: “Nobody has a monopoly on money, but Wolfe has a monopoly on communications.” Terse grandson John Jr., 62, cousin John F. (publisher, CEO of Dispatch), direct 14-member family’s affairs. Stock, other visible assets worth over $425 million.

**Yates**
Artesia, N.M. First commercial wells on New Mexico side of Permian Basin drilled by oilman Martin Yates Jr. 1921. According to family legend, Martin struck dry well after dry well until his wife picked site; then hit gusher. Built rapidly 1920s: constructed pipeline, refinery Sold refinery during Depression. Martin’s sons—Harvey, Saint Clair Peyton (S.P.), Martin III and John—followed him into business, further built up Yates Petroleum. Harvey left business 1963 after disastrous foray into mining forced him to sell out to his brothers, bounced back and rebuilt oil fortune with his own company, Harvey Yates Company [Heyco]. Third generation following lead of second into oil business. Harvey’s, other’s kids now active in family business or on own [Harvey Jr. runs Cibola Energy Co.]. Yates Petroleum, Heyco, other companies, estimated worth over $775 million.
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We added 43 names to The Forbes Four Hundred this year, meaning 43 old names came off. This year, 6 died, 35 had fortunes that fell too far, 1 fortune was realigned, and 1 was removed. For some, it was a tough year to be rich.

Newly departed

DIED

Busch, August Anheuser Jr. St. Louis. Piloted Anheuser-Busch to the top in brewing, Budweiser to the King of Beers. Died Sept. 29, 1989 when he was 90, of pneumonia. Fortune, estimated in 1989 at $1.5 billion, left to family members. Son August Busch III now chairman of company. (See Busch family.)


Forbes, Malcolm Stevenson. Far Hills, N.J. With brothers, inherited Forbes magazine from father B.C. Died Feb. 24 of heart attack at 70. At helm during 25 years of heady growth. His complete and utter joie de vivre kept national eye on himself and magazine—exotic motorcycle and balloon trips, etc. Survived by 4 sons and 1 daughter. Steve [MSF Jr.] holds controlling 51%. While alive, he lived.

Griffin, Ben Hill Jr. Avon Park, Fla. Died Mar. 1 at 80; his citrus empire, estimated at $390 million in 1989, is being managed by son Ben III.


DECLINED

Comer, Gary Campbell. Chicago. 62. His 52% of Lands' End, the retailer, is down, and so is his net worth: estimated at $360 million in 1989, $217 million in 1990.

Cotsen, Lloyd Edward. Bel Air, Calif. 61. ceo of Neutrogena Corp. saw his soap stock drop: $345 million in 1989, more recently $217 million.


Crow, Fred Trammell. Dallas. 76. Estimated $300 million 1989 fortune. With fall in real estate values and new information on what certain assets really could rent for, this seemingly unbeatable fan of leverage may finally be beaten.

Dittmer, Thomas Henry. Lake Forest, Ill. 48. Fortune derived primarily from
The Forbes Four Hundred

commodities trading, estimated at $300 million in 1989, but results have been down, and multiples are weak. He may be worth $230 million.


Griffin, Mervyn Edward. Beverly Hills. 65. His Resorts International holding is now in bankruptcy; his net worth, estimated at $300 million in 1989, is now thought more like $250 million.


Ingersoll, Ralph McAllister. Lakeville, Conn. 44. Newspaper empire, funded heavily with junk bonds and valued at $345 million last year, has collapsed, as has Ingersoll’s visible net worth.


Knight, James Landon. Bal Harbour, Fla. 81. Knight-Ridder newspaper fortune, estimated at $310 million in 1989, is now close to this year’s minimum, $260 million.

Lerner, Alfred. Shaker Heights, Ohio. 57. Fortune derived from banking and real estate, estimated at $370 million in 1989, has seen sharp declines on both fronts.


Marx, Leonard Maximilian. Scarsdale, N.Y. 86. Estimated $310 million real estate fortune believed hit by declining market values.

McCaw, John Elroy. 39; Bruce R., 44; Keith W., 37. Seattle. Their McCaw Communications shares, around $490 million last year, collapsed to a recent $220 million or so. Now that the bidding war for cellular phone properties has ended, down go the prices.

Mendik, Bernard H. NYC. 61. NYC real estate fortune, formerly estimated at $370 million, could be as low as $240 million in today’s price environment.

Naify, Marshall. 70; Robert Allen, 68. San Francisco. A falling market for their holdings in Tele-Communications Inc. and Todd-AO lowered them from $410 million in 1989 to $235 million each.

Nichols, Miller. Prairie Village, Kans. 79. Estimated $300 million fortune built on Kansas City real estate proved less than estimated after bulk of holdings were sold to an ESOP.

Pasquerilla, Frank James. Johnstown, Pa. 64. This real estate and department store fortune [1989 estimate, $350 million] is being bet on an aggressive expansion program. If he’s right, he’ll be back.

Pontikes, Kenneth Nicholas. Barrington, Ill. 50. His Comdisco (computer services) stock, $280 million last year, fell to $156 million this year.

Silverstein, Larry Abraham. NYC. 59. Prime NYC office space left vacant because of tenant bankruptcy and other Northeast real estate woes brought this estimated $420 million fortune in 1989 below the minimum.

Simon, Norton Winfred. LA area. 83. Well-respected art collection, formerly estimated at $750 million or more, still as valuable but now much if not most believed held in foundations.

Tow, Leonard. New Canaan, Conn. 62. Century Communications may be big in cable TV, but it’s smaller in the stock market: last year his shares were $315 million, now $212 million.

Tramiel, Jack. Zephyr Cove, Nev. and Saratoga, Calif. 62. Atari got zapped, and so did founder Tramiel: what was $370 million in 1989 is a mere $150 million this year. And the Nintendo guy in Japan is a billionaire.

Trump, Donald John. NYC. 44. Decline in Atlantic City gaming revenues, unmasking of misstated asset values, declining real estate values and massive debt may have put The Donald within hailing distance of zero.


Wasserman, Robert Lewis. Palm Springs and Beverly Hills. 77. Declining MCA stock price brought this estimated $320 million fortune in 1989 down to an estimated $220 million.

Williams, Arthur L. Jr. Duluth, Ga. 48. Estimated $290 million insurance sales fortune not worth that in the face of massive legal problems.

REALIGNED

Goldman, Alfred Dreyfus. Oklahoma City. 52. We thought this inherited real estate fortune, estimated at $400 million in 1989, was all his. Brother Monte thinks he shares it. So do his lawyers. They may be right.

REMOVED

Hilton, William Barron. LA. 62. The stock previously attributed to him and added into his 1989 fortune of $1.25 billion, actually belonged to a foundation. What stock, assets he does own seem well short of our $260 million minimum. ■
The minimum net worth necessary to join The Forbes Four Hundred dipped this year, almost down to these folks' level. But not quite.

Awaiting the call

Charles E. Smith
Robert H. Smith
Arlene Smith Kogod


Harvey Roberts (Bum) Bright
Oil, real estate. Dallas. 70. Widowed, remarried; 4 children. Started as wildcatter after Texas A&M, WWII. Built fortune in oil, real estate, banking; collapse of Texas economy forced personal loss of $200 million in failed effort to save Bright Banc, Republic-Bank. Says he's on the comeback trail, intent on restoring lost $200 million. After selling off Dallas (football) Cowboys, various oil & gas interests, has accumulated $100 million cash plus real estate and oil. Bought Dallas-based State Bank and Trust Co. (city's smallest), may create boutique bank. "Cash is gonna be king." Or maybe just preparing estate. Still worth at least $255 million.

James Cuthbert Self
Textile mills, real estate. Greenwood, S.C. 71. Widowed, remarried; 2 sons, 2 daughters from first marriage. Born, raised, educated in Greenwood. Father started mill business 1907. Also
Individuality.

First you discover it. Then you express it.

George Plimpton
Editor and Author
real estate; developed cheap housing for employees. Son James worked summers in mill. Coast Artillery 1941-46, B.S. in Business Administration from The Citadel; returned to Greenwood Mills as assistant vp; took over on father's death 1955. Continued interest in land; started developing Palmetto Dunes on Hilton Head Island over a decade ago—now 2,000-acre development with 3 golf courses, tennis, hotels, condos, etc. estimated net worth some $250 million.

Bill Harris Hayden
CompuAdd, Austin. 43. Married, 2 children. Grew up in San Antonio, son of a mechanic. "Into making money," newspaper route, age 12, then grocery stores. With engineering degree from U. of Texas, went to work for Texas Instruments in product design, then calculator group, fell in love with seeing his product in the marketplace. Dabbled in Texas real estate (buying and selling single-family homes); saved $100,000; started CompuAdd, pc manufacturer and marketer, 1982. First sold disk drives from back of his Chevette to supplement fledgling mail order business. Doesn't need to anymore: net worth recently $250 million.

Raymond Donald Nasher
Real estate, art. Dallas. 68. Widowed, 3 daughters. M.A. economics Boston U.; to Texas to start development company 1951, built houses. Then tried a supermarket: Struck it big with Dallas' NorthPark Mall 1965, the "Tai Mahal of great stores and shops," a big moneymaker. Wife Patsy [d. 1988] started art collection; got Ray interested early; bought sculpture—it was cheaper than paintings. With pieces by Henry Moore, Matisse, Rodin and Picasso, among others, collection currently estimated over $100 million. Gave Raisa Gorbachev personal tour of sculptures. Also owns NorthPark Bank of Dallas, former part owner Texas (baseball) Rangers, philanthropic. Net worth estimated at least $250 million.

Hugh Rodney Sharp Jr. and Bayard Sharp families

Anne Hendricks Bass

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Craig Linton Sr., president, Florida Ranch Lands, Inc., Orlando, Fla.
Perrin H. Long Jr., analyst, Lipp Analytical Securities Corp., NYC
Steven J. Matt, manager, Appraisal and Valuation Group, Arthur Andersen & Co., Dallas
Daniel McNamee, McNamee Consulting Co., Inc., NYC
Marc Razzano, retail specialist, Coldwell Banker Commercial Real Estate,
Tampa, Fla.
Perry Reader, vp, the Viera Co., Rockledge, Fla.
Barry M. Rubens, CEO, California Research Corp., Santa Monica, Calif.
Stephen Rushmore, president, Hospitality Valuation Services, Inc., Mineola, N.Y.
Judy Schoer, manager, Coldwell Banker Residential Real Estate, Sacramento, Calif.
M.R. Schweitzer, art consultant and appraiser, NYC
Andrew J. Singer, president, Ackman Bros. & Singer, Inc., NYC
Michael Sklarz, director of research, Locations, Inc., Honolulu
Richard A. Selmacher, Selmacher & Sadoyama Ltd., Honolulu
Robert Weinberg, professor of marketing & management, John M. Olin
School of Business, Washington University, St. Louis
Our estimates of people's net worth are deliberately conservative. It is possible to say with some confidence that a person is worth more than a given amount, it is often extremely difficult or impossible to establish exactly how much more. Our basic operating principle is to think in terms of how much a prudent buyer, knowing what we know, might be willing to pay for a person's net worth.

To arrive at coherent estimates of wealth, FORBES adopts a number of basic rules:

- Blocks of publicly traded stock are priced at the market close on Sept. 5.
- Privately held companies are valued according to estimated earnings or, preferably, cash flow, and to prevailing ratios for similar companies in similar businesses.
- When earnings and cash flow aren't known or are suspect, we adopt rule-of-thumb conventions. In the current market, many newspapers, for instance, can be valued at up to two times revenues, less debt. Few seem worth more.
- Television and radio stations, cable systems and some newspapers are valued for us by authoritative media brokers who track them professionally.
- We do not deduct potential capital gains taxes.
- Among oil and gas producers we rarely go beyond putting fair valuation on their reserves, to be conservative. Some oil and real estate magnates have substantial assets that are not held in their own names, so in one or two cases we were forced to rely on consensus estimates of knowledgeable peers.
- The fortunes of the very rich are, of course, difficult to calculate. Often it isn't even clear exactly who owns a great fortune. It is frequently parked, at least partly, in the names of the immediate family or concealed in private investment companies. Or, more difficult to find, it is held in trusts, where separate elements of ownership (control of principal, receipt of income, power to name beneficiaries, etc.) are deliberately spread among different people to defend against transfer and income tax laws.
- In the matter of trusts and other intrafamily arrangements, we proceed on a case-by-case basis, applying common sense. Most plainly exist to carry out a normal pattern of inheritance (to husbands, wives or offspring) and to minimize taxes. We look at who controls the wealth. Trusts are generally attributed to the person who created the wealth, if still alive and in control, or to the principal controlling family member or members (and not the family lawyers of record).

On the other hand, spendthrift trusts, meant to keep control out of the hands of beneficiaries, are not credited to the beneficiaries; only estimated trust income.

For example, consider the Getty family. For years Gordon Getty, as sole trustee of the major family trust, made all investment decisions—such as selling Getty Oil to Texaco—without any other family members. He also controlled distribution of trust income for himself, one brother, and nieces and nephews.

The principal was never his to bet at the track or spend on wine, women and song. But otherwise his power was nearly absolute, and he already had more spending money than he could use outside the trust. In a practical sense he differed little from the outright heir who chooses not to spend capital but rather to manage for himself and his family. We attributed the fortune to him, then.

But the family went to court. He no longer acted as trustee. He remained on our list, but at a lower level reflecting his own estimated assets, while control of the trust remained in court-ordered limbo. Now the Getty trust is broken up, and other family members have acquired similar powers over their portions and are included.

Lawyers sometimes say a trust is "owned" by those who will ultimately receive the principal. Usually, that means the next generation of the family in question. But, in fact, the next generation often has no power to spend or invest principal or to disburse income to themselves.

It is difficult to take such "ownership" seriously, or to count so powerless an "owner" as one of the richest people in America. It is true that a controlling person's powers may be weakened by the limitations of a trust. But every other party's claim to present ownership is far weaker still.

Irrevocable charitable trusts and foundations are not counted as personal wealth at all.

Wealth in the names of spouses and other immediate family members is sometimes assigned to the principal family member, especially where ties are close. Where a family member's shares are sufficient to entitle him or her to a place among the richest people in America, however, we generally list him or her separately. And we do the same when immediate family members have split because of divorce or other internal family differences.
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*New entry. ☆Returnee. †Dropout. †Near miss.
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CREATIVITY: IT STARTS WITH THE ARTS

A SALUTE TO BUSINESS AND THE PERFORMING ARTS AT LINCOLN CENTER

The business leaders who gather each fall to support Lincoln Center for the Performing Arts continue a historic mission begun by a small group of pioneers in October 1955. The goal in 1955 was to build a new opera house and concert hall at Lincoln Square in New York City. Enlisting business support for the arts was a new idea, and forming a great arts center with national and international influence was a dream. Yet that dream has become the reality of Lincoln Center—America's first and the world's largest center for the performing arts. Today the business community plays an essential role in the support of the arts. And companies from all over the world believe in Lincoln Center as an irreplaceable source of the creative energy that drives business success and improves the quality of our lives.

Photos by Paul Kolnik, Susanne Faulkner Stevens, Ted Kappler (top row); Jonathan Levine, Brigitte Lacombe, Metropolitan Opera (center); Beatriz Schiller (bottom). Illustrations by Andrzej Dudzinski.
LINCOLN CENTER’S BREADTH IS MATCHED BY ITS WIDE INFLUENCE AS THE MODEL FOR MOST OTHER PERFORMING ARTS CENTERS IN THE WORLD

The impressive breadth of Lincoln Center’s activities is matched by its wide influence. Weissman calls it “the standard bearer for the performing arts, deserving top priority when corporations distribute their support and patronage because it serves as a model for most other performing arts centers in the world.” Business leaders from as far away as Melbourne in one direction and Moscow in the other have met in Weissman’s office to study Lincoln Center’s programs and experiences.

Discussions with these visitors have added to Weissman’s understanding of the ways business and the performing arts can work together and benefit one another. The problems of the modern corporation are universal, Weissman argues, no matter where it is located or how large the corporation is. All companies need an environment that encourages creativity, innovation, ingenuity and high standards of quality. They need communities committed to excellent education. And they need effective ways to express an accurate message about business so everyone can understand it. Weissman sees a strong connection between each of these needs, Lincoln Center in particular and the performing arts in general.

“We live in a global society,” Weissman says. “We depend on the creative application of our expanding knowledge. Is there a person who can master new methods, understand them, express them, use them to produce something new and excellent—is there such a person anywhere who isn’t influenced by drama, film, dance, music? How will we educate the people we need to build our businesses if we don’t expose them to the arts? And if business doesn’t support the performing arts, who will?”

Hard questions: When Weissman began working on projects for Lincoln Center—he has been on the Board of

According to George Weissman, retired chairman and chief executive officer of Philip Morris Companies Inc., business, the arts and society are mutually dependent. Weissman is in an excellent position to explain why. He is the current chairman of Lincoln Center for the Performing Arts, Inc., the organization that brought Lincoln Center into being and which today produces many performance series and educational programs and manages the Center as a whole. The other Lincoln Center constituents are:

- The Metropolitan Opera
- New York Philharmonic
- The Juilliard School
- New York City Ballet
- New York City Opera
- The Film Society of Lincoln Center
- The Chamber Music Society of Lincoln Center
- Lincoln Center Theater
- School of American Ballet
- The New York Public Library at Lincoln Center
The performing arts have become a major part of business strategies emphasizing innovation.

Directors since 1970—not many people were addressing such problems. Fewer had plans for solving them. Now all that has changed. Because of leaders like Weissman and institutions like Lincoln Center, many people perceive creativity as central to prosperity. The performing arts have become a major part of business strategies emphasizing innovation and improved quality.

John P. Mascotte, chairman and chief executive officer of Continental Insurance, is a member of Lincoln Center's Board of Directors and of its Consolidated Corporate Fund Leadership Committee. Mascotte's company underwrites two widely admired Lincoln Center undertakings: the annual tribute by The Film Society of Lincoln Center, honoring a great artist in the film industry, and the Great Performers series, nine months of concerts and recitals produced and presented by Lincoln Center for the Performing Arts, Inc. "When you believe, as we do at Continental, that the worth and creativity of the individual is critical to the company's continued success," Mascotte says, "it stands to reason that you would associate yourself with the arts, which nurture these values."

Corporate support for Lincoln Center receives as much recognition and appreciation from clients, colleagues and the public as it does from employees. Association with Lincoln Center's programs demonstrates a company's creative outlook and its role as a good corporate citizen before a vast worldwide audience. This kind of association can serve important public relations and marketing goals, especially for companies doing business in many countries.

A Mozart Consortium

Ten Japanese companies, for example, have recently formed a consortium to underwrite part of the Mozart Bicentennial at Lincoln Center. According to Sam Kusumoto, president and chief executive officer of Minolta Corp.—one of the companies in the consortium—the Mozart Bicentennial is an event that transcends national borders and conveys a message of excellence, a message Minolta endorses.

Hisao Kondo, president of Mitsui & Co. (USA), Inc., who is the leader of the consortium, speaks of the unequalled international reputation for quality attained by the entire Lincoln Center complex as his primary reason for suggesting that Japanese companies support the Bicentennial. Among his hopes: live broadcasts in Japan of important Bicentennial concerts, "In Japan," says Kondo, who is also on Lincoln Center's Board of Directors and its Corporate Fund Leadership Committee, "Mozart is very popular—and everyone has heard of Lincoln Center."

Clockwise from top left: Das Rheingold at the Metropolitan Opera; Jerry Hadley joins Frederica von Stade in Flicka and Friends, Great Performers gala and a Live From Lincoln Center telecast; George Balanchine's Vienna Waltzes at New York City Ballet; logo for the Mozart Bicentennial at Lincoln Center.

Photos by Winnie Klotz (top left); Susanne Faulkner Stevens (top right), Paul Kolnik (center). Logo by Marilyn Rose.
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Because, by creating a driving environment which keeps you relaxed, alert and in tune with your surroundings, the Mazda 929S could actually provide you with a more meaningful reward.

Luxury for safety's sake.

This isn't something achieved by chance. Rather, it is an accomplishment of Kansei Engineering. The way we build every Mazda not only to perform right, but to feel right.

It starts with a comfortable interior, virtually free from all distractions. For example, the innovative climate control does much more than regulate the temperature. A sensor on the dash actually monitors sunlight in the cabin—which can make you feel warmer—and automatically adjusts the air conditioning to compensate.

To insure peace and quiet, 80 engineers spent eight months identifying and eliminating sources of unwanted squeaks and rattles.

However, there's a little-known fact our engineers know. To a driver, the only thing more discomforting than unwanted noise is total silence. So instead of engineering all sound out, they actually made certain those sounds which make the driving experience pleasurable stay in.

Of course, you'll discover that most of these sounds emanate from the 3.0-liter, V6 engine. With 190 horsepower, it quietly elicits an unspoken trust. A trust enhanced by four-wheel anti-lock brakes.

Our concern for the driver's well being doesn't stop here, either.

The patented Mazda E-Link rear suspension assures that virtually any maneuver you undertake will be executed with exacting grace. This remarkably advanced system offers many of the benefits of four-wheel steering, but without its added weight.

Still, when all is said and
done the Mazda 929S is, above all, an elegant luxury sedan. Lavishly appointed with creature comforts.

And generously endowed with standard features that are anything but standard.

Yet when you consider that a comfortable driver is a safer driver, perhaps this kind of luxury ought to be considered a necessity.

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No-deductible, "bumper-to-bumper" protection. See your dealer for limited warranty details. For information on any new Mazda car or truck, call toll-free, 1-800-345-3799.

It Just Feels Right.
SUPPORTING THE ARTS HELPS COMPANIES ATTRACT CREATIVE PEOPLE AND PROMOTE INTERNATIONAL BUSINESS

In George Weissman's view, the importance of the performing arts for international business development is much more than coincidental. "The key to peace and good relations is understanding each other's culture," Weissman says. "As an international showcase for the performing arts, Lincoln Center establishes links among people."

Weissman admits that he has become something of an evangelist for Lincoln Center. "I don't care if the money comes from the marketing budget or the contributions budget," he says about his efforts to increase corporate support. "I tell everybody that commercial enterprise is creative too. Creativity in business means better products--well designed and marketed. The people who can achieve those goals want to live in a place where the arts flourish. Business needs to attract such people if it is going to flourish. So when business supports the arts, it establishes the correct environment for creativity. And business benefits from that environment as much as anybody."

Even from the West Coast, Mazda Motor of America, based in Orange County, Calif., derives benefits from Lincoln Center. According to President Yoshinori Taura, the company works to make Orange County a suitable home for world-class performers and productions such as those of New York City Opera and New York City Ballet, which have appeared in Orange County.

Japan's famous Grand Kabuki Theater made its only New York appearance at the Metropolitan Opera House on its Mazda-supported American tour.

For Hiromi Gunji, chairman, chief executive officer and president of Brother International--whose company contributes to Lincoln Center's Consolidated Corporate Fund every year--the corporation's responsibility to support both the performing arts and education runs very deep. An opera lover himself, Gunji believes that contributions to Lincoln Center not only benefit culture but perhaps also help "to enhance Japanese-American relations."

That kind of international understanding is very much on the minds of the senior executives at Citicorp/Citibank. With offices worldwide, the company has sponsored almost all of the New York Philharmonic's foreign tours for the last ten years. In its desire to make the Philharmonic's performances available to the largest possible audience, the company frequently underwrites free, open-air concerts during the tours. Closer to home, the company supports Lincoln Center's Midsummer Night Swing, an opportunity for concertgoers and the general public to enjoy an evening of social dancing on the Center's famous Fountain Plaza. Citicorp/Citibank is one of the companies giving major annual support of $100,000 and more to the Consolidated Corporate Fund. Citicorp/Citibank President Richard S. Braddock has just been elected to Lincoln Center's Board of Directors and is chairman of its Consolidated Corporate Fund Leadership Committee.
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ONLY FROM THE MIND OF MINOLTA
EDUCATIONAL PROGRAMS AT LINCOLN CENTER

Weissman and the other leaders of Lincoln Center's 11 constituent organizations are particularly proud of the Center's educational programs. "Finding a way to help teachers was one of the first things we did around here," Weissman says. "The Lincoln Center Institute for the Arts in Education emerged from those efforts." Each summer the Institute, part of Lincoln Center for the Performing Arts, Inc., provides teachers with intensive workshops on creative approaches to the performing arts. During the year, teaching-artists from the Institute work with some 270 participating schools to develop individual plans for instruction.

In addition, every Lincoln Center constituent offers its own educational programs. Many Lincoln Center performing companies invite students to special events at the Center itself. Among them: the New York Philharmonic's Young People's Concerts, the New York City Ballet's Ballet for Young People, The Chamber Music Society's Together With Chamber Music, The Juilliard School's Performing Arts Program for Schools travels to classrooms throughout the New York metropolitan area. All told, well over 700,000 students enjoy Lincoln Center's live performances and educational programs for young people each year.

Hundreds of thousands of other students around the U.S. benefit from teaching materials distributed by Lincoln Center constituents, from programs like New York City Opera's workshops and The Metropolitan Opera's National Opera Teacher Workshop and from the network of institutes nationwide that have been developed based on the Lincoln Center Institute model.

Weissman looks upon these efforts as an investment in the future, as essential as the investments that any business makes when it plans ahead. He knows that helping young people incorporate the creative spirit of the performing arts into their own lives can be expensive and time consuming. Yet he never falters in his belief that education is an inseparable part of Lincoln Center.

"Just think what music, drama, opera and dance would be without The Juilliard School and the School of American Ballet," he says. "We're training the young artists who will inspire the audiences of the next generation—whom we are also educating. Everything is connected."

No one can doubt the importance of the performing arts in the lives of many of today's chief executive officers. When Weissman says that "everything is connected" he includes himself and his business colleagues, whose contributions to the performing arts endow a heritage of creativity for future generations. The list of companies underwriting Lincoln Center's Consolidated Corporate Fund and the programming of Lincoln Center and its constituents has become an honor roll of American and international business. "Every CEO wants to go to heaven," Weissman says. "I couldn't go around asking so many people for money if the issue were not essential and there weren't wide agreement about the principle of business support of the arts."

Clockwise from top left: The New York Public Library at Lincoln Center offers access to its vast collection of non-book materials; an advanced student practices in a studio at the School of American Ballet; the Juilliard Opera Center presents a rare performance of The Seven Deadly Sins by Kurt Weill and Berthold Brecht.

Photos by Don Hamerman (top left); Paul Kolnik (top right); Beth Bergman (bottom).
Defection was difficult. Not being free was worse.

VALENTINA KOZLOVA
PRINCIPAL DANCER, NEW YORK CITY BALLET

Leaving your friends, your family, and your attachments thinking you’ll never be able to go back was unspeakably painful for Valentina Kozlova, the ballerina who traded her Bolshoi status for American freedom.

Today, with the trauma of defection well behind her, Ms. Kozlova says, “I will never ever give away what I’ve got here. I can travel wherever I want, work wherever I want and say whatever I want. And all without fear.”

Perhaps her most telling comment about America was “people here have more smiles on their faces.”

Philip Morris Companies Inc

Join Philip Morris Companies Inc in support of the National Archives’ celebration of the 200th anniversary of the Bill of Rights
ROGER HALLSTEIN MAKES SURE FIRES DON'T KILL ANYONE AFTER THE FLAMES ARE OUT.

THERE WHEN IT COUNTS.
Even after being extinguished, fires—especially industrial fires—can remain life threatening. Because during a blaze, substances such as mercury, formaldehyde and acids used in industry can be released into the air in deadly concentrations.

"It's a case of what you can't see or smell being able to kill you," warns industrial hygienist Dr. Roger Hallstein.

Dr. Hallstein, who manages our industrial hygiene laboratory—one of the few labs of its kind in the country—heads up a highly qualified team ready to work days, nights and weekends. Using state-of-the-art equipment, they analyze air samples whenever necessary. And provide crucial data and recommendations to deal with harmful or lethal contamination. In short, they save lives.

Continental has a lot of dedicated people like Dr. Hallstein. People who are there when it counts. People who have helped make us a leading property/casualty insurer and a strong, solid company. They're why, for over 135 years, we've met our obligations to our insureds, our employees, our distributors and shareholders.
THE BOTTOM LINE AT LINCOLN CENTER

Some of the most important things that happen at Lincoln Center are available to the public at little or no cost. The 11 constituent organizations at the Center are involved with national radio and television broadcasts, educational programs, free outdoor performances and festivals, and community events. The world-class collections of The New York Public Library at Lincoln Center are a valuable and easily accessible resource.

For Nathan Leventhal, president of Lincoln Center for the Performing Arts, Inc., reaching out to new audiences and commissioning new works are essential parts of Lincoln Center's mission. He is especially proud that Lincoln Center for the Performing Arts, Inc. has commissioned more than 40 compositions. He scrutinizes Lincoln Center's lean budget and its streamlined operations—everything from the parking garage and the restaurants to the heating system and the computerized information kiosks for visitors—because he knows that Lincoln Center needs every penny it can get for the creative undertakings that don't show immediate financial returns.

Leventhal's emphasis on efficiency and cooperation has enabled the Center to plan and construct the new $150 million Samuel B. and David Rose Building, containing housing for students and vital, state-of-the-art facilities for broadcasting, performing and teaching. The same cooperative spirit underlies a unique international festival, the Mozart Bicentennial at Lincoln Center—which begins with a nationally telecast concert in January 1991. Comprising more than 500 events, the Bicentennial will present every work composed by Mozart and marks the first time all 11 Lincoln Center constituents have collaborated in artistic programming.

The collective $475 million endowment of Lincoln Center and its constituents helps defray some costs, Leventhal says. But endowment income is just a partial response to the challenge. This past year alone, the eight performing companies and two conservatories of professional training at Lincoln Center needed contributions of $91 million to meet operating expenses.

To make the corporate share of the contribution easier to raise and manage, Lincoln Center created the Consolidated Corporate Fund, in its 21st year. Since receipts are divided among the constituents of Lincoln Center, corporations channel their unrestricted operating support through the Fund.
“If you really want to help the American theatre, don’t be an actress, darling. Be an audience.”

*Tallulah Bankhead*

The BOC Group, sponsor of The BOC Challenge 1990-91 — the single-handed round-the-world yacht race — is pleased to support Lincoln Center. Helping to bring you the best in the worlds of competition and art.
Many corporations have opted for this united approach. And many of the Corporate Fund’s donors, like J.P. Morgan & Co., give no less than $100,000 annually. At the same time, Morgan also considers requests from Lincoln Center for capital grants. These are essential, the company says, because a lack of suitable space has become one of the biggest threats to the arts. Most recently, Morgan has underwritten part of the extensive remodeling under way at the Metropolitan Opera House and at Lincoln Center Theater.

An annual contribution of over $150,000 to the Consolidated Corporate Fund, plus a substantial capital grant for the new Samuel B. and David Rose Building, also place the Philip Morris Companies Inc. among Lincoln Center’s most important donors. And because Philip Morris matches contributions by individual employees with its own corporate grants, every Lincoln Center constituent organization has received additional money from the company. Nor is that all. Philip Morris contributes directly to programs of the Lincoln Center constituents that encourage young performers or introduce the performing arts to new audiences. The company currently sponsors audience development efforts for both New York City Ballet and Lincoln Center Theater.

**LINCOLN CENTER FACT FILE**

For the performing arts Lincoln Center comes close to being the center of the universe. Everyone has heard of it. But not everyone understands it. To make the record clear:

**Lincoln Center comprises eleven constituents:**

- **Lincoln Center for the Performing Arts, Inc.**
  - responsible for the management of the complex, also produces the Mostly Mozart, Community Holiday and Lincoln Center Out-of-Doors festivals, Live From Lincoln Center telecasts, the Great Performers series, Classical Jazz, Serious Fun, Midsummer Night Swing, Lincoln Center Off-Stage, and the Lincoln Center Institute.

- **The Met:**
  - one of the world's largest performing arts libraries, housed in a building named for Samuel B. and David Rose. The Met contains more than 250,000 volumes of musical scores and other materials.

- **The Film Society of Lincoln Center:**
  - produces the New York Film Festival, the New York Documentary Festival, and the New York Latino Film Festival.

- **The Chamber Music Society of Lincoln Center:**
  - founded in 1973, the Society presents over 200 concerts each year.

- **Lincoln Center Theater:**
  - produces, presents, and/or supports over 100 professional theater productions each year.

- **Learn at Lincoln Center:**
  - presents hundreds of educational programs throughout the year for all ages and interests.

- **The Juilliard School:**
  - established in 1905, the School offers graduate and undergraduate training in music, dance, and drama.

- **School of American Ballet:**
  - founded in 1934, the School is the nation's oldest and most respected ballet institution.

- **New York City Ballet:**
  - founded in 1948, the Company is one of the world's leading ballet companies.

- **New York Philharmonic:**
  - one of the world's oldest and most respected orchestras.

- **The New York Public Library:**
  - established in 1895, the Library is the largest public library in the United States.

Three constituents were created to be part of Lincoln Center:

- **The Film Society of Lincoln Center:**
  - produces the New York Film Festival, the New York Documentary Festival, and the New York Latino Film Festival.

- **The Chamber Music Society of Lincoln Center:**
  - founded in 1973, the Society presents over 200 concerts each year.

- **Lincoln Center Theater:**
  - produces, presents, and/or supports over 100 professional theater productions each year.

More than 5,000,000 people attend programs at Lincoln Center each year. Many events are open to the public at no charge.

At least half of Lincoln Center’s audience comes from outside New York City.

More than 100,000,000 viewers see telecasts of Live From Lincoln Center and The Metropolitan Opera Presents annually.

LEARNING AT LINCOLN CENTER

The Lincoln Center Institute for the Arts in Education, and the separate education programs of each Lincoln Center constituent, reach over 700,000 students every year.

Combined, Lincoln Center’s educational programs benefit schools in every state.

The Lincoln Center Institute is a national leader in arts education. It has been the model for similar programs in 15 other cities.

New York City Opera it contributes to a special fund for American artists in the early stages of their careers. At School of American Ballet it underwrites a scholarship. And it has supported tour appearances by both the New York Philharmonic and The Chamber Music Society.

The BOC Group, an English company with interests in 60 countries, joins 40 other national and international corporations and firms in supplementing its financial assistance to the Consolidated Corporate Fund with a different and very special kind of support — human energy. Richard Giordano, chairman and chief executive officer of The BOC Group, is a member of the Consolidated Corporate Fund Leadership Committee and an active enthusiast for Lincoln Center. Although his company’s headquarters are in England and he is often in transit, Giordano finds the time for causes like Lincoln Center that he considers essential.

In 1989-1990 nearly 500 public and private corporations, local businesses, partnerships and professional firms gave donations to the Consolidated Corporate Fund ranging from $2,000 to $160,000. More than half of those contributors have headquarters outside of New York City. They come from 22 states and 12 countries.

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Shearn Moody is the heir to one of the greatest fortunes in Texas. His brother Bobby still ranks very high on The Forbes Four Hundred while Shearn does time behind bars.

Texas gothic

By James R. Norman

Behind the strands of razor-sharp concertina wire and a tall chain-link fence, Shearn Moody Jr., once one of the country's richest people, spends his days as an inmate at the Fort Worth, Tex. federal prison. It's a far cry from the hedonistic life he once led at his palatial and heavily guarded ranch outside Galveston, where he could slide from his bedroom window to the pool below.

No, prison is not exactly the life you'd expect for the eldest heir to one of the nation's first megafortunes— that of Shearn's great-grandfather, legendary 19th-century Galveston cotton trader and insurance king Colonel W.L. Moody, whose legacy is the $450 million (assets) Moody Foundation. Shearn's younger brother Robert still ranks high on The Forbes Four Hundred (see p. 224). But then nothing

Shearn Moody Jr. before entering prison, and great-grandfather Colonel W.L. Moody

"Shearn is fundamentally honest," says one lawyer, "but he's naive to the point of sickness."
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about Shearn Moody’s tortured saga is what you’d call normal. It is a rich man’s nightmare.

For nearly half his 57 years, Moody has been in a state of legal warfare with the federal government. And it has destroyed him. He spends his days in the prison library, clad in a loose shirt with epaulets, baggy pants and black slippers, as he pores over legal tomes and pens rambling tirades that serve more to irk his judges than persuade them. Convicted of bankruptcy fraud, Moody has just finished serving the second year of a five-year sentence. "I’ve found that even in 1990 the idea of debtors’ prison is alive and well in the U.S.,” he laughs, "especially if you have money.”

At various times, Shearn Moody has been accused of everything from maintaining a neo-Nazi group to plotting to blow up the U.S. Supreme Court. His flamboyant lifestyle ultimately cost him any public sympathy or respect he had in the Lone Star State, where Texas Monthly magazine once branded him “the sleaziest man in Texas.”

Many people who know him believe that Shearn Moody’s stubborn, childlike refusal to bend to laws and judges has brought down upon him the wrath of the legal system. But close examination of the circumstances and characters that brought Shearn Moody down reveal a man who was probably more victim than villain. "Shearn is fundamentally honest, but he’s naive to the point of sickness,” says New York City attorney Martin Paul Solomon, one of his former lawyers. "He’s gotten the short end of the stick over and over.”

At his peak in 1968, Shearn Moody owned 100% of the W.L. Moody & Co. bank in Galveston, with a net worth at the time of about $40 million, he claims. On his own, he had also built one of the country’s fastest-growing insurance companies: Empire Life Insurance of America, with a half-billion dollars of insurance in force and a market value, he claims, of up to $40 million. On top of that, he was getting about $1 million a year from various family trusts. In today’s dollars, he figures he was worth at least $300 million.

But his real power base was his position as a trustee of the Moody Foundation. The foundation’s assets included control of Galveston-based American National Insurance Co., a hotel chain, about 200,000 acres of ranchland and hundreds of oil wells. The annual doling out of $5 million or so of grants made the Moody Foundation trustees Texas-league big shots.

In the late 1950s the foundation’s four-member board was deadlocked on many issues, with Shearn and Bobby voting against the other members. State officials stepped in to load the board with outside trustees, and Shearn Moody began his long fight with the law.

In 1972, after a long-running feud, Shearn Moody sued to oust the foundation’s outside trustees, who had been accused of allowing American National to make large, low-collateral loans to mob-connected Las Vegas casino owners. Shearn won that suit, and in 1973 control of the foundation was returned to the family.

That court victory was probably a big disappointment to at least one prominent Texan, former governor John Connally. Connally had been next in line for one of the foundation’s outside trusteeships in 1970. As Moody sees it, Connally was the chief architect of his destruction. He insists that Connally, when he became Treasury secretary in the Nixon Administration, instigated an IRS investigation called Project Southwest, aimed at drying up Democratic campaign funds from Shearn Moody and other wealthy Texas Democrats.

Today Connally, who has since gone through his own personal bankruptcy and is now writing a book in Houston and serving on several corporate boards, says he’s baffled by Moody’s suspicions. “Where he got that idea, I’ll never know,” says Connally. “I’ve never had an unkindness toward him.” He adds: “I never asked the IRS to conduct an investigation of any human being.”

Technically, what Connally says is probably true. But documents unearthed by the Senate Watergate Committee prove that there was indeed a Project Southwest, the apparent goal of which was to harass wealthy Texas Democrats. The documents also show that Treasury Secretary Connally had been briefed concerning Project Southwest by the IRS in March 1972.

The Securities & Exchange Commission was also enlisted in the harassment campaign, according to Watergate Committee documents. In a separate investigation in 1972 the SEC closed down Moody’s private bank on the grounds that its certificates of deposit were actually being sold as unregulated securities—the first time such enforcement was taken against a private bank.

About the same time the federal government was looking into Moody’s affairs, state insurance regulators in Alabama declared his Empire Life Insurance of America insolvent. Without ever getting a true hearing on what the company was worth, Moody claims, Empire was thrown into re-
ceivership. Its book of life insurance was turned over to a rival named Protective Life, for what now looks like a very cheap price. The company's creditors, including Protective, also got a $6 million judgment against Moody on behalf of Empire shareholders—even though Moody owned 77% of the stock himself. A spokesman for Protective insists that its acquisition of Empire was a straight-up business deal, one that turned out to be quite profitable. Shearn considered the $6 million judgment against him unjust and refused to pay. While Shearn fought, the bill just kept going up. By the time he lost his second appeal, in 1983, interest had doubled the amount owed to $12 million, and he declared bankruptcy.

Though it was supposedly a voluntary filing, he fought tenaciously to keep his remaining assets out of the bankruptcy, claiming they were in exempt trusts. The result has been what one of his many judges has called the most complex and convoluted personal bankruptcy in the country's history. The index of pleadings alone runs 97 pages with some 1,500 entries. Over the years Moody hired and fired literally hundreds of attorneys, including the late Roy Cohn. Many had to sue him to get paid. One held Moody hostage in a hotel room until he paid up. Another walked into Moody's bank before the SEC effectively closed it down, opened the vault and loaded up a briefcase with the cash he believed he was owed.

Fees and expenses of court-appointed Houston bankruptcy trustee W. Steve Smith and his lawyer, Ben Floyd, are approaching $3 million in Moody's Chapter 11 case—mainly from fighting Moody himself in court. Smith and Floyd claim that Moody has spirited off more than $1 million to Canada, and that he may have undisclosed assets stashed in secret accounts in Liechtenstein and Curacao. Moody denies it. But in 1986 he spent more than a week in jail for contempt rather than reveal information on the overseas companies. Moody's chief aide, Norman Revie, was also convicted of bankruptcy fraud; Revie is currently a fugitive from justice.

Moody's 1983 wrangle in bankruptcy court led directly to yet more legal troubles—accusations that he looted money from the Moody Foundation to pay his lawyers. Federal prosecutors claimed that Moody, as a trustee for the foundation, approved hundreds of thousands of dollars in grants for a series of bogus foundations (one grant went to study American Indian dentistry) that were in fact fronts for paying his own legal bills. Some of the money even bankrolled a smear campaign against an unfriendly bankruptcy judge.

In 1988 Moody was convicted of improperly taking money from the Moody Foundation and was booted off the foundation's board of trustees. He still swears he is innocent. Last June a federal appeals court threw out 2 of the 13 counts he was convicted on and sent the rest back for a retrial, saying Moody wasn't given a fair chance to present his case. Whether a second trial will be held is doubtful: One key prosecution witness, former Moody lawyer Jane Ford, has since contradicted her testimony about taking foundation money.

Why is Moody still behind bars? Because last year he was convicted in the same Houston federal court of withholding $202,000 from a Galveston bowling alley sale from the bankruptcy estate. Moody's Washington criminal lawyer, Sam Buffone, who won the foundation fraud appeal, says he's optimistic the bankruptcy fraud count can also be reversed.

Moody is intent on handling his other civil bankruptcy pleadings himself, however. "Helping" him is a self-styled Houston bankruptcy reformer and amateur lawyer (she never graduated from law school) named Barbara Youngs. Youngs, in her 50s, met Moody two weeks before he went to prison, and claims to be his fiancée. [Moody agrees.] Youngs herself was jailed for filing reams of confused pleadings on his behalf.

U.S. District Judge Sim Lake has pleaded with Moody to hire a real lawyer, who would be paid by his bankruptcy estate, which has about $30 million of claims against it. But Moody, seemingly bent on self-destruction, refuses. "I'm not about to steal money to pay a lawyer," he fulminates. "I don't think that much of lawyers anyway."

Who gains from all this? Besides the lawyers, brother Bobby Moody ends up the biggest winner. Bobby, age 55, is now the unrivaled power behind the Moody Foundation, publicly traded American National and his own $1.6 billion [assets] National Western Life Insurance Co. Plus, he's the biggest creditor in his brother's bankruptcy, claiming $16 million. Bobby refused to talk to FORBES, but sources say he's still trying to obtain guardianship over Shearn on grounds his brother is paranoid and legally insane. This would, of course, cement his power over the wealth created by great-grandfather Moody.

Bobby Moody still visits older brother Shearn monthly. Shearn says they are on good terms. Bobby even pays some of Shearn's nonbankruptcy legal bills. Only in Texas.
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Both JMB Realty and VMS Realty hail from Chicago, and both rode the 1980s real estate boom to vast riches. One is still doing well; the other is practically out of business.

Tale of two syndicators

By Marcia Berss

When the current real estate depression is almost over, Neil Bluhm, president of Chicago-based JMB Realty, will gain weight. Lots of it. When Bluhm is buying buildings, he pigs out—popcorn, rolls, you name it. Between deals, he diets. With real estate in the dumps, he's comparatively svelte. Bluhm and his partner, Judd Malkin, are among the few 1980s property developers to remain high on The Forbes Four Hundred. Each is estimated at over $775 million, although they tell people privately they are each worth just under $1 billion.

Then there's Robert Van Kampen, 51, who originally bankrolled VMS Realty (Forbes, Oct. 23, 1989). VMS collapsed early this year under $9 billion of overleveraged real estate. Which is why Robert Van Kampen is no longer among The Forbes Four Hundred.

JMB is sitting on $23 billion of properties—$10 billion managed for institutional investors (mainly pension funds), $13 billion for individuals and its own account. It isn't unscathed by the downturn. But it is secure.

How did Bluhm and Malkin prosper as Van Kampen's VMS and many others fell? "Judd and Neil started out being afraid," says Chicago real estate investor and fellow Forbes Four Hundred member Sam Zell; "they have always been afraid."

Friends since childhood, Bluhm and Malkin, both 52, grew up on Chicago's North Side—Malkin in middle-class surroundings (his father owned an Oldsmobile dealership) and Bluhm in a much more modest four-story walk-up. They lived together at the University of Illinois, and both majored in business.

Bluhm became a tax lawyer and Malkin a Toyota distributor, the two hooked up for business in 1968. With another friend, Robert Judelson, Malkin and Bluhm founded JMB to do private real estate syndications. Yet another friend, tax lawyer Jerry Reinsdorf, urged JMB to expand into the still-virgin area of public offerings. JMB raised $7 million in its first public deal in 1971, marketed under the Carlyle name to evoke a classy image. Since then JMB has syndicated $4.4 billion worth of Carlyle and other public deals. Bob Judelson left in 1973, but the name remained JMB. Bluhm calls it "Just Malkin and Bluhm."

JMB weathered the mid-1970s recession. By 1979 it had $1 billion in property and an enviable record from the inflationary 1970s. Then the last law Jimmy Carter signed on leaving office in 1981 freed pension funds to buy mortgaged property.

Malkin and Bluhm began soliciting the deep-pocketed pension funds, which were very conservative: Untaxed pension funds generally prefer safety and steady income; even today many pension fund real estate investments have no debt at all.

Meanwhile, on Chicago's West Side, VMS Realty was taking shape. Van Kampen, who made his first fortune in municipal bonds, moved into real estate syndication in 1979, when inflation jumped. With little property knowledge, he left the running of VMS to Joel Stone, his accountant, and Peter Morris, a real estate man who took over acquiring VMS' properties.

JMB's Bluhm likes to say, "If it weren't for Judd [Malkin], I would've gone broke. But without me, Judd would've never become wealthy."
The two partners counterbalanced each other. But over at VMS, says one real estate man, "no one was balancing Morris."

While JMB was wooing pension money, VMS was targeting individuals with the tax shelter game. VMS mortgages averaged about 85%—and sometimes hit 97%—of property values, to maximize the limited partners' tax losses. Even in syndications to tax-paying investors, JMB cut mortgages from 80% (in early deals) to about 70%, as real estate prices rose.

Says John Lillard, who runs JMB's institutional business: "You wanted confidence that if you went through a tough period, you could hang on."

For a few wonderful years, VMS' Morris and Stone could do nothing wrong. In 1983 they purchased Florida's Boca Raton Hotel for the seemingly ludicrous price of $100 million—and promptly sold it for $140 million in a public syndication, adding fees and more debt. Says one experienced property man who bid $85 million on the hotel: "There was no..."
way they were going to get anything out of it but tax losses.’"

In 1984 vms bought the Hyatt Regency Waikiki for $115 million, and resold it in 1986 for $238 million. Return on $3.3 million equity investment: $110 million. Recalls Richard Wollack, chairman of San Francisco’s Liquidity Fund, which trades limited partnerships: “Peter [Morris] believed it was never going to stop.”

Meanwhile, jmb was hardly idle. Malkin and Bluhm went after massive groups of properties and their management. jmb acquired Urban Investment from Aetna in 1984 for $1 billion, Los Angeles’ Century City from Alcoa in 1986 for $600 million, Canadian shopping mall owner Cadillac Fairview from the Bronfman and Reichmann families in 1987 for $2 billion, Hawaii landowner Amfac in 1988 for $920 million. The list goes on and on. The partners focused on regional shopping malls and prime downtown addresses, where new construction would be costly if not impossible. jmb’s Lillard added: “You buy a building at $100 a square foot, and you know a developer wants to build one across the street, and it will cost him $200. You’ll run him ragged on rents he won’t possibly be able to match.” They avoided pioneering new areas: If they were right, success would only draw competition.

Whereas jmb managed most acquired properties directly, the fellows at vms frequently subcontracted out property management. This kept vms one step removed from vital market information like vacancy levels and lease renewals.

jmb’s biggest acquisition—Canada’s giant Cadillac Fairview—was also the largest [$in dollars] real estate deal ever done and the first move by U.S. pension funds into foreign real estate. jmb liked Cadillac Fairview’s big regional malls: It would take a competitor six to ten years to build a new one.

Cadillac Fairview’s owners, the Bronfman and Reichmanns, didn’t think upstart jmb could swing the deal, and demanded a $25 million nonrefundable deposit to make sure the Chicagoans were serious. The deposit “was unheard of in real estate,” says a banker in the deal. “It had never been done before—or since.”

In fact, jmb nearly lost its $25 million. It won Cadillac Fairview in the summer of 1987, but had only until Oct. 30 to assemble pension fund equity for the all-cash deal. By mid-October it was still short. Then, a great stroke of luck: The stock market crashed, and pension money surged into real estate. Today investors in the Cadillac Fairview deal report hefty yearly returns of 16% to 20%.

vms was also getting an influx of money in 1987—from Xerox Corp., which bought 25% Xerox’ decision is all but unfathomable: Tax syndication—the core of what VMS did—had already been doomed by the 1986 Tax Reform Act.

Worse, at the hotels vms favored, business was deteriorating. Unlike jmb’s shopping malls, hotels take only two or three years to build; accommodations, begun before the 1986 tax act, started opening their doors in 1988 and 1989. In November 1989 Xerox advanced $125 million to vms for “liquidity needs.” But the problem wasn’t just liquidity; it was deflating assets, many now salable only at prices lower than their mortgages. In February vms Realty stopped making payments to its public funds and began defending lawsuits. Peter Morris is all but gone.

None of this is to suggest that jmb is immune from the real estate downturn: At the firm’s own multi-use headquarters building, 900 North Michigan Avenue, the retail space is anchored by Bloomingdale’s, now in bankruptcy. Still, the building’s $1 million condos were grabbed up early, and that slug of cash cut jmb’s financial exposure.

jmb’s publicly syndicated deals have also been affected. Boston’s Copley Place, a shopping-office complex, is a big 27% of jmb’s Carlyle XIII portfolio. Heavy vacancies in that Northeast property forced jmb to advance funds to Carlyle XIII’s partners.

Kevin Herbst

VMS Realty’s Robert Van Kampen Be let others run VMS.
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When most people think of Jim Rouse, they think of the shopping malls and festival marketplaces his Rouse Co. pioneered. They should also think of his innovative housing for the poor.

“He’s one of us”

By Christine Pittel

If it weren’t for James W. Rouse and his Enterprise Foundation, Nydia Otero, 28, and her three children would probably still be beached at a shelter for battered women. As it is, the Oteros live in a tidy two-bedroom apartment built by Rouse’s Enterprise Foundation. As Otero scoops a baby into her lap, she talks of the future. She wants to get off welfare and become a paramedic. “I’m going to wait till the baby’s a year old, and then I want to go back to school,” she says, surveying her new home. “I am starting all over again.”

In the nine years since Rouse started the Enterprise Foundation, the organization has quietly emerged as one of the nation’s largest developers of low-income housing. Enterprise has transformed abandoned shells into some 6,000 apartments. Another 3,700 are under construction, and financing has been committed for 2,100 more. Typical rent for a family of four: $290 a month. “The real danger to this country,” says Rouse, “is the rotting away of the bottom of society.” Here’s a man who could have gone on building a great fortune but instead left the company he founded to help the poor.

Rouse got directly involved in low-income housing in 1973. Three young women from the Church of the Saviour in an inner-city neighborhood of Washington, D.C. asked Rouse to help them recycle rundown buildings into habitable apartments. “I gave them the conventional wisdom,” Rouse recalls, “that they couldn’t do anything, that you need a big program to house the poor. But they ignored that wisdom. Six months later they came back, eyes flashing, and said, ‘We’ve got it!’”

They had picked out two apartment buildings. “I went over to see them,” Rouse continues. “They were the most dreadful places, doors ripped off the front, the elevators didn’t work, garbage was thrown down the elevator shaft. The stench was so intense I couldn’t get past the lobby. I told them, ‘This is impossible.’”

But they were determined, and ultimately Rouse was swayed by their enthusiasm. He provided $625,000 to buy the buildings, and another $125,000 for their renovation. (Ultimately the group bought them back for $606,000, the purchase price less Rouse’s depreciation.) Three years later 90 families had new homes. That project became the model for the Enterprise Foundation.

Enterprise is essentially a grassroots organization. It works closely with tenant activists, block associations, church councils and other nonprofit neighborhood groups. It provides the conduit between neighborhood groups and corporations, ranging from BP America to Procter & Gamble to American Express, which fund low-cost housing in return for tax credits. But more than simply providing money, Enterprise’s goal is to teach the groups how to build for themselves.

The first step in an Enterprise project is a proprietary software system called Specmaster. The program is literally a checklist, enabling neighborhood groups to go into a vacant building, check off what needs to be done and get a bid package together—all in two hours. With Enterprise’s guidance, the groups hire a general contractor, but he is not given free rein. A project manager from the group, often trained by Enterprise, works with the contractor, and together they follow that master list, making sure work gets done properly and in the least expensive way possible.

Once building is begun, Enterprise’s how-to manual helps the neophyte builders control costs. In large-scale ur-
ban rehabilitation work, there is a tendency to "overspec"—for example, replacing all the doors, at, say, $150 a door, in a building when half the old doors could be retained.

Instead of ripping everything out and buying new, Enterprise groups work to salvage what they can. For example, rather than replacing windows, existing windows' sash weights can be refitted and caulking added. Savings: $75 per window. Old bathtubs are re-enamed, not torn out. Savings: $200 per tub. Linoleum is used instead of ceramic tile, a savings of perhaps $75 per bathroom. Sinks are hung from walls rather than enclosed in vanity cabinets, cutting $60 apiece. Enterprise generally hires small, often minority contractors whose overheads are low and who will be able to apply what they learn on the Enterprise job to future projects.

The savings add up. In 1988-89 Enterprise, working with 18 New York City neighborhood groups, renovated 915 units. At the same time, New York City hired Tishman Realty & Construction Co. and Lehrer McGovern Bovis to renovate a similar group of vacant buildings with a total 1,620 units; no neighborhood groups were involved in the projects.

By paying careful attention to costs, Enterprise created its apartments for $62,000 per unit; the city spent $100,000 apiece on the Tishman/Lehrer McGovern units. (Enterprise's home improvement manual has been so successful that a revised version was just published by John Wiley & Sons. Enterprise will receive a percentage of the proceeds.)

Unlike commercial developers, Enterprise does not end its involvement when the buildings are finished. Recognizing that there's more to building a community than building houses, the foundation links up residents to support services from home maintenance to balancing a checkbook. In Baltimore Enterprise workers are involved in literacy and family counseling programs.

Rouse and his wife live in a modest split-level house full of family photographs in Columbia, Md., the city Rouse planned and built, headquarters to both the Rouse Co. and the Enterprise Foundation. Rouse grew up just 75 miles away in Easton, Md., a quaint colonial town on Chesapeake Bay. When he was 16 his mother and father died in quick succession, and the family home was foreclosed. Rouse went to work parking cars and eventually attended law school at night. The mortgage banking business he started in 1939, financing housing and commercial property, evolved into the Rouse Co.

He began developing real estate in 1953 with the first Rouse Co. mall opening in 1955 in Baltimore. Over the next decade the Rouse Co. grew into one of the world's largest builders of shopping centers. In 1967 the first residents moved into Columbia, a mixed-use, mixed-race city built on 15,000 acres of farmland; its population is now over 77,000.

In 1976 Rouse opened his first "festival marketplace" in Boston; this concept of rehabilitating downtown sites into malls that boutique-and-pushcart malls has catalyzed downtown renewals across the U.S. Among Corporations receive a dollar of tax breaks for each dollar they invest in low-income housing.

In Columbia and in his festival marketplaces, Rouse strove to reproduce the sense of community characteristic of small-town America. The markets are a constellation of small merchants, not anchored by one or two huge department stores. With Enterprise, Rouse returned to the community scale to find a better way to house the poor. Rouse articulates his philosophy this way:

"At the heart of transforming the city into a decent place for poor people to live is approaching it from the bottom. You must start with a small community in order for people to grasp and feel a part of it. When people have the opportunity to participate in their own well-being, they have an investment in making the life of that community worthwhile."

As important as any single factor in explaining Enterprise's success is the personal commitment that everyone involved with the foundation brings to each project. Rouse himself is the exemplar. Here is one of many examples:

In 1985 junkies and hookers had taken over two derelict buildings on Eldridge Street in Manhattan's Chinatown district. New York City offered the buildings to Doris W. Koo, executive director of Asian Americans for Equality, a local self-help group, but only if she could come up with the $3.5 million needed to renovate them. Then the interiors were burned out, and the city sent for a wrecking crew. "I sat in front of the commissioner's office," says Koo, "and told them, 'You are not tearing down my buildings.'"


Not long after their first meeting, Frey dropped by Koo's office, unannounced, with Jim Rouse in tow. "I need to see you in action," Rouse told her, and proceeded to visit the job site often during the construction.

"Rouse is not just a funder," Koo says. "He is one of us."
That sporting life

Teaming up with Jane Fonda may have perked up Ted Turner's personal life (right) but having the aerobics queen on his arm hasn't improved his athletic endeavors. His Goodwill Games, held in Seattle this summer, lost $44 million. Then there are his Atlanta Braves, which came in last in their division (and very likely the league) in both performance and attendance. The Hawks basketball team? They came in fifth out of six in their division. Maybe Fonda, whose workout empire has grossed some $40 million to date, can give him pointers.

Separated at birth?

Mort Zuckerman [bottom right] had already won local approval to build an office park near Henry Thoreau's [top right] Walden Pond, in Concord, Mass., when rock star Don Henley rode into town. Henley's two concerts raised $250,000 to buy back the land and create a nature preserve. Zuckerman claims he'll sell as long as he can be made whole. It doesn't look good. Current price tag: about $7.5 million. "That's extremely inflated," says a Henley spokesman. Negotiations between the two continue.

Jack Kent Cooke's riding lessons

It was a May wedding for Jack Kent Cooke, 77, and the 30-ish Marlena Ramallo Chalmers above. Chalmers used to be buddies with Suzanne Martin Cooke, Cooke's third wife (who says he booted her out after she refused to get a promised abortion), but wife number three did not provide the introduction to wife number four. "I met Marlena at a Gold Cup meet at the point-to-point races out here [in Virginia]," explained Cooke. "She rides, and so do I."

Saul's ball

"Honey, if this moment were a stock, I'd short it," was how Saul Steinberg toasted wife Gayfryd at the sumptuous 50th birthday party she gave him on Aug. 5, 1989. The fete, complete with models lounging in the poses of his favorite Old Masters paintings, cost a reported $1 million, and was lavishly chronicled in Vanity Fair [below]. His 51st was a quieter affair: an afternoon luncheon with family, a few friends—and no press.

Macrobassle

Microsoft cofounder William Gates III [below] just can't seem to handle the good life. Last Christmas, after years of modest living, Gates spent over $500,000 to buy a rare Porsche 959. The car was delivered to San Francisco in January, and it is still sitting in a foreign trade zone (a warehouse in Oakland). Seems the U.S. Department of Transportation has never seen crash-test results for the 959, and won't allow it to be driven in the U.S. until the safety issue is resolved. As John Petrin, an inspector with the U.S. Customs Service has explained, "Nobody wants to crash a $500,000 car to provide the data."

By Deborah Mitchell
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A friend indeed
Doris Duke made headlines in November 1988 when she made bail for Imelda Marcos and flew her from Hawaii to New York on the tobacco heiress’ private plane for arraignment. But that was only the beginning of Duke’s beneficence. Word is, this summer, after the former Philippines first lady was acquitted of racketeering and fraud charges, Duke helped pick up the bill that mattered most: the multimillion-dollar tab submitted by her chief counsel, Gerry Spence (below, with Marcos), the cowboy-booted attorney from Jackson Hole, Wyo.

She deserves a break today
“It’s only a game,” said McDonald’s heiress Joan Kroc (left) announcing last October that she was selling the San Diego Padres to spend more time with her family. The deal was completed in early April, when television producer Tom Werner (whose credits include The Cosby Show and Roseanne) headed a group of 15 who spent $75 million for the ball club. Just two weeks later, Kroc’s daughter, Linda Smith, announced she was divorcing Jerry Kapstein, who was overseeing the Padres for Kroc. Kapstein resigned immediately.

Deli wars
What’s in a name? Apparently not much if the moniker in question is “Carnegie Deli.” That’s what the owners of the fabled New York restaurant discovered when Marvin Davis (below) opened a Beverly Hills branch in partnership with Leo Steiner, a co-owner of the flagship deli. Steiner promised to build the restaurant for $350,000, but its costs reached $3 million. Steiner died before the project was completed, and Davis threatened to sue if the New York deli backed out of the deal. According to Steiner’s New York partner, Milton Parker, that was averted when he agreed to let Davis’ group use the Carnegie Deli name gratis. New York does supply goods from the mother store, but to date the Beverly Hills branch buys only two: cheesecake and mustard.

How to snare a millionaire
Think of the Heffner sisters as the Gabor for the 1990s. There’s Charlene (nickname: Chandi), the eldest, who was adopted in late 1988 by Doris Duke (below), net worth: $750 million. Back in 1980 middle sister Claudia married Nelson Peltz (left), net worth: $560 million. And last year youngest sister Holly married Michael McCloskey, a son of the Philadelphia construction family that built the Spectrum. Only Holly hooked into a family that hasn’t yet made The Forbes Four Hundred. As bridegroom McCloskey says, “Two out of three isn’t so bad.”

Horse cents
Last year David Murdock (below) placed in the money when he bet against his local property assessor. The dispute began during a 1985 audit, which revealed that a large brood of Arabian racehorses on Murdock’s Ventura County ranch (which are considered taxable property under California law) hadn’t been declared for a number of years. Murdock paid up in full, then challenged the assessment in court. He cited a 1971 California law that gave a break to racehorse breeders. The county assessor countered that Murdock’s horses didn’t meet the requirements for preferential tax treatment. But last November the judge sided with Murdock. The county filed an appeal, but that was withdrawn after Murdock reached a settlement covering eight years. Total refund: over $900,000.
Dealerscope Merchandising Products of the Month

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Let Telephone Companies Provide Information

By Stanford L. Levin

Thanks to a recent decision by the U.S. Court of Appeals for the District of Columbia, the former Bell System telephone companies may finally get a chance to provide information services to their customers. Information services allow customers to obtain diverse computer-based information over telephone lines.

The court said that the standard for determining telephone company participation in information services should be whether it is "within the reaches of the public interest" for them to provide those services. Application of that standard, still subject to Supreme Court review, replaces a more stringent one involving degree of competition and the exercise of monopoly power.

The original application of the "public interest" to the telecommunications industry dates from the Communications Act of 1934 and has become known as "universal service." Today, however, the universal service standard is inadequate for two reasons:

First, more than 90% of U.S. households have telephones or access to them. In addition, special service programs exist in low-income and rural areas to increase low telephone penetration rates.

Second, and perhaps more fundamental, while a rose may be a rose, a telephone is not necessarily a telephone. Rapid changes in the technology of telecommunications and new uses of the telecommunications network mean that just having a phone connected to a telephone network may no longer be sufficient. For example, a phone plus a simple terminal could bring all Americans easy access to electronic yellow pages and myriad databases offering government, educational, medical and cultural information.

Unlike in 1934 when the vision of the telephone industry consisted of linking all Americans via a single, publicly accessible communications system, the potential of today's industry is vastly greater. This potential must be incorporated into a new view of the public interest in telecommunications: It requires that all Americans receive both universal service and access to information services provided over the public network.

The prohibition that prevents the former Bell System companies from providing information services has inhibited broad public availability of these services. Although businesses with private networks or customers with personal computers and modems can access various information services, such access is unnecessarily complicated, limited and costly. The result is a two-tiered society of information "haves" and "have-nots."

Local phone companies are ideally situated to provide information services to everyone connected to the public network in a uniform, easy-to-use format, whether that information is created by the telephone company or others. The fact that information services today typically require different formats and are frequently cumbersome to use has certainly inhibited their growth. Local phone companies may be the solution to this problem.

The objection of information service providers to local telephone company entry may, in fact, be misguided. In the past, an anchor department store in a shopping center often would want to be the only large store, believing that limiting direct competition would be best for it. Eventually these stores discovered that the more anchor stores in a shopping center, the better all of them do. Automobile dealers are discovering the same thing as they cluster dealerships together and even open auto malls.

Letting local telephone companies provide information services may finally allow the services to reach their potential. This benefits the telephone companies, other information service providers and, most of all, customers.

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In this second of a three-part series, NYNEX presents global telecommunications perspectives by leading experts.

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Professor Stanford L. Levin is chairman of the Department of Economics at Southern Illinois University at Edwardsville. From 1984 to 1986 Professor Levin served as Commissioner of the Illinois Commerce Commission, the public utilities commission in Illinois, which regulates telecommunications. Professor Levin is working on a project to redefine the public interest in telecommunications.
Never mind intelligent appliances. With the latest microchips and clever design, your house can now have intelligent walls, brilliant roofs and positively ingenious bathrooms—if your budget is big enough.

**Gifted houses**

**By Julie Pitta**

Some people might consider the 37,000-square-foot, $5 million home that William H. Gates III is building on Lake Washington a little ostentatious. But this home, in the exclusive Medina township of Seattle's wealthy suburb of Bellevue, not far from Gates' Microsoft Corp. headquarters, is ostentatious for a reason. It is a showcase for multimedia applications of computers. Just such applications will very likely account for a large segment of Microsoft's revenues someday. In a sense, then, the house will help pay for itself. Gates, 34, owns $2.4 billion worth of Microsoft stock.

The optic-fibered house will boast high-definition color television screens in most of its rooms. HDTV shows aren't yet widely available, but in the meantime the screens can be used to display any of several hundred images stored in a computer.

"These images sit in the background," Gates explains, sounding for a moment like a programmer describing memory-resident software. "You can have anything you're interested in in a database—all the world's art, maps, famous people, whatever. Whatever you're curious about, you can satisfy your curiosity." Gates aims to make such cybernetic toys appealing to the masses, but admits it will be some years before the masses can afford them. Microsoft will start off more modestly, selling compact disc titles of reference materials like encyclopedias that can run on any good personal computer equipped with a CD player.

How fancy can a home computer get, if money is no object? Very. Computers can control heating, cooling, lighting, security, finances, piped-in music or the position of the roof. One system, from Sony Corp., captures and stores images of everyone who rings the front doorbell.

James C. Anderson, 39, a West Coast venture capitalist, has built a smart-house system for his airy ranch home in a woody area south of San Francisco. Disappointed by commercially available home computer controls, he designed his own. Mark Shepherd, the retired chairman of Texas Instruments, is another do-it-yourselfer with expensive tastes in home computing. He has turned his 7,000-square-foot home in the Sangre de Cristo mountains near Santa Fe, N.M. into a retirement project. Like Anderson, Shepherd began his career as an electrical engineer. To get the best in computerized living, it helps to be technically proficient—and have a fat checkbook.

Shepherd, 67, set up a system controlled by two computer models that TI sells for factory-floor automation, plus three personal computers that reside in a copper-lined room to muffle electronic noise that could interfere with their workings. Computer monitors sit in each room. Objective: create a naturally cooled and heated environment in the desert home, with the help of motorized fans, windows and dampers.

San Francisco Bay area venture capitalist Anderson goes for personal comforts. He is gently awakened at 7 a.m. by natural sunlight, as the drapes in the master bedroom of his new home open automatically. Before Anderson can make his way across the bedroom, the bathroom floor and towels have been warmed. The mirror above the sink slides down to reveal a TV tuned to the Today show. The shower turns itself on and spews water brought to just the right temperature. Price tag for this flashy bathroom—electronics only—is $16,500. "The happiest moments in my life were when I was designing circuits," Anderson says. "This [the electronic house] was a way of keeping my hands in it."

But Anderson had some help, too. A Stanford professor who is a consultant to Merrill, Pickard, Anderson & Eyre in Palo Alto, Calif., where Anderson is a general partner, started writing the software. Later Anderson hired a systems integrator and a programmer with expertise in voice-mail systems.

"Jim dreams of all kinds of futuristic things," says Russell Maynard, president of Golden Pacific, the Campbell, Calif. integration house that supplied lighting, security and tracking components. "I had to take his ideas and make them a reality."

A tracking system, with infrared
Comp/Comm

and microwave detectors in the doors and walls, monitors the comings and goings of Anderson and his guests. As it feels them moving from one room to the next, the computer decides which lights go on. Sensors in the bedroom floor tell the computer that someone has arisen at night, so there is no fumbling in the dark for a bathroom switch.

A computerized voice reminds Anderson to pick up his mail, and tells him when his fish were last fed. Visitors standing at Anderson’s front porch can be viewed on the television in the living room. If no one is home, the voice tells the visitor to leave a message. A personal computer acts as the command post, at any time Anderson can reprogram any feature.

What started out as a pet project turned into a business venture. “We wanted it to be a hobby, but it wanted to be a business,” Anderson says. “I’m in the venture business. It’s hard not to start something.” Anderson and two partners contributed $250,000 toward the venture and incorporated it in 1988. Anderson’s home would be the research site for the system. The other two would beta-test it—that is, give it a dress rehearsal. Anderson and his partners are hoping to someday sell the venture to a company that will commercialize the system.

One of Anderson’s other partners built a new 20,000-square-foot house in the Silicon Valley with the new electronics in mind. The three-story glass, tile and concrete house has two retractable roofs, both controlled by the PC according to weather conditions. Thus if there’s a sudden rain, the roof automatically slides on its motorized track to close; should the sun reappear the roof slides open.

For entertainment, an HDTV projector and hidden speakers will create a video system that, according to integrator Mark Andrade, a principal of Sight & Sound in Sunnyvale, Calif., will be far superior to that of a movie theater. It could cost $20,000 to $40,000. The home is scheduled to be completed by next April, but for these electronic enthusiasts a project is never quite done.

“I’ll probably always be tinkering,” Anderson says. When might a product be available to the public? Perhaps by 1991. Cost? If you have to ask, you’ll probably have to do without.

Smart house owned by one of Anderson’s partners
Built to use computers.

Let the sun shine in
A computer decides when to retract the roof.
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“ComputerLand handled installation and instruction, working around our schedule. They practically moved the store to City Hall.”

Suzanne Azar
Mayor
El Paso, Texas
How HP helped bring El Paso out of the Old West and into the Information Age.

When Mayor Suzanne Azar took office in June 1989, one of her first acts was to replace City Hall's ancient typewriters with state-of-the-art computer equipment.

"We looked at almost everything on the market," she says. When it came to printers, the Hewlett-Packard LaserJet, with its high speed and strong graphic capabilities, was the obvious choice.

The obvious supplier choice was ComputerLand® of El Paso, headed by Rick Kelly. "They responded quickly," the Mayor explains. "ComputerLand has the resources to provide full service and support."

Now the LaserJets are continuously used to oil the wheels of government—updating mailing lists, drafting bond issues and graphically communicating revenue and expenditure data.

Anybody want to buy a used typewriter?

Business to business. Person to person.
It's an ill wind indeed that buffets the market for superyachts—those of 100 feet or longer—and today's economic conditions hardly amount to a stiff breeze.

A superyacht of one's own

By Katherine Weisman

While most marinas around the country sport more For Sale signs than burgees, with boats selling at fire-sale prices, the world's fleet of superyachts is still riding high. Surprised? So were we. Not only are prices holding firm for used yachts in the 100-feet-and-over category, but demand for new yachts has been strong enough to keep most shipyards humming.

Why are superyachts immune from the price rot and oversupply that is plaguing the rest of the boat business [Forbes, Oct. 15]? For one thing, it takes several years for a superyacht to be completed. Only some 80 custom pleasure boats 100 feet or longer slide down the ways, worldwide, each year, compared with some 470,000 production boats built last year. And those who commission them seldom sail close to the wind.

One exception, of course, is Donald Trump. His 282-foot secondhand Trump Princess, designed by Jon Bannenberg, has been for sale since January, with no bidders coming close to Trump's $112 million asking price. Remember, Trump paid around $30 million for the vessel, and spent another $10 million refitting her. So that $112 million asking price has considerable provenance built into it. Rumor is that Trump was recently close to a deal with a Japanese buyer for $38 million; brokers expect that is near what she will eventually fetch.

Smaller yachts can depreciate rapidly, especially when an owner is anxious to sell. One recent example: A 61-foot Hatteras sold for $560,000. New, it would cost about $900,000.

By contrast, most superyachts retain their original prices (excluding inflation, of course) for many years, provided they are well maintained. George Nicholson, whose renowned yacht design and management company is based in Lymington, England, says a yacht can retain its original value for at least 15 years if an owner uses a top naval architect, a well-known designer for interior and exterior styling, and a premier shipyard.

In today's market, a 150-foot yacht designed by Frits de Voogt and built by Feadship, the Rolls-Royce of the industry, might easily cost $16 million. Years later, it could sell for the same.

Why do very wealthy people pay $7 million and more for superyachts, plus 10% of the original price in annual running costs? The explanatory words one typically hears are privacy, comfort and mobility. A yacht is also a great way to see the world and to do business. You can't live on a Gulfstream 4, nor can you move your country home from Palm Beach to Monaco every few weeks. Communications and computer technology are so advanced now that owners can do business on board, wherever they are. And many owners find their yachts a good business tool: A prospective client is a captive once at sea.

Who are the owners of superyachts? King Fahd of Saudi Arabia owns the largest yacht in the world, Abdullah Aziz, which measures 482 feet and cost a reported $109 million to build in 1984. Queen Elizabeth may rank second with Britannia, at 412 feet.

American superyacht owners on this year's Forbes Four Hundred include Carnival Cruise Line's Ted Arison, who owns a 167-foot yacht, Mylin III, and is building a 200-foot Feadship; Jim Moran, a Florida-based Toyota dealer who owns two Feadships, both named Gallant Lady—a 167-footer and a 116-footer; and the Limited's Les Wexner, owner of the 139-foot Limitless. Wexner is rumored to be in the market for a 300-footer.

John Kluge, number one on our list, is moving up from his 126-foot Feadship The Virginian (originally bought from Malcolm Forbes, and now the property of Forbes Four Hundred listee Leonard Stern), His new Virginian, a 204-foot Feadship, will cost upwards of $25 million. The interior will be Edwardian in style, and there will be a gym complete with a Nautilus circuit. The interior walls, parti-
Bonheur, a 130-foot fiberglass yacht owned by New York restaurateur Jerry Brody, has a stairway at the stern giving easy access for scuba diving and windsurfing.

Stefaren, a 177-footer built in England, features its own three-man submarine, a disco and a mini casino. Owned by Ben Le Bow, chairman of Western Union, the yacht cost about $25 million.

Bonheur 2, a 130-foot fiberglass yacht owned by New York restaurateur Jerry Brody, has a stairway at the stern giving easy access for scuba diving and windsurfing.

tions and flooring will be soft-mounted with elastic material—that is, not bolted directly into the structure of the yacht. Preventing vibrations, this will keep the boat virtually library-quiet, even while cruising.

In April Thomas E. Worrell Jr. of Hillsboro Beach, Fla. launched the newest American-owned Feadship, Mi Gaia, a 155-footer that cost $13.5 million. Worrell, a publisher of some 60 newspapers in the U.S. and an avid motorcyclist, has a garage on board to store two Harley-Davidsons. He has also bought and sold newspapers on the yacht's sunny decks.

Bennett Le Bow, chairman of the troubled Western Union Co. and a former member of The Forbes Four Hundred, owns the 177-foot, Bannenberg-designed Stefaren. Le Bow came into yachting eight years ago. "I was diving in the Red Sea off my little sailboat, and I saw a guy with a nice yacht," he recalls. "I went over there, had a better time on his yacht, and three months later I went looking for a yacht of my own."

Le Bow's latest yacht cost about $25 million, and was built at Brooke Yachts International in Suffolk, England, which went bankrupt while Le Bow's boat was being built. So he bought the yard, too.

Thanks to the fall of the dollar and the downturn in military and commercial marine contracts, many buyers have been turning to U.S. shipyards to build their custom yachts.

The U.S.-built P'zazz is a yacht right out of the movies, including a dining room whose walls are covered
Among the yachts mentioned in this story, both Jerry Brody’s *Bonbeur 2* and Bob and Beverly Cohen’s *P’zazz* can be chartered. So can the 163-foot *Jefferson Beach*, the 156-foot *Azzurra* and the superfast 132-foot *Octopus* (which can do 54 knots, about 62 mph).

Sailboats available for charter include *Alta*, a 140-foot motorsailer, and *Endeavor*, a 130-foot J-Class boat.

A chartered yacht, complete with captain and crew, will typically have one master stateroom and at least four guest staterooms—each with full bath. As a floating resort, the boat might carry three sets of china, linens to change the beds daily, entertainment systems in each stateroom, small power boats, jet skis, scuba gear and windsurfers, and a Jacuzzi. Most of these superyachts also have satellite phones and fax and telex machines.

To charter a yacht, you must work with a charter broker. Listed below are some of the top brokers, but you can also consult publications like *Yachting*, which publishes an annual charter directory, and *Showboats International*, a glossy guide to luxury yachts.

Costs? The 163-foot *Jefferson Beach* next year will run you a flat rate of $88,000 per week in the Mediterranean in July and August and $79,000 during the rest of the year. *P’zazz*, which is 127 feet in length, costs $28,000 per week in the Caribbean and $35,000 in the Mediterranean. *Endeavor*, based in Antigua during the winter and in the Mediterranean in the summer, costs $60,000.

Note that the flat rates quoted above do not include fuel, dockage fees, food, beverages or the crew’s gratuity (which is usually 10% to 20% of the weekly flat rate). Together, these latter costs run between 25% and 35% of the yacht’s flat rate. Thus the cost of chartering the *Jefferson Beach* works out to around $100,000 a week. But owning the ship, with all its operating costs, will run well over $800,000 a year.

Here are some superyacht charter brokers:

Bob Saxon Associates, 1500 Cordova Road, Suite 214, Fort Lauderdale, Fla. 33316 (305) 760-5801.

Rikki Davis, Inc., 1323 S.E. 17th Street, Suite 209, Fort Lauderdale, Fla. 33316 (305) 761-3237.

Jo Bliss, Inc., 1500 Cordova Road, Suite 202, Fort Lauderdale, Fla. 33316 (305) 522-0611.

John G. Alden, Inc. of Massachusetts, 89 Commercial Wharf, Boston, Mass. 02110 (617) 227-9480.

Fraser Charters, 2353 Shelter Island Drive, P.O. Box 6009, San Diego, Calif. 92106 (619) 225-0588.

Rex Yacht Management, 2152 S.E. 17th Street, Fort Lauderdale, Fla. 33316 (800) 462-4822.—K.W.
My brother-in-law built this place from scratch. It's part log cabin, part experiment in alternative energy. My favorite part is the way it smells. He's got a wood stove going all the time, so we spend hours chopping wood. It's hard work, but that ache in the muscles I never use is a one-of-a-kind feeling. I wonder sometimes if I could live like this. Someday, maybe. For now, though, I wouldn't miss my weekend visits to this corner of the world.

L. L. Bean.
For the outdoors inside each of us.
statements with their boats, Brody had Bonbeur 2 designed with charter in mind as well (see box, p. 372).

"The charter idea has an impact on your design statement," says Brody. "You might not put in that fancy head for yourself, but as long as it's a charter..."

The trend to larger yachts is not restricted to powerboats. Sailboats over 100 feet have appeared in recent years. New technology, including hydraulic winches and centerboards, hydrofurling for sails, and lighter spars made of composite materials, mean the same number of crew (typically five) required to sail an 80-footer can manage a 120-footer.

Ron Holland, an Ireland-based naval architect known for his racing sailboats, brought his high-speed expertise over to cruising sailboats. One of the first large sailboats commissioned was Acharné, launched from Holland’s Royal Huisman shipyard in 1987. Her owner, Geoffrey Simmonds, former chairman of Precision Engineering, had Bannenberg design the interior. The result is a 112-foot sailboat with all the amenities of a luxury power yacht. Everything from the furling systems for sails to the 22-foot centerboard is hydraulically powered. With the centerboard retracted, the yacht draws 7 feet, enabling Acharné to cruise in shallow waters.

Among other owners of superyacht sailing vessels: Bill Simon, former secretary of the Treasury, who owns the 124-foot Sparkman & Stephens-designed ketch Freedom; and Nelson Doubleday, who is building his second Mandelay, a 130-foot schooner. Last year Elizabeth Meyer, Katharine Graham’s niece, completed a $12 million reconstruction of Endeavor, a 130-foot J-Class boat, at the Royal Huisman yard.

Last spring Robert Entenmann, of bakery fame, took delivery of the Martha E, a 91-footer made by Windship Trident Shipworks of Tampa, Fla. Entenmann, an avid sailor and fisherman, wanted a sailing yacht that would combine features to fit both his interests. So he put a professional sportfishing cockpit in the stern.

People who go to that kind of trouble with their yachts don’t much worry about rising gasoline prices. And they certainly don’t throw their boats on the market at fire-sale prices.

Is no property value safe? Now even $5 million Beverly Hills teardowns are going begging. There could be values of sorts for those intent upon living near business and show business celebrities.

Down and out in Beverly Hills

By Al Delugach

In the 19 hours between the stock market’s close on Monday, Sept. 24 and mca’s first trade at 10:41 the next morning, record producer David Geffen made about $230 million—over $200,000 per minute—on his block of mca stock. A terrific investment. There’s reason to wonder, though, whether Geffen will do as well with a piece of property Beverly Hills real estate agents call “David’s teardown.” Geffen put it on the market in June at $3.5 million. No one met his price. Last month he tore the house down and started building a spec house on the lot.

Geffen can afford to gamble. Most people cannot. Until recently, Beverly
A SAAB WILL SURRENDER ITS OWN LIFE TO SAVE YOURS.

The Saab shown above was involved in a collision in April of 1990. The Saab will never run again. The driver walked away unharmed.

Which illustrates something remarkable not just about the car's obvious crashworthiness, but how it goes about achieving it.

In an accident, every Saab is prepared to make the ultimate sacrifice.

Its front and rear are specially constructed crumple zones. Acting as steel pillows, they offer themselves to the force of impact, absorbing and dissipating the blow as they fold inwards. Between the zones is a safety cage, a rigid, unitized enclosure of reinforced steel protecting the passenger compartment. This is standard on all Saabs, as are a driver's-side air bag and seat belt pretensioner system for the front passenger.

But the true test of any safety precaution lies out on the road, where actual accidents occur. And one of the most revealing measures may well be that prepared by the Highway Loss Data Institute, a research organization composed of over 250 insurance companies that monitors such accidents. According to its latest study, Saabs are at or near the top of their class in terms of safety rankings.

Of course, both a Saab and its driver would rather that the car never be called upon to display its talents in this area.

So every Saab is equipped with a responsive fuel-injected engine, an anti-lock braking system, and what Road & Track magazine, writing about a 9000-Series Saab, called "wonderfully precise and communicative steering." Because when it comes to safety, the best approach is always avoidance.

So if you'd like to experience a car that doesn't compromise safety for performance, or vice versa, visit a Saab dealer for a test drive.

For the driving enthusiast who cares about cars, it's one car that can return the favor.

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WE DON'T MAKE COMPROMISES.
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Hills was one of the world’s hottest real estate markets. In theory it’s still hot: The typical house sells for over $5 million. But in practice, little is selling.

Ted Field, the department store heir who turned movie producer, bought an $11.5 million house in June. While that house gets renovated, Field, his wife (who’s expecting their third child) and two children are living in "Greenacres," which he is trying to sell. The 36,000-square-foot manse, once owned by Harold Lloyd, has been on the market for five months for $55 million. Had the house been listed last year, it would most likely have been gone in a month.

If you’ve ever wanted to live with business luminaries to your left and showbiz stars to your right (see map, pp. 378-79), prices in Beverly Hills— one of the densest concentrations of Forbes Four Hundred members outside Manhattan—are moving in your direction. The estate of the late Lucille Ball has been on the market since November. The asking price has been cut from $7.8 million to $5.6 million. Milton Berle finally sold his home last spring for just over $3 million, 25% less than his asking price. Then there’s what has been dubbed "Nightmare on Elm Street," the house, actually on North Elm Drive, where video executive José Menendez and his wife were murdered last year, allegedly by their sons. The house has been on the market for $5.2 million for about five months, with one reported bid.

Locals like Geffen, whose MCA is now worth over $600 million, can wait out the slump. (Geffen’s net worth for The Four Hundred was calculated prior to the reports of the MCA Matsushita deal.) But less fortunate folk forced to sell in order to settle an estate, get divorced or look for work are typically knocking about 20% off their asking prices.

The business of tearing down older residences and building megahouses on speculation—roaring as recently as a year ago (FORBES, Oct. 23, 1989)—has, despite Geffen’s construction, been virtually extinguished. An 8,000-square-foot spec house built by one local developer hit the market a year ago at $5.2 million, in July he cut that to $3.9 million. Says Joyce Harris of Mimi Styne Associates, "Nobody’s getting into the spec house market anymore."

Beverly Hills’ 5.7 square miles can be divided into five areas, each with its own economic exigencies. At the north, above Sunset Boulevard, are the Hills. Here reside Forbes Four Hundred members Guilford Glazer, Marvin Davis and Robert Petersen—along with Frank Sinatra and Joan Collins. These houses fetch the highest prices, but liquidity is hardly guaranteed. "Greenacres" languishes up in the Hills, as does Merv Griffin’s $18 million mansion (so far no takers). B.H.P.O. (Beverly Hills Post Office) is farther up in the airies. Though outside city limits, it qualifies for Beverly Hills mailing addresses, a useful tool for real estate agents.

Down the road from the Hills are the Flats, where properties are referred to as "lots" rather than "estates." Columbia Savings ex-chief executive Thomas Spiegel (who paid himself more than $25 million over the last few years before Columbia was declared insolvent) lives in the Flats. So do David Begelman of Indecent Exposure infamy, Disney studio chief Jeffrey Katzenberg, Doris Day and Steve Martin. According to Stuart Siegel, an executive vice president of Sotheby’s International Realty, land prices in the Flats have dropped from a high of $160 per square foot (at which a one-acre lot would cost $7 million) as recently as last April to a current $115 or so per foot.

On the other side of the tracks (Wilshire Boulevard) is the area the snootier residents refer to as "Baja Beverly Hills." That’s Donald Sterling country, the area dominated by the millionnaire who made his money buying the cookie-cutter stucco apartments that make up Beverly Hills’ more modest environs.

A cold wind has been blowing through a fourth part of town, the Beverly Hills business triangle. While old-line owners like Donald Tronstein should be fine, the buildings that housed Drexel Burnham’s junk bond headquarters at Rodeo Drive and Wilshire Boulevard have been on the market for leasing since June. The 200,000 square feet of prime space was offered for about $3 a foot per month, but that price has already been cut. So far, no takers.

Columbia Savings, which tried unsuccessfully to sell an interest in its office building projects on Wilshire, put its entire property up for sale last July. No sales have been announced. A Columbia spokesman insists that they will sell, contending that "the supply of new office space will drop dramatically in 1991." But it’s hard to see how. In addition to Drexel and Columbia, foreclosures on Chicago-based VMS Realty Partners have pushed tens of thousands of square feet onto an already glutted market.

Whenever things get tough in Los Angeles real estate, the brokers chant a mantra: "Foreign buyers." In the past this mainly meant wealthy Asians. But lately the foreigners of choice are Middle Easterners, particularly Iranians. Daryoush Mahboubi-Fardi, immigrant scion of an Iranian candy manufacturing family, owns several parcels on Rodeo Drive, including the Rodeo Collection, a multilevel structure housing retail shops.

Real estate agent Betty Lethe, a veteran of the Beverly Hills real estate cycles, even sees an upside to the Iraqi takeover of Kuwait. "It will probably mean that we’ll start seeing more Kuwaitis shopping for Beverly Hills real estate," she says. Even Saddam Hussein’s ill will may blow some good someone’s way.
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SCANDINAVIAN AIRLINES SYSTEM
had. In the mid-Sixties, when he started collecting Fabergé eggs, he linked them with FORBES magazine in an ad campaign as a symbol of quality.

FB: Apart from his editorial influence on the magazine, Malcolm was masterful at marketing the family name. He was almost as much a celebrity as Liz Taylor, whom he dated during the past few years. Having taken the family name so far, is marketing as important anymore?

MSF Jr.: If you think you’ve arrived, you’re ready to be shown to the door. You have to work constantly to nurture the name, the company, the product—whatever it is you’re selling. If you’re not willing to sell, if you think you have the right formula, you are setting yourself up for a fall. That kind of complacency undoes many businesses.

Our name is well known today, but so is GM’s. When I started working here 20 years ago, GM was worried about a possible antitrust suit because it had more than half the car market. Today it is more concerned that its share has slipped to 35%. It’s easy to get lazy when things are going well.

FB: Far from lazy, your father got involved with selling. It wouldn’t have been anything special if he’d called the ad director. But he called top corporate CEOs and asked them directly to place ads. That’s not something many publishers can get away with. Is that something you would do?

MSF Jr.: Sure, I’ve done that. When my father was my age, 43, you have to remember, a phone call from him probably didn’t ring the same bells that it did when he was 70. He was very good at making the straight pitch. That’s the best way to handle it, and that’s what I do. If my calls weren’t effective, I wouldn’t make them. The first time I tried calling a CEO directly for advertising was four or five years ago. Initially, it was hard.

**People ask if I will motorcycle. I answer: I’m still too young. My father didn’t start riding until he was in his late 40s, or ballooning until his early 50s. I’m looking forward to seeing what I turn into in the next seven or eight years.**

FB: Part of your father’s genius was turning his hobbies into marketing opportunities. What will it mean to the magazine not to have that?

MSF Jr.: In terms of promoting the magazine, we will continue to be very active with boat parties, the balloon meets in France, functions in the office and at the galleries.

FB: And Liz?

MSF Jr.: Have Elizabeth Taylor around? No, my wife wouldn’t approve. The point is that I think people enjoy the boat; they enjoy the cycles, the ranches, ballooning. As long as it brings in the business, that’s the ultimate measure. But I don’t imagine there will be as much publicity.

FB: Does that mean the Forbes name has peaked as a marketing tool?

MSF Jr.: Most businesses don’t have a Malcolm Forbes and that doesn’t stop them from doing well.

FB: Then what will continue to propel the Forbes name?

MSF Jr.: It’s basic: paying attention to the product, the magazine. It’s the only way I know how to do well, and a big part of the way my father did it.

FB: You’re not alone in this; you have three younger brothers scattered around the company. Adjectives used by the press to describe them sound as though each had inherited a different aspect of your father’s genes: Kip, the bon vivant, your father’s flair; Timothy, the socialite, said to be more conventional, but creative; Robert, your father’s sense of adventure. Will you use them to keep the Forbes name in the media?

MSF Jr.: Four of us together may not match my father’s way of doing things, but at least we’ll give him a good run for his money. Bobby does like motorcycling. We chuckle when we see Timmy described as a socialite. Socialite he’s not. He works on selling Egg and American Heritage magazines. He does have flair; I don’t know what it’s going to do to his feet, but he does wear cowboy boots all the time. And he’s getting his balloon license.

FB: Do you feel more vulnerable using your name, after seeing scathing rumors all over the tabloids after Malcolm died? Putting your name on the door has a dark side, if a family member gets negative publicity. Will that impact the business?

MSF Jr.: No. Not at all. What he meant to us and what he meant to others, I think, speaks for itself.

FB: A biography of your father coming out this summer is expected to explore some of the rumors about him. Does that concern you?

MSF Jr.: What do you do about it? The best thing to do is to run a good business. Doing well is the ultimate revenge.

FB: That sounds like something your father would have said. Can you reflect more on the differences between you and your father, in business and personality?

MSF Jr.: Most people would say he was more of a gladhander, found entertaining easier. But most people don’t know that he wasn’t always that way. For years he used to eat lunch alone across the street, at Schrafft’s. They used to make great sandwiches and cookies, especially those big lemon ones. He would send them to me when I was away at school.

When he took charge of the business, his modus operandi changed. I don’t know what they’ll be saying about me in ten years. People ask if I will motorcycle. I answer: I’m
still too young. My father didn’t start riding until he was in his late 40s, or ballooning until his early 50s. I’m looking forward to seeing what my hormones do, what I turn into, in the next seven or eight years.

FB: How set is your style? And how comfortable are you with it?

MSF Jr.: I’m probably set insofar as I’m not going to do something just to prove that I have my father’s flash. That would be foolish and self-destructive. If it’s natural, I’ll try it; if it isn’t, I won’t. My father was always willing to try something once. But if he didn’t like it he wasn’t going to pursue it just to prove a point.

So don’t hold your breath waiting for me to land at West Point in a parachute, go hang gliding or invent a rocket ship. I have no desire to go on Outward Bound rafting trips or climb mountains. I’ll leave that to somebody else.

FB: Okay, but to have a father like that can be overwhelming.

MSF Jr.: He wasn’t a bully. I think there’s a distinction between someone who tries to overwhelm for the sake of asserting authority, and someone who may have strong views on something. Sometime around the age of 13 or 14, even before that, I recognized that he was not like other kids’ fathers.

I’d be hard-pressed to describe what made him different, because he was not a motorcyclist or a balloonist at the time. I had started reading the New York Times when I was 12 or 13 and was following the stock market, but I found his views and outlook so much more original and insightful than the stuff I was reading in the papers. I would ask him questions in a way that would get him going. I was also impressed with his ability to back off from a position, if you could present a convincing argument.

FB: Was he always like that at home?

MSF Jr.: Sometimes, when we were growing up, he was a very strict disciplinarian. Mother was the soft one, he was the tough guy. Given how upright he was when we were younger, it’s remarkable how loose he got later. But he wouldn’t tell us to be home at a certain time when we wanted to stay out late, or be up waiting. He figured there are some things that should develop in our personalities without his interference. He certainly wanted a tight grip on things, but he knew when to back off.

FB: Did he introduce you at all to the business while you were growing up?

MSF Jr.: Ever since I was 13 or 14, he’d take me along on the Highlander every Saturday on these trips with CEOs and their wives to West Point football games, the whole time selling and working. At an early age we were expected to know, as he would put it, where our bread was buttered.

On Highlander trips, we would be expected to learn the names of everyone who was coming. On many trips, every lunch and every dinner was a function with 50 to 75 people. When we got up in the morning we’d sit at breakfast and go over the names for lunch, and after lunch we’d sit down and go over the names for dinner. To do a marathon like that eight days running, which we did about once a year, was exhausting.

FB: It doesn’t sound like fun, but you must have learned that it wasn’t vanity or the trappings, but your father’s sureness of purpose that made those trips so successful. Is that a lesson he reinforced later, when you began working with him?

MSF Jr.: I didn’t work directly for him when I joined the company after college. He believed my brothers and I shouldn’t report to him each day. He felt that was the only chance it would work. Otherwise, baggage from childhood complicates the process. My father was not going to try to micromanage or see how we were doing each day. He felt that would have been destructive, and it would have been.

I worked directly with the editor, Jim Michaels, who edited my copy. Even when I later worked in other departments, such as advertising and administration, my father kept a distance.

He was careful, too, about increasing our responsibilities. If he thought we were capable of trying something, he would let us do it. He practiced something that most CEOs find it very hard to practice, and that is letting people make mistakes, but in a way that they can learn, rather than be destroyed.

FB: How about a few examples?

MSF Jr.: This sounds minor now, but when I first became president in 1980 I had to make a decision on certain property-casualty insurance policies. The mistake was going for the cheapest price and not getting certain kinds of coverage he thought we should have. I was backed up by
some of our people here, but my father thought it was a dumb thing to do. And he was right. We bought the cheaper insurance, and then discovered we had a potential loss. We were lucky, it turned out that we were bailed out by events.

FB: Could that have been an expensive mistake if events hadn’t bailed you out?

MSF Jr.: It would have been costly, but not catastrophic. That’s how he knew how much leash to give you. Experience is a prudent teacher, and sometimes the only way you learn.

In business, if he thought a decision would have enormous consequences, he would want to have the final sign-off on it. But if it was something he didn’t think would be catastrophic, he could be persuaded, if we could make a case for it.

FB: When you bring kids into the business, training them is only one problem. Many CEOs stumble badly when it comes to deciding how to divide ownership and control among the children.

MSF Jr.: My father took a lesson from his father in what not to do. My grandfather gave Pop and his brother, Bruce, equal shares in the magazine when he died. He saw Bruce on the sales and marketing side, my father more on the editorial side. I think when you have two strong personalities, they tend to fight and clash, to have major differences. My father learned that one person should have ultimate responsibility. Otherwise, he feared, it could fly apart. In his case it didn’t.

FB: What would have happened had your Uncle Bruce not died suddenly in 1964?

MSF Jr.: Who knows how they would have gotten along in the business. My father didn’t want potential differences among family members to force this family business to go the way so many of them go—sell out or sink. So my father had two classes of stock: voting and nonvoting. After my father died, I got 51% of the voting stock. If things go wrong now, there will be one set of directions. He thought about it a lot. The ratios changed a little bit as Kip and I came in and then, two years later, when Bobby came on board. What happened with the Bingham’s in Kentucky confirmed in his mind that one person has to have control.

FB: Tell us more about how your 51% was decided upon.

MSF Jr.: There’d never been any major conflict. About 10 years ago, I got my first shares. We only had a voting class then. Shortly after that, he created the nonvoting class of stock, to get a fairer division of equity without diluting the voting shares. Just because I have 51% voting control doesn’t mean I should own all of the equity. I have more than my brothers, but certainly not 51%. My sister Moira doesn’t have any voting shares because she isn’t in the business but she got a small block of nonvoting stock after my father died. She also received a chunk of cash after my father died, since she wasn’t getting as much stock. We have a shareholders’ agreement which spells out how the price would be determined, and to whom we can offer the shares. Only family members can own the company.

FB: One interesting thing about your brothers is that they were permitted to pursue outside interests: Timmy with film production and screenwriting, Kip with his art collecting and curating. Was that true of you? Or were you always the heir apparent?

MSF Jr.: There was no big day when the lightning hit. I became interested in publishing and worked on a school newspaper, or my version of it, at grade school and at boarding school. When I was in college, I helped to start a magazine, Business Today, which is still distributed to about 200,000 college students around the country. So I always had a good idea of what I wanted to do. And when I got a good job offer I took it.

FB: Were you expected to work in the family business?

MSF Jr.: I don’t think my father gave it much thought until well after he took over the magazine. It’s hard to tell which of your kids will get interested in what. I remember I did so terribly in grade school, I was on the border of being held back. I think, too, that because he worked with his dad, he knew not to be too overt on the pressure. But I think he would have been disappointed if I had told him I couldn’t work for him by the time I finished college.

FB: Late in his life your father expanded the company. He bought American Heritage magazine, launched Egg, and prepared to launch an executive lifestyle magazine, Forbes FYI. Was this his attempt to build an empire for each of your brothers?

MSF Jr.: He liked to say the biggest lie was a company’s five-year plan. When American Heritage came along, it was in dire straits and the owners wanted out. We’d been fans of it for years, so we made an offer for it at a very small
price because it was in such bad shape financially. And Timmy was in the entertainment business, so this was a great way to bring him into the business, not a way to keep him out of my hair.

_Egg_ was my father's idea. After Andy Warhol died, my father wanted to buy *Interview* magazine from the Warhol estate. But they wanted such a high price that we realized we could start our own publication, taking big losses for four or five years, and still not spend as much as the $12 million asking price for a magazine that was losing money. So we started _Egg_. But again, this wasn't designed to keep anyone out of my way. These things just happened. They weren't some preordained plan. Believe me, we would flunk business school.

**FB:** Wouldn't it have made sense for Malcolm to allow his sons to own these other magazines to ease eventual estate taxes?

**MSF Jr.:** He always wanted to be sure that while he was alive he had 51%. He used to joke about it. He'd read many stories where the children threw out the old man and he'd say, "That ain't going to happen to me. You may not like it, but I ain't retiring."

**FB:** Do you mean control was more important to him than tens of millions of dollars of tax liabilities?

**MSF Jr.:** I guess so.

**FB:** If anything were to happen to your real estate, which Bobby manages, or to the new magazines that Timmy is in charge of, would there still be room for them at _Forbes_? Could you work that closely with them?

**MSF Jr.:** This company is big enough so that there's plenty for us all to do. We're very lean at the top. There were three of us working here four years ago, and we're bigger today than we were then. And we hope to keep growing.

This company is big enough so that there's plenty for us all to do. We're very lean at the top. There were three of us working here four years ago, and we're bigger today than we were then. And we hope to keep growing.

**FB:** But that 51% doesn't guarantee that the family won't rip apart.

**MSF Jr.:** That's all very hypothetical. It's not something you can plot in advance. You just have to see how these things shape up.

**FB:** This, too, is hypothetical, but would your nieces and nephews have an equal shot at running _Forbes_ if they prove to be more capable than your children?

**MSF Jr.:** This is precisely why one person should be in control, to prevent rivalries like that from ripping the business apart.

**FB:** If that's true, yours was one of the few companies in which there was good communication between the generations. How did that work?

**MSF Jr.:** If my father didn't like something he would say so. When he didn't buy one of our ideas, we might try it another time or another way. When he did become angry, it would blow over very quickly. Ten minutes later he was on to the next thing.

**FB:** What about the next generation—do you think that at least one of your children, or both of your twins, who are now 16, will want to work here?

**MSF Jr.:** Maybe.

**FB:** Is that important to you?

**MSF Jr.:** It would be neat if they had the interest. A couple of them have expressed an interest. The twins have worked summers for a local newspaper and the other two have some interest, but so much can change over those years. I'm not going to push it because that's going to have an unhappy ending. I think they know my enthusiasm for it, the rest is letting them get exposed. If it bites it bites, if it doesn't it doesn't.

**FB:** Do you agree with your father that one person should run the show? If so, what will happen if both your twins want in, assuming they are equally capable?

**MSF Jr.:** That's all very hypothetical. It's not something you can plot in advance. You just have to see how these things shape up.

**FB:** This, too, is hypothetical, but would your nieces and nephews have an equal shot at running _Forbes_ if they prove to be more capable than your children?

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**FB:** But that 51% doesn't guarantee that the family won't rip apart.

**MSF Jr.:** Well, one of the things you learn is that not everyone gets everything he wants. I think everyone in this family realizes this is a business, not a charity ward. It would be nice to have the problem of many of them wanting to be in the business. I hope that comes to pass, rather than the other way, where they don't want to work, don't have any commitment, and only want to collect the dividend. That worries me more.

**FB:** When you became active six or seven years ago on the speaking circuit, rumors sprang up that perhaps, like your father, you had some political ambitions.

**MSF Jr.:** No. Because I grew up with a politician, I saw that to be serious about politics, you give up a lot of your privacy. Everyone is your boss, every holiday you're working the events. The phone is always ringing. In terms of impact, a magazine like _Forbes_ has as much or more impact than most people in public life.

**FB:** So, unlike your father, you don't want to be President?

**MSF Jr.:** If you want to give it to me, sure I'll take it. But how many make it to the Holy Grail? I'm not complaining. This presidency is fine for me.
Did you hear the one about the Marketing Director who missed the $20 billion golf market?

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WPPSS bonds were once the scourge of the municipal bond market. Now they're everyone's new favorite.

By Ben Weberman


You'll recall it came after a state court ruled local power authorities didn't have to pay wppss for power they had promised to buy but no longer needed. So much for the honoring of contracts!

While, based on settlements to date, some holders of Projects 4 and 5 wppss bonds may get as little as 9 cents on the dollar, holders of Projects 1, 2 and 3—which didn't default—are getting a respectable yield, averaging about 8% free of federal taxes.

These bonds, in fact, rank among the best-rated issues in the municipal bond universe. And if you're shopping around for munis, I'd suggest you take a look at some new wppss refunding issues now coming to market.

They pay anywhere from 20 to 40 basis points more than tax-free utility bonds of similar quality and maturity. To take one example, 7.2s of 2019 issued by the Intermountain Power Agency, another enormous tax-free utility rated Aa, trade at 94.5 to yield 7.65%. And in a market where there are so many questionable general obligation bonds outstanding, analytic studies show the finances of wppss Projects 1, 2 and 3 actually improving over the next couple of years.

Moreover, interest payments are assured by the Bonneville Power Administration, which has agreed to pay minimum annual amounts sufficient to take care of all debt service whether or not power from the generating facilities is used. This guarantee, coupled with wppss' own revenue projections, is sufficient to make these securities worth Aa in the minds of the bonding agencies.

wppss has been able to market $3.3 billion of Projects 1, 2 and 3 bonds since September 1989 to refinance higher-coupon bonds that had been marketed between 1962 and 1982. An additional $3.3 billion of bonds from Projects 1, 2 and 3, most with coupons lower than 9%, remain outstanding. They trade at rates well above other Aa-rated revenue bonds.

As an example, a recent refunding issue, the 7 7/8s of 2018 that came to market in June priced at 98, is available now at 95 to yield 7.97% to maturity. The 6 3/4s of 2012, sold originally in 1976, trade at 87.65 to yield 7.95% to maturity.

wppss bonds aren't necessarily bargains for short maturities. The 7s of 1995 are trading at 100 to yield 7% to maturity. This compares with 8.67% on a five-year Treasury. The aftertax return on the Treasury is 6.2% for somebody in a 28% tax bracket.

The spread to the Treasury of only 80 basis points isn't adequate compensation since Treasuries are much higher in quality and more liquid. If you hold wppss bonds in a high-tax state, the return can be substantially lower than 7%.

An important point to remember for all municipal bond investments is that state and local tax costs must be taken into account even though the interest is free from federal taxes. In states like New York and California, where taxes on out-of-state municipal bonds take as much as 7% after allowing for the impact of federal tax savings, the aftertax return on in-state bonds is considerably higher.

Typically, a New York Aa-rated revenue bond such as the N.Y. MedCare (Columbia Presbyterian Hospital) 7.60s of 2015 trade at par to yield 7.60% to maturity. wppss 8s of 2017 yield 8.04% before taxes but only 7.58% to a New York resident. Similarly, for California residents, Los Angeles Department of Water & Power 7 1/4s of 2030 cost 9.6 and pay 7.6% to a West Coast taxpayer, while the wppss 8s of 2017 would yield only 7.44% to maturity after state taxes are deducted.

On the other hand, the wppss bonds are wonderful investments for residents of states like Texas, Florida and Washington, which have no income tax.

Most easily purchased are the recently marketed wppss refunding bonds. An issue of $250 million Nuclear Project 1 bonds came to market this past September with term bonds due 2017 priced at 99% on a coupon of 8% to yield 8.04% to maturity.

Howard Sitzer, vice president and director of municipal research of Greenwich Money Management, a Connecticut firm, has spent more than ten years following wppss. Sitzer likes the agency's prospects nowadays.

Sitzer had previously been concerned that if power demands on wppss surged, the agency might need to complete construction of Project 1 or 3—creating billions of dollars of additional bonds that might weaken the credit quality of the outstanding issues. Recent studies, he says, show only a 10% chance that Projects 1 or 3 would be revived by 2005.

Moreover, the heavy volume of refinancing is resulting in significant interest savings to wppss: The agency's debt service costs are presently covered at least twice over.
Political and financial crises make investors sell stocks. This is precisely the wrong reaction. Buy during a panic, don't sell.

CRISIS INVESTING

By David Dreman

With the world seemingly on the brink of war, should you buy now, sell or stay on the sidelines? Although thousands of Wall Street reports have been devoted to every major crisis through the years, no coherent strategy has ever been developed to cope with these recurring but frightening confrontations.

The advice given by experts over time has almost always been a knee-jerk recommendation to sell. After examining the ten major crises of the postwar period, I found that this has been exactly the wrong thing to do in every single case. Analyzing the subsequent market action also makes it clear that there is a definite way to react to a crisis and a very high probability that you can profit, regardless of whether the roots of the crisis are financial, monetary or political.

The accompanying table shows the ten major crises since World War II, ranging from the Berlin blockade in 1948 [when we stood eyeball-to-eyeball with the Soviets on the brink of war] to the crash of 1987 [the worst of the 20th century]. Of the ten, five were political, the other five were brought on by economic, investment or financial factors.

Not surprisingly, the market reacted to every crisis with panic. Experts and individual investors alike treated each one as though they had entered an entirely new, alien environment. They seemed to feel that nothing in their past experience provided an answer to cope with the then-current situation. Sell, sell, sell, the savants chorused. Never mind that the market is way down; sell now and at least preserve what's left of your capital.

That turns out to have been the worst possible advice.

The table measures the Dow Jones industrial average at the bottom of each crisis, when experts predicted prices could only tumble lower, along with the subsequent performance one and two years later. A glance at the record tells it all. The consistency of results is remarkable. An investor would have made good money one year later in nine of the ten crises, and would have lost in only one, and then a mere 3.3%. The average gain one year later would have been 26.1%, with the gains ranging as high as 43.6% after the 1969-70 break and 33.8% after the Cuban missile crisis.

Holding stocks for two years after a crisis resulted in spectacular returns. A buyer would have made money in all ten crises, with an average two-year gain of over 38%, and appreciation ranging up to 66.5% after the market decline of 1973-74. Granted, no one buys at the bottom, but even if an investor were 10% or 15% off the mark, he would still have made big bucks buying into the crisis.

There is an exception to this record of postpanic bull markets. Anyone who moved into the market after the 1929 crash was obliterated in the early 1930s. But with the major changes in the economic structure since then, a disaster of this magnitude is unlikely. Although gut-wrenching, holding—and even buying—in a political panic is a winning strategy.

Here are some dos and don'ts for today's crisis:

First, avoid the flight to safety into oil stocks. When the current crisis is resolved, oil should be in good supply, and oil stocks probably will lag the market. But do look at some companies that have been chopped up badly as a result of the Gulf situation.

Here are a few: Aluminum Co. of America [63], p/e 8, yield 2.5%; Dow Chemical [42], p/e 6, yield 6.2%; olin [36], p/e 9, yield 8.2%; Ohio Casualty [32], p/e 10, yield 7.2%; CSS/Sovran [17], p/e 4, yield 9.7%; and Westinghouse [31], p/e 9, yield 3.9%. 

Portfolio Strategy

MONEY & INVESTMENTS

This bear market will be over in a few quarters, and the 1990s' top stocks will be very different from those of the 1980s.

BUY SMALL, THINK BIG

By Kenneth L. Fisher

A helpful stock market lesson for the 1990s pops right out of The Forbes Four Hundred. It's what I call buying small and thinking big.

Looking at the self-made centimillionaires who have graced the lists over the years, note that many of them got there buying things no one else wanted, that didn't take much of their money and for which they could see huge futures. Then they patiently realized those futures. They typically did not make the list buying well-recognized, quality properties at fancy prices.

No one exemplified this better than Donald Trump. While much is written on him, to me the most interesting part is seldom stated. He made his money buying small and thinking big and lost it by doing just the reverse. Trump's troubles started as he bought what he himself came to call "trophy properties" — the ones the world wanted most, only Trump paid more for them than anyone else would.

The same buy-small, think-big principle applies to the stock market: The real money is rarely made in buying premium-priced stocks — and the rule will apply even more in the 1990s than in recent decades.

The really big opportunities in the 1990s market will be in smaller-capitalization stocks, where the companies have huge opportunities ahead, opportunities not yet capitalized in the price of the stock.

According to a recent survey, pension plans with assets over $100 million each, which in total have over $2.1 trillion, have reduced their allocation to small-cap stocks during the 1980s because of poor performance. Less than 5% of their assets are allocated to U.S. stocks with market caps below $2 billion. About 60% of their total assets are allocated to stocks, so only 8% of their stocks are small-caps.

Yet small-cap stocks in aggregate make up about $680 billion, or 21%, of the $3.2 trillion U.S. equity market. Pension plans are clearly and significantly underweighted in small-cap stocks.

To see the potential for small-cap stocks, imagine this: If, by the end of the decade, pension plans increase their small-cap allocations to reflect small-caps' current 21% share of the U.S. equity market, then by the year 2000 those pension plans will have increased their overall small-cap allocations from 5% to 12.6% of total assets. That doesn't sound too wild. But if at the same time nationwide pension plan asset growth modestly at, say, 10% annually, by the year 2000 they will have bought an additional $630 billion of small-cap stocks — 93% of all outstanding shares at today's prices.

After eight years of poor small-cap stock performance, few initial public offerings, lots of buybacks and takeovers, there is now a very inelastic supply of small-cap stocks. Even a small allocation increase from pension plans will have a stunning price impact.

But to carry The Forbes Four Hundred analogy further, you don't want merely to buy small-cap stocks. You also want to buy ones that are cheap, and you want to think big in terms of potential.

A stock I think fits nicely is Applied Magnetics [7], the leader in magnetic disk heads (to computer memories what needles are to record players). It was the third stock I ever mentioned in Forbes, back in 1984. Since then it has doubled in size, and the stock had a nice run.

But since 1987 Applied Magnetics has gotten the tar beaten out of it, falling from $20. Since I first wrote about the firm, it has established clear dominance over its competitors, while remaining financially rock-solid. Computer memories will continue to grow, and with 40% of the market for recording heads, Applied Magnetics will get its share. Future growth should be 15% to 20% per year, yet with a total market value of $125 million it can be bought for just 33% of its annual revenues of $375 million and 80% of book value.

Lowe's [21] is the top-dog in building products retailing in America's small towns, mostly in the Southeast. Its stock is cheap and has been hammered, falling from $49. I see signs that Lowe's will get a lot more aggressive in the 1990s at doing exactly what it does now, and doing it all over America. And there are a lot of tiny towns. I wouldn't be at all surprised to see Lowe's worth $12 billion by the year 2000 — maybe as much as $240 a share — with about $18 billion in annual sales.

Other buy-small, think-big stocks are Intelligent Electronics [13, o-t-c], Interface [12, o-t-c] and Marshall Industries [20]. Be careful. We are in a bear market. But it has been going on for a year now. And a quarter or two from now this bear market will be awfully darn old. If it isn't over by then, it will be close enough that it won't much matter looking back on it a few years from now. All of these stocks could have heavy tax-loss selling pressure in November and December, and I would plan on that time frame as an opportunity to buy. I would also want to be fully invested before getting very far into 1991. The next bull market should be exceptional for "buy-small, think-big" stocks.
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Financial Strategy

MONEY & INVESTMENTS

Yes, indeed, the rich got richer during the 1980s, but so did just about everyone.

ROBIN HOOD IS KNOCKING ON THE WRONG DOOR

By Alan Reynolds

Soak-the-rich demagoguery has been making a comeback lately, with phony statistics employed to rekindle the idea of using the tax system to punish success. Kevin Phillips, every liberal’s favorite “conservative,” has been pandering to the politics of envy in a new book full of old misconceptions, The Politics of Rich and Poor.

The book’s arguments and the use of statistics are so bad, the book wouldn’t be worth mentioning were it not for the fact that the thing is being taken by a lot of people as gospel. Phillips even uses the inflationary hurricane of 1973 as the basis for comparisons that are supposed to show that “the 1980s were the triumph of upper America.” The three most important reasons some people earn more than others are neither surprising nor unfair:

• Older, experienced workers earn more than young trainees. In 1988 median family income was only $16,204 per year when the household head was less than 24 years old, but $37,250 for those 45 to 54.
• People with graduate degrees earn more than high school dropouts.

Families in which the household head had not finished high school had a median income of $12,166 in 1987, while those with five or more years of college had a median income of $50,908.

• Families with two full-time workers have higher incomes than families in which nobody works. Average earnings were only $5,264 among couples in which the wives worked part-time in 1987 and husbands did not work at all, but $44,517 when husbands and wives both worked full-time.

Phillips laments that the “top fifth” of families earn more than two-fifths of the income. What’s new? The top 20% of every successful society’s earners have always earned more than 40% of the income, precisely because they produce more than 40% of the nation’s goods and services.

What about the constantly echoed complaint that “the rich got richer and the poor got poorer” in the Reagan era? That is quite impossible. Median family income rose by 7.1% from 1980 to 1988, after falling by 4.7% from 1970 to 1980.

What really happened in the 1980s is that many more families moved up into an income that used to be considered “rich.” When incomes are measured in constant 1978 dollars (that is, adjusted for inflation), the percentage of families earning more than $50,000 rose from 19.4% in 1980 to 22.9% in 1988. The average of incomes included in the “top 20%” had to get larger—by definition—since that average now includes only incomes well above $50,000, while it used to be diluted by lower incomes. This means that there are now too many such “rich” families to fit in the top 20%.

This increase in real family income was not simply the result of former housewives being “forced” to take jobs to make ends meet. From 1980 to 1988, real median income among two-earner families increased by 10.7%, compared with only a 3.1% increase over the entire previous decade. Among black families, real income per capita increased by an impressive 19.9% from 1980 to 1988, after falling by 6.1% in the 1978-80 inflation.

The income figures I cite are pretax income. Thus, after taxes, real income per capita has increased by nearly 20% since 1980.

What about the poor? A University of Michigan study that tracked 5,000 families over a decade found that only one-fifth of the poor remained that way for long, and that the greatest single cause of poverty, by far, was divorce. The bottom fifth of the income distribution is dominated by female-headed households with young children but no husband. Reported money income of female-headed families fell in the 1970s, by 3.9%, but it has subsequently recovered most of that loss.

Phillips is right on one score: Some of the poor have gotten poorer. Families in which nobody has even a part-time job have not kept up with families with one or two workers. But those who do work, even for a low wage, benefited not only from millions of new jobs in the 1980s, but also from a much more generous personal exemption and earned income tax credit.

The distribution of income is often confused with the distribution of wealth—which depends largely on age. The National Center for Policy Analysis finds that the elderly receive 20% of their income from financial assets and real estate, compared with only 5% for those aged 40 to 65, and even less for younger folks.

Politicians would do well to understand this difference between income and wealth. Many in Congress do not seem to understand why an aging electorate will increasingly reject Robin Hood policies that plunder their lifetime savings with punitive taxes on the sale of assets. Considering the growing clout of older voters, any politician who takes the egalitarian drivel seriously will find it even harder to peddle than it was during the presidential campaigns of George McGovern and Richard Gephardt.
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*Source: 1989 MMR
Sixty years ago
(From the issue of October 15, 1930)
"Wheat, the most essential food for the Occidental world, is becoming nationalized, with great nations mobilized to place or to secure its surplusage and to obtain for farmers and peasants the highest return or for consumers the lowest price for bread. All except Russia. Russia does not care how low she sells her wheat or how high her people must pay for bread so long as money is forthcoming to carry on the all-important Five-Year Plan. . . ."

"Years ago New York newspaper sports writers expressed amazement, some of them indignation, because at the international polo match, between Britain and the U.S., the spectators applauded brilliant plays by the visitors as enthusiastically as brilliant plays by the home team. Some of the writers dubbed such conduct unpatriotic! We have made progress since then. We have become better sports. When the youthful British lass, Betty Nuthall, won the American national tennis tournament, her feat was as highly applauded by both spectators and press as any by Helen Wills or Bobby Jones."

Fifty years ago
(From the issue of October 15, 1940)
"As the New York Automobile Show opens against a worldwide backdrop of swift and fateful change, one fact remains a fact and always will: The automobile is the American Way of Transportation. It cannot be replaced. We have 71% of the world’s passenger cars and 54% of its trucks. We have one motor vehicle for every four people and one licensed driver for every three. Our automotive units travel 290 billion miles a year and run up a passenger mileage 10 times that of all other forms of transport combined."

"Growing encouragement springs from Britain’s increasingly effective combatting of enemy air attacks and from expanding R.A.F. aggression across the Channel, in Berlin, in strategic centers and elsewhere. Hope is rising that defeat from the air or through invasion will be averted by Britain. Each successive week strengthens her position, weakens Hitler’s."

Twenty-five years ago
(From the issue of October 15, 1965)
"At his most recent press conference General de Gaulle put into words what he has increasingly made very clear in action: that he intends to pull France out of NATO as soon as the original Treaty expires in 1970. And that will be the end of NATO as a meaningful military factor."

"As the U.S. Maritime Administration ponders getting out of its moneylosing passenger-liner commitment, other countries are stepping up to bid for the trade. Latest is Norway, whose 21,500-ton deluxe liner Sagafjord landed in New York last week on her maiden voyage. Built for the Norwegian America Line in France, she is the biggest Norwegian passenger ship, with a capacity of 800 on tours to the Caribbean, the area where she will be used."

Ten years ago
(From the issue of October 15, 1980)
"You think we have troubles? Look at the Soviet Union. Growth is slowing, grain is short, meat’s disappearing and so are potatoes, coal output sags, oil production is peaking, labor’s getting scarce and the generals keep demanding more men and hardware. On top of that the bill for foreign aid is getting big. Billions of rubles in valuable oil, grain and other hard-currency goods and military equipment are going to Cuba, Vietnam, Afghanistan, Ethiopia and now Poland—and they want more."
The fence around a cemetery is foolish, for those inside can't come out and those outside don't want to get in.

ARTHUR BRISBANE

The most important service rendered by the press is that of educating people to approach printed matter with distrust.

SAMUEL BUTLER

I'm living so far beyond my income that we may almost be said to be living apart.

H.H. MUNRO

Presidents cannot always kick evil-minded persons out of the front door. Such persons are often selected by the electors to represent them.

HERBERT HOOVER

The harlot's cry from street to street Shall weave old England's winding sheet.

WILLIAM BLAKE

The old assumption of the approximate impossibility of war really rested on a similar assumption about the impossibility of evil—and especially of evil in high places.

G.K. CHESTERTON

I shall never be used to not being the most beautiful woman in the room. It was an intoxication to sweep in and know every man had turned his head. It kept him in form.

LADY RANDOLPH CHERCHESTER

No other factor in history, not even religion, has reduced so many wars as has a clash of national egotisms identified by the name of patriotism.

PRESERVED SMITH

He is a wise man who seeks by every legitimate means to make all the money he can honestly, for money can do so many worthwhile things in this world, not merely for one's self but for others. But he is an unmitigated fool who imagines for a moment that it is more important to "make the money" than to make it honestly. One of the advantages of possessing money is that it facilitates one's independence and mental attitude. The man bea.

TRIBBE SEEMS IN DEBT IS MORE SLAVE THAN INDEPENDENT.

B.C. FORBES

Leadership of a world-economy is an experience of power which may blind the victor to the march of history.

FERNAND BRAUDEL

Whether the stone bumps the jug or the jug bumps the stone it is bad for the jug.

FOLK SAYING

People will buy anything that's one to a customer.

SINCLAIR LEWIS

None but an armed nation can dispense with a standing army.

THOMAS JEFFERSON

More than 9,000 "Thoughts," indexed by author and subject, are available in a three-volume boxed set at $49.50 ($19.50 per volume if purchased separately). Also available: a one-volume edition of over 3,000 "Thoughts." Price: $19.50. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add sales tax on orders in New York State and other states where applicable.

If a nation values anything more than freedom, it will lose its freedom; and the irony of it is that if it is comfort or money that it values more, it will lose that too.

SOMERSET MAUGHAM

The stage is actor's country. You have to get your passport stamped every so often or they take away your citizenship.

VANESSA REDGRAVE

My family can always tell when I'm well into a novel because the meals get very crummy.

ANNE TYLER

A Text . . .
How beautiful upon the mountains are the feet of him that bringeth good tidings, that publisheth peace; that bringeth good tidings of good, that publisheth salvation; that sayeth unto Zion, Thy God reigneth!

ISAIAH 52:7

Sent in by Mr. A.L. Fanta, Ann Arbor, Mich. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Praise is well, compliment is well, but affection—that is the last and most precious reward that any man can win, whether by character or achievement.

MARK TWAIN

From birth to age 18, a girl needs good parents, from 18 to 35 she needs good looks, from 35 to 55 she needs a good personality, and from 55 on she needs cash.

SOPHIE TUCKER
Today, it may take merchant banking
to solve the most intricate problems.

Few things are more complex than corporate finance today.
The way you borrow in London may affect the way you
manage cash here at home.

Choosing between debt and equity financing can involve
dozens of variables—all interlocked.

Complicated puzzles like these often yield most readily to
merchant banking. As practiced by Bankers Trust.

Because of our wide array of financial services.
And because of the multi-level, multi-service relationships
that have sprung up between us and our corporate clients.

The advantages of such broad and deep relationships are
clear. By being involved in, and familiar with, many areas of your
business, we can quickly sort out useful solutions from those which
do not fit your overall financial picture.

When problems were less intricate, conventional banking
could solve them. Today, it’s most often merchant banking that
provides the perfect fit.

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Because today isn’t yesterday.
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The Perfect Car

The 1991 Buick Park Avenue Ultra.

After driving the new Park Avenue Ultra, the editors of Motor Trend concluded, "Buick may have created the perfect car for the '90s."

After you drive it, you may conclude that we've created the perfect car for you.

"Buick engineers have come up with one of the quietest, tightest and smoothest operating luxury sedans we've ever driven." —Motor Trend

"Buick focused considerable ergonomic study on the interior, and it shows." —Car and Driver

"... a luxurious cell with enough comfort, performance and image to satisfy your ego and keep you isolated from steaming traffic, rudeness and downtown craziness that is today's driving environment." —Motor Trend

"The transmission works like a dream; the Park Avenue seems a class apart." —AutoWeek

"Buick has hit on a fine blend of slipstream aerodynamics (0.31 Cd) and traditional American dress up." —Motor Trend

"Just sitting in Park Avenue's roomy interior is pleasing." —Car and Driver

Leather in the seating areas is standard on Park Avenue Ultra.
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For The ’90s.

... highway-speed passing seemed effortless."
—Automobile Magazine

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—Car and Driver

... ample innovation plus excellent sign, engineering, and execution at an expected price...
—Motor Trend

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Argumentum ad hominem isn't just for men

As anyone who has differed with him knows, Ralph Nader has a thin skin and a nasty habit of attributing avance to anyone who questions his positions. Isn't it interesting that this man, who constantly bad-mouths other people's motives, becomes nearly hysterical when someone questions his own? Nader didn't at all like our cover story "Ralph Nader, Inc." (Sept. 17). Just read his letter, which appears in its self-righteous and evasive entirety on page 128. And read our point-by-point rebuttal.

Feminists among our readers may detect a sexist tone in Nader's letter. He directs his anger specifically at Peter Brimelow, male member of the team that wrote the article. Nader never mentions Leslie Spencer, the female coauthor. Why did Nader pointedly ignore Spencer? Unconscious sexism, I think. How could a mere woman have opinions worth responding to? Here I'd like to straighten Nader out: The manuscript was as much Leslie's Peter. It was a true joint effort. Argumentum ad hominem, Ralph, shouldn't apply only to men. We stand firmly by the article, both as fact and to judgment.

Intangible assets

We've been hearing a lot about the economic mess in East Germany and how tough it's going to be to straighten out. Jerry Flint, our veteran automotive reporter, came away with a somewhat different opinion after visiting automobile plants in East Germany. Judging the East Germans on their skills and intelligence, not on the state of their capital goods and technology, Flint thinks they will fairly quickly become an asset to the German economy. He points out: West Germany was a pile of rubble when World War II ended, but look what it accomplished in a few years. Machinery isn't what counts today. Knowledge and skills count for much more. "Letter from Germany" begins on page 72.

Delta flies high

The cliché "When the going gets tough, the tough get going" applies neatly to Delta Air Lines. Conservation in its policies when other airlines were acquiring and piling on debt, Delta subsidized its resources and is now taking advantage of the current airlines slump to expand. "Full speed ahead—but cautiously" by Seth Lubove starts on page 36.
In theory, information technology is supposed to make a company free. But in practice, many organizations find that technology investments increase their costs without increasing their productivity. Andersen Consulting can help keep your organization out of this dangerous trap.

Using our combination of business and technology skills, we can offer solutions that directly link your information systems to your corporate strategy. Which means your entire operation can feel the productive impact. And your people can have tools that help them perform more effectively.

It's what we call our total business approach. And it works so well, a majority of the Fortune 500 have called upon Andersen Consulting. Because these days, a company's success may depend on making a mouse roar.
Will Apple learn from Betamax?

Could a new era be dawning at Apple Computer? Late last month Apple unveiled a low-priced line of Macintosh personal computers and agreed to join forces with Sony Corp. to produce an inexpensive laptop Macintosh.

The bigger question (Forbes, Sept 17) is whether Apple will make its personal computers compatible with the IBM and IBM-clone models that make up 90% of the U.S. personal computer market. Perhaps Apple's John Sculley should pay heed to Sony Chairman Akio Morita. In the 1970s, during the early commercialization of videocassette recorders, Sony tried at great expense to win converts to its Betamax format. But the industry, led by JVC, ultimately adopted the widely licensed vhs format. Do Sculley and Morita see similarities in the personal computer wars? Stay tuned.

Abandon ship!

Penny-stock purveyor Stuart-James Co. is riding lower than ever in the water. Over forty of its brokers have jumped ship, 13 branch offices have closed. In the wake of a recent Forbes article (Aug. 20), three top managers resigned: second-in-command Marc Geman, chief operating officer Peter Stoll and compliance chief Peter Gadkowski. Chairman James Padgett, who may have to resign in a possible settlement with the SEC, has turned over some control to a management committee.

Still, the firm is taking on some ex-Blinder, Robinson reps. Apparently rats will board sinking ships as well as abandon them.—Claire Poole

Where was the synergy?

Computer Associates bit off more than it could chew. In a cover story (July 11, 1988), Forbes argued that Charles Wang, chairman of the little-known Garden City, N.Y. company, was a major force in software.

But Wang ran into trouble with last year's $300 million acquisition of Cullinet. Some of Cullinet's database management software competed with systems already offered by Computer Associates. "That made customers nervous. So some decided to just sit on the fence until we decided what to do," says Sanjay Kumar, senior vice president of planning. Sales fell.

To make matters worse, there were sometimes four reps serving one account. Earlier this year, the firm reorganized the 600 domestic salespeople, creating yet more confusion. Sighs Kumar, "We did a poor job of explaining our strategy to customers."

The confusion took its toll. In the year ended in March, Computer Associates' earnings dropped for the first time, to $158 million on sales of $1.3 billion. The slide continued in the first quarter ended June 30, with earnings dropping an astounding 66%, to $3.6 million. The stock has fallen to a split-adjusted low of 5 1/2, from 29 in the summer of 1988.

Easier does it

If only Forbes could erase the memory of its Dixon Ticonderoga story (June 26, 1989). Since buying the unprofitable pencil maker in 1983, Gino Pala had boosted sales 40%, to $80 million, largely by adding pens and crayons to his line and hustling orders from outfits like Kmart and Wal-Mart. But the discount stores' enthusiasm for his products proved limited; inventories piled up and the company reported four straight losing quarters. Dixon's shares sank from a high of 18% to a recent 4 1/4. "I haven't done a thing right since you left," chuckles Pala. "But I've never gone out a loser in my life. And I don't plan to start now." Pala, 62, pledges to slow his company's growth and rely more on his traditional pencil customers, the schools.—Fleming Meeks
Without Black, it would all be flat.

Ultimately, there's Black.
In 1842, Christian Doppler made a curious discovery. He noticed that a train whistle going away from him had a lower frequency than when it was coming towards him. This fundamental became known as the Doppler effect and led to the development of Doppler radar.

Now Raytheon is using Doppler radar to detect wind shear. A sudden downdraft of air from the sky, called a microburst, produces wind shear that is particularly dangerous for aircraft during takeoff and landing.

More than a dozen airline crashes in the last twenty years have been attributed to wind shear. Raytheon’s new Terminal Doppler Weather Radar will be initially installed at 47 airports across the country.

It’s one more way we’re working to help the Federal Aviation Administration make air travel safer than ever.

Raytheon Company, 141 Spring Street, Lexington, MA 02173.
Make the skies safer.

Raytheon
Where quality starts with fundamentals
Marvin Davis' unappetizing choices

Billionaire Marvin Davis has looked at and walked away from so many deals that some wags call him "The Tire-kicker." But Davis must be kicking himself for not passing on Spectradyne Holding, parent of Spectradyne. Instead, he acquired the company for $679 million, $69 million in cash and the rest in assumed debt.

Spectradyne is the leading company supplying recent Hollywood movies to guests in hotel rooms, at around $6 a viewing. Sounds like a good business, but Spectradyne lost $106 million on $139 million in revenues in the 12 months ended June 30. Debt service is one problem. Also, there's a nationwide hotel glut, and the company has expanded into second- and third-string chains. Travelers, too, are tightening their belts. Result: Viewing levels in occupied rooms are down.

When Davis took over, the credit he lined up was supposed to hold Spectradyne through the end of 1991. But the company has only $5 million left on its credit lines, barely enough to carry it through this year. Its junk bonds, trading in the 30s and 40s, have been downgraded by Standard & Poor's. S&P still offers a "negative outlook" on them, meaning another downgrade is likely. Davis' choices: Pump in more money or take a big hit in the expected restructuring.

Suckers on the ropes

The new-issue market isn't great right now, but that hasn't stopped some clever boxing promoters from trying to take three fighters public. The prospectus for Triple Threat Enterprises shows investors would have to be punch-drunk to buy this deal.

The three fighters—"Merciless Ray" Mercer, Charles "The Natural" Murray and Alfred "Ice" Coal—are all undefeated in their 47 combined professional bouts. But prospectuses aren't supposed to lie, and this one acknowledges that Triple Threat won't make any money unless one of its fighters becomes a world champ or, in the case of Merciless Ray, a top heavyweight contender. That "likely

hood," says the prospectus, "is small."

Gross purse payments for all the fighters' bouts to date have been just $258,000, or only $58,000 after expenses. Triple Threat lost $454,000 on net purse income of $18,000 in the first six months of this year. Underwritten by D.H. Blair & Co., the offering is for a million units, at $5 per unit, each consisting of four common shares and four warrants. [Insiders, none of whom is selling stock in this deal, bought their shares for 15 cents each.]

The fighters are under contract to ring impresario Bob Arum, who is neither an officer nor a director of Triple Threat. Chairman John Dell, though, has some heavyweight credentials: He spent 13 years at the now-defunct penny-stock firm First Jersey Securities, eventually becoming the firm's president in 1985.

Tough act to follow

Dawn Steel did not lack for critics when she was running Columbia Pictures from 1987 to 1989. She was unceremoniously dumped when Sony Corp. took over and replaced her with Jon Peters and Peter Guber.

But now it looks like the woman dubbed "Hell on Heels" knew a thing or two about making movies. Flatters, which cost $18 million, has earned $54 million domestically and will probably make another $10 million. Her Postcards from the Edge, a $20 million movie, has pulled in $23 million in its first three weeks and should end up at $40 million in the U.S. Even with the cost of prints and ads, the picture should make out quite nicely, after revenues from foreign, TV and videocassette sales come in. Columbia-TriStar's biggest hit, Total Recall, was made by Carolco, but Steel's marketing team helped push it to $170 million worldwide to date. Coming up is a picture with great advance notice: Awakenings, starring Robin Williams and Robert De Niro. Maybe Sony would have done better by leaving management in place, rather than spending $500-million-plus on Peters and Guber.—Lisa Gubernick

Double pay

With the World Series coming up soon, another kind of baseball battle is brewing between the American and National League team owners. At stake: $190 million in fees for the two new franchises expected to be granted by the National League. When the major leagues last expanded, in 1977, the Seattle and Toronto clubs each paid a $7 million fee, which was split by the AL owners. Now the National League owners stand to split $95 million for each of their new franchises—and the AL owners are demanding a cut.

Why should AL owners share in the windfall? For one thing, the new teams will draft players from all major league teams—with no compensation to the teams losing players. Another argument: National TV revenues will now be split two extra ways, as will some licensing money for major league products.

Once the NL owners have settled on the new franchise sites, the AL owners must, according to a previous agreement between the leagues, approve them. That appears to give the AL owners effective veto power over NL expansion, and significant clout in demanding their cut. The NL's timetable is to come up with a short list of cities in December and make the final picks next fall. Leading contenders reportedly include Denver, Tampa-St. Petersburg, Phoenix, Buffalo, Miami, Charlotte and Washington.

Wedding bells for Jobs?

Although the Apple Computer co-founder denies it, the buzz in Silicon Valley is that Steve Jobs will soon be...
heading down the aisle, if he hasn't done so already.

We're talking matrimony, not merger. Jobs, 35, is expected to marry Laurene Powell, a second-year student in Stanford University's M.B.A. program. Powell, a 1985 University of Pennsylvania graduate, worked at Goldman, Sachs in sales before entering Stanford. She met Jobs after a speech he gave at the university last year. The two subsequently began living together in Jobs' Palo Alto home; Powell has been spotted driving to class in Jobs' silver BMW—the one with the "Next" vanity license plates, for Jobs' latest venture.

The pair vacationed in Italy for a week in late September, sparking rumors that the trip was a honeymoon after a secret wedding ceremony. Jobs, whose net worth is estimated at $400 million, has been linked romantically with folk singer Joan Baez and actress Diane Keaton, and is considered one of the Silicon Valley's most eligible bachelors. Never before married, Jobs does have a 12-year-old daughter, Lisa, for whom he once named an Apple computer.—Julie Pitta

No laughing Laffer matter

Economist Arthur Laffer, whose Laffer Curve did so much to get the Reagan Administration's tax cuts going and the economy rolling, has just been sued by the Federal Deposit Insurance Corp. The FDIC wants Laffer to hand over some $46,000, plus interest, money Laffer allegedly received as a director of Commonwealth Bank. That Los Angeles-area bank was shut down by regulators in 1987. Laffer signed a three-year deal to serve as a director in 1983, at $25,000 per annum. The full $75,000 was paid up front, in the form of a credit toward a $150,000 purchase of stock; Laffer paid the other half of the stock purchase in cash.

The feds' gripe? Laffer resigned from the bank in late 1984. The feds say Laffer owes the FDIC a refund for the part of his term he didn't serve. Laffer says the stock for which he received the credit is worthless, and that he's out of pocket $75,000 on the deal. The courts will decide.
Fuzzy thoughts
Sir: I can’t help wondering why, in a capitalist magazine, we must be continually subjected to the fuzzy social thought processes of Michael Novak. The latest nonsense (Oct. 1) is a condemnation of American universities and how they dispense birth control devices, expect young people to be responsible for themselves, and hope that the students will be tolerant of others. Somehow, I don’t find this an evil agenda at all.
—Robert E. Brown

Money is not talent
Sir: If money bought the San Francisco Forty-Niners a winner (Follow-Through, Oct. 1), why did George Steinbrenner’s money bring losers to the New York Yankees? There’s more to winning than high-priced talent.
—Spencer Howell
Silver Spring, Md.

Like an entrepreneur
Sir: Calling Madonna “America’s smartest businesswoman” is a sorry comment on business.
—Bob M. Abate
New York, N.Y.

Sir: Madonna’s sense of business is a very little part of the explanation of her success. Art, talent, creativity and an exquisite personality are the significant factors.
—G. Nickels
Brussels, Belgium

U.S. blues
Sir: The comparison of Neuberger & Berman’s Limited Maturity Bond Fund to various government funds in your article “Why pay unnecessary taxes?” (Sept. 3) is invalid. While our fund invests a portion of its assets in U.S. government securities, it is not presented as a means of acquiring a portfolio of government securities.
—Stanley Egener
President
Neuberger & Berman
New York, N.Y.

Wild kingdom
Sir: Re your article on exotic pets (“Pretty, pretty, Piggie Sue,” Oct. 1). Zoning law violations and county assessed fines can be more expensive than any exotic animal acquisition cost. South of Denver, in rural Douglas County, it is now virtually illegal to keep buffalo, a creature originally native to the area.
—John Sundheim
Parker, Colo.

Sir: Ferrets are not fun-loving rodents. They’re carnivores, and they eat rodents.
—Marshall E. Deutsch
Sidney, Mass.

Pardon
Sir: Your Thoughts on the Business of Life (Sept. 17) offers the following quotation: “God will forgive me, it’s his line of business,” which is attributed to Anonymous Poet.

Heinrich Heine was certainly a poet, but hardly anonymous. On his deathbed he said, “Dieu me pardonnera. C’est son metier.”
—Joseph Asher
Seattle, Wash.

Cut the cable
Sir: Re your Readers Say letter from Charles F. Dolan, the chairman of Cablevision (Oct. 1). He must be kidding when he talks about building, “without guarantees, an unsurpassed video delivery system.” His industry is granted a monopoly for a region. Cable is one industry that needs deregulation more than most.
—Seward G. Byam Jr.
New York, N.Y.

Choice apple
Sir: Your article “Can Apple go it alone” (Sept. 17) showed a lack of understanding, as well as a bias against Apple. Compatibility today does not...
mean an ability to run DOS software [although Apple can], but the ability to connect at the network level. Soon-to-be-announced products will fill out the line from entry-level systems to high-end workstations, all with Apple's graphical user interface and software base advantage, at comparable prices to DOS- or Unix-based systems.

—Christopher Pratico
Apple Business Development Manager
ComputerLand National Accounts
Wayne, Pa

Women are smarter

Punch

"Serves her right. She was always whimpering about women not being allowed to participate in the services."

Sir: Re the cartoon appearing in the Oct. 1 issue. Obviously the cretinous editors at FORBES and Punch, not to mention the loutish cartoonist, Nick, ascribe to the globally practiced notion that women suffer their condition in silence or face retribution of the most violent kind. The three of you are collaborators in ridiculing equality and encouraging violence, an egregious violation of human rights.

—Margaret A. Adamek
Minnetonka, Minn.

Sir: I only wish I subscribed to your magazine so that I could cancel my subscription.

—Maya MacArule
Berkeley, Calif.

Sir: My first inclination was to laugh. Then I caught myself. It started to look kind of white-male-backlash to me. I hope that I'm wrong and that the general population has come far enough since the Sixties to be able to laugh at this cartoon from a standpoint of enlightenment. I hope I'm an ol' fogy who sees denigration in the cartoon. Probably I'm not.

—Donna Lovett
Alexandria, Va

Punch is satirizing the lengths to which men have gone to refuse women their just rights—Ed.

There are rewards and there is Swissôtel.

Are all hotel frequent traveler programs beginning to look the same to you? Then come to Swissôtel where frequent guests are rewarded with, not points, not free rooms, but solid gold. Solid gold bars from Credit Suisse. Stay as few as ten nights in any Swissôtel in the U.S and get the gold. It's that simple.

Only the roads to Swissôtel are paved with gold. They are in New York, Boston, Chicago and, opening early 1991, Atlanta Buckhead.

To learn more about the Swissôtel Gold Account™ call 800 63-SWISS.
A SAAB WILL SURRENDER ITS OWN LIFE TO SAVE YOURS.

The Saab shown above was involved in a collision in April of 1990. The Saab will never run again. The driver walked away unharmed.

Which illustrates something remarkable not just about the car's obvious crashworthiness, but how it goes about achieving it.

In an accident, every Saab is prepared to make the ultimate sacrifice.

Its front and rear are specially constructed crumple zones. Acting as steel pillows, they offer themselves to the force of impact, absorbing and dissipating the blow as they fold inwards. Between the zones is a safety cage, a rigid, unitized enclosure of reinforced steel protecting the passenger compartment. This is standard on all Saabs, as are a driver's-side air bag and seat belt pretensioner system for the front passenger.

But the true test of any safety precaution lies out on the road, where actual accidents occur. And one of the most revealing measures may well be that prepared by the Highway Loss Data Institute, a research organization composed of over 250 insurance companies that monitors such accidents. According to its latest study, Saabs are at or near the top of their class in terms of safety rankings.

Of course, both a Saab and its driver would rather that the car never be called upon to display its talents in this area.

So every Saab is equipped with a responsive fuel-injected engine, an anti-lock braking system, and what Road & Track magazine, writing about a 9000-Series Saab, called "wonderfully precise and communciative steering." Because when it comes to safety, the best approach is always avoidance.

So if you'd like to experience a car that doesn't compromise safety for performance, or vice versa, visit a Saab dealer for a test drive.

For the driving enthusiast who cares about cars, it's one car that can return the favor.
WHY DID WE DAWDLE?

A few days ago Saddam Hussein stopped by Kuwait and spent several hours touring his conquered territory and inspecting his troops.

Our formidable armada of attack aircraft were only minutes away. Why weren't our aviators given the word to go after him?

You can bet that in similar circumstances the Israelis wouldn't have hesitated with an opportunity like that.

DON'T TAKE A POWDER NOW

A recent visit with Hungary's new Prime Minister Jozsef Antall underscored to this writer how uniquely America is perceived in the world and how destructive it would be if the U.S. withdrew into a new round of isolationism. Isolationism has deep roots here, and with the Kremlin pulling back, many feel we can leave the world to its own devices.

Thus, despite Iraq, Congress still passes crippling whacks in the defense budget.

Prime Minister Antall and other officials emphasize that the process of democratization is far from complete in their part of the world. They remember that in the 1920s democracy did not take root there or in other European countries (most notably, Germany). They don't want another failure. The Prime Minister discussed the need for an "Atlantic bridge" between Europe and the U.S. He made it clear that he and his colleagues look to the U.S. to take an active role in the establishing of new ground rules in the post-Cold War world. These people dread the notion of a fortress America or fortress Europe. "Don't walk away now," was their message.

They're right. Every time this country turns its back on the world, the forces of aggression and evil arise. We withdrew in the 1920s and paid dearly for it. After World War II, we actively worked to defend freedom, and the Free World prospered as never before. In the late 1970s, in the aftermath of Vietnam, we began pulling back, telling ourselves we were too impotent to influence foreign affairs effectively. And so the Ayatollah in Iran, murderous Marxists in Ethiopia and Sandinistas in Nicaragua surged to power. The Soviets felt free to invade neighboring Afghanistan.

In talking to new democratic leaders such as Premier Antall, it becomes clear how much he and others of like mind look to us for leadership.

FAIR TRADE

Boosting the maximum federal income tax from 28% to 33%

in exchange for a cut in the capital gains levy to 15%.

RECESSION?

We're in one. When economists make their final statistical revisions a few years from now, they'll discover that it began in late 1989. The contraction should end in early 1991.

This downturn was entirely unnecessary. The Federal Reserve gratuitously boosted the cost of credit in 1988 because of a strange notion that it must clamp down anytime the economy shows vigorous signs of life, and it did not loosen enough when it could have in the summer of 1989. [Unfortunately, the Fed's attitude is shared by central bankers in Germany, Britain and elsewhere, Europe's in for rough waters next year.]

Washington's failure, so far, to enact a cut in the capital
gains tax rate, which is the highest in the Western world, has also hurt. The stock market slump began exactly a year ago when the Senate blocked passage of a reduction. The current level has put venture capital in a deep freeze, throttling development of promising new technologies.

Also harmful is the possible passage of a so-called clean air act, a so-called civil rights bill and a so-called child care bill. All are misleadingly titled and will damage future growth with capricious, needless rules.

Other dampeners: Washington's unwillingness to prop up the dollar, which means future inflation, and significant tax boosts in most states.

The cures for the downturn are simple: meaningful reduction in the capital gains tax; a cut in the Social Security payroll tax; a halt to the Comptroller of the Currency's reign of terror against commercial banks; a cease and desist order to the Treasury Department to stop its malignant neglect of the sliding dollar; a cut in interest rates by the Federal Reserve; and a veto of costly, mistitled legislation, such as the Clean Air Act. This package could be put together in days.

The Mideast and oil? The showdown will be over soon. Saddam Hussein's days are numbered. Even if Kuwaiti and Saudi oil fields are damaged, oil prices will be heading southward after the fighting is over. A year from now, a barrel of oil should be under $25.

A TRUST IN NEED OF BUSTING

A badly needed revolution in American education is in the making. The old public school system as we know it will be gone by the turn of the century, broken up as a self-serving monopoly should be.

In real terms primary and secondary education spending per capita is up 30% over the past decade, with little good to show for it. The problem is elementary: Bureaucracies can't manage an economy, they have the same adverse impact on schools.

The only way we can make our schools truly better is to make them accountable to the consumer, i.e. parents. That means giving them power of the purse through vouchers, substantial tax credits or other means. They should have a choice as to which school their children will attend. They should have the ultimate authority on the management of that school. Research shows that a good school is one run with a maximum of local control, and with an administration and faculty dedicated to creating an atmosphere of learning. States should set minimum standards and then get out of the way.

Such a decentralized system with parents setting the agenda horrifies politicians, unions and the educational establishment. Effective reform will be a hard political slog, but slog we must.

The revolution is starting: Experiments giving parents a choice of where their kids are schooled are popping up in Minnesota, Milwaukee and, if a state referendum is passed next month, in Oregon. Socialism fails wherever it has been tried. It's time to rid it from our public schools.

RESTAURANTS—GO, CONSIDER, STOP

These reviews are the distilled wisdom of brothers Bob and Rip and FORBES chef Christopher Long.

- **Arcadia**—21 East 62nd St. [Tel: 223-2900]. Arcadia remains Arcadian. Crab cakes are superb, and chicken with artichoke stew is happily balanced, i.e. the artichokes don't overwhelm the chicken. The blueberry ice cream roll was even better than the iced espresso mousse with chocolate truffles.
- **Paris Commune**—411 Bleecker St. [Tel: 929-0509]. Cute and cozy bistro, but the food is not terrific. Fusilli with grilled scallops is the best main course, but there are too many dried herbs all over the vegetables.
- **Indochine**—430 Lafayette [Tel: 505-5111]. The In-crowd is gone but the food remains tasty. Beef with saté sauce has a lemon grass undertone that keeps you wanting more.
- **Manhattan Ocean Club**—57 West 58th St. [Tel: 371-7777]. The food is good, portions are generous and service is quick. This place has found its pace. Be sure to try the crab cakes here, too. The desserts are calorically catastrophic.
- **Border Cafe**—2637 Broadway, at 100th St. [Tel: 749-8888]. As Chef Long pungently puts it, "The worst excuse for Mexican food I have ever tasted. The chef must have accidentally dropped the spice rack into everything. Stay at the bar."
- **Condon's**—117 East 15th St. [Tel: 254-0960]. The food is not fancy, but good. Sirloin steak and tuna steak are broiled to near perfection, french fries are great, vegetables not too raw—just enough crunch. The live jazz is a bit loud, wonderful if you don't want to make conversation.
- **Bice**—7 East 54th St. [Tel: 688-1999]. Excellent food. This place is packed. It's no place to talk, but that doesn't matter because the Prussianly efficient service doesn't leave much time to do so.
BOSS SPIRIT: THE FRAGRANCE OF TOMORROW
These Days When A Worker Has An Accident, Even

The Workers Compensation System was designed to help injured workers get well, and return to work. In most states, it does. In other states, the problems aren't simply big. They're enormous.

And beginning to spread into other states. Right down the line, everybody's starting to feel the effects — from the workers, to their families, to the employers, to the insurers.

The System

Over 75 years ago, when it was created to protect workers from on-the-job injuries, Workers Compensation was based on some well-intentioned and well-received ideas:

To prevent work-related accidents from ever happening.

To give prompt, quality medical attention and equally prompt income benefits.

To rehabilitate injured workers and help them get back to work.

To offer cost stability to the employer.

And ultimately, to keep the entire workforce productive — the less down-time, the more time you have to be competitive, and stay competitive.

The Obstacles

It bears repeating: There are problems. Big problems, in many states, that need fixing. We also need to strengthen the system so that these problems don't spread to other states.

Problems like unnecessary, time-consuming litigation. Soaring claims costs. Underfunded, understaffed state-administered agencies. And on a national level, runaway medical costs.

Fact is, the economies of entire states are
Partly because businesses won't relocate in places where Workers Compensation is in disarray.

For some states, the situation is so critical, insurers have stopped writing Workers Compensation Insurance altogether—premiums won't cover losses and expenses.

The Way To Help

What can you possibly do to help? You'd be prised. To help restore and strengthen the system in your state, you can take two courses of action.

First: Be aware. Find out what's happening in your state, how you're affected, and what you can do to help. Talk to your insurance-company business trade association.

Or two: Share your views by writing to Gary Countryman, President and CEO of Liberty Mutual, 175 Berkeley Street, Boston, MA 02117. We'll help you get in touch with people in your state who can help.

When strong and fit, the Workers Compensation System works hard, and works well. Everyone it touches, it benefits—especially the injured worker.

Which is why, considering all it stands for, we should do everything possible to keep it standing.

Help Strengthen Workers Compensation.
Other Comments

Out at First
You can't steal second base and keep one foot on first.
—an unnamed 60-year-old junior executive, The 637 Best Things Anyone Ever Said

Crucial Choice
If President Bush chooses budget balance over capital gains, he will be repeating the error made the last time we were at the edge of a long cycle, when President Hoover cemented the Great Depression into place with his 1931-32 tax hikes. Just as Hoover could not run for re-election in 1932 on a platform to repeal the Smoot-Hawley Tariff Act that started the slide in the first place, George Bush would find it hard to run in 1992, amidst general depression, on a promise to cut and index the capital gains tax.
—Jude Wanniski, Polyconomics, Inc.

Educate the Educators
Since the mid-1980s, school systems have received more money; students have faced higher graduation requirements; and teachers and administrators have been enlisted to restructure school management. These efforts have largely failed. The most recent National Assessment of Education Progress found scant improvement.

Biologically Unfit
Why we don't want men to vote:
1) Because man's place is in the army.
2) Because no really manly man wants to settle any question otherwise than by fighting about it.
3) Because if men should adopt peaceable methods women will no longer look up to them.
4) Because men will lose their charm if they step out of their natural sphere and interest themselves in other matters than feats of arms, uniforms and drums.
5) Because men are too emotional to vote. Their conduct at ball games and political conventions shows this, while their innate tendency to appeal to force renders them unfit for government.
—Alice Duer Miller, author, 1874-1942, written in 1915, reprinted in the New York Times

No Chivalry, No Honor
Saddam Hussein is no Saladin. The 12th century commander was a man of chivalry and honor. The chroniclers record that his campaigns were waged without bloodshed or hatred. After his conquest of Jerusalem, impoverished Frankish prisoners were freed without a ransom, widows and orphans were allowed to leave and were offered gifts.
—by Fouad Ajami, U.S. News & World Report

Governments tend not to solve problems, only rearrange them.
—Ronald Reagan

Ban the Bashers
Recent history shows clearly that a sinking dollar raises inflation fears, drives up interest rates, undermines economic growth and destabilizes financial markets. Recall the October 1987 stock market crash following that summer's breakdown of international currency cooperation. Recall also the October 1989 minicrash, following the G-7's decision a month earlier to engage in dollar-bashing. This is why the U.S. Treasury Department's policy of malign neglect of the dollar is so disturbing. Over the past 15 months the dollar's value has dropped 16%. If this ominous trend continues, the world financial system and its underlying economies are likely to suffer enormously, with consequences far more lasting than the Middle East's temporary oil price shock.
—Lawrence Kudlow, chief economist of Bear, Stearns & Co., in the Wall Street Journal

Not that Hungry
Having ordered a pizza, baseball player Yogi Berra was asked whether he would like it cut into four or eight pieces. "Better make it four," said Yogi. "I don't think I can eat eight."
—The Little, Brown Book of Anecdotes, edited by Clifton Fadiman
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Introducing a new luxury option for Lincoln Continental, Town Car and Mark VII. More than just a cellular phone, the new Ford Cellular System offers a state of the art factory-installed Lincoln cellular phone, plus a national dealer-activated carrier network* and a factory-backed dealer service and exchange program. You won't find a complete cellular phone system that offers more value and convenience.

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Enter data with a keyboard; manipulate it with a mouse. Release 3.1 lets you work with either, or both.

A graphical WYSIWYG (what-you-see-is-what-you-get) environment shows you exactly what your output will look like. It's easier to work with, and there's no guesswork.
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WeCycle Waste Corporation
1990 Recycling Summary

Last year was a good year for the company. WeCycle was profitable and came very close to achieving our goals in a very uncertain economic and recycling climate.

Revenue by Product
Material collections increased over the year. Plastics continue to bring in the most revenue and profit for the company. Prices for aluminum are still very soft and while we're continuing to collect more glass, markets for the raw materials are still in their infancy.

<table>
<thead>
<tr>
<th>Product</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plastics</td>
<td>1,288,989</td>
<td>1,824,120</td>
<td>2,578,857</td>
<td>2,883,884</td>
<td>9,898,297</td>
</tr>
<tr>
<td>Glass</td>
<td>1,270,904</td>
<td>1,822,132</td>
<td>1,829,432</td>
<td>2,800,894</td>
<td>8,052,753</td>
</tr>
<tr>
<td>Aluminum</td>
<td>1,148,094</td>
<td>1,409,421</td>
<td>1,501,763</td>
<td>5,420,090</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4,607,187</td>
<td>5,145,004</td>
<td>5,919,051</td>
<td>11,146,762</td>
<td></td>
</tr>
</tbody>
</table>

The graph at the right details our revenue by waste material for the four quarters of 1990. The revenue increases show that communities are building up their recycling programs beyond just collecting plastics. Revenue from aluminum and glass have increased as new programs have gained volume. But, we're still seeing price pressure as the supply of recyclable materials continues to exceed the demand. We need to look for ways to expand our markets and increase the use of recycled materials.

Collections by District

Plastics
- City Center: 6,402,829
- South Shore: 5,175,450
- Western Towns: 2,975,484
- Total: 14,553,763

Glass
- City Center: 5,202,912
- South Shore: 2,247,920
- Western Towns: 2,982,200
- Total: 10,427,032

Aluminum
- City Center: 4,556,539
- South Shore: 3,341,280
- Western Towns: 2,977,341
- Total: 10,875,160

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Lotus 1-2-3 3.1

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*As reported by Audits & Surveys, Inc., measuring IBM Compatarble spreadsheet sales among computer and software dealers nationwide.
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Charles Schwab
JAPAN'S ROLE IN THE GULF CRISIS

"Japan-bashing," always popular in Congress and on the stump, is likely to rise to fever pitch as we approach the national elections. It is also likely to be totally ineffective—unless the goal is further to strain already weakened ties with one of our most important allies.

Japan has announced it will contribute some $4 billion to aid the U.S. and Saudi Arabia's beleaguered neighbors in resisting Iraq's brutal aggression and to support in enforcing what promises to be the first effective use of economic sanctions in many years. Promptly, and predictably, Japan's congressional critics called press conferences to brand this as "shamefully inadequate."

One gets the impression that, if Japan's contribution had been $8 billion or $10 billion, precisely the same anti-Japanese reaction would have been heard. The facts are: 1) $4 billion is still a considerable amount of money and 2) as large as it is, it does not in any sense represent a final Japanese commitment to an effort that will, of course, benefit Japan as much as it does the U.S. and our other allies.

Some of the threats proposed in Congress to try to force more money from Japan would be laughable if they were not so dangerous and if their acceptance would not injure the U.S. so much. The most popular proposal is the threat to withdraw some of our troops from Japan each month unless it agrees to pay for the entire cost of those troops. This approach overlooks the fact that not only is Japan paying more than any other nation to support U.S. troops based within its borders, but, and far more important, the withdrawal of our forces from that ally would hurt the U.S. at least as much as Japan.

Now that the Soviet Union is in such turmoil internally and its economy in such shambles, the potential threat from the Soviets is not nearly as great as it was, but it is still considerable. We should not overlook the fact that the Soviets have nearly 2,500 fighter aircraft in the Far East, or that Soviet bases enable their latest fighter planes to cover all of the main islands of Japan. Neither we nor Japan can ignore the fact that the Soviet air- and sea-launched cruise missiles have been greatly improved in recent years and that the islands of Japan are particularly vulnerable to such weapons. The Soviet Pacific fleet now has 100 major surface combat vessels and 140 submarines, and the Soviets continue to occupy armed bases in Japan's northern territories.

Furthermore, Soviet arms sales to North Korea, and the political instabilities in the Philippines and Vietnam, add to the problems of defending a country whose fall would greatly weaken the U.S. So whom would we be punishing if we were to take our troops out of Japan? Anyone with the remotest familiarity with military strategy would agree that forward deployment of our troops in Japan is vastly more effective for the security of the U.S. than not having them there.

It is indeed true that Japan can afford to do more to share the responsibilities for the vitally necessary actions in the Gulf. But it is also true that Japan is now spending more on its own defense, and that this enables the U.S. to use more of its forces to help block Saddam Hussein's aggression. Japan could, and should, increase its capability to carry out its self-imposed mission of defending its sea lanes as far out as 1,000 nautical miles and air lanes 200 nautical miles. This should include the acquisition of additional Over-the-Horizon radars and AWACS planes, and more refueling planes that enable defensive fighter planes to extend the time they can remain aloft on their stations.

These are the things we should be urging Japan to do, but urging them quietly and in a nonconfrontational atmosphere. That is likely to be far more effective and to have far less chance of straining relations with one of our closest allies.
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Based on the country's current population structure, the U.S. will see much lower growth in new entrants to the labor force in the coming decade—a 1.2% annual growth rate, as against 2% a year in the 12 years 1976-88. This slowdown is a major reason the Bureau of Economic Affairs predicts annual economic growth of around 2.3% in the ten years ahead, down from 2.9% over the last decade.

The shape of things to come in the labor force is already pretty clear, says Bureau of Labor Statistics economist Ronald Kutscher. He forecasts 18 million new jobs created between 1988 and 2000, well down from the 28 million created in the previous 12 years. The work force will also get older on average. The share of the labor force in the 24-to-55-year-old range will increase, while those in the 16-to-24-year-old range will fall, from 19% in 1988 to 16% in the year 2000.

A relatively greater number of women will work, adding to costs for items like child care. Women's share of the work force will continue to rise, to 47% of the labor force by the year 2000 from 45% in 1988. In another major change, minorities (blacks, Asians and Hispanics) will reach 26% of the labor force in the year 2000, up from 21% in 1988.

The aging of the work force will give a modest boost to productivity, since the older workers will be more experienced and better educated, especially the women now entering the labor force. The flip side of this is the fact that education—and specific vocational training by companies—looms as a major cost increase ahead in the 1990s. The biggest problems of training and education will face the service sector, which will continue to show by far the fastest job growth, around 35% between 1988 and 2000. The goods-producing sector, by contrast, will show next to no growth at all (a 2% estimate) in the same period. Fewer and fewer Americans will work on farms.

All demographic predictions must, of course, be hedged with various assumptions about U.S. immigration policy. Currently, Congress and the White House show little appetite for knocking down the barriers that keep talented, hardworking foreigners of both genders and all ages and educational achievements out of the work force. But the country remains a powerful magnet. If U.S. policymakers wanted to recast the country's demographic mix, they could do so easily.

But for now, the safest bet is that good labor will be harder to find in the years ahead. This has major implications for the U.S.' capital/labor ratio. With labor freely available and relatively cheap (wage rates in the U.S. are still barely keeping pace with inflation), it has made sense for most companies to use people rather than capital. That tradeoff looks likely to swing to favor capital, especially in the hitherto predominantly labor-intensive service sector.

Perhaps this swing is already under way. Despite the stagnant economy, capital spending has held up remarkably well so far this year.
Recessionary numbers surface. Manufacturers' new orders fell 0.5% in August, while inventories were unchanged from the previous month. The latest inventory figure actually stands 0.7% lower than it did in January. Personal income grew only slightly from July to August. However, after adjusting for inflation, personal income is down 2.6% from a year ago. Meanwhile, nonfarm payrolls fell for the third consecutive month, as the unemployment rate rose to 5.7% in September. The preliminary Forbes Index for August shows a 0.4% decline.

Other key rates

<table>
<thead>
<tr>
<th>Source</th>
<th>Status</th>
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</thead>
<tbody>
<tr>
<td>Prime rate</td>
<td>Chase Manhattan Bank 10.0%</td>
</tr>
<tr>
<td>Auto sales year to date vs. 1989</td>
<td>Ward's Automotive -5.4%</td>
</tr>
<tr>
<td>Index of leading indicators August vs. July</td>
<td>Dept of Commerce -1.2%</td>
</tr>
<tr>
<td>Trade balance 12 months ended July 1990</td>
<td>Dept of Commerce -0.4%</td>
</tr>
<tr>
<td>Producer price index August vs. 1989</td>
<td>Dept of Labor 5.1%</td>
</tr>
<tr>
<td>GNP 2nd quarter vs. 1st—annualized growth</td>
<td>Dept of Commerce 0.4%</td>
</tr>
<tr>
<td>NBER Experimental Recession Probability Index</td>
<td>Nati Bureau of Economic Research 0.0%</td>
</tr>
</tbody>
</table>

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, Forbes monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)

Manufacturers' new orders and inventories (billions) seasonally adjusted (Dept. of Commerce)

New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)

Personal income (billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

Retail sales (billions) seasonally adjusted (Dept. of Commerce)

New unemployment payments average for month (thousands) seasonally adjusted (Dept. of Labor)

Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Consumer installment credit (billions) total, seasonally adjusted (Federal Reserve)
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Advantage: Chrysler.
Delta Air Lines, the nation's number three carrier, is expanding despite intense competition, higher fuel prices and a sluggish economy. Next stop: over there, somewhere.

Full speed ahead—but cautiously

By Seth Lubove

Every day brings more bad news for the airline industry. Fuel price hikes. Recession. High interest rates. Carriers such as Pan Am, USAir and Midway are laying people off. But in the parking lots around Delta Air Lines' sprawling Atlanta headquarters, the toughest problem is finding a place to put your car. No layoffs here.

Not that Delta is immune to the turbulence buffeting its industry. In fiscal 1990, ending June 30, Delta's net fell 34%, to $302.8 million ($5.79 a share), largely because of an increase in fuel prices. Delta warns of "significantly worse" results in the current quarter—and analysts have interpreted "significantly worse" as possibly meaning red ink. But nobody expects Delta to be in the red for the full year, and its powerful balance sheet insulates it from the worst effects of the current slump. Significantly, its stock has behaved better than most other airlines' stock this year. So far this year, Delta's shares are off by almost 20%, to around $55 a share, compared with drops of close to 50% for the shares of United Airlines and nearly 30% for American Airlines.

Not only is Delta not laying people off, it is hiring. On the apparent theory that a recession is a good time to expand for those with lots of financial strength, Delta is expanding right into the teeth of the current slowdown. It is expanding faster than at any other time in its 61-year history.

Delta jets at Hartsfield Atlanta International Airport

Expanding faster than at any other time in its 61-year history.
Taking the long view, Chairman and Chief Executive Ronald W. Allen says: “When you look back over the past ten years, it’s really shocking to see what’s happened to this industry. But we’ve not only survived, we’ve grown and prospered.”

It shows in the balance sheet. Though Delta has almost doubled its long-term debt since last year, to $1.36 billion, to help pay for the company’s expansion, debt remains a manageable 35% of total capital. At United, by contrast, debt is over 45% of total capital, while debt levels are even higher at beleaguered carriers like Pan Am and Continental.

A decade ago Delta was the nation’s sixth-largest U.S. carrier; today it stands in the number three spot, having surpassed Pan Am, TWA and Eastern. Delta’s market share has moved up from 10% in 1980 to 14% today, putting it just behind American and United (see story, p. 42).

Over the past four years Delta’s work force has increased by 65%, to 64,000. Every month the carrier is taking on about 90 new pilots, 80 mechanics and 160 flight attendants. A 300,000-square-foot training center finished only last year to handle recruits is rapidly filling to capacity, and Delta is buying up land around its headquarters for expansion.

The expansion has taken this one-time regional carrier to the far corners of the globe. Industry trends demand it: U.S. air travel is expanding at a rate of less than 3% a year, while air travel into and out of the U.S. is growing at nearly 17%. So far, Delta’s foreign moves have paid off. Its recently inaugurated Atlanta-to-Amsterdam route has run 85% full since it began in July. Passenger load factors are also high on Delta’s transatlantic routes (81%) and on its Pacific routes (77%).

As more tourists and businessmen from heartland America travel abroad, and as more foreigners visit the U.S. on business and for pleasure, international is the place to be—provided you have the domestic flight network to feed passengers into international, Delta does.

Delta has two crucial advantages over its rivals. First, it is largely non-union. This doesn’t mean it exploits its workers. Quite the opposite. Delta’s people are some of the highest paid among the major carriers; workers earn 21% more than the industry average. But good morale and the absence of restrictive union rules translate into high productivity and good service. A 33-year record of no layoffs translates into contented workers, who repay Delta’s loyalty to them with loyalty of their own. Contrast that with Eastern’s contentious unions whose brinkmanship helped run the airline into the ground.

Not surprisingly, Delta has had the fewest number of consumer complaints of any major carrier for the past 16 years. Freed from union featherbedding and restrictive rules, Delta can often get increased productivity by having employees fill in on jobs in a pinch. During the busy Christmas season, for instance, a ticket agent can fill in as a baggage handler, or vice versa. “This is a people business,” says Chairman Allen. “You’re serving customers. We want to do it in a courteous way. If you want to do that, you must have a loyal, dedicated crew.”

Delta’s only major union is the Air Line Pilots Association. But the carrier and the pilots have managed a peaceful coexistence. Under a contract negotiated with the pilots’ union in July, wages will go up 3.5% a year for the next three years. In return, the pilots agreed to increase their work schedule 7%, to 80 hours a month.

Delta’s second major advantage is the weakness of Eastern, for years its chief rival in Atlanta. When Eastern suspended operations in March 1989 because of a strike, Delta’s planes flew out of Atlanta with about 75% of their seats full, as against less than 65% previously. Eastern’s travails also contributed to Delta’s record 1989 profit of $461 million.

To solidify its supremacy in the Florida skies, Delta just last month opened a $279 million terminal at Orlando, where the airline serves as official carrier of Walt Disney World. This designation helps Delta attract U.S. vacationers, but also makes the airline familiar to the thousands of foreigners who flock to Disney World each year.

Right now Delta is flying into nine European cities, and has applied to double that number, among them Berlin, Milan, Rome, Leningrad, Moscow and Tblisi. The airline flies to four Asian cities, and has preliminary approval for two more routes. Of the 583 aircraft Delta has on order or option, 67 are committed to international routes, nearly tripling the number of planes Delta uses internationally.

Delta plans to fill its international flights by using what it calls its four-corner offense: Atlanta and Cincinnati serve as major international departure points in the cast. In the west, Delta uses Dallas and Salt Lake City as hubs, routing Asia-bound flights through Portland and Los Angeles.

Of course, an airport like Cincinnati can’t singlehandedly support daily service to Paris, just as Portland alone can’t fill flights to Tokyo. But Delta keeps its international flights nearly full by flying passengers into airports like Portland and Cincinnati from other locations in its U.S. network. Thus, it’s Delta all the way from Boise to Salt Lake City to Cincinnati to Paris.

Note this: Delta’s international routing system largely bypasses the aging and frighteningly hectic JFK International Airport in New York.

“People said we were out of our minds” to select Portland as a gateway to Asia, says W. Whitley Hawkins, executive vice president of marketing. “We thought, look, we’ve had a little experience with this. Portland may not be able to do it itself, but we can feed it.”

If Delta can’t fly you all the way to wherever you want to go, it tries to get you to fly a friendly airline. Delta recently entered into cross-ownership arrangements with Singapore Airlines and Swiss Air. The new partners, like Delta, are high-prestige, high-service
Delta airlines. Now each of the three carriers owns small stakes in the other two. This arrangement suggests that closer cooperation and increased cross-marketing of flights among the three is likely. Yet none of the carriers will lose its independence.

Delta could have moved overseas the easy way, by buying international routes as United and American did. United bought Pan Am’s Pacific routes in early 1986 and, along with Northwest, now holds a firm grip on the airways over the Pacific. American earlier this year bought Eastern’s 20-city Latin American system.

But Delta says it prefers to grow its own international routes, even though that involves painstaking, sometimes frustrating negotiations between Washington and foreign governments. Privately, Delta executives concede that one reason they don’t buy a rival’s overseas routes is that Delta doesn’t want to take on all the other airlines’ people problems, such as unions that may come with the routes. That tells you a lot about Delta: Where many business people think of mergers chiefly in terms of assets, routes, equipment, Delta never forgets that people are perhaps the most important part of the equation.

By conventional standards, Delta is scarcely a textbook case of how to run a big company. In many respects it hasn’t changed its ways all that much since the days when it was a folksy southern airline. Even with $8.6 billion in annual revenues, it operates without a formal budget. “We operate on a justify-as-you-go basis,” says Chairman Allen. And it’s to Allen that much of the justifying gets done. In weekly Monday management meetings, attended by top managers such as Executive Vice President Russell H. Heil and Chief Financial Officer Thomas J. Roeck Jr., Allen gives the okay for any hiring, and for expenditures as low as a few thousand dollars.

Earlier one recent Monday morning, Allen had grilled C. Julian May, senior vice president of technical operations, on a request for a $6,000 copy machine.

“Are you sure you need this, Julian?” Allen wanted to know.

Experts on corporate organization might argue that a chief executive shouldn’t waste his time on such details, but what better way to let people know you want them to cut costs than to have the boss himself turn down your order for a new copying machine?

“Our planning process anticipates a recession,” says Allen, who confesses that the sharp fuel price hikes came faster than Delta anticipated. Every cent-per-gallon rise in fuel prices costs Delta $20 million a year. Even with the drop in net, however, Delta’s actual fiscal 1990 net is higher than anticipated 1990 results for United and American. In profitability Delta leads by an even wider margin, with a net profit margin of 3.5% for 1990, compared with an expected 1.1% for American, 2.7% for United and 0.5% for the industry as a whole. Delta’s fuel-efficient fleet—at an average age of 8.6 years per plane, the youngest among the top six majors—reduces the impact of escalating oil prices.

Charles Freeman, airline analyst for John Neff’s Windsor Fund, a major Delta shareholder, is an enthusiast. He likes Delta’s hands-on but cautious management style, which he thinks enables Delta to capitalize on opportunities without getting carried away, as airline people so frequently do. Says he: “Delta is adding planes that will give it capacity growth of about 6% to 7% a year, versus American’s 14%. We sort of like this careful Delta approach.”

Leaning back on the couch in his Atlanta office, hands locked behind his head, Allen smiles, “Our marketing people feel we don’t have enough planes. That’s good.” He thinks it is good because it shows that Delta is using what it has to maximum advantage. As the record shows, that’s the Delta way.
Would you pay $1 to get 98 cents? A lot of smart and solvent bankers are doing just that as the Resolution Trust Co. auctions off the deposits from insolvent thrifts.

Fire sale

By Matthew Schirfin

Until recently Kilgore, Texas’ claim to fame was its oil museum depicting the early-20th-century boom days. But local banker Rex Whitten dreams of putting this east Texas town of 11,000 on the financial map.

Over the past six months Whitten has expanded his Kilgore Federal Savings & Loan from $175 million in assets to over $1.5 billion. Kilgore Federal has swallowed up the deposits of ten insolvent thrifts that were controlled by the government’s Resolution Trust Corp., the outfit charged with cleaning up the savings and loan mess. In return for taking over these deposit liabilities, Kilgore Federal got cash from the Resolution Trust almost equal to the liabilities; in effect Kilgore Federal paid just $1.4 million to get control of this $1-billion-plus in deposits.

Kilgore Federal is just one of a number of small and healthy banking institutions getting deposits at a bargain price from Resolution Trust. No expensive advertising to garner deposits, no offering gifts or premium interest rates. While the Resolution Trust is being forced to hold on to many troubled loans and ailing real estate, it is turning deposits over to solvent banks and thrifts. Clearly, the acquiring entity hopes to reinvest the cash profitably enough to cover the premium and then some.

“Thrift deposits have become a cheap source of funding for healthy institutions,” says James McDermott, president of Keefe Bruyette & Woods, the New York-based bank consulting firm. “Assuming these deposits is also a great way to get into new markets.” Since August 1989 the RTC has “resolved” 287 troubled thrifts with deposits of $94 billion and assets of $108 billion.

In an RTC auction, buyers typically bid a “premium” on the thrift’s core deposits. What this means is that the acquiring thrift accepts an amount of cash from Resolution Trust that is slightly less than the amount of the deposits acquired. The average premium these days is 2%, so the Resolution Trust has paid buyers of the deposits an average of $98 in cash for each $100 of deposits they assume. That compares favorably with a few years ago, when premiums averaged 6% to 10% of deposits, and is certainly less risky than buying an entire institution privately and assuming the loans as well as the deposits.

Most of Kilgore’s deposits were acquired for premiums of less than 0.5%, but not all the transactions are at such bargain prices. When a deposit deal offers a chance to knock out a bank’s only local rival, the bidding may go higher. Just look at $70 million (assets) Peoples National Bank in Checotah, Okla. (pop. 3,500). By assuming the $16.6 million in deposits of nearby Cross Roads Savings and closing down its office, Peoples becomes the only banking institution in a 13-mile radius. Peoples bid a fat premium—$303,000—for Cross Roads’ $3 million in core retail deposits. The 10% premium was high enough to keep out the only other bidder, Citizen National of Muskogee, 20 miles away.

Sometimes there’s an intangible benefit for the buying bank. Colorado’s Bank of Aspen, with $75 million in assets, bought up its nearest competitor, Aspen Savings, which had $110 million in deposits. “We generated a lot of good publicity by rescuing the local depositors,” says Aspen President Kurt Adam. “It has been a great sales tool for us.”

Not everyone is thrilled by these rescues. Wharton lecturer Kenneth Thomas claims the Resolution Trust isn’t charging enough for the transfer of these deposits. “In a few years we will look back and ask what have we done,” predicts Thomas. “This fire sale is going to create the next wave of S&L millionaires.”

There has already been an outcry over the terms by which super rich people like Robert Bass and Ron Perelman acquired thrift deposits. Maybe the premiums are low, but the deals still move the deposits—and the obligation to guarantee them—from weak hands to strong hands. Would-be acquirers must have strong capital backing. Such is the case with Kilgore Federal, whose parent is $2 billion (sales) paper and packaging concern Temple-Inland.

There is also a rigorous application and preapproval process. Listen to the experience of Lawrence Smith, a former banker who is now the general partner of Essex Financial, a Virginia-based limited part-
nership that recently raised $40 million to take advantage of the sale of deposits. “First you must deal with the RTC bureaucracy. It took 14 days of full-time work for our lawyers, accountants and strategic planners to get through the application. Then you have practically no chance to kick the tires before you bid on a thrift.”

Smith tells a cautionary tale. Essex was informed that it had won a bid to assume $100 million in deposits of Financial Security of Delray Beach, Fla. in the parking lot of the thrift on the Friday before the Monday it was to take over. Smith was forced to fire half the staff and reorganize before opening up. It took a full 90 days to invest the cash in assets that yielded enough to pay depositors without having the thrift run in the red.

While foreign competitors invade the U.S., Whirlpool Corp. is moving overseas. Staying home would have been safer in the short run but possibly fatal in the long run.

Growing pains

By Steve Weiner

A headquar- ters in remote Benton Harbor, Mich., a two-hour drive from Chicago, hasn’t made Whirlpool Corp. parochial. Whirlpool has been going global—with a vengeance.

Whirlpool’s washers and dryers, under its own and Sears’ Kenmore labels, command 50% of the U.S. laundry market. Whirlpool ranks number two, behind General Electric, in production of dishwashers and refrigerators, and holds large market shares in most other major appliances. It adds up to revenues well in excess of $6.2 billion a year.

But the U.S. is saturated with home appliances; growth, at 2% or less a year, is half that projected for Europe. "We concluded that this was going to be a global industry," says David Whitwam, 48, chairman and chief executive officer since 1987. Whirlpool had dabbled in international business since 1957, when it bought a small stake in a Brazilian appliance maker. In 1987 it acquired a majority stake in Inglis Ltd., the Canadian appliance maker, and 49% of Vitromatic S.A. de C.V., of Mexico.

But Whirlpool’s biggest move overseas came in January 1989, when, for $361 million, it bought a 53% stake in the $2 billion European appliance business of N.V. Philips, the Dutch electronics concern, with the option to purchase the rest, for $600 million, by the end of 1991.

To its Whirlpool, Roper and KitchenAid brands it has added internationally significant labels such as Philips and Bauknecht. European and North American engineers have shared manufacturing and quality-control techniques. A low-cost product for developing nations, the “world washer,” has been launched from plants in Brazil, Mexico and India. The company has moved toward global procurement of 35 strategic materials and components, the 14 motor suppliers now used in Europe, for instance, will be pared to 2 or 3.

Still, Benton Harbor is a long way from Bremen and Barcelona. “We find ourselves offering suggestions to our colleagues [abroad] that, in the clear light of day, are stupid,” says Mack
Gray III, vice president of technology services. He cites as an example that U.S. engineers were at first highly critical of the cost and longer cycle times of Philips washers, which are equipped with internal water heaters. They were slow to understand that many European homes lack central water heaters.

How does the bottom line look so far? Counting Philips in both 1988 and 1989, profits rose 14% last year, to $187.2 million, or $2.70 a share, despite a 3% dip in sales overall and a decline of more than 16%, to about $1.2 billion, in sales to Sears. But this year profits could easily fall 10% or more, and are down 25% so far. Brazil gets much of the blame. Whirlpool now holds large minority stakes in four Brazilian appliance companies. Production and sales ground to a halt in the second quarter as the nation’s economy braked in response to the new government’s draconian austerity measures.

Europe is no bonanza yet, either. Whirlpool’s profitability there lags North America by more than two percentage points, largely because the company maintains separate operations in nearly every country. Marketing costs are up, too. Whirlpool, for example, has launched a $110 million advertising and promotion program to introduce its name to the continent. To establish a foothold in Eastern Europe, it created a Bauknecht appliance service group in the old East Germany in advance of any sales there.

At the same time, business has slumped in England, and microwave oven sales are down sharply throughout the continent. “Europe needs to be more profitable than it is,” says Whitwam. When will it be so? Perhaps after the economic unification of 1992 permits further economies in terms of distribution and inventories, he says.

Whirlpool’s domestic business has remained strong in the face of last year’s 1% industry unit decline and this year’s anticipated drop of up to 3%. KitchenAid, known mostly for its top-quality blenders and dishwashers when purchased in 1986, is showing double-digit growth as a full line of appliances, and a new line of budget-priced Roper-brand goods is doing well, too. But business with Sears continues to decline.

“We have more diversity in this company than ever before, that’s a strength, but it has to be managed,” says Whitwam. It might have been easier had Whirlpool simply stayed at home, but in doing that it would have compromised its future.

According to the press releases, everything was fine at Koger Properties. Then came a release saying everything wasn’t so fine.

And now the bad news

By Howard Rudnitsky

You might legitimately ask if 77-year-old Ira Koger was issuing press releases for Koger Properties, his Jacksonville, Fla.-based office park development outfit, or for some other entity. In late June, in a letter included in the company’s annual report, Koger told investors that “our common stock remains . . . a remarkable buying opportunity. . . . We have first-rate management and leadership, if I am permitted to say it.”

By mid-September Koger Properties’ stock had fallen nearly 33%, to 15, on the NYSE. But Koger insisted everything was fine. Said a Sept. 19 press release: “The fundamentals of the company have not changed, leasing is at an all-time high, occupancy levels are improving over last year, rental income is increasing. All operating fundamentals are sound.”

Then, on Oct. 1, Koger issued another, very different kind of press release. This one announced that the company would slash its quarterly dividend from 70 cents to 25 cents. Within days the stock plunged again, to below 8. Fortunately for Koger President Wallace Kienast, he had sold 34,560 of his Koger shares in August, at prices from 20 to 21, saving himself from a potential $400,000 loss. Less fortunate investors have filed several class action suits, alleging, among other things, the company was less than candid about its finances, a charge Koger denies.

It is evidence of the severity of the real estate slump that even Koger Properties’ finances are in some difficulty. During the 1970s property bust that clobbered many realty companies’ stocks, Koger was one of the few to come through unscathed. Ira Koger has never liked lots of leverage and, by operating efficiently, has been able to increase Koger’s dividends regularly.

How, then, did Koger’s company get into a bind? In a tough market, he tried to pursue the unusual approach of running a development company that paid big dividends. On top of that, he expanded development activity earlier this year despite the softening in some key office markets, including Florida, where many suburban areas have vacancy rates of more than 25%.

Over the course of this past summer, short-sellers figured that Koger Properties would find it hard to keep borrowing and to keep maintaining a dividend that was coster the company $74 million a year in cash. The bears could see that in the three months ended June 30, Koger’s cash
on hand had shrunk from $46 million to $22 million. And the $22 million was frozen as a compensating balance by Koger’s lenders.

The bears could also see that over the year ending June 30, 1990 Koger’s equity base had dwindled from $58 million to $17 million. The shrinking equity and growing debt load caught the eye of Standard & Poor’s; early this month S&P placed Koger’s $114 million of senior notes and subordinated debt on its surveillance list “with negative implications.” Under mounting pressure, the rich dividend had to be cut.

Ira Koger remains bullish. He owns 5.1% of Koger Properties’ 27 million shares, and has not sold any. He blames short-sellers for the stock’s decline, and claims he bought $1 million worth of shares this year. In Koger’s Oct. 1 dividend statement, Koger claimed that “the fair market value of our assets is about $1 billion against $650 million total debt, for a debt-to-equity ratio of 1 to 1.5. We are very comfortable with these ratios, given our demonstrated tenant loyalty and occupancy levels, as well as the rising rent stream overall.”

By Koger’s reckoning, the fair market value and debt figures quoted above suggest that the company’s breakup value is now around $13 a share, some 65% above its current market price. Perhaps. But at least one Koger watcher expects the stock to slide further. “It’s still vulnerable,” says Alex. Brown & Sons real estate analyst Catherine Creswell. “Koger Properties should trade at junk bond yields—about 14% to 16%. But at a recent 7%, Koger Properties’ shares are yielding less than 13%.

Loaded with debt, assailed with takeover attempts and union problems, United Airlines has nonetheless moved ahead smartly under Stephen Wolf.

Hectic but fruitful

By Steve Weiner

Now that UAL’s board has rejected the union-led takeover offer for the giant airline, Chairman and Chief Executive Officer Stephen Wolf faces labor negotiations with a possibly sullen and hostile union. What’s it like to be in this uncomfortable position? FORBES asked the highly respected 49-year-old airline chief executive.

“It has been a tumultuous few years,” says Wolf, “but our people have done well in a hectic environment.” He’s right. United, adding a new airplane every week, began this summer to fly more revenue passenger miles than archival American Airlines for the first time in two years. United may not be able to maintain that edge, but its second-quarter profits rose 5%, reversing a year of quarterly declines. On revenues of $9.8 billion, United’s profits fell 46% last year, to $324 million, or $14.96 a share. Even with high fuel costs, analysts expect United to earn at least $9 a share this year. With secure financing and heavy cash flow (well over $25 a share from depreciation alone), United is in good shape to finance new equipment.

Wolf’s own survival in United’s cockpit has, of course, been in question since April, when the board accepted the unions’ now-failed $201-a-share bid. The unions picked Gerald Greenwald, former Chrysler vice chairman, to head their proposed company. They’ve bristled at the prospect of reaching new agreements with a company led by the man who opposed their takeover. Wolf seems unworried at the prospects.

“There’s the rhetoric and then we have the facts,” he says. “The airline is running very well. We are growing faster than any U.S. carrier. We have become number one in the Pacific. We have just entered Europe, and we’ll be announcing shortly a doubling to Europe.”

But to continue doing well in today’s highly competitive, recession-threatened period, an airline must watch costs. Wolf promises pay increases, but wants them coupled with productivity improvements. An example: Mechanics at Delta and American airlines work an 8-hour day, including a 30-minute lunch on their own time. United mechanics work an 8-hour day, including a 30-minute paid lunch. That doesn’t sound like
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much, but it works out to an additional cost of about $30 million a year for United. "It’s perfectly fair, in this economic environment, to ask all of our employees to work an 8-hour day, especially when we are at a competitive disadvantage," says Wolf.

Will the unions agree? They’ve already announced a tough negotiating stance, but Wolf points out that he has delivered growth since he took over in late 1987, and that growth translates into job security. Wolf notes that in 1987 it took a pilot 19 years to collect enough seniority to become a captain at the then-stagnant United, compared with 8 to 9 years at American. Now it takes a pilot just 7 years to make captain at United. "The pilots had real reason to be unhappy," says Wolf. "But now employees see the promises we made are starting to come to fruition. It’s more exciting and satisfying to work for a growing organization."

Besides unions, high fuel costs and a recession face Wolf. Every penny-per-gallon increase costs United $22.5 million. Third-quarter fuel prices averaged 73 cents a gallon—12 cents more than a year earlier, $270 million in extra annualized costs.

But the airline has some hole cards, too. United flies with higher load factors than its competitors—nearly 68% this year, for instance, compared with 63.5% at American. It stores enough fuel for 20 days, giving it time to buy when prices are lower. As it adds aircraft, the flock of new planes will cost far less to run than old aircraft. And United holds a substantial cushion—$1.5 billion in cash.

This gives United staying power—and staying power is starting to matter. "If fuel prices stay where they are and the economy softens, there will be some casualties in the industry," says Wolf. "In the past when that happened, the airplanes went back into the air the following day with a new name on the side. But this time, we’ll see a fair amount of product come out of the sky, not to be replaced. That bodes well for the surviving carriers."

It also makes another hostile takeover attempt seem unlikely. "The environment is so different today that it would be impossible for anyone to hostilely acquire this company without the support of union leaders and a large internal component of the company," he says. "Otherwise, no one would lend into the transaction."

In an appeal to the unions to cooperate, Wolf says: "If we can ever all start pulling on the same end of the rope together, we’ll take this company to the Super Bowl, and win."

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**The Up & Comers**

**Worries**

When her husband died, Carroll Suggs took control of his Petroleum Helicopters, the world’s largest private chopper operator. Keeping the business healthy is a lot easier than keeping the family in line.

"Do I look like a haggard cat?"

By William P. Barrett

A year ago Robert L. Suggs suffered a fatal heart attack. He was 77 and still the force behind the company he had founded 40 years before, Petroleum Helicopters Inc. of New Orleans and Lafayette, La. The $188 million (fiscal 1990 revenues) company services the offshore oil industry and is today the world’s largest private chopper operator.

Who would follow the company’s leader? In March the board conferred the chairman’s title on Suggs’ second wife, 51-year-old Carroll Suggs. A college dropout who listed “homemaker” as her occupation on a tax return filed last year, Carroll Suggs is keenly aware of the limits of her technical knowledge, and is therefore no dummy. Even competitors give her high marks for morale-boosting and public relations. She heeds the advice of the new chairman of Petroleum Helicopters A nasty estate fight threatens her 52% voting control.

Don Young

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of her well-regarded management team, led by President and Chief Executive Frank Lee, and gives them lots of support.

"He was the coach," the stylish widow says of her late husband. "I'm more the cheerleader."

Don't be misled by Carroll Suggs' modesty. This cheerleader is already winning some big games. Earlier this month she rejected a takeover bid from New Orleans' Tidewater Inc. She rebuffed the demand of her largest outside shareholder, Sir Ron Brierley's Industrial Equity (Pacific) Ltd. of Hong Kong, for board seats befitting its 12% holding of voting shares.

"I'm having a good time," says Suggs of her victories. "Do I look like a haggard cat?"

Mexico oil, earnings for the quarter ending July 31 were more than double last year's same quarter, even after paying employees a big bonus. But these earnings are well reflected in the company's stock, which, at a recent 29, was selling for an expensive 16 times trailing earnings. Market value of the voting and nonvoting shares: around $175 million. Dividends: way under 1%.

But there are some hidden assets here that Tidewater and Brierley have seen. Petroleum Helicopters built its dominant position in the Gulf through Bob Suggs' insistence on market share at almost any price, even if that required buying and maintaining underutilized equipment. Using figures from the Official Helicopter Blue Book, the industry price bible, the 179 helicopters owned outright are now worth about $90 million (or $14.92 a share) more than the company's listed book value for them. Add that amount to book, and you get an adjusted book value of $28.12, only 3% below the recent price. The business comes for almost nothing.

It would appear that Carroll Suggs can fend off unwanted suitors for a while. Unfortunately for her, however, Suggs faces an enemy far more dangerous than outside raiders: family infighting. If she loses a nasty, unpublicized estate fight brought by her stepchildren, Petroleum Helicopters could really be put in play.

Robert Suggs had three children by his first wife, whom he divorced in 1958. He had three more by Carroll, whom he met through business associates and wed in 1970. ("He always liked pretty legs," she laughs.) The kids evidently didn't get along well with their new stepmother. And one acquaintance says Bob Suggs was annoyed that his first brood often sold off the shares he gave them.

The Suggs estate, now worth $50 million, consists largely of what amounts to a 52% voting stake in Petroleum Helicopters. The will names Carroll the executrix and gives her half the estate—outright. The other half is to be divided into six trusts, one for each of Robert Suggs' children.

However, the will gives Carroll all income during her lifetime from the children's trusts—including those of the first family. The will also makes her the sole trustee of the six trusts and grants her the power to vote their Petroleum Helicopters holdings, which gives her control over her husband's full 52%. It ensures that his first family, all of whom are Carroll Suggs' contemporaries, probably won't see anything for a long time.

Outraged, the children of the first family sued. In any other state, they wouldn't get very far. The language of Bob Suggs' will is clear. But this is Louisiana, whose French civil law tradition holds that in some circumstances a deceased's children are guaranteed a certain share under the doctrine of "forced heirship." Suggs' first family members are arguing that an obscure law dating back to 1804 limits Carroll, as a second spouse not their parent, to value not exceeding one-half their father's estate. Since she got that much outright, they say, she isn't entitled to any part of the other half and certainly not a life estate. Carroll contends the 1804 law is inapplicable or has been implicitly repealed by later laws.

Despite the clarity of Suggs' will, the first family members seem to have a clean shot. If they win, Carroll's control could be reduced from a takeover-blocking 52% to a much more vulnerable 39%.

The hotly contested case—court filings say that during one tense meeting a lawyer grabbed documents from the other side and tore them up—has been going on for more than a year at the Jefferson Parish courthouse near New Orleans. The battle could last years. Which means that for the immediate future Carroll Suggs will be running the company. But, says an angry Dana Ehlinger, 48, Bob Suggs' oldest child: "The public should know she's merely exercising control as an executrix. The estate has not been distributed."

To which her stepmother replies: "I'm here to stay."
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Nevica is one of the hottest names in skiwear these days with high-tech, high fashion—and high prices.

By Rita Koselka

British skiwear? Moreover, British skiwear that's fashionable and technically advanced?

Most people probably think those ideas are mutually exclusive—as did Gretchen Scott, who is now president of Nevica USA, the American distributor of London-based Nevica Ltd., the hottest maker of skiwear currently cruising the slopes.

Nevica first approached Scott to work for the British company five years ago. She was skeptical. How could Brits make clothing that would appeal to a hard-core Colorado skier? But Paul Goldstein, the company's founder and owner, won her over. "I don't know who made designing skiwear the God-given right of Austrians and Italians," he grumbles.

He and Scott have since proved the point. With $59 million in sales, privately owned Nevica is the largest-selling brand of skiwear in the U.K., Australia and New Zealand—and its splashy neon-colored look is a fast-growing presence in the U.S. and Europe. Goldstein says that Nevica earned $6 million last year.

U.S. skiers traditionally preferred untrendy dark colors to the rainbow attire favored by the ski bunny set. Bright colors have always been more common for European skiwear, but Goldstein went one step further by introducing neon. Against all precedent, Nevica's neon caught on here.

Besides being colorful, Goldstein's fabrics are on the cutting edge of warmth retention, breathability and water resistance. The styles are sleek but practical.

And talk about bells and whistles. Nevica gives new meaning to the phrase by including emergency "avalanche whistles" in its jackets. There are special pockets designed to carry sunglasses, sunscreens, even your Montblanc pen. For a while Goldstein's office had a sign up that read "Pockets mean #%$@! profits."

Goldstein, 35, first got the ski bug when his private London elementary school took him on a ski trip to Innsbruck when he was 13. At the University of Manchester, where he studied economics, Goldstein was captain of the ski club, and showed his flair for entrepreneurship by buying a shipment of cheap jeans, marking them up and selling them on campus.

After university, Goldstein went off to the Italian Alps to be a ski bum for three years. To earn money, he organized some amateur ski races and eventually hooked on as a salesman for Juliano Besson, a well-known Ital-

Nevica's British founder, Paul Goldstein

Designing skiwear isn't the God-given right of Austrians and Italians.
ian skier and skiwear designer.

Goldstein moved back to the U.K. in 1978 to set up a Besson distributorship. That was the first company he named Nevica, which means "it's snowing" in Italian. "I love the Italians, I love pasta, I love Besson, but they had a problem. They never delivered anything on time," he recalls. Frustrated, he decided to try designing his own skiwear, with an Italian flair but on time.

With $4,500 saved from organizing ski races, he made prototypes of five designs of his own, and in 1980 persuaded the British sportswear company Pindisports to order 9,000 pieces, half for private-label sale, half under his label. Next he bought himself a $150 standby ticket to Hong Kong to line up a manufacturer. By pure chance, he met someone on the plane who knew someone in a textile factory. Despite his small order, the factory agreed to do it, relying on Pindisports' name as a credit reference. That first year he had sales of $225,000. From there it was a matter of refining his style.

As a former ski bum, Goldstein recognized an untapped market. There was plenty of fashionable skiwear for those who hang around the lodges, and there was plenty of functional gear for those who spend their days on the slopes. But how about flashy stuff for the real skiers? Couldn't they be coaxed into spending $300 for a ski jacket or $700 for a complete outfit? That was Goldstein's niche.

In the U.S., Gretchen Scott has set up an exclusive, upmarket distribution network of only 380 outlets—all specialty high-end sporting goods stores. Scott won't sell to big chains like Herman's. All this keeps Nevica positioned as high end gear for the serious skier.

The firm does virtually no advertising. Scott figured out how to get plenty of it for free. Her staff went through five years of back issues of major ski magazines and came up with the 30 most prolific photographers. The company offers them free skiwear and a fee if they get pictures with Nevica-clad models into major ski magazines. Nevica gear is showing up regularly in all sorts of advertisements for ski products like boots—as well as in ski resort promotions.

In the same spirit of getting free promotion, Goldstein works hard to get Nevica's garments out on the street on people he calls opinion setters—like Virgin Atlantic's Richard Branson and singer Julian Lennon. "Music people are quite receptive to free jackets," Goldstein dryly notes. Goldstein contends this is more effective marketing to the man on the street than is sponsoring ski events or professional skiers.

Recently launched: a line of general outdoor leisure wear. If trendy folks are into outdoor activities, why let them get away with doing their thing in blue jeans or beat-up sweaters? Who knows, maybe Goldstein will soon be ready to take on Burberry's with neon-colored raincoats.
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Our Chevy S-10 Blazer 4-Door is the only one* in its class with the braking skid control of standard 4-wheel anti-lock brakes (ABS). Every Chevy Astro Passenger Van has standard 4-wheel anti-lock brakes, and Astro's also the only compact van available with all-wheel drive and standard 4-wheel anti-lock brakes. And every Chevy pickup, including our least expensive, comes with standard rear-wheel anti-lock brakes†

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Didn’t you want to make a deal in Taipei recently?

Global business contacts are merely local business contacts spread out over a wider area.

This is particularly true in banking. For international activities, it is normal to consult a bank with international experience. And the most important part of international expertise is in-depth knowledge with local market conditions.

Are you planning sales, production or investment outside your own market? Speak to UBS, Switzerland’s leading bank and one of only a few AAA-rated banks worldwide.

UBS. The bank of experts.
It isn't the best of times to be a publisher heavily exposed to sagging advertising markets in the U.S. and U.K. On the other hand, when you're as solvent as Reed International, it may not be so bad, either.

Down to earth, mostly

By John Marcom Jr.

For literary types who bewail the streamlining and commercialization of the once-gentlemanly publishing business, the résumé of Peter Davis makes chilling reading. Davis left school in Britain at 17 and skipped university. He spent most of his career in marketing commodities, working for a while at General Foods and then joining J Sainsbury Plc., the largest British supermarket chain.

Four years ago, at only 44, he became chief executive of Reed International Plc., a $3 billion (revenues) media concern that now claims to be Britain's largest publishing and information company. Apparently, selling groceries isn't bad preparation for selling books and magazines.

Attracted by publishing's cash flows and profit margins, Davis jettisoned Reed's old packaging, paper and paint businesses. A string of publishing acquisitions, over $3 billion in all, followed, the shift into publishing boosted Reed's overall operating-profit margin from 5% in 1985 to over 17% in 1989. But note that, unlike flamboyant Robert Maxwell and other celebrated media barons, Davis has been careful to follow two sensible rules: Stick to what you know, and stay out of debt.

"The world is dividing," Davis says, "into those who are heavily stretched and those who are not." He takes justifiable pride in being classed among the latter.

Reed is underpinned by steady earners like Books in Print and the Martindale-Hubbell Law Directory, plus a few prestigious U.K. book imprints such as Secker & Warburg. In magazines, Reed titles include Modern Bride in the U.S., and a powerful lineup in Britain: five of the country's ten best-selling consumer magazines (including TV Times, Woman's Own, Me and Woman's Weekly), as well as such one-of-a-kind titles as New Scientist and Country Life. There's also a sheaf of trade magazines on both sides of the Atlantic, including Variety, the show business bible Reed acquired from its founding Silverman family three years ago.

There's no escaping the advertising slump in both the U.S. and Britain. In Britain, Davis says, June marked the beginning of a "rapid deterioration in business confidence." And in the U.S., Reed titles like Professional Builder are hurting. In the fiscal year ended last Mar. 31, Reed earned $400 million, converting the pound at its recent rate of 1.90 to the dollar. Most
The next time you see farm-fresh produce at your local supermarket, remember this unexpected name—Westinghouse.

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analysts now expect Reed's current fiscal year to bring at least a slight decline in pretax profits. "I don't think any of us forecast a recession in the U.K. and a strong pound," Davis concedes.

Still, things could be a lot worse. Following the sale of its last major nonpublishing interest earlier this year, Davis says the company's net debt load is down to $435 million or so, about equal to a year's cash flow as measured under U.K. rules; Reed enjoys a reassuringly fat cushion between cash flow and interest expense. Reed, he boasts, has the only AA credit rating of any major media company outside the U.S.

This is quite a contrast to much of the rest of the industry, where distress signals are plentiful. France's Hachette has recently closed one of its newer U.S. magazines; shares in Rupert Murdoch's News Corp. have fallen amid worries about debt; and Britain's Maxwell recently said he would sell his media empire's TV broadcasting interests.

With potential bargains beginning to pile up, Reed's solvency is nicely timed. Davis says Reed could borrow more and spend up to $1 billion if the right opportunity came along as harder-strapped rivals tried to raise cash. Indeed, he adds that Reed paid half as much as it probably would have a year ago for its latest purchase, a U.K. real estate magazine, Estates Gazette, acquired for about $110 million a few months ago.

Davis says the publication's real estate advertising is still surprisingly brisk, perhaps because there are so many distress sellers around. Meanwhile, Reed can do what it usually does to family-run publications after a purchase: professionalize the management, upgrade the computer systems, jazz up the marketing.

That's pretty much Reed's recipe for Variety, which in recent decades lost ground to publications such as Hollywood Reporter in covering the hottest parts of the entertainment business. Reed paid an initial $50 million for Variety's weekly and daily editions. The weekly Variety's circulation dipped from 31,000 before Reed's purchase to 28,000 last March, though it still beat the Hollywood Reporter's widely distributed Tuesday edition figure of 21,000.

Davis has high hopes for a revamped paper. New editor Peter Bart, who has worked both for the New York Times as a journalist and in Hollywood as a producer, has kept some of Variety's strange, zippy headlines (though "Sticks Nix Hick Pix" will always be hard to top). But Reed has also introduced slicker paper and color ads. A table of contents points the way to smarter, better-written feature stories. Says an ex-Variety reporter: "The buzz on it is very good."

The one glaring exception to Davis' down-to-earth focus for the company is literally out in space: Reed is one of the four leading partners in British Satellite Broadcasting Ltd. This is an extravagant, long-shot attempt to develop five new satellite-delivered TV channels for Britain's underserved market.

BSB's new channels began broadcasting this year just as a U.K. consumer slowdown took hold, and a year after Murdoch's surprise entry with his own Sky Television, available from a Luxembourg satellite. It's arguable if either BSB or Sky will make big profits anytime soon. But Murdoch's Sky is cheaper to operate, and with a year's head start, it already claims more than twice BSB's reach. Reed's 21% stake in BSB represents an investment of $82 million, and the company has guaranteed $201 million of BSB's debt and committed to a $33 million standby loan facility.

Davis argues, gamely, that the payoff is worth waiting for. Others, including fellow partners Pearson Plc., publisher of the Financial Times, and British broadcaster Granada Group Plc., say the same. In any case, Davis has put Reed in sound enough financial shape that this relatively unknown media company can continue to grow even if the satellite venture fails miserably.

Variety, old (left) and new
"The buzz on it is very good."

Variety, old (left) and new
"The buzz on it is very good."
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Throughout the next decade, millions of American families will be looking for a home.

And Fannie Mae will be there to help them find it.
Japan's Fujisankei Communications does not have the financial resources of a Sony or a Matsushita, but that isn't keeping it from establishing its own Hollywood ties.

The quiet partner

By Gale Eisenstodt

If Americans know Japan's $5.5 billion (revenues) Fujisankei Communications Group at all, they probably know it as the company that spent some $7 million to finance former President Reagan's eight-day visit to Japan last year. That was the deal that made the headlines. Far more interesting, however, is the company's ambition to expand into the global media and entertainment worlds. Fujisankei, the world's fifth-largest TV, radio and newspaper company, has been quietly signing partnerships with some of show business' biggest players.

In the U.S., for example, Fujisankei has signed an agreement with Walt Disney to distribute Disney home videos in Japan. It is the exclusive Japanese distributor for RCA/Columbia Pictures Video and MGM/UA Home Video. It may co-produce or invest in new Disney films.

"I'm visiting many conglomerate owners—Maxwell, Rupert Murdoch, Berlusconi of Fininvest," says Fujisankei's young chairman, Hiroaki Shikanai. "There are many people looking for a good partnership."

Until recently Shikanai, 45, was an international investment banker with the Industrial Bank of Japan. Two years ago his father-in-law, Fujisankei founder Nobutaka Shikanai, put him in charge when his own son suddenly died. (Hiroaki changed his name to Shikanai, a common practice in Japan when there is no male heir.) Nobutaka also feared his company would be muscled aside as big manufacturers like Sony and giant trading companies like C. Itoh started shopping for Hollywood properties. The elder Shikanai wanted his son-in-law to expand Fujisankei's overseas film, music and video activities.

Shikanai wasted no time. Last year Fujisankei paid $150 million for a 25% interest in Richard Branson's hip and successful Virgin Music Group. This gave Fujisankei access to the British company's talented artist roster, including rock stars Phil Collins, Peter Gabriel and Genesis.

In the movie business, Fujisankei put up $10 million for a minority stake in a production company started by David Puttnam, producer of Chariots of Fire and The Killing Fields. The first movie made under the agreement, Memphis Belle, an $18 million film about a World War II bomber crew, was critically acclaimed in London and is about to open here.

Fujisankei is run as the personal fiefdom of the Shikanai family. Founder Nobutaka Shikanai was an officer in the imperial army during World War II. After the war, he became managing director of the powerful Japan Federation of Employers' Association and in 1954 was entrusted to run Nippon Broadcasting, an anti-union radio station backed by business. Three years later he established Fuji Television and, in the 1960s, gained control of Sankei Shimbun, a moneylosing national newspaper that was a counterweight to such left-leaning papers as Asahi and Mainichi. It introduced Yukan Fuji, Japan's first tabloid newspaper, now one of the dominant afternoon national papers.

In the 1980s Fuji TV successfully tapped into the giddy mood of Japan's newly wealthy youth. By introducing what the Japanese refer to as "lite culture" variety shows featuring popular comedians, singers and pop music groups, Fuji TV moved from fourth place in the ratings to the top spot in two years. Programs like Naruhodo the World, a quiz show based on the exotic travels of bubbly Japanese TV hosts, have kept it there. Meanwhile, Pony Canyon, Fujisankei's music and video subsidiary, was a pioneer in Japan's home video business. Today more than 30% of Fujisankei's $5.5 billion in revenues comes from television, 21% from newspaper holdings and 15% from entertainment software. The rest is mostly from radio, direct marketing and publishing.

For all its strengths at home, can Fujisankei compete with the Sony/Columbia and the possible Matsushita/MCA merger? Shikanai argues that whatever financial resources he may lack compared with a Sony, for example, Fujisankei more than compensates for with its knowledge of the entertainment business. "Japanese industry is now very international, but communications companies have lagged behind," says Shikanai. There is little doubt he will change that.
When ROLM sent John Axselle back to school, he asked questions that got a whole campus talking.

When ROLM's sales rep John Axselle arrived at Virginia Tech, he knew he was in for a lot of homework.

His assignment? To design an integrated voice and data system linking three facilities: the library, the mainframe computer center and a campus-wide system of PCs.

As could be expected of one of America's leading research institutions, the solution began with questions. John asked a lot of them, and, in conjunction with Virginia Tech's Communications Resources Department, was able to uncover the telecommunications needs of the university's entire 28,000 member academic community.

From the multitude of questions came a singular answer. The ROLM 9751, which integrated three separate entities into one powerful learning tool.

Soon, students were able to access library research materials from personal computers in their dorm rooms. Professors and students alike were conducting electronic bull sessions with their counterparts around campus and around the world. And one day, students will be able to take a morning class at the Sorbonne and attend an afternoon lecture at Oxford. All without leaving campus. And all thanks to the ROLM 9751.

Could John Axselle have sold a system without all of his questions? Probably. It's done every day. Could he have helped design a system specifically matched to the campus-wide needs of Virginia Tech? Definitely not. And that's a lesson that shouldn't be lost on you the next time you're considering a telecommunications company.

For more information, call ROLM at 1-800-624-8999 ext. 235, or your authorized ROLM Business Partner.

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After one drink too many, you make a charitable pledge and regret it the next day? Be careful. The charity may sue.

Why Steinberg had to pay up

By Janet Novack

The late John T. Dorrance Jr., heir to the Campbell Soup fortune, was a generous donor to good causes. He died in April 1989. Now, nine charities are in court arguing that his estate owes them $12 million in unfulfilled pledges.

Dorrance’s will specifies that all his written pledges be honored, and his estate has paid nearly $1.8 million to seven charities. But the other nine don’t have anything in writing.

“He did not like to put things in writing. He figured he was as good as his word,” insists Paul Heintz, an attorney for the Philadelphia Museum of Art, which is seeking the $2.3 million balance of a $5 million pledge.

The Dorrance affair is a polite proceeding, so far, but a few recent cases have turned nasty. The Los Angeles County Museum of Art has accused directors of a foundation created by the late film producer Hal B. Wallis of fraud in a battle over Wallis’ $40 million art collection, which included two Monets and a Degas. The heirs of medical equipment manufacturer Donald James Bentley are so angry at California’s Chapman College for suing to collect on his $1 million pledge that they’ve countersued to get back his past donations.

One problem is that donors sometimes change their minds. The most famous case involved Armand Hammer’s decision in 1988 to build a separate museum for his collection rather than give it to the Los Angeles County Museum of Art, as he had promised in public statements and in writing. Why didn’t the museum sue? Says trustee Richard Sherwood: “Our view was that he did not operate in good faith. But a cold-blooded assessment of the agreement wording is that it gave him the option to back out.”

Museums are in a particularly tough spot. Because of mushrooming art prices and limits imposed in 1986 on deductions for the donation of appreciated assets, collectors are more often giving only partial interests in a work of art—say 10% one year, 10% later. That’s a potential legal nightmare. “We may have a friendly relationship with Mr. X and find ourselves in a less than friendly relationship with Mr. X’s heirs,” says Linden Wise, counsel at the Metropolitan Museum of Art. The Met usually accepts a fractional interest in a painting only if the donor signs an enforceable pledge to turn over the rest at his death or sooner.

Traditionally, fear of bad publicity has made charities loath to go to court. But not all feel that way these days. The Jewish Federation of Central New Jersey won a suit last year over a $2,000 pledge. And even those charities that are still reluctant to sue are getting more businesslike, pressing to get pledges in writing, preferably in binding legal form.

What makes a pledge enforceable? A vague promise to remember a charity in your will is usually not enforceable, says Carolyn Clark, a partner with New York’s Milbank, Tweed, Hadley & McCloy. A specific pledge—“I promise to pay the museum $1 million within the next five years for the construction of a new wing”—may be enforceable, depending on state law, she says.

Some states, such as Maryland and Pennsylvania, judge a charitable pledge relatively narrowly, much like a normal contract. That means that for your promise to be enforceable, you must get some benefit—a wing named for your dad. Or the charity must have acted in “reliance” on your pledge—it started building the wing. In other states, however, including New York, the courts have stretched contract law to enforce more pledges.

Atlanta estate lawyer Zoe Hicks has one client who was at a big event, got hyped up emotionally and pledged $1 million. He later rued his pledge and wrote in his will that his estate shouldn’t pay it. Will that work? Probably, says Hicks, because the pledge most likely wasn’t binding under Georgia law anyway. But, warns New York tax lawyer Conrad Teitell, “You can’t by your will change binding contracts.” What if you don’t want your pledge to be a binding contract? Say so in writing when you make it.

Also, you can condition a written pledge on the charity’s doing something, such as building a new library, but you can’t change your mind after the building is under way just because you’re not pleased with the way the charity is run. That’s what money man Saul Steinberg found out in 1977, when a New York court ordered him to pay $200,000 owed on a pledge for a private school’s library. The school built the library, but Steinberg said it hadn’t lived up to other, unwritten conditions of his pledge. He had to pay up anyway.
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Our veteran auto reporter visits plants in East and West Germany. His conclusion: East Germany isn’t a problem for the rest of the country; it’s an opportunity.

Letter from Germany

By Jerry Flint

I’m just back from Dresden and some factory towns in East Germany—Saxony today—and Wolfsburg (the Volkswagen works), Ingolstadt (the Audi factories) and Munich in the West. You’ve been reading how difficult it’s going to be for the East Germans to adjust after 45 years of “you pretend to pay us, we pretend to work” communism, how much unemployment there is and will be, how the West Germans were tired of paying the bills for the East. I’m just back from a visit to Germany, East and West, and I have a contrary tale to tell.

Zwickau in the East. We toured the old Trabant plant. There are 9,300 workers building 200 Trabants a day on two shifts. In the United States, by contrast, from 1,500 to 2,300 workers will assemble 50 to 60 cars an hour. The Trabant technology is decades old, and the 200-a-day production is part of a 35,000-car order from Poland and Hungary. No one else would buy the junk.

On the surface, the factory and the car are laughable. Reporters from the New York Times and the Wall Street Journal laughed at this symbol of terrible productivity. But I’ve seen a lot of car plants, probably more than the rest of the group put together. Let me tell you about this one:

It was old but clean. The machinery was ancient, but it was working. Someone was keeping that stuff running. There was a huge work force, 9,300, but they had to do just about everything. When a forklift broke, they had to make the parts themselves in order to fix it. They weren’t working very hard, but they kept things running.

To me these are the signs of a lousy system but a competent, mechanically adept work force.

We went a few miles down the road to visit an engine plant. That plant, with those same East German workers, is now making VW engines that are sent back West. That means they are up to West German quality. Production is building up. Six months ago 28 parts of that VW engine were imported from West Germany. Today only 3 parts are imported. The VW Golf models built in the West German plant at Wolfsburg have headlights made in East Germany, the new presses in the Wolfsburg plant are from the East. All this means that the East German supplier base is build-

Making a Volkswagen
Lots of robots, great cars.
The old Trabant plant will probably build axles and other parts. The East Germans earn less than a third the pay of a Volkswagen worker in the West, and probably aren’t worth that on the basis of today’s productivity (although they have a 42-hour work week, compared with 37.5 in the West). But now the East Germans are getting paid in real money. Believe me, teaching these guys how to work in a modern environment will be a piece of cake. They all can read and write. You want to hear about problems, ask Lee Iacocca about what it’s like to run an inner-city plant where half the workers are illiterate. That’s a problem. This, in East Germany, is an opportunity.

We traveled the roads of East Germany. They were filled with big cars, Mercedes, BMWs. I thought the cars all belonged to tourists from West Germany, visiting relatives. Wrong. The East Germans bought the cars, used from West Germans. Shouldn’t they want small cars? “No, they like a V-8. Small cars they have driven all their lives,” laughed Ulrich Seiffert, the head of research and development at Volkswagen.

Unemployment? They will need thousands of workers, thousands, just to man the new gasoline stations and garages they need to build in East Germany to keep all those extra cars half a million cars moved East the past few months filled up and running.

Another thing: We’ve been saying how poor the East Germans would be when food prices and rent went up. But consumer durables are unbelievable bargains for the East Germans. “Not a TV set for 9,000 marks, now it’s 800 marks, not 120,000 marks for a terrible car, 8,000 for a used VW,” says Carl Hahn, the chairman of Volkswagen. “They waited 15 years for a car that was below human dignity almost. They waited 6 years to get a vacant [vacation] bed on the Baltic. Now, 2,300 marks from here to Hawaii. Incredible.”

Carl Hahn was born in Saxony near those East German car plants I visited. He says the trade schools of the East are still operating and turning out skilled workers, even if in the past the schools had ancient equipment and socialism to bog them down. But they are skilled workers. Volkswagen’s Hahn is betting DM 5 billion ($3 billion) on it, for those new plants I saw under construction and the training. Carl Hahn is no fool. He’s the man who came to the United States three decades ago and put Volkswagen on the map with the famous “Think Small” advertising campaigns and the emphasis on quality service. Now he sees an enormous boom tied to those 16 million East Germans coming home.

We walked around Dresden. Still a bit of damage to be repaired, still some wrecked buildings, empty lots. But that’s not a minus, that’s a plus. They need repairs to the public buildings. They need telephones. They need roads and apartments. There’s plenty of investment capital. This spells boom to me.

I lived in Germany for two years while I was in the U.S. Army in 1954-56. Much of the place was still rubble. But the Germans were working, oh, how they worked. I will never forget my first German morning, in Mannheim, looking out the window and seeing a skyline filled with cranes. For two years I watched them struggling. Rebuilding. Men, women. That’s the way Germans are. They work. Even

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If shooting starts in the Middle East, Turkey’s border with Iraq will be one particularly hot spot. German troops may be there.

"We will consider it"

By Richard C. Morais

In a dusty town that was formerly in East Germany, German Defense Minister Gerhard Stoltenberg told Forbes something that will undoubtedly be music to President George Bush’s ears. Stoltenberg cannot send German troops outside of NATO, say to Saudi Arabia, without a constitutional amendment backed by his socialist opposition—something that will not happen in the near future. But on this particular day Stoltenberg gave the U.S. and its allies a generous gift.

“My impression is that [NATO member] Turkey is not currently interested in having additional allied troops on its territory,” Stoltenberg said carefully. “But if it is, we would consider it. If there were a proposal for allied troops within the NATO structure to go [to Turkey], we would be ready in a very short time.”

Translation: Germany’s leaders are now prepared to send troops to Turkey’s 200-mile-long border with Iraq. This is important. If war breaks out, pressure from Turkey on Saddam Hussein’s northern flank will be pivotal. In terms of domestic German politics, too, the significance of Stoltenberg’s gesture should not be underestimated. Chancellor Kohl’s government will be hampered when it informs the nation that young Germans could possibly die in the fight against Hussein.

What day did Stoltenberg offer to send German troops to Turkey? It was Oct. 3, 1990, the day Germany once again became whole. That is no coincidence. A strong, united Germany makes many people break out in a cold sweat.

“I don’t like this Deutschland Über Alles stuff,” said one young German woman in a fashionable leather jacket in Berlin, as the celebration of the reunification of Germany gathered steam. “I’d rather be a small part of Europe than the big Germany.”

Like many young people throughout the West who have not experienced state-sanctioned terror and who therefore see no need to fight it, this young woman would probably recoil at the thought of German soldiers shipping out to Turkey. But precisely therein lies the significance of Stoltenberg’s willingness to dispatch troops. By promising German troops in addition to German cash and German materiel for the fight against the Butcher of Baghdad, Stoltenberg has sent a clear signal that his country can be counted upon in the continuing struggle against international outlaws.
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It occurs to me, what if the people who might get a signal from planet Earth aren’t around when it gets there? And the only reason I’m because I’m on the tenth ring of the third call plier when someone finally answers the phone. Ringing noise is ruining his lunch. He says, “Can I ad I say, “Tell Ray he needs to work for a place stem from AT&T. Tell him 75% of all business calls tended party on the first try. But with AUDIX no JDIX features outcalling that can page him essages are waiting. And this is important because ach him and they may not call back...” At this telligent life somewhere in the universe, it is not
Bill Fugazy is broke, leaving a trail of busted deals and friends the poorer for having known him. So what’s he doing? Trying for a comeback.

The lovable rogue

By Gretchen Morgenson

If anyone should be keeping a low profile these days it’s William Denis Fugazy, the New York City travel entrepreneur celebrity. Fugazy this summer lost a fraud and racketeering lawsuit to his former pal and business partner John Kluge. The judgment carries with it a $47 million damage award. Kluge may never collect. Fugazy, who is appealing the Kluge judgment, says: “This lawsuit is far from over.”

The 66-year-old Fugazy filed for bankruptcy protection in July, listing among his creditors Donald Trump, from whom he borrowed $250,000 in the early 1980s. According to his bankruptcy filing, he also owes the state of New York $2.3 million in back taxes and his white-shoe law firm $1.7 million in fees.

This array of woes would be enough to send most people into hiding. But a low profile isn’t Fugazy’s way. Though he claims to be penniless, Fugazy continues to belong to the exclusive Winged Foot Golf Club in Mamaroneck, N.Y. and lives on a $2 million estate in Harrison, N.Y. [he transferred the property from joint ownership to his wife’s name in 1985]. And if he tires of golf and the suburbs, Fugazy can retreat to an apartment on Manhattan’s East Side in a building managed by another chum, real estate mogul Lewis Rudin.

Not one to stand still, Fugazy recently returned from a trip to Europe. He is by no means hiding out from his creditors. He is, in fact, looking for fresh suckers to lend him money or invest with him. Is anybody that dumb? Fugazy has an almost incredible way of getting money out of people who, on his record, should know better.

There has been a steady string of such suckers. Decades ago Fugazy and the late Roy Cohn promoted professional boxing matches, but Fugazy’s first real business was a travel agency in Greenwich Village founded by his grandfather. By the mid-1960s Fugazy had nursed this small family storefront, specializing in tours for Italian-Americans, into the 150-branch Fugazy Travel Bureau. The secret: franchising. Fugazy sold franchises nationwide to people interested in running their own agencies.

But selling travel agency franchises to mom-and-pop operators in Des Moines just wasn’t glitzy or lucrative enough to keep Fugazy contented for long. So he went looking for big game.

Enter a fresh sucker to save the day. He was Alfred Bloomingdale, third-generation heir to the department store fortune, Fugazy friend and co-founder of Diners Club. Bloomingdale was determined to get Diners Club into every business that its archrival American Express Co. was in. One of those businesses, of course, was travel.

Bloomingdale ran Diners Club, but in 1966 Continental Insurance Co. had bought an interest in the company. So in 1967, when Bloomingdale wanted to buy Fugazy Travel, he had to convince Continental board mem-

Travel and limousine czar William Fugazy Down, but nowhere near out.
This is a glass of Cutty Sark. It won't make you hip. It won't make you successful. And it won't change your life. And if you drink it simply because you like the way it tastes, your life's probably pretty good already.
bers to go along. He managed to persuade them, and Diners bought Fugazy’s travel franchise operation for close to $10 million. Fugazy was soon installed as president of Diners Club, Bloomingdale remained chairman and chief executive.

Red ink began flowing almost instantly, Fugazy was cased out by Continental management in 1971. Even so, it took a few years for Diners to rid itself completely of Fugazy-associated liabilities, such as a disastrous venture with a cruise ship operator. Fugazy says that some of the money-losing ideas were Bloomingdale’s, and that he left the presidency of Diners Club not under duress but because he found the job difficult.

Then the company had to settle various Fugazy Travel franchise claims and complaints. Fugazy was masterful at selling franchises through showmanship. For example, Fugazy had promised one franchisee that a stream of circus elephants would march up and down the street in front of the agency the day he was set to open. The day came and went with no elephants. Basketball great Wilt Chamberlain had set up a Fugazy franchise in Watts, then a burned-out Los Angeles ghetto. When the franchise did nothing but lose money, an enraged Chamberlain reportedly got violent with Fugazy executives and demanded his money back. All told, Continental sank more than $100 million into its association with Diners Club and its Fugazy subsidiary.

Far from disappearing into obscurity, Fugazy was soon back in action with an eponymous limousine franchise operation. It worked much like the travel operation: A Fugazy driver would buy a franchise from the company, lease his car from Fugazy and pay a monthly fee as well. At first, it seemed to be producing. During the 1980s, for example, franchises fetched around $30,000, and monthly fees were $1,200. Still, for Fugazy, money always seemed tight.

Even though there was a dramatic increase in the use of limousines and so-called black cars by corporations all around New York City, Fugazy’s company started falling down on payments to its vendors and banks, unhappy franchisees again began suing, and judgments against the company piled up. By the early 1980s, according to civil suits filed against Fugazy Continental Corp., the company faced $800,000 in judgments.

Into this mess Fugazy roped no less a business luminary than John Kluge, chairman of Metromedia and currently the richest person in the U.S. court shows that Kluge invested in the limousine business because he thought it had growth potential.

Fugazy was not one to advertise his or his company’s problems. In an interview in 1985 he claimed that his companies generated $92 million in revenues. But in the recent $47 million fraud and racketeering case Kluge won against Fugazy, the courts agreed that Fugazy had breached certain parts of his contract when he sold Fugazy Express to Kluge.

What did the Kluges, the Bloomingdales and Lee Iacocca—another long-time friend—see in Fugazy? Why did they associate with him despite his terrible record?

Fugazy does people favors. Bill Fugazy is the man who can arrange travel discounts, limo transportation and theater tickets for the best shows. He might be able to set up an audience with the Pope through his pal Cardinal O’Connor. For a time, he would reportedly send a bag of fresh steameders to Lee Iacocca, stuck in Detroit. People like the man despite his reputation. Fugazy is that familiar character, the lovable rogue.

He knows how to work the press. Glowing but naive stories about him have appeared on page 1 of the New York Times and in Manhattan, Inc.; Fugazy squibs are constantly seen in the society gossip columns of New York’s tabloids....

A Manhattan, Inc. article once gushed: “You don’t have to be a member of the inner circle to get him to give you the custom-made shirt off his back.”

Fugazy also knows when to be a gentleman. Raoul Felder, a matrimonial lawyer in New York City, met Fugazy when Felder was an adviser to Rudolph Giuliani’s failed mayoral campaign. Felder says: “He has just the right blend of ‘dees’ and ‘dose’ and being able to use the right fork. That’s really what you need to be successful in New York.”

That’s a shrewd observation. People like Fugazy and enjoy having him around. He’s deferential, just short of being obsequious, and drops names without sounding pompous. He seems straightforward—the better to disguise his deviousness. A former colleague who is fascinated by Fugazy thinks his modus operandi was established early on. Says he: “I think he sat back at a young age and analyzed the business world with all those corporate millions running around. And he thought: ‘There’s a lot of gold in them there hills.’”

Who’s on the receiving end of the Fugazy touch these days? He is pitching business ideas to Mel Harris, a big-time insurance broker at Alexander & Alexander Servies in Miami. Harris himself has powerful connections. For years he has been close to Victor Posner, corporate raider, convicted felon and connoisseur of young women. Such relationships pay off. Harris was instrumental in arranging American International Group’s recent $40 million acquisition of Fischbach Corp., the New York electrical contracting and construction company that was virtually destroyed by Posner in the 1980s.

But will people do deals with Fugazy, no matter how charming a dinner companion he is? Don’t bet against it. Says a former associate: “Bill Fugazy doesn’t have just 9 lives, he has 89.”
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Although the Soviet armed forces resist democratization, like the rest of society they are feeling the effects.

The soldier's shield

By Paul Klebnikov

Military spending cuts and the Soviet withdrawal from Eastern Europe threaten to leave as many as 500,000 Soviet servicemen without jobs and without housing. Bad as this may seem, it is hardly worse than what soldiers in the Soviet Union routinely put up with.

With the moral disintegration of Soviet society, the armed forces have become an extremely dangerous place. Racketeering is rampant: Corrupt servicemen make fortunes peddling gasoline and guns to the local mafia. Ethnic gangs go “hunting” for their traditional enemies: Azeri-Jains fight Armenians, Russians fight Tartars, etc. But the most frightening phenomenon is the hazing of new recruits.

In March of 1989 a group of disaffected army officers got together to form a military trade union called Scheet (the Russian word for shield). Their mission is both economic and political. On the economic side, the outfit wants better living conditions for servicemen—child care, housing, employment, legal rights. On the political side, it wants to ensure that the army isn’t used by communist reactionaries to crush the democratic movement in the U.S.S.R.

Scheet claims that in the past four years there have been 15,000 murders and suicides in the armed forces, as many soldiers as were killed in Afghanistan. Says one Russian parliamentarian: “Those figures don’t surprise me. When I served in the Black Sea fleet, there were 300 men serving on our ship and we had two fatalities. One new recruit was forced to do the dirtiest kind of work in the engine room while a gang of older sailors stood above and urinated on him. When that was over, he went to wash, changed into a new uniform and hanged himself.”

Sergei Zamascikov, a former Soviet officer and now a consultant with the Rand Corp., remembers a particularly bloody incident: “There was a recruit from Central Asia who was continually abused and tortured by his older comrades. Then he got sentry duty and was given a machine gun with live ammunition. He went to the guardhouse where his colleagues were resting and emptied his gun. Five people were killed and six wounded. Then he shot himself.”

Scheet claims that those responsible for hazing deaths are going unpunished. The Ministry of Defense commonly refuses to disclose the cause of death or to return the bodies to the parents. Public outrage at this horror is growing. There is a movement afoot to boycott the autumn call-up of military conscripts.

A month ago Moscow witnessed the first Congress of Workers’ and Sailors’ Parents, the 500 delegates of the congress voted for the Ministry of Defense to be brought to justice for “the blood of our murdered, crippled and dying children.” No one is more uncompromising than the mothers of needlessly killed youngsters.

Within the armed forces, however, Scheet remains very much under cover. It boasts about 10,000 members, most of them secret. The Political Directorate of the Armed Forces has decreed that membership in Scheet is grounds for immediate expulsion and has been systematically purging all democratic elements from the ranks of the military. Once expelled, the officers find it nearly impossible to find a job, not only because the Soviet economy is depressed but also because few employers want to provoke the ire of the army and the KGB.

Although most army officers are understandably reluctant to join Scheet, the union has struck a responsive chord in the Russian population. It won 8 seats in the new Russian Parliament and over 60 seats in various municipal councils. Most recently, Scheet has supported the campaign of Oleg Kalugin, former major general of the KGB and outspoken critic of that outfit. Kalugin was threatened by his former colleagues and vilified by none other than Mikhail Gorbachev, but with the help of Scheet and other democratic groups, he won a seat in the Russian parliament.

Other notable supporters of Scheet include the late human rights activist Andrei Sakharov, whose last public appearance was before a crowd of 20,000 Scheet supporters in Moscow on Nov. 26, 1989, and Siberian populist writer Valentin Rasputin, who is using his position on Gorbachev’s Presidential Council to push for military reform.

The union is open not only to the military but to members of the police and the KGB as well. Vitali Urazhsev, 45, the outspoken president of Scheet, says that he knows of about 50 members of the KGB who are secretly members of the union. (There may be more, but for security reasons no comprehensive list of Scheet members exists.)

Hasn’t the KGB also infiltrated the union for its own purposes? “Of course,” says Urazhsev cheerfully. “But we periodically weed out the spies. Usually you can tell them apart because they talk loudly, but when the time comes for radical action, they hang back.”

Soviet sailors off base

Murders and suicides rage in the services.
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In the name of improving livability, California is destroying the manufacturing base that has made the state’s growth and prosperity possible.

Is the Golden State losing it?

By Richard L. Stern and John B. Taylor

When James C. Morgan, chief executive of Applied Materials, decided to build a $100 million-plus campus-like facility for 2,000 new employees, he looked at half a dozen sites in the company’s home state of California, including land near his headquarters in Santa Clara. He ended up choosing a site in Austin, Tex.

It was not an easy decision for Morgan, who is married to California State Senator Becky Morgan. Expanding out of the state would scarcely help her political career. But business is competitive, and no company can survive that makes basic decisions on political or personal grounds. Morgan is blunt about his reasons for choosing Texas. “The cost of land in northern California is excessive, and the attitude of state and local government toward industry is pathetic,” he says.

Morgan has lots of company. Fed up with skyrocketing costs, with government interference that can delay projects for years and with costly and in many cases only marginally useful environmental restraints, more and more manufacturers are packing up and leaving California. Those that stay are finding it increasingly difficult to remain competitive.

Does it matter? Can’t California prosper on entertainment, services, software, tourism, agriculture? Who needs industry?

Though many think of California in terms of Hollywood, the golden beaches and an endless sea of suburban communities, manufacturing has always been a mainstay of the state’s extraordinary prosperity. It provides a job for nearly one in five working Californians and generates more than $150 billion in production annually. For every manufacturing job created, there is a multiplier effect of another 2 to 2.5 jobs. In other words, at least half of California’s 14.8-million-person labor force relies on manufacturing to some extent to make a living.

“We’re convinced there is a fundamental change going on,” laments Barry Sedlik, manager of customer planning for Southern California Edison, one of the country’s largest utilities. “The attitude among companies has shifted from ‘Why should I leave?’ to ‘Why should I stay?’”

Weiser Lock, a subsidiary of Masco Corp., decided not to stay. For 30 years it had been producing door locks for residential housing from its southern California headquarters. In April Weiser Lock shut down its plant in Huntington Beach, laid off 1,100 people and moved to Tucson, Ariz. The reason: With a cost of living 30% below California’s, Arizona’s workers can accept lower pay and still live reasonably well. Weiser Lock’s labor costs are now roughly half what they were in California.

David Hensley, director of forecasting at the University of California at Los Angeles, says that by the year 2000, the departure of companies and workers could be a flood.

Lockheed, McDonnell Douglas and Hughes Aircraft—which employ a total of 150,000 Californians—say they are very unlikely ever to undertake another major expansion in California. Hughes Chief Executive Malcolm R. Currie plans to move 50% of the company’s manufacturing out of the Los Angeles basin over the next 10 to 20 years. Little of that will be shifted to other parts of California.

A McDonnell Douglas official expects most of the aerospace industry to move out of California over the next several decades. His company has had trouble keeping young engineers. Initially, they are attracted to California by visions of Pacific surfing and hiking and skiing in the mountains, but they leave after a couple years, when they realize that they can afford better homes and a more lavish lifestyle elsewhere.

Even the Air Force is considering closing its Los Angeles Air Force Base in El Segundo and relocating its 3,200-employee Space System’s Division to a place where local services are cheaper and housing is more reasonably priced. No small irony that the high-tech experimental and procurement space division is just the kind of facility California is counting on for its future growth.

What went wrong? Basking in the glow from decades of easy growth, Californians lost sight of the fact that in a free enterprise system, companies are not only free to come but also free to go. They are going because the drawbacks of doing business in Cali-
California are fast overwhelming the advantages of doing business there. The cost curve has finally overtaken the advantage curve.

Utility rates are as much as 50% more than in other states. Workers' compensation rates are roughly twice what they are in neighboring Arizona. Land prices in California are among the highest in the country, and construction and development costs routinely run as much as 50% more than on the same project in other states, partly because of California's tortuous permitting procedures. Labor costs are double what they are in parts of Texas, Colorado and Oklahoma, mainly because it costs so much more to live in California.

The average price for a single-family home in California is $200,000 (monthly mortgage, about $1,700), which is double the national average and beyond the reach of 82% of American households. Seeking housing they can afford, people move way out into the desert or surrounding valleys. Manufacturers and aerospace companies grumble that their employees cannot find housing within a two-hour drive of the plant, and those long drives are a major cause of absenteeism, which some say is more than three times the national average.

When Geoffrey Gordon, chairman of Atlas Pacific Engineering Corp., moved his company to Pueblo, Colo., after 43 years in northern California, not only did he cut his hourly wages in half, he got nearly eight acres of land for $1 an acre. Gordon might have stayed in California if local government had helped him. "We talked to some economic development people in Sacramento and they had no interest if we came or not," he says, "I don't think anyone has even noticed that we've left." Well, maybe the 125 Californians who lost their jobs.

The loss of these manufacturers will have a devastating impact on the state economy. The lawyers in Beverly Hills and financial planners in Palo Alto derive at least part of their income from the guys down the block who've made millions manufacturing coat hangers and computer parts. But the coat hanger and computer parts people are finding California less and less attractive.

"There's this perception that the California economy will flourish forever because there's an infinite number of people to serve," says Morgan of Applied Materials, a manufacturer of microchip-making equipment in Silicon Valley. "But if you look at New England or New York City, you see that if you abuse the manufacturing population and it leaves, you will eventually wreck your economy."

California is bombarding business with a bewildering array of environmental regulations and antigrowth propositions. There is a growing encyclopedia of dense rules and regulations that would be familiar to anyone trying to do business in a Third World country but seem utterly out of place in the U.S. The latest of these is Big Green, a 16,000-word environmental

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Weiser Lock's Huntington Beach plant, where 1,100 employees lost their jobs

By moving to Tucson, the manufacturer slashed its labor costs roughly in half.

FORBES, OCTOBER 29, 1990
initiative sponsored by leftist State Senator Tom Hayden, which Californians will vote on next month.

Nowhere is this red tape more complex than in the four-county basin including Los Angeles that is governed by the South Coast Air Quality Management District. Want to fire up a backyard barbecue? Better consult the regulations. The district has drawn up more than 120 regulations that govern everything from the consistency of glues and paints for the construction of jet planes to the use of charbroilers at Disneyland. Its budget is roughly $100 million this year and comes mostly from fees and fines it levies on businesses. It is thus the worst kind of bureaucracy: self-financing and answerable to no one but itself for its money.

This bureaucracy is headed by physicist James Lents, who is portrayed by his critics as a man who enforces the district’s regulations without regard to practicality or economic impact. One area hospital is facing a $1 million fine for being 50 days late submitting a car-pooling plan for its employees. By mandating exactly how much each business can emit into the air, the district in essence is setting production limits for many companies. Aerospace companies, among others, complain that the district’s record-keeping requirements on what they emit are so meticulous that they are required to account for every dab of paint applied to every airplane, even touch-up work. The expense and man-hours of all that paperwork start to add up mightily.

Bill Harper, deputy director of the Office of Small Business in the California Department of Commerce, estimates that it will cost a total of between $3 billion and $6 billion for the 67,000 Los Angeles basin small businesses to comply with the regulations. These are truly small businesses, averaging about 15 employees. They employ in all 1 million people, or 7% of the state’s labor force, and include everything from dry cleaners to auto body shops, metal finishers, makers of musical instruments and paint manufacturers. Adding costs to such businesses cannot help but close many of them down, especially at a time when a softening economy makes it difficult for them to pass on cost increases.

District director Lents insists that he has no choice, pointing out that the federal government has mandated that the Los Angeles basin clean up its pollution-choked skies. No one is disputing the need to clean up the air. What is in dispute is the manner in which it is being accomplished. Two-thirds of the pollution is caused by auto and truck emissions, but no quick fix is possible in a state where public transportation is rudimentary. So business, which causes less than a third of the pollution, is asked to bear most of the costs.

It is a measure of the complacency created here by a half-century of almost unbroken growth that many California leaders do not seem to grasp the magnitude of the problem. They don’t even seem to care. A McDonnell Douglas executive tried to corner U.S. Senator Alan Cranston for conversation about the state’s deteriorating business climate. Cranston, who found plenty of time to lend a sympathetic ear to the supposed woes of S&L bosses, scarcely listened to the industrialist’s complaints.

California’s vulnerability has created splendid opportunities for recruiters from other states and cities, who are spending lots of money and offering great discounts on land to attract businesses from the Golden State. Oregon spends several million dollars a year to raid California companies, most of them the Silicon Valley-type companies California wants to keep. Even Coeur D’Alene, Idaho (population, 30,000) has snatched about 15 small companies from California.

Says Lockheed Vice President Ste-
phen Chaudet, "If you go to Texas, Arizona or anywhere else, the governor and all the politicians will court you. You don't see that in California."

Fat and happy despite a deepening slump in real estate sales, many Californians continue to brag that the state is recession-proof—a ludicrous claim when you consider that housing permits are off 33% this year, retail sales are lackluster and help-wanted advertising in the Los Angeles Times and the San Diego Union and Tribune newspapers are down 17% and 18%, respectively. Already there are indications that key banks in the state will be vulnerable because of a stiff load of real estate and construction loans (see p. 178). This, before the full impact of a coming recession has been felt.

Can California kiss manufacturing good-bye and still prosper? No. Californians can dream of a purely service economy, free of grubby factories, but that's only a dream. California's extraordinary prosperity stems from a diversified economy, and if that diversity is lost, the state will be in trouble.

And the trouble will fall mainly on the backs of the poorest people, anti-growth and extreme environmental measures are the most regressive of all forms of taxation. Three million immigrants, most of them poor Hispanics and Asians, are expected to pour into California in the next decade. They are not likely to find work selling annuities in Santa Monica or real estate in Marin County. But none of this much bothers the state's small but visible and vociferous legion of limousine liberals, Hollywood headline grabbers and tree huggers, people who have never seen the inside of a manufacturing plant and have little real sympathy for the blue-collar types who are hurt by their activities.

"You can't lose your manufacturing base," says Jack A. Kyser, chief economist with the Los Angeles Area Chamber of Commerce. "That's your blue-collar ladder. Without it, you create a society of haves and have-nots, with the haves supporting the have-nots."

Manufacturing is not the only victim of California's economic arrogance. San Francisco voters approved a growth control initiative called Proposition M in 1986, limiting annual citywide construction of commercial office space to 750,000 square feet, roughly the size of a single 30-story building. That, in fact, closed the door on most office expansion.

The combination of rising housing costs, lengthy permit delays and constant anti-growth initiatives sent a clear message to San Francisco businesses: If you want to grow, get out of town. So they did. Chevron, Pacific Gas & Electric, BankAmerica and Wells Fargo Bank all built facilities in neighboring counties, taking at least 50,000 employees with them.

Now the city has lost an important part of its middle-income job base, and San Francisco is facing a mounting fiscal crisis as public expenditures rise at twice the rate of increases in its annual revenues.

Even in the surrounding areas in Silicon Valley and beyond, there are growing problems. The average rent for a two-bedroom apartment in the area is $750 a month. With a family of four, try paying rent like that on anything less than $50,000 a year. The median price for a previously-owned, single-family home in Santa Clara County is $273,000. Just to qualify for a mortgage, a buyer would have to have an annual income of not less than $65,000, put up a down payment of at least $50,000 and then make monthly mortgage payments, including taxes and insurance, of about $2,000.

The problems are not confined to manufacturers. They also hurt the service firms that the comfortable middle class hopes will pick up the slack. Architectural firms in Los Altos say it is increasingly difficult to recruit mid-level and technical staff to the area because of housing costs. Things are so bad that San Francisco's universities, ranked among the nation's finest, have to provide millions of dollars in mortgage and rental subsidies to attract teachers and researchers.

Not many people are eager to give up, say, a $100,000, five-bedroom, 3,000-square-foot house on a golf course in Pueblo, Colo. for a two-bedroom condo on some side street in San Jose. Nor do they find it appealing—or even economically feasible—to
trade a three-bedroom, $100,000 home a few blocks from the beach in St. Petersburg, Fla. for a $325,000 home of similar size on a congested street in West Los Angeles.

Considering the high cost of living and doing business in California, you would expect state services to be excellent. Just the opposite. California spends less per capita on transportation than any other state. It ranks 49th in teacher-pupil ratio in the country, and there hasn't been a single new school built in inner-city Los Angeles in more than 25 years. Not surprisingly, the high school dropout rate in Los Angeles is 39%—10% above the national average.

Some of the bind California finds itself in is the unintended consequence of well-intentioned legislation. Consider Proposition 13, enacted in 1978, which cut property taxes by 57% and reduced local revenues by 52%. In a perverse way this initiative helped drive up housing prices: With the tax burden reduced, people could afford higher mortgage payments and thus higher price tags. It was a direct transfer of wealth from the community as a whole to individual owners of existing houses—and a heavy tax on new homeowners.

In Los Angeles, for instance, an estimated $150 billion in wealth was created since 1986 by the escalation in home values. But local municipalities have seen very little of that money. A recent study revealed that the longtime owner of a 7,800-square-foot, seven-bedroom home on a prime 28,000-square-foot lot in Beverly Hills was paying the same amount of property tax as the new owner of a 980-square-foot Venice home on a 3,100-square-foot lot.

“What you have is a situation where people have given themselves an unearned capital gain with restrictive zoning in their area, while holding the tax collector at bay with Proposition 13,” says Kent Sims, president of the San Francisco Economic Development Corp.

Just getting approval for a commercial project in California these days is nightmarish. Two- to three-year delays are routine. This drives up occupancy costs, which get passed on to consumers. Harvey Panitz, a former site selector for Target Department Stores, tells a story about the time several years ago that Target applied simultaneously to build two nearly identical 500,000-square-foot distribution centers—one in Pueblo, Colo., the other outside Los Angeles. The center in Colorado was up and opened before major construction had even begun in California.

While the industrial base collapses, California politicians fiddle. The gubernatorial candidates in next month’s election, Democrat Dianne Feinstein and Republican Pete Wilson, have uttered nary a word on the problem. To do so might offend the no-growth environmentalists. Californians seem to take it as a given that people will continue to move to their beautiful state with its magnificent weather. Never mind the lengthy commute, the traffic, the excessive environmental regulations that accomplish little but cost much. Never mind, folks will come. There’s an arrogance in California, born of success that came easy. Arrogance cometh before a fall.

Driven out

Two years ago Donald Staley’s Basic Food Flavors Inc. had outgrown its site in Pomona, about 30 miles east of downtown Los Angeles, where it made hydrolyzed vegetable proteins, soy sauce and soy concentrates for the food industry. Staley, the company’s president and one of its three owners, lined up a site in nearby Chino and put $20,000 in escrow.

In the course of obtaining permits and zoning approvals for the new site, Staley had to present his design plan to the South Coast Air Quality Management District. When Staley met with representatives of the district, he says he was told he would have to make at least $125,000 in modifications before the district would approve operation of the new plant.

Staley reluctantly agreed, only to be presented with yet more problems. It would take another six months for the district to review his application. If Staley and his partners went ahead they would be faced with $20,000 a month in mortgage payments on a property they could not use for six months—if ever. When Staley asked about a temporary permit, he says a representative of the air quality district flatly said no.

That forced Staley to back out of the deal for the Chino property, and he bought a piece of land adjacent to Basic Food’s existing site in Pomona for $140,000. It took another eight months to get all the necessary approvals from Pomona. But shortly before he began construction, Staley says he was told by the sanitation department that Basic Food would have to come up with $450,000 to tap into the local sewer system. “I told them that was more than the company made in the last ten years,” Staley says.

Good-bye to California. Staley and his partners contacted the Nevada Development Authority and decided to move to north Las Vegas. Staley says 17 of the company’s 25 California employees went with them. “It’s funny, but when we came up here, the guys from the Development Authority took us around to meet the sanitation people, the air quality people, the city,” Staley says. “They arranged for us to get industrial revenue bond financing. They want business up here.”

“To be honest, I still wish we could have gone to Chino,” Staley says. “So do my two partners. We feel like we were driven out of California.” —J.T.

Donald Staley, president of Basic Food Flavors

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Why can't business people resist environmentalists' extreme demands? They fail to understand they are dealing with a religion, not with politics or economics.

Tom Hayden, meet Adam Smith and Thomas Aquinas

By Robert H. Nelson

A t a conference at the law school of the University of Oregon, a speaker declared: "We, the human species, have become a viral epidemic to the earth," in truth, the "AIDS of the earth."

Hyperbole? Not entirely. Many leaders of the environmental movement are quite so forthright in public, but they actually think like that. And, what is alarming, these kinds of extreme beliefs are getting enacted into law.

Most Americans today consider themselves environmentalists. They want cleaner air, whiter beaches and less cancer. But they want these things for practical reasons, to advance human well-being, not because they believe humanity is the destroyer of the earth.

The antihumanist diatribe quoted above was uttered by Paul Watson, a founder of the seemingly respectable Greenpeace and later of another well-publicized environmental organization, Sea Shepherd. His views were taken seriously enough that the Oregon law school published them in a subsequent issue of its journal.

Who cares if environmental leaders have strange views of man's role on earth? It matters because these views are heavily influencing laws and regulations aimed at protecting the environment. Watson doesn't want to settle for cleaner air; he wants to roll back man's conquest of nature. By following him and people like him, the politicians are risking not only damage to the economy but also long-term damage to the cause of the environment itself. Tom Hayden and his so-called Big Green environmentalist initiative in California is a prime— and frightening—example of what can happen when religious environmentalism triumphs over economics and common sense.

This religious environmentalism is already reflected in federal policies that offend common sense. The National Park Service follows a policy of returning the parks to conditions that preceded human influence. The agency has planned to trap—and, if necessary, shoot and kill—mountain goats in Olympic National Park in Washington State, because these goats were introduced into the park some years ago by man. Thus they are not "natural." Elk have been allowed to proliferate in Yellowstone Park, driving out other species such as bighorn sheep and beaver, because it would be "unnatural" to introduce control measures in this case.

The Water Pollution Control Act of 1972 likewise outrages common sense. It set a policy ("zero discharge") to cleanse every last pollutant from the nation's navigable waters, however impossible in practice and lacking in economic justification.

How does this kind of thing happen? It is the product of a Congress that seems to care more about expressing moral indignation than about writing environmental laws that work. Saving the world is more exciting and garners more headlines than the painstaking development of sound legislation.

Thus, in enacting air and water legislation Congress has moved away from weighing the cost of environmental measures against the benefits. It now seems to regard each pollutant as an offense against nature, even if it is not present in quantities sufficient to seriously harm human beings.

After spending more than $500 million studying the causes and impacts of acid rain, the National Acid Precipitation Assessment Program recently found the problem to be much less serious than advertised. Yet, under the new Clean Air Act that now appears likely to be enacted, more than $3 billion will be spent each year to clean sulfur emissions. Acid rain must be banished, not for any great harm it does to humans but because it is an artificial intrusion and thus an offense against nature.

Federal regulatory agencies today require vast expenditures to reduce risks of cancer from chemicals, but care little about much more widely found and more dangerous carcinogens as long as they occur naturally.

If these decisions make little sense so far as human welfare is concerned, it doesn't much matter to the extremist environmentalists. Human welfare is not their concern. After all, humans defile the earth. These decisions are being made for what ultimately are religious reasons. Their theological, indeed inquisitional, zeal is apparent in their language. The leading historian of American environmentalism, Roderick Nash, finds that the "recent concern for nature" is characterized by a "quasi-religious fervor." Contemporary "eco-theologians" preach the message of a new "gospel of ecology."

Did you think national parks are for human enjoyment? If so, you were wrong. A strong advocate for reducing the human presence in the national parks, University of California at Berkeley law professor Joseph Sax, describes himself and his fellow preservationists as "secular prophets, preaching a message of secular salvation." William McKibben, in his much noted recent book, The End of Nature, acknowledges that a pervasive "crisis of belief" exists in our time, which has started to lead "many people, including me . . . [to] overcome it to a greater or lesser degree by locating God in nature."

It's not just a few radicals who sound this way. Senator Al Gore (D-Tenn.) recently declared that environmental policy should be based on "a new reverence for absolute principles . . . by which to map the future course of our species and our place within creation." For Representative Morris Udall (D-Ariz.) oil and gas drilling should not be allowed in the Arctic National Wildlife Refuge because it would violate the sanctity of this "sacred place."
It goes on. Politicians condemn Exxon not simply for fouling the beaches of Prince William Sound but for committing a grievous sin against the innocence of nature. As a result, Exxon will be made to pay penance of several billion dollars for measures whose costs will vastly exceed any identifiable benefits.

Environmental religion draws much of its strength from such disparate elements as nostalgia for the past, health worries and guilt feelings about our high standards of living. Yet there is also an underlying theology. The environmental message has a story of the creation, of the fall of man, and of the various possibilities for redemption.

Here's the environmental gospel: The earth was first created in a harmonious and innocent state. However, as in the Garden of Eden, human beings were tempted and corrupted by knowledge. The acquisition of knowledge made possible advances in economic organization, technology, and all the evil instruments of modern industrial civilization.

Dave Foreman, a founder of the radical environmental organization Earth First, thus dates the fall of man to about 10,000 years ago, when the "nascentency of agriculture" began the process by which men were left "apart from the natural world" and soon fell into the evils of "city, bureaucracy, patriarchy, war and empire." As mankind lost its original innocence, it was afflicted by "an ever-widening rift" that opened "between the wilderness that created us and the civilization created by us." Wild-eyed! Not to a lot of environmentalists.

In the theology of Paul Watson, "we are innately good but because we drifted from the garden so many centuries ago, we have lost touch with natural reality... This confusion has led to... a blind allegiance to the laws of man over the higher and more profound laws of nature."

Yet, this theology tells us, there is salvation. Environmental salvation can be achieved by restoring the conditions that existed before human activities corrupted the innocence of the earth. Congress thus specified in the Wilderness Act of 1964 that the defining characteristic of a wilderness area is that it must be a place with a "primeval character" that is "untrammeled by man."

The redemptive qualities of wilderness are today widely celebrated. A Los Angeles Times editorial not long ago preached that in creating the national wilderness system "the bottom line here is... wonder in human renewal." Thus, in a secular age, environmentalism has become for some people a new outlet for Western religion. In the old religions, human sinfulness caused God to bring about the Great Flood and to instruct Noah that each species must be saved. The Endangered Species Act nowadays proclaims for itself a similar God-like mission.

There has long been an apocalyptic tradition in Christianity, from the ashes, a new era of peace and harmony will arise, the arrival of the millennium. If Christian preachers earlier made the mistake of giving specific dates, a leading environmentalist, Paul Ehrlich, repeated the same error when, in 1968, he prophesied that overpopulation, food shortages and other worldwide catastrophes would arrive by 1980. In fact, agricultural surpluses are so great in 1990 that they threaten to scuttle the continuing negotiations for freer trade. But never mind, the Ehrlichs and their ilk will just move the date for apocalypse forward.

Christian martyrs willingly faced the lion's den; environmentalists today place their bodies before whaling ships and timber harvest bulldozers. Early monks such as Simon Stylites long ago perched on Middle East columns to show their devotion to God; today, environmentalists perch in redwood trees.

The Sierra Club recently wrote to prospective members that men must be "called to action" in order to save the planet earth. Environmental literature is filled with talk about the "assault," "murder" and "ravaging" of nature. All these immoral and sexual offenses are associated with activities to develop resources and thus to sin against the innocence of the natural world. Oil companies are particularly vicious, veritable Antichrists that are said to "rape" the earth with their drilling equipment used in virgin environments.

Since so many businessmen are seen as rapists and despoilers, it is not surprising that many environmentalists are socialists at heart if not in word; in this they follow an old tradition. Christianity once taught that in the Garden of Eden—as will be true for the saved in heaven as well—all property is communally held. It is only because men in their current earthly state are deprived that private property rights are justified and that a priori they are not. These early Christians saw competition and the market as part of the dark side of life.

Environmentalism has appropriated this message. The relentless pursuit of profits, especially by large and impersonal corporations, is destroying the environment and threatening us with ecological catastrophe.

The Wilderness Society plays to this sentiment. It recently lamented that "wilderness and the environment have become today's scapegoat, sacrificed on the altar of economic expediency." The Sierra Club Legal Defense Fund warned of "greedy profiteers" who are seeking to launch "a massive assault on the Alaskan wilderness." The national forests are menaced by "logging giants," but with the help of virtuous and committed citizens it will be possible to stop these evil "exploiters."

The emotional/religious appeal of all this is hard to combat with mere reason or mere economics—as business spokesmen have learned to their sorrow. But the environmental religion carries within it what may prove a fatal flaw. The logic of returning to an original natural condition, if it were followed literally, would suggest that humanity has at best a minor place in a natural order. One research biologist for the National Park Service wrote recently in the pages of the Los Angeles Times: "Human happiness, and certainly human feudancy, are not as important as a wild and healthy planet... Somewhere along the line... [humans] became a career. We have become a plague upon ourselves and upon the Earth." How many people will buy that message? Not many, once they understand where it is taking them.

This nonhomocentric logic was actually carried to its ultimate conclusion by the author of a proposal—hopelessly offered tongue-in-cheek—that appeared a while ago in a radical
environmental publication: "Only a very few of human pathogens are shared by other partners on our planet. Biological warfare will have no impact on other creatures, big or small, if we design it carefully."

While the Environmentalist church repeats some messages of the Judeo-Christian religions, in other environmental sects Christianity is flatly rejected in favor of pantheism. In an influential article in Science magazine, Lynn White argued that "Christianity made it possible to exploit nature in a mood of indifference to the feelings of natural objects." Hence, it would be necessary to have "a new religion" in which humanity must be understood as a part of and not distinct from nature.

From accepting such arguments it is an easy step to smearing varnish on fur-coated women or placing spikes in about-to-be-sawn trees. What does it matter if you hurt people but save the universe?

Yet this line of reasoning leaves environmental theology in a contradiction. No other species accepts the obligation to protect the existence of different plant and animal species. So why should man accept this burden, if man is just another creature? Christianity and Judaism place man at the center of the universe under God. Religious environmentalists are confused on this subject. On the one hand, they demand that mankind accept responsibilities to other species, a responsibility unique in nature. On the other hand, they insist that mankind is nothing special.

As a secular faith, environmental religion bears many similarities to another powerful secular religion, Marxism. Joseph Schumpeter once wrote of "Marx the Prophet," of a "religion" that promised "paradise on this side of the grave." A current student of "Green" politics, Alston Chase, finds that "dialectical materialists everywhere, searching for a new ideological home, are joining the crusade to fight pollution and expand wilderness." Environmental theology, like Marxist theology, teaches that human greed and exploitation have infected the world with sin, yielding a condition of human alienation. Both are fundamentally utopian expressions of the desire for heaven on earth. And both—Marxism explicitly, environmentalism implicitly—are prepared to let governments implement the vision, by force if necessary.

Does environmental religion represent a new utopianism that will now take the place of Marxism in leading humanity down the road of statism and reduced economic activity? It is doubtful this will happen. You can gain converts by promising clean air, reduced risk of cancer and more open spaces. You cannot win many converts by calling for banning automobiles and going back to bicycles. Moreover, as the costs for seeking absolute freedom from pollution mount, people are increasingly likely to turn against environmentalists and their self-defeating policies.

For the sad truth is that environmental policy as moral affirmation or theological symbolization is not likely to do much good for the actual environment. Large sums are today spent for environmental protection, but all too often to little environmental benefit. Under the Superfund program, more than $10 billion has been budgeted, which will be able to clean up only a handful of toxic and other contaminated sites. Some of these sites probably did not require any action in the first place, and insufficient funds were left for less intensive measures that could have been undertaken at many more such sites. Note that in a recent poll of leading Environmental Protection Agency professionals, a majority rated the Superfund program as one of the lowest priorities among agency concerns.

Other extreme environmental initiatives are equally wasteful or self-defeating. Local growth controls in the name of environmental protection drive up the price of housing, creating big windfalls for existing homeowners, while actually damaging the environment by encouraging suburban sprawl—and also making it difficult for the less well-off to find housing. All this will one day create a backlash.

The most dangerous thing about religious environmentalism is that it encourages people to reject economically sensible ways of dealing with environmental problems.

To begin with, this means accepting a certain amount of pollution as the price of modern civilized living. Leading economists such as Charles Schultze of the Brookings Institute and Allen Kneese of Resources for the Future argue that the capacity of the environment to absorb pollution should be regarded as a resource to be allocated, like other resources, according to the basic laws of supply and demand. What does this mean? It means deciding how much pollution is relatively safe and esthetically acceptable, and then allocating the right to produce that much pollution to the users who can get the most production from the biggest bang for the least pollution.

Some environmentalists accept this, and probably most of the voters would as well if the proposition were presented to them that way. But Congress, under the influence of the religious environmentalists, has generally been hostile to such sensible approaches. To take one example, it passed the Clean Air Act, which prevents the Environmental Protection Agency from taking calculations of benefits and costs into account in deciding allowable levels of atmospheric pollutants.

As against this fanatical religiosity, there fortunately exists in Western theology a pragmatic tradition that regards the pursuit of self-interest, the maintenance of property rights, the desire for the good life and the institutions of the marketplace as the best available accommodation to the facts of human nature. Heaven will not be realized on earth for at least some time to come; any attempt to force its arrival will only yield suffering and much misfortune. In the history of Western theology, St. Thomas Aquinas is a leading preacher of such a worldly message. Schumpeter observed that the market theories of Adam Smith rest on a utilitarian and practical framework that can be traced to Aquinas and other such medieval scholastics.

By contrast, environmental extremists, in their enthusiasm and zeal, are today promoting answers that in other guises have already failed the test of time—in some cases at a great human cost. Those who pursue such utopian ideals may well turn out to be a worse danger to their fellow citizens than pollution is—just as Marxism has spread poverty in the name of eliminating it.

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**Most Americans today consider themselves environmentalists. They want cleaner air, whiter beaches and less cancer. But... for practical reasons, not because they believe humanity is destroying the earth.**
Should lawyers be left with no redress when they are fired for doing their job?

Separate and equal

By James Lyons

What does a lawyer do when he disagrees with his client? The conventional remedy is for the lawyer to withdraw.

But what happens when the lawyer has only one client, and resigning from the assignment is tantamount to signing up for unemployment? What if a lawyer refuses to violate the ethics rules, and the client, who is also the employer, fires the lawyer for it?

These issues are now being thrashed out in various courts across the country in actions brought by lawyers who worked full time for corporations and are challenging their discharges. Courts in Illinois, Minnesota and Texas have dismissed these claims, siding with employers’ arguments that trying these cases will damage the confidentiality of the attorney-client relationship. The issue is not an arcane one: About 10% of the nation’s lawyers are estimated to be employed by companies.

Take the case of Roger Balla, who was in-house general counsel for Gambro Inc., the U.S. subsidiary of Gambro Lundia AB, which manufactures kidney dialysis machines. In 1985 Gambro’s German subsidiary shipped to its U.S. affiliate some dialysis filters that did not meet specifications.

As part of an overall cutback in personnel at the company, the first court to hear Balla’s suit for retaliatory discharge, a Cook County, Ill. circuit court, threw it out. The judge relied on an earlier Illinois appellate court ruling that dismissed a similar claim by another in-house lawyer. In that case, the lawyer claimed he was fired for refusing to go along with an order from corporate executives to destroy documents requested by an opponent in a suit. Never mind that complying with the order would have caused the lawyer to perpetrate a fraud on a federal court, or that compliance would be a violation of the Code of Professional Responsibility. The appellate court ruled that the lawyer, because of the attorney-client relationship, could not even bring the claim.

Fortunately for Balla, another Illinois appellate panel reinstated his suit on Sept. 10 this year. The court found that “the sanctity of the attorney-client privilege is not an absolute bar to disclosure.”

The fact is that while lawyers love to talk about the inviolate nature of the attorney-client relationship, they do allow for exceptions. For instance, lawyers may be permitted to disclose privileged information to defend a malpractice claim. Or they may be allowed to breach the privilege in order to collect a fee from a former client. So the attorney-client privilege isn’t quite as inviolate as it seems at first.

Courts that have dismissed retaliatory discharge claims insist that lawyers are different from ordinary employees because of their client responsibilities. Yet these same courts refuse to recognize that lawyers are different from their nonlawyer colleagues in another important respect: They have an obligation to uphold the law.

Should Balla’s case ever go to trial, any privileged information that came up could be filed under seal. Saying in-house lawyers can sue for retaliatory discharge is not saying they must become in-house prosecutors. After all, good faith compliance with the law is at least as important as the attorney-client relationship.
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The Larger Context

Throughout Europe, most people agree they want no more socialism, but they can’t agree on what should take its place.

EUROPE’S IDEOLOGICAL BLINDERS

By Michael Novak

From Munich to Budapest to London, all three of which I recently visited, socialism is guttering, yet “capitalism” is still a dirty word. Many European socialists are cautiously dipping their toes into arguments in favor of capitalism, but the battle of ideas is far from over.

In Budapest, everyone agrees that communism sucked the nation’s capital stock dry and left behind a shell. Entering the stairwells of magnificent old apartment buildings, a visitor encounters dirty stairs, falling plaster, peeling paint and splatters from leaky plumbing. No capital repairs (let alone improvements) have been made in 42 years. In the light of socialist talk about community, it is ironic that common rooms such as stairwells are in worse repair than private quarters, in the latter, individual taste and care are evident.

Hungarians want no more socialism. But the moral and intellectual arguments for an alternative are still unknown to them.

An American consultant, for example, recently led a select group of executives from one of the best firms in Hungary through a cost-benefit analysis of the firm’s newest venture. The venture had no realistic chances of success. A U.S. businessman would have canceled it without much thought. But when the computer projected huge prospective losses, the Hungarians protested that the facts must be wrong. “But you supplied them,” the consultant said. All facts were checked, all calculations rerun: the same loss. But still none of the Hungarian businessmen could bring themselves to say, “We must cancel this project.”

During my days in Munich, that prosperous Bavarian city was preparing both for the annual Oktoberfest and for German unification. It has come as something of a shock to the West Germans to see how backward—how un-German—the habits of the East Germans have become. Like the Hungarians, the East Germans want more out of life than socialism can deliver, but they don’t understand the rules of a system that can deliver it.

One West German worker complained bitterly to me about East German workers. “They aren’t used to working, just to showing up,” he said. “All they want, right away, is a television set, a car, a VCR—even without working for it.”

In London, the Labour Party’s new policy document, Looking to the Future, as the Times puts it, marks “the surrender of Labour’s belief in old-style nationalisation, central control and punitive taxation of the rich, its acknowledgement of the need for wealth creation and the role of the market.” Nevertheless, socialist theory dies hard. The Labour program is redistributive and interventionist. It restrength-ens the labor unions and is dead set against Britain’s nuclear deterrent (despite the threat that nations such as Iraq or Iran might soon have nuclear capabilities).

Most Britons have come to see that wealth can be depleted as well as created, and wealth creation is on the lips of almost all. Labour now responds by appealing to “supply-side socialism,” as an alternative to Thatcher’s “popular capitalism.”

In practice, however, most Britons still hold the view that inheriting wealth is morally quite respectable (indeed, the acme of respectability), whereas actually creating new wealth is rather grubby. This sentiment has a long history. Kenneth Adams of the Christian Industrial Fellowship (who may have done more than any other individual in the U.K. to get wealth creation on the public agenda) recalls how Matthew Arnold branded wealth creators “philistines.”

In Culture and Anarchy (1869) Arnold wrote nastily of Cornell University: “The university of Mr. Ezra Cornell seems to rest on a misconception of what culture truly is, and to be calculated to produce miners or engineers or architects, not sweetness and light.”

In the same vein, two well-known pollsters recently reported that 81% of the British favor a society in which “caring for others” is more highly regarded, while only 12% favor a society in which “wealth creation” is more highly regarded. The pollsters wrongly conclude from this that the British are more “socialist” than “Thatcherist.” They fail to see that this choice is confused. One choice, wealth creation, refers to means; the other, caring, to ends. Any people of Jewish, Christian and humanist background would believe, as Adam Smith wrote in The Theory of Moral Sentiments (1759), that “to feel much for others and little for ourselves, constitutes the perfection of human nature.”

For Smith, the whole point of wealth creation is to bring forth a society in which human sympathy thrives. Socialism has proven itself inferior to the task, yet former socialists in Hungary, Germany and Britain are having a hard time envisioning the system that can get them where they want to go.
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**Boxed in**

**By Peter Fuhrman**

In Lund, Sweden in 1969 Ruben Rausing patented a box-shaped beverage container. A unique design, it was made from a roll of paper bonded with four micro-thin layers of plastic lamination and one layer of aluminum. The design keeps air out of the carton while it is being filled, which helps milk and other beverages stay fresh without refrigeration for months longer than in ordinary cans, bottles or cartons.

Thus, on the strength of this invention, was built Tetra Pak Rausing S.A., now the world’s largest paper-packaging business. Tetra Pak in 1990 will sell almost 60 billion cartons, achieving record revenues of $5 billion from sales in 109 countries. Pre-tax profits of the still privately owned company are estimated at $700 million, making Rausing’s heirs the owners of a fortune ascending toward $6 billion. The heirs, Ruben Rausing’s sons Gad, 68, and Hans, 64, live in Britain and control the fortune through a Liechtenstein foundation and a Dutch holding company. Tetra Pak itself is now headquartered in Lausanne, Switzerland. The Rausing heirs turned management over to outsiders in 1985. But before departing they set down one condition for their successors: Tetra Pak, in accordance with Ruben Rausing’s own last wishes, should not diversify away from the packaging of beverages and other liquid food.

That codicil presented management, led by company President Bertil Hagman, with quite a challenge. Boxed into the beverage field, how was Tetra Pak to grow? The answer: Keep expanding at a feverish pace outside Sweden.

Between 1974 and 1980, Rausing’s invention had caught on big in Europe and Japan. During those years, Tetra Pak’s sales grew at a 30% annual rate. The logical next step was to push aggressively into the U.S. milk-packaging market. The company built a large paper-processing plant in Denton, Tex., and by 1986 was pressing hard to introduce its rectangular milk carton. It got nowhere. Milk drinkers in the U.S. simply rejected Tetra Pak’s carton, favoring the familiar easy-opening brickle-shaped carton invented in the U.S. in 1932. “In the last 15 years,” says Hagman, “we’ve had an unbroken chain of successes, with one big exception: our milk-packaging business in the U.S."

The problem was that airtight Tetra Pak cartons work best with milk pasteurized at ultrahigh temperatures. The combination of the high-temperature heat treatment and the aseptic Tetra Pak carton gives milk a shelf life measured in months instead of days. In warm countries with small dairy herds, like Spain, Italy and Japan, ultrapasteurized milk has become very popular, and almost all of it is packaged by Tetra Pak.

Unfortunately, however, the high-temperature pasteurizing process destroys a good bit of the milk’s flavor, turning it into something resembling powdered milk. Few people, with steady access to fresh milk, such as Americans and Britons, drink the stuff. By 1988 Hagman knew the foray into the U.S. milk business was floundering. Scaling down its expectations for the rectangular carton, Tetra Pak instead bought a small foothold in U.S. milk packaging by acquiring the milk carton business of forestry giant Weyerhauser Co.

Tetra Pak’s managers are as flexible as the company’s packaging technology. They have channeled their ef-
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forts into fruit juice packaging, winning over customers like Coca-Cola Co., which uses a small, half-pint version of Tetra Pak's oblong carton for its Hi-C and Minute Maid juices.

As a result, Tetra Pak's juice carton sales in the U.S. should grow 20% over last year. They will be helped along by booming sales of a new product: Teenage Mutant Ninja Turtles fruit juices, marketed by Natural Kids Foods Inc., in Westlake Village, Calif. This unlikely spinoff from the popular kids' film is the hottest soft drink in the country at the moment, selling at a rate of over 1 million half-pint cartons a week.

Tetra Pak could, if management wished, exploit other expansion opportunities. For example, it has been approached by Procter & Gamble to provide its rectangular cartons for use with detergents, shampoos and other nonfood products. By doing so, the company could easily double its U.S. sales. But out of regard for the Rausing clan's mandate that Tetra Pak stick to liquid foods and beverages, Hagman says he had to reject P&G's and others' advances.

Instead, Tetra Pak is spending $200 million a year on research into new carton designs in an attempt to reach into new markets like packaged soups, tomato sauces and table wine. Hagman also hopes that Americans will continue to consume more packaged water, and that it will be sold in Tetra Pak cartons, as mineral water is across Europe.

During the 1980s, for every additional 18 quarts of packaged drinks sold worldwide, Tetra Pak has sold on average one additional carton. With so many areas of the world—from Russia to Africa to China to Latin America—still without an efficient beverage packaging industry, it is a safe bet that the setback in the U.S. milk market was only a shallow pot-hole on Tetra Pak's global expansion path.

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If you're into reckless thrills and consuming gasoline, and don't care what the environmentalists may think of you, Polaris Industries makes the appropriate products.

**Noisemakers**

If you want to make a racy environmentalist see red, Minneapolis-based Polaris Industries L.P. is the company for you. Polaris was the first to make and market the gasoline-powered snowmobile in 1954; more recently it has added all-terrain vehicles (ATVs) and jet-powered water skis to its product line.

These noisy, gas-guzzling and potentially dangerous machines shatter the stillness of snow-covered fields, back-country roads and mountain lakes, but lots of people love them anyway. Polaris' sales last year grew 41%, to $242 million, net profits were up 49%, to $26 million. The company went public as a master limited partnership in 1987 at $20, and last year paid a dividend of $4.54 per unit, bringing the total dividends paid to about $8 a share. (Master limited partnerships don't pay corporate taxes and must pass most of their cash along to shareholders.) Polaris partnership units recently traded at $28, and will pay a $5 dividend this year.

What's surprising is that Polaris has survived at all. Sales of snowmobiles, which use a belt drive to propel riders over hard-packed snow at speeds of up to 100mph, peaked as long ago as 1971, when half a million were sold. By the early 1980s they seemed headed for extinction, victims of higher energy costs, recessions, a few snowless winters and a serious rash of overbuilding by manufacturers. By 1983, when a mere 87,000 snowmobiles were sold, only 3 of about 100 manufacturers were left.
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One of them was Polaris, then owned by a management group headed by W. Hall Wendel Jr. Now 47, Wendel spent several years in the Navy before joining the company as a salesman just out of Harvard’s M.B.A. program in 1972. An amateur race car driver and mountaineer, Wendel led a buyout of Polaris from Textron in 1981 when the industry, and Polaris, looked to be in trouble.

As snowmobile sales slid, Wendel figured a quieter, safer and more colorful snowmobile might hold on to what business remained. Polaris added an independent front suspension to smooth out the bumpy ride, continually improved its power trains and then went to work on the machine’s exterior. Jokes Wendel: “You used to be able to get a Polaris in any color as long as it was red, white or blue.”

Today the vehicles come in ten different colors, Polaris splashes its sleds with assorted graphics to snazz up the exterior. Polaris has about 30% of the snowmobile market, now about 165,000 machines a year. That’s good enough for a slight lead over its principal competitors—Arctco, Inc., maker of Arctic Cat sleds, with 25% of the market; Yamaha, with 22.5%; and Ski-Doo, part of Canadian conglomerate Bombardier, Inc., also with 22.5%.

By 1985 Wendel had decided that betting the company on a single product, snowmobiles, was too risky. So he began producing all-terrain vehicles, those zippy, motorcycle-size machines that come with oversized tires permitting riders to careen over boulders and across ravines. Unfortunately, the three-wheeled all-terrain vehicles tend to tip over, as well as offend nature lovers. By 1985 safety issues and product liability premiums put the industry on the skids, and several makers cut back.

Wendel stayed in but changed direction. He liked the vehicles because they shared important parts—like engines and clutches—with snowmobiles, and are sold (at between $2,400 and $4,000 retail) by more than 50% of the same dealers who peddle Polaris snowmobiles. Moreover, the ATVs products; they, too, are produced only to order.

“We’ve created a mind-set that if you don’t buy a Polaris now, you’re not going to get one,” says Wendel. But he is not above merchandising his products. To help dealers move product early, Polaris offers retail customers $300 worth of apparel—items such as snowsuits, gloves and hats—until Sept. 30. The incentive falls to $200 by Oct. 31 and, a month later, to $100. Priced at upwards of $6,000 a machine, Polaris’ snowmobiles are delivered by September—the weather is not something Wendel feels comfortable betting on.

With gasoline prices rising and consumers tightening their belts, is Polaris poised for a fall? “It depends on how bad the economy gets,” Wendel replies, “but people who like snowmobiles would cut back on things like lawn mowers and refrigerators before they’ll cut back on their snowmobiles.” A large number of people, in other words, are truly dedicated to making noise.
Jack So, Executive Director of the Hong Kong Trade Development Council, relishes that Hong Kong is the world's largest per capita consumer of American products and that, in February of this year, the US registered its first trade surplus anywhere in Asia by exporting to Hong Kong goods to a greater value than were imported from the territory. "The myth of the everlasting US trade deficit is finally broken," So said. "However, as I told the Asia Society recently, Hong Kong is developing new markets as it undergoes major structural changes in its manufacturing sector, shifting from large-scale, low-cost manufacturing to knowledge-intensive, design-orientated, high-tech manufacturing," with, he emphasizes, much of the actual production now being done in mainland China.

"This has helped boost Hong Kong's re-export trade spectacularly over the past decade from US$3.9 billion in 1980 to US$44.4 billion last year," he said.

TOURISM

Like industry, tourism in Hong Kong is remarkably resilient and, after the traumas of last year, the number of visitors in the first six months of 1990 showed real growth once again, which is good news for Robert H Burns, chairman of Regent International Hotels. "Any dope can build a hotel," says Burns. "It doesn't take much. The problem is, of course, filling it, and I foresee several difficult years for Hong Kong because our international airport, Kai Tak, has virtually reached saturation point."

"When current hotel projects are completed over the next two years, there will be 38,000 beds to fill in Hong Kong, and not even our five million-plus visitors will be enough to keep all the hoteliers happy. This is good news for travelers, however. The customer is going to enjoy this immensely. It means that Hong Kong's already fiercely competitive hotel groups will have to offer even greater enticements to potential guests."
Robert Burns, whose Regent in Kowloon is one of Hong Kong's internationally renowned five star hotels.

The Peninsula Group, which operates fine hotels in Hong Kong, Manila, Beijing and New York, is building its second US establishment — The Peninsula, Beverly Hills, at the intersection of Wilshire and Santa Monica Boulevards and only 30 minutes from Los Angeles International Airport. Due to open in June next year under General Manager, Bernard Jacoupy, the hotel will create a West Coast counterpart to The Peninsula, New York, and, like all Peninsula Hotels, will provide the highest quality in personalized service.

The exterior of The Peninsula in New York.

The 250-room Peninsula in New York was built in 1905 with a distinctive facade and art nouveau interior. Its glassed-in health and fitness center, which opened in January this year, is proving very popular with its 21st floor swimming pool which looks out over central Manhattan.
NEWCOMERS

Peregrine International Holdings, an investment bank which was established only two years ago, already has funds in excess of HK$2.5 billion under its management control. Peregrine offers research, sales and dealing services in most open stock markets in the region, including Hong Kong, Thailand, Singapore, Malaysia, the Philippines and Indonesia.

Under its founders, Francis Leung and Philip Tose, Peregrine’s profile has been unashamedly high and its strategy unashamedly aggressive. Most of its shareholders and the majority of its staff are Asian, a distinguishing feature in an environment that has tended to be dominated by multinational corporations and expatriate executives. The wisdom of these philosophies speaks for itself. In its short history, Peregrine has emerged as one of the leading corporate finance practitioners in Hong Kong, and it is typical of the company and its founders that it managed to benefit from the backwash of the demonstrations in Tiananmen Square by buying into the resultant crisis and then growing along with the recovery.

Peregrine is a modern Hong Kong, and indeed a Southeast Asian success story, in some ways typical of the excitement within the financial sector throughout the region.

THE OFFICIAL VIEW

Sir Piers Jacobs combines high optimism with prudent budgetary management in his role as Financial Secretary in Hong Kong’s Government. As he says with characteristic understatement, “The world has not been a very easy place in the last 12 months. Our exports have been down, but re-exports are up considerably and the amount of international investment in Hong Kong over the last year has been quite good. There has been a steady stream of people who want to come and set up business here.”

He sees three major factors which make Hong Kong stand out from its regional competitors — communications, a predictable and comprehensive legal system and an enthusiastic, well-educated work force.

“I don’t want to sound a crazy optimist or just give you the party line, but if you analyze the background of Hong Kong and look where it is, you realize that Hong Kong is very well placed indeed. The United States is already our pre-eminent trading partner and, I’m glad to say, American firms are heavily involved in Hong Kong’s future, especially our mammoth airport and harbor developments.”

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Peregrine draws its inspiration from the falcon for which it's named: a far-reaching perspective, an eye that's trained to select the best prospects, and lightning-quick action when the time is right. It's what we call "seizing the moment." And it's how we account for the unparalleled success that has made us Hong Kong's leading financial adviser.

In just 18 months, we've rivalled or surpassed all other Hong Kong merchant or investment banks in number of transactions. We've demonstrated our ability to see opportunities that others miss — discovering new potential in a sleepy manufacturer, creating synergy through a merger of two companies, making key investments before everyone else gets in.

If you'd like to hear about ways to seize the moment in Hong Kong and the Asia Pacific region, call Peregrine on 852 845 611. The best investments are waiting for those who know where to look.
THE BANK

The Hong Kong and Shanghai Banking Corporation is the territory's leading financial institution and one of the largest financial services organizations in the world. In shortened form, it is known as the HongkongBank — but to most of the six million people living in Hong Kong, simply "The Bank" is enough to identify it.

The Bank's chairman is Scotsman Willie Purves who has a staff of over 53,000 people operating in 1,400 offices worldwide with consolidated assets in excess of US$132.8 billion.

From its very beginning in Hong Kong 125 years ago, the Bank has been international — by the end of the nineteenth century it was represented in 16 countries in Europe and America as well as Asia, and now operates in 50 countries worldwide.

Hong Kong is the financial hub of Asia, and the prosperity of the region has always been essential to the HongkongBank, which now has more than 640 offices throughout the Asia Pacific region, including today more offices in China than any other foreign bank.

In North America, the Marine Midland Bank is its flagship in the US and, in Canada, its acquisition of Lloyds Bank Canada earlier this year made HongkongBank of Canada the seventh-largest bank in Canada.

In Europe, HongkongBank has a 14.9% stake in Midland Bank in Britain and, in the Middle East, it is best known through its subsidiary, the British Bank of the Middle East, which celebrated its centenary in 1989 with record profits.

Around the world, capital markets and merchant banking activities play an increasingly important part in the HongkongBank's operations, which now maintain one of the ten largest foreign exchange and money market trading operations in the world.

With its unique franchise in the Asia Pacific Region — the world's most economically dynamic region — HongkongBank is well placed to take advantage of the business opportunities and to meet the challenges ahead, to be the ideal partner for American businesses seeking to establish or to expand their operations in Hong Kong — the commercial pivot of the world's most exciting market-place.

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A long tradition of local excellence. And a global outlook. That's our strength.
Retreating real estate values threaten the solvency of much of the U.S. banking industry. Will the slide turn into a rout? Six real estate moguls speak frankly about what they see ahead.

How long? How deep?

By Ralph King Jr.

How bad is the real estate recession? Is it just a cyclical downturn? Or is it something deeper and more frightening? We put the questions to six real estate powers from the 1989 Forbes Four Hundred. All but one thought the nationwide slump would last a couple of years. And then end. The one exception is a bear who remembers the Depression. He thinks the slump could last the decade. But all of them think the rewards may never again be so great as they were in the 1970s and 1980s.

Samuel Zell

Zell, 49, made a killing in the mid-1970s buying distressed real estate. Recently he raised a $400 million venture fund, and has just launched a second such fund, to go do it again.

"The real estate industry in this country is in a cleansing process. Now both the number of people in real estate and the amount of capital are shrinking quite dramatically. We are going into a period where there will be little if any new construction. Last year I would have said it'll take two to three years to work its way through. But with the dramatic reduction of credit, I think that process is likely to happen quicker.

"It's important to understand that a fully occupied, well-located asset really hasn't declined in value. The stream of income from real estate is still very valuable. What's happened is that the half-empty building that previously financed its way through or was a tax-shelter-financed holding is no longer holdable. These kinds of properties, which in another era a bank would have carried until they got better, are being marked to market with 40% hits.

"If I were a typical investor and I had an opportunity to buy, let's say, a Kmart that had a stream of income, and the price was fine, I wouldn't hesitate. Remember, you never buy markets, you only buy buildings, and each building has a story. We are looking for high-quality assets in high-quality locations where discounts are available. Of course, there's a lot of guesswork involved, and that's why our minimum expectation for return on equity is 15%.

"The reason that you have so many Forbes Four Hundred players in real estate is because there was enormous leverage available primarily at fixed rates in an inflationary environment. You had the ultimate arbitrage. But the nature of the business has changed. There will never be leverage in the real estate industry like there was in the past."

Walter Shorenstein

San Francisco's largest commercial landlord, Shorenstein, 75, also has operations in New York (he manages the Pan Am Building, among others) and elsewhere.

"All of a sudden, people are talking about real estate in a generic sense, as if it were all the same. It's a dirty word now just because a person's house is not selling for the price that his neighbor's sold for. When you talk about stocks, there are blue-chip stocks and those of other types of value, like penny stocks. Today there is a lot of fringe real estate that is of limited value. But high-quality real estate, as long as it's not overleveraged, is not in bad shape.

"The shakeout we're in had to come. When you handle real estate the way Integrated Resources or VMS Realty did, it's a Ponzi scheme. And how outfits like American Express got caught up in the thing, it's outra-
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leased with solid tenants.

"For the average investor, number one, real estate is very local. If you're familiar with a local situation, then there may be an opportunity to own and invest. The most important thing is to seek out independent information. Don't go on the judgment of a broker. They are out to make a commission, and maybe 5% of them are reliable. Go to a good lender, or two or three, and have them look at the property. If they are enthused, that's a good signal. If the lender will allow it, talk to his appraiser and find out what he thinks is good or bad about it. If any major work was done, find the contractor that did it. And finally, don't try for the biggest loan you can get. Put at least 20% down. You also need enough cash reserves, 10% or so, of the purchase price, to be able to withstand pressures like a leaking roof or losing a major tenant. You can't spend your last buck just to buy the property."

**Bernard Mendik**

At 61, Mendik has large equity positions in 14 big office buildings, and thousands of apartments, in Manhattan and surrounding suburbs. They include the New York Stock Exchange building and the Lincoln Towers complex. "Did you know that fortunes made by New York City real estate guys on The Forbes Four Hundred were made in about two years? It was from mid-1979 to the end of 1981. It all had to do with escalation of rents. Tenants got caught coming out of a recession when building all but stopped.

"Business was starting to boom. Supply and demand just drove the rents up. For example, when we bought 330 Madison in 1979 we were getting rents of $12 per foot, and by 1980 we were getting $35. For that building, we paid $40 per foot, and by 1982 it was worth $200. We bought 8 million square feet right in that period over three years. And a lot of guys on your list did the same, and how. It happened once in a lifetime, maybe once in ten lifetimes. We may never see that again.

"Now it's reversing itself somewhat. New York City is certainly in a recession. The beginning was the 1987 stock market crash. We've felt the recession not in our occupancy rates but in our rents. In the last year to 18 months, new rents are down 10%, averaging about $30 per foot, and it's continuing to drop. Our overall vacancy is just 4%, while the average vacancy in New York is 14% to 20%.

"Something I've tried to do since 1977 is buy most of my property with no debt or very little. Our current leverage overall is 30% debt to equity. When your debt is light you can sustain 30% to 40% of your building being empty before you start to feel any kind of pinch.

"For the first time in two years, I'm starting to look for opportunities. New construction has almost completely stopped. The co-op sale and resale market is very depressed. I think we have a three-to-five-year run before it turns around. Nobody is building apartment houses in New York, so there is going to be an enormous shortage of good co-oped buildings at that time."

**William Lyon**

*Sees a California turn in '92 or '93.*

Lyon, 67, the nation's largest home builder, sees a major difference between this downturn and earlier ones, particularly the most recent downturn in 1982.

"This time, there are still a lot of people seriously looking for new houses. Historically, during slowdowns the traffic just went in the tank. Of course, most buyers have a home to sell before they can buy a new one, and that's the difficulty. They are not able to move their houses at their great-expectation level of price, which is tied to what was going on a year ago.

"There is not a lot of completed and unsold inventory in California, and we watch that very closely. We have a large land development operation in Florida. It's slow there this year because the state was dependent on securitization, which has all but disappeared. Texas is better than it was, but I don't think it's too great yet. And Arizona is the badlands. It's so overdone that it's going to take a long time to straighten it out.

"Our current leverage is 30% debt to equity."
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And it pays well.
Edward J. DeBartolo

The largest mall builder in the country, DeBartolo, 81, is still building those big regional shopping malls that made him a billionaire.

"The difference is that today we don't start a project unless it's financed and four or five anchors are nailed down. In the years gone by, you used to get an anchor or two and proceed, hopefully getting another one or two. You can't take that chance anymore. Today you are pretty well secured before you proceed. It's too late for me to toss and turn at night.

"The country is not growing as fast as it used to, so I don't think you're going to have dozens and dozens of malls every year, but you will have a lot of select locations. And there will also be a replacement of some of the older malls.

"A few words of advice. I only do business with people who have an excellent track record, period, in any line of business. Also, I wouldn't talk about a lot of leverage right now. We put 10% to 15% equity in our deals. Then we put in all our services, too, like the engineering and architectural work, and we do our own construction, leasing, and management. When you add that in, our equity goes up to 25% to 30%. That's a good cushion."

Seymour Durst

Predicting no New York City turnaround "for another ten years."

Durst, 77, owns 4.5 million square feet of Manhattan office space, all within easy walking distance of his midtown office. Old enough to remember the Depression well, he was unquestionably the most bearish of our real estate men.

"We've always been on the conservative side, but since the 1930s I haven't had these feelings of concern to the extent I do now. It's perfectly possible we'll get into a serious depression if we make no progress toward solving the U.S. deficit, which is running at $400 billion. But much worse is the $3 trillion debt.

"We've felt that everything in New York has been overpriced for the last ten years. Part of the reason is that the government has been pump-priming on top of a flourishing economy, so we've had a flood of money.

"We don't think the real estate market is going to turn around for another ten years. You used to rely on demand catching up with supply in two to four years. Now I'm not confident of that, not in New York anyway. This city [Manhattan] used to have 140 big company headquarters, and today we're down to fewer than 40. Now it's all service, consultants, lawyers, accountants, etc. They rely on business from corporations that are cutting back or moving away. They may have developed beyond the need for them.

"This isn't the time to look for bargains, either. During the Depression, some of the worst losses were incurred when people went in for low prices in 1934. The ones who took losses in 1929 just had reductions of their profits. The 1934 investments were also lost, but that was out of hard cash. I think investors should wait and watch. Watch for a reviving economy that has solved its serious problems, like the U.S. deficit."

Edward DeBartolo Sr

Do business with quality people.

Shonna Valeca

FORBES, OCTOBER 29, 1990
Diamond Settings that Last

Drilling a deep hole oil well in the ocean floor may be the toughest environment in which any diamond ever finds itself.

The drill bits used by offshore drillers are made of diamonds, one of the hardest materials known to man. But what kind of setting would you use for such a gem? The best setting manufacturers in the world use a surprisingly small, amazingly tough cylindrical stud produced by Fansteel Hydro Carbide. This stud — which measures one inch in height and one half inch in diameter — is made of Tungsten Carbide, which is itself one of the hardest of man-made materials.

It takes a lot to hold a bit in place while it works around the clock to cut through the ocean floor. It takes engineering ingenuity, metallurgical know-how, and uncompromising manufacturing standards. It takes much more than a metal former . . . it takes a diamond setter. Fansteel Hydro Carbide; another reason it will pay you to know more about us.

Fansteel

An integrated producer of aircraft/aerospace, metalworking and energy-related products.
A "SHORT-TERM" PROBLEM WILL TAKE DECADES AND COST BILLIONS.

Alarmed by the poisoning of our environment at Love Canal and other toxic waste sites, Congress created the Superfund program ten years ago. Superfund was intended to be a short-term cleanup program for the most serious hazardous waste sites across the country.

More than a decade later, it's painfully clear that cleaning up hazardous waste is not a short-term problem for America. It will take many decades and cost hundreds of billions of dollars.

Currently, 1,200 of the most dangerous sites have been selected for priority action. Billions of dollars have been spent, but very few sites have been cleaned up. In fact, only 45.

SO FAR, ABOUT ALL WE'VE DONE WITH HAZARDOUS WASTE IS WASTE TIME AND MONEY.

One problem is that Superfund requires establishing liability—who sent what waste, how much and where. And this has taken priority over cleaning up. With the cost of cleanup at just one site estimated as high as one hundred million dollars, the question of who pays has serious consequences for everyone involved.

At most hazardous waste sites, the operator of the dump caused the environmental harm. But under Superfund, everyone who used the site is liable for the cleanup bill. The record of users can go back 25, 30 or 40 years and can number in the hundreds. Users can include major corporations, small businesses, local governments, hospitals, nursing homes, schools, even individuals.

For example, at 422 sites almost 14,000 entities have been notified by the government that they could be liable for the cleanup cost. And many of these entities have themselves identified still others.

The result? A bonanza for lawyers and
out cleanup first and
evironmental Trust Fund.

consultants. And a tragedy for the environment. At some sites, as much as 60% of the money spent goes toward legal expenses in costly and time-consuming efforts to assign liability instead of solving the cleanup problem. An avalanche of lawsuits has resulted, all aimed at getting someone else to pay.

**HERE'S AN IDEA THAT DESERVES EVERYONE'S CONSIDERATION.**

At AIG, we think it's high time to find a better approach to the problem of cleaning up old hazardous waste sites. One that encourages prompt cleanup and spreads the cost more broadly. And more equitably.

We propose creating a National Environmental Trust Fund similar to the National Highway Trust Fund. Its resources would be used exclusively for cleaning up old hazardous waste sites. The Fund could be financed by adding a separate fee to commercial and industrial insurance premiums in the United States. Even a modest assessment, say 2% of premiums and an equivalent amount for self insurers, would provide about $40 billion over the next decade, more than enough to deal with the 1,200 highest-priority sites.

A national advisory board of private citizens, industry and public officials could be charged with overseeing the program. We also suggest giving consideration to establishing local technical monitoring committees in each community. These groups would be composed of local citizens, industry and others who would work with the Environmental Protection Agency and the state on the particular cleanup site, from the very beginning of the cleanup effort.

Just think. A new way to finance Superfund's mission without the need for new taxes, a new government agency or expensive and unproductive lawsuits.

**WHY IS AIG RUNNING ADS LIKE THIS?**

AIG (American International Group) is the largest underwriter of commercial and industrial insurance in America, and the leading U.S.-based international insurance organization. The nature of our business means we deal every day with issues affecting U.S. competitiveness and the future of the world economy.

We've started this dialogue to encourage people like you to help shape the future. Perhaps you'll want to keep the ball rolling by contacting your elected officials, or an environmental or trade group. We hope you will. Shouldn't we stop trying to fix the blame and start fixing the problem?

If you agree with this idea or have thoughts of your own to share, write to Mr. M.R. Greenberg, Chairman, AIG, 70 Pine Street, New York, NY 10270.

**AIG** World leaders in insurance and financial services.
Pavarotti's rendition of a Puccini aria topped the British pop charts this year. Here comes the classical music marketing blitz.

Move over, Madonna

By John Marcom Jr.

Twice this year the great Italian tenor Luciano Pavarotti has topped the British pop-album charts. The first time was with a solo album, and then most recently with a recording of a July concert in Rome with tenors Placido Domingo and José Carreras.

"Incredible!" says Didier de Cottignies, head of marketing for Decca Record Co., the London-based unit of PolyGram N.V. that released both of the albums.

Incredible and, the recording industry hopes, prophetic. If the reaction in the U.K. is any indication—in the music world, it often has been—classical music could be set for a popular surge unseen since Franz Liszt left the women in his audiences swooning. And the record companies are figuring it's worth hyping their highbrow artists to broader audiences in some of the same ways they peddle pop acts.

Pavarotti, already a superstar in the opera world, got a break when the BBC chose his stirring rendition of "Nessun dorma" from Puccini's Turandot as the theme for its TV broadcasts of the soccer World Cup this summer. But Pavarotti was more than prepared, thanks to years of assiduous promotion through large-scale arena concerts, television and even movie appearances, as well as special albums conceived by Decca to appeal to a broad market.

That's a change for this decidedly elitist end of the business. "The industry encouraged the attitude that you have to be able to spell Tchaikovsky backwards to be qualified to buy something," says Richard C. Lyttelton, president of EMI Classics, part of Britain's Thorn EMI Plc.

That attitude has kept classical music sales at about 10% of worldwide record sales ($20 billion at retail in 1988). It's a nice business, but compared with the pop-music business, a backwater. Classical musicians have long made records as much for love as for money, recording generates concert bookings but seldom makes anyone rich, pretty much the opposite of the pattern in pop.

But it hasn't worked that way for Nigel Kennedy, a 33-year-old British violinist who trained at New York's prestigious Juilliard School. Kennedy

The triumvirate of tenors became even bigger stars after conquering Rome

U.K. retailers have new appreciation for classical music's potential.
has charmed the British public in a barrage of television appearances, displaying an unpretentious ease in the limelight—he disdains the usual white-tie attire, for instance, and professes to love soccer.

Does this help Kennedy sell serious music? You bet. EMI has sold 800,000 copies so far this year of his recording of Vivaldi's The Four Seasons—40 times the usual first-year sales for such albums, and respectable even in pop terms. The success of Pavarotti and Kennedy this year "has changed the perception [of classical music] in the U.K.,” says EMI's Lyttelton. Now even gas station minimarkets offer the classical hits.

This new, promotion-minded attitude owes much to the arrival of the compact disc. With millions of consumers buying CD players and re-creating their music libraries on discs, compact disc sales in the U.S. climbed from 6 million discs in 1984 to 207 million last year (there are no industry figures for classical-only sales).

The discs show off classical music's sonorities and have prompted a flood of reissues and new recordings—something like 5,000 classical releases hit the market in 1989 alone. The choice before the music lover has become daunting: PolyGram's Deutsche Grammophon, the most prestigious label in the classical field, offers three complete cycles of Beethoven's nine symphonies recorded during Berlin Philharmonic conductor Herbert von Karajan's career.

So a little hype has become essential. Aspiring performers are warned that virtuosity is no longer enough to guarantee a recording career: Performers have to look as good as they sound, and be as eager to perform on TV talk shows as in concert halls. Says Hanno Rinke, marketing vice president of Deutsche Grammophon: "I'm a little bit reluctant to sign an artist who I know is media-shy."

The biggest power in the coming classical boom may well be Sony, which gained control of the venerable Columbia label when it took over CBS Records in 1988. Sony is driven by the passion of president Norio Ohga, a trained baritone who studied in Berlin. Two years ago he lured Günther Breest from Deutsche Grammophon to set up a Sony classical label in Hamburg.

It was a stunning coup. Breest began wooing his old label's most famous artists with promises of fine technology and careful promotion. Metropolitan Opera conductor James Levine's new recording of Verdi's Aida is due out within a few months on Sony's label. Breest also plans to dip into Columbia's archives and reissue the early recordings of American conductor Leonard Bernstein with the New York Philharmonic.

Next step for companies like Sony and EMI? Reaching U.S. buyers less attuned to the classics. To help, they're turning to "crossover" material—lighter classics and American musical theater—performed by established classical stars. For Christmas EMI is readying an album of love songs recorded by Domingo, who like Pavarotti has mass appeal. EMI will also release its latest re-recording of an old Broadway hit, Kiss Me Kate, this fall. Sony has signed up John Williams, known for his music for Star Wars and other movies, and the Boston Pops Orchestra.

This isn't exactly high art, but it does provide an entrée into the classical music world. Says EMI's Lyttelton: "If retailers get it right, they can sell pop quantities. I don't think American retailers believe that yet. But we're trying to open things up."

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Harvard goes Hollywood

Move over, Bart Simpson and Batman. Here comes Harvard. For the first time, the 354-year-old university is licensing its venerable name and Veritas logo to clothing manufacturers in the U.S. and abroad.

Like other universities, Harvard has always sold T-shirts, sweats and the like in its own Cambridge, Mass., store, the nonprofit Harvard Coop. But now other manufacturers have the right to design and sell their own Harvard gear—everything from T-shirts featuring Fred Flintstone as a Harvard man to business suits with a discreet Harvard label in Japan.

Since the licensing program started, in December, Harvard has taken in over $260,000 in wholesale royalties, and royalty income is expected to reach $700,000 by the end of the current school year. And while most universities get 6% to 7% royalties, the Harvard name commands 7.5%. It won't be long before Harvard takes over the number one spot with revenues of roughly $1 million, say licensing mavens—rolling over powerhouses like Notre Dame and the University of Michigan in the T-shirt Bowl.

A good many Harvard alumni feel uncomfortable about the money grubbing appearance of the school's new licensing business. A Harvard spokesman counters that the university isn't doing this for the money, and only wants to protect its name and symbols from debasement. Accomplishing this delicate task falls to Harvard trademark administrator Sylvia Struss. She has already mixed Harvard tie-ins with underachieving TV cartoon character Bart Simpson, and forbids use of the Harvard name on any neon-colored garment. But there are predictable reactions nonetheless: "Yale would not authorize a Fred Flintstone T-shirt," sniffs a delighted spokesman for that university.

The licensing issue is such a sore point that Harvard refused to provide a sample of the shirt to illustrate this article. [Forbes obtained one from its own sources.] But Fred Flintstone isn't the only bone of contention. Many Harvard alumni also resent the distribution of Crimson ware in such down-scale outlets as Caldor and Kmart. Too bad there isn't a department store called Ivory Tower.—Jody Brennan
Sir:
The Sept. 17, 1990 Forbes article by Peter Brimelow and Leslie Spencer.

Our Sept. 17 cover story “Ralph Nader, Inc.” drew an exceptional volume of mail, both pro and con. Nader himself objected strenuously to the article, and tells us so. Curiously, his criticisms are directed at only one of the writers. The story was coauthored by Peter Brimelow and Leslie Spencer.

Below we run Nader’s letter in its entirety, interspersed with our own responses, which are in italics. There follow excerpts from a few of the many other letters we received about the article.

Our story analyzed Ralph Nader’s complex network of organizations and established that the organizations accept money from various interests, including the plaintiffs’ bar. Readers will note that his complaints as listed below do not challenge this conclusion.

It is quite true that one of us worked for Senator Hatch in 1979-80. This is about the same length of time that Ralph Nader was associated with Senator Ribicoff and worked for the Johnson Administration.

First, because Peter Brimelow relied on clips rather than direct observation, he twisted my exchange with Muscovite consumers. With a U.S. television crew standing by, I joked with them about their becoming more reflective and philosophical as they stood in long lines in order to overcome their shyness and inhibitions. They laughed with me, became more at ease and volunteered for the requested interviews. I was not romanticizing the standing in line; in a sentence uttered at every opportunity, including on national television, I said, “Consumers unite, you have nothing to lose but your queues.” My message about the need for safe, fair and competitive markets during their rocky transition from a command economy was well received, contrary to Forbes’ malicious interpretation.

Second, your article’s assertions about institutional tax forms not filed and about my “owning” nonprofit institutions are knowingly false. You disregarded my written answers to your own questions, which would have corrected your errors before publication.

At the time we wrote our story the IRS told us that Ralph Nader’s headquarters, Center for Study of Responsive Law, had not filed the appropriate Form 990 required of nonprofit organizations. We reported that Mr. Nader’s private foundation, Public Safety Research Institute, may be owned by Mr. Nader according to Delaware law. Delaware is one of the few states that grant ownership status to one who controls a nonprofit private foundation. Its sales manager told us that Mr. Nader “owns” Citizen’s Television. Its general manager also told us that the TV station’s tax-exempt status had not yet been accepted by the IRS. Mr. Nader’s written answers did not address the question of ownership.

Third, throughout the article, you attribute to me the activities of groups for which I have never had any responsibility whatsoever, including Citizen Action, Illinois Public Action Campaign and the Fund for Public Interest Research. This repeated falsehood fills many paragraphs in your bizarre quest to equate the good works of numerous nonprofit organizations with the old Rockefeller oil monopoly.

It is a matter of public record that Mr. Nader originated the concept behind the Public Interest Research Groups. Both he and his D.C.-based groups work in close collaboration with the risks and Citizen Action groups (of which Illinois Public Action Council is one). Whatever technical legal point Mr. Nader is trying to make by using the word “responsible,” it’s clear he has strong working relationships with these organizations. We used John D. Rockefeller’s secret Standard Oil Trust as an analogy precisely because, as with Nader’s network, its existence could be denied using legalistic loopholes.

Fourth, anonymous charges that I pile up hotel bills and demand limousines at speaking engagements are false, along with other Forbesian “when did you stop beating your dog?” innuendos.

One source says he personally booked many of Ralph Nader’s speaking engagements; we stand by him. Others reported similar firsthand observations. We would not suggest that Mr. Nader beats his dog.

Fifth, Forbes bellows that I have shown little interest in smoking and tobacco issues “until recently.” Since initiating the first petitions for separate nonsmoking sections on airplanes and interstate buses over 20 years ago, I have been fighting the tobacco industry on many fronts.
Just ask the Tobacco Institute.

Mr. Nader's relative lack of interest in the health risks of smoking has been remarked on by health professionals who follow Mr. Nader's work closely. We have no knowledge of the early work he mentions above, because Mr. Nader did not grant us an interview.

Sixth, my position on free trade includes reciprocity and has little relation to trade union positions. In fact, I often differ with labor union leaders.

Our point here was that America's drift to protectionism is a gigantic cost to consumers, and Mr. Nader's affiliations with unions help explain his reticence on this issue. The fact that Mr. Nader says little about protectionism is common knowledge among consumer groups and trade policy experts. Although we were not given an opportunity to ask him about this personally, his flagship, Public Citizen, for example, told us it had "no position" on the proposed Textile, Apparel and Footwear Act of 1990, which could cost consumers an estimated $160 billion over five years alone.

Seventh, you imply that Citizen Utility Boards [created by state statutes and governed by boards elected by voluntary consumer members] and Public Interest Research Groups [run by college students from top to bottom] are my possessions. False again.

Citizen Utility Boards (crs) started as a project of Nader's headquarters, Center for Study of Responsible. Their fundraising methods were so far from "voluntary" that a 1986 Supreme Court decision rendered them unconstitutional, and it is also originate with Mr. Nader. They are not run "from top to bottom" by students. They are managed by staff of the Fund for Public Interest Research and employ professional lobbyists. Their fundraising methods have also been successfully challenged in court on constitutional grounds. Although Mr. Nader's relationship with many of his affiliate groups is intimate, we did not at all imply that any of them are Mr. Nader's "possessions."

Eighth, under the subheading "political muscle" you state that two citizen groups [which I founded, but for which I have no current responsibil-

ity] receive money from the Combined Federal Campaign, the civil service charity. How is that a display of "political muscle"? These are voluntary contributions by civil servants from a long list of qualifying charities.

The Combined Federal Campaign is one example of the government-related funding that three (not two) Nader-affiliated groups have been able to procure. The funding of advocacy groups has long been a subject of controversy.

Ninth, none of the groups for which I am responsible do any door-to-door solicitations, contrary to your inaccurate claim.

Again, whatever Mr. Nader means by "responsible," the fact that he and his organizations work closely with groups that solicit door to door is a matter of public record and was confirmed by their staff in conversation with us.

Tenth, your portrayal of the history of auto safety legislation and the subsequent saving of millions of lives and injuries smacks of the old Soviet-style revisionist propaganda. Fortunately, the record here is clear in many books and periodicals. We are not in the business of soliciting corporate advertisements.

Mr. Nader is obviously welcome to his opinion of his place in history. Our article does not assess the history of auto safety legislation. It simply points to the fact that deaths per million miles driven had been falling swiftly throughout the century, prior to Mr. Nader's appearance on the scene. Any objective assessment must consider the possibility that the same factors were operating during the subquent, much smaller decline.

Eleventh, as for trial lawyers, who support some and oppose some of my positions, they need to do more, not less, to defend the rights of victims. Defense of the rights of victims is presently under massive assault by the insurance industry, manufacturers and other members of the defendants' lobby. It is important that such a basic human right be backed by at least one vested interest (the trial lawyers) when it is opposed by so many other larger vested interests (insurance companies, auto manufacturers, tobacco and pharmaceutical industries, the medical profession, etc.).

Twelfth, the contingent fee, which Forbes despises, simply means that lawyers for injured persons only get paid when they win and receive no fee when they lose. How else can people of modest means afford a lawyer? Even the Heritage Foundation staff endorses the contingent fee for, among other reasons, discouraging frivolous lawsuits.

These two alleged "worst errors" appear nowhere in our article and are actually expressions of Mr. Nader's opinion. We are interested to note that be considers trial lawyers a "vested interest": that was our point. For the record, Forbes is not against the contingent fee, only against its abuse. We have, for example, suggested that it be combined with the "English rule," whereby defendants who win their cases can recover costs from plaintiffs, decreasing the incentive to predatory litigation.

Thirteenth, your assertions of improper secrecy are Forbesian fictions. Forbes was given answers to its written questions, or the answers were already in the public record. If you had further questions, you could have requested written answers to them as well. But I do not answer such questions about civic organizations for which I am not responsible, e.g. 26 out of 29 groups in Forbes' imaginary list.

During our research, Mr. Nader refused to respond to our repeated requests for an interview. Eventually we fixed him some written questions, but the last-min-
Aftermath

I am convinced of it.
—George B. Davidson
Write, N.J.

SIR: Who made it mandatory for students to fill the Nader coffers?
—Herb Strum
Somerset, N.J.

SIR: I predict that he [Nader] will yet achieve a place in history with Phineas T. Barnum.
—C.M. McCutcheon
Benton, Tenn.

SIR: Those of us who see tort law as a tool of corrective justice, and not as a dishonest form of redistribution, have long railed against Nader and company’s holier-than-thou crusade against corporations that have created so much of America’s wealth.
—Michael L. Krauss
Arlington, Va.

SIR: In the process of bashing Nader, the self-proclaimed capitalist tool has shown itself to be the capitalist fool.
—Carrie Roy
Washington, D.C.

SIR: Nader should be an inspiration to us all. To say that Nader caters to “a pathological distrust of business” is demagoguery. I like him and I have a healthy distrust of business.
—Gary Spizizen
St. Louis Park, Minn.

SIR: We in this country owe Ralph Nader more than we can ever repay.
—Mike Wesfall
United Auto Workers
Hunt, Mich.

SIR: There is almost universal consensus that all corporate crime, both detected and undetected, prosecuted and not prosecuted, is more pervasive than all other forms of crime. Ralph Nader is perceived by many Americans to be the “watchdog” over corporate crime and violence.
—Philip Mathis
Austin, Tex.

SIR: The “torts” virus is slowly destroying this country, with the trial lawyers and judges acting as willing executioners.
—John J. O’Connor Jr.
Kiauah, S.C.

SIR: Nader creates problems and then forms organizations to save us from the problems he created.
—Cordell H. Beeneck
Glastonbury, Conn.

SIR: He is nothing more than a shill for the trial lawyers.
—Wm. S. Mortimer
Laguna Beach, Calif.

SIR: Ralph, open your books!
—David E. Fountain
Sacramento, Calif.

SIR: It looks like Ralph Nader is above the law.
—Anthony N. Mannas
Law Student
Temple University

SIR: I’m mad as hell that you would try such a blatant hatchet job on such a great person.
—Brooke Weidner
Chester Springs, Pa.

SIR: If there is a contemporary role model for my sons to follow as far as making the world a better place is concerned, I would place Mr. Nader high on the list.
—James L. Doane
Albany, Ore.

SIR: You deserve a great deal of credit for taking the time and resources to put such an accurate story on Ralph Nader together.
—H.A. Abersfelder
Seattle, Wash.

SIR: I have a new one for Nader: Congress enacts a statute creating a public right to redress misrepresentations in fundraising that use tax-deductible contributions. Then, someone can sue Nader out of business like he has done to so many others.
—Gerald P. Goulder
Greensboro, N.C.

SIR: Would FORBES prefer a totalitarian state, ordering obedience to corporate America?
—Alan DiCara
Winsted, Conn.

SIR: Your reference on page 122 of the Sept. 17 issue—“plaintiff attorneys . . . having their wives sign checks”—was both insulting and inaccurate. Have no attorneys’ husbands signed checks?
—Naomi C. Dalkoff
Cincinnati, Ohio

One can go on and on in correcting your error-infested pages but, in the interests of brevity, a summary description of the FORBES fairy tale of Sept. 17 recalls the words of historian Richard Hofstadter in commenting on the paranoid style in American politics: “Overheated, over suspicious, overaggressive, grandiose and apocalyptic in expression . . .” And, I would add, willfully fabricated.

Mr. Nader at least agrees that Richard Hofstadter is worth quoting, since he has lifted this passage from our own conclusion in which we applied it to him.

Mr. Nader was the second biggest earning trial lawyer in the U.S. in 1988, taking in by our estimate $40 million.—Ed.

SIR: The contingency fee was here long before Ralph Nader was born and in my opinion has made the U.S. system as dynamic and responsive to the consumer interest as it is. . . . The system works. My largest fees have produced the biggest and cheapest benefits for clients.
—Herbert Halff
Claremont, Calif.

SIR: Honest journalism will always prevail over fear and intimidation from powerful special interest lobbying groups like Mr. Nader’s network.
—Tony Davenport
General Manager
Air Check, Inc.
Arden, N.C.

SIR: FORBES is a lot more paranoid than Nader.
—Miriam C. Snider
San Antonio, Tex.

SIR: For a long time I considered him [Nader] as phony as a $3 bill, and now
This is the future we Germans have sought for so long: The whole of Germany - based on freedom, democracy and free enterprise - is now part of the free world. At last all Germans can live as citizens of the European Community and as members of the Atlantic alliance, free from want and oppression.

This result is the fruit of a long friendship. Thanks to our American friends and allies for their unswerving support for Germany over four decades!

We guarantee the same security for our neighbours that we expect for ourselves. We will use our abilities to serve the European and Atlantic alliance where we found our freedom, security and prosperity. A new chapter of German-American friendship in freedom has begun. We will meet the challenges of the future just as we have met the challenges of the past: together.

If you would like to support the work of "Friendship in Freedom", talk with your friends and colleagues about the importance of Atlantic cooperation. Take advantage of opportunities like lectures or interviews to explain the importance of German-American relations for our security, our freedom, and the political and economic development of East Europe. Become a contributing member of "Friendship in Freedom", a German Initiative for European-American Relations, 1016 Sixteenth Street, Northwest, Suite 700, Washington, D.C. 20036.

FRIENDSHIP IN FREEDOM
A German Initiative for European-American Relations

The founders of this campaign are leading citizens in the Federal Republic of Germany: Günther Dirlb, Dr. Gernot Ernst, Alphons Horton, Thomas Kielinger, Marie-Elisabeth Klee, Dieter Kronzucker, Dr. Tyll Secher, Friedhelm Ost, Ambassador Dr. Jürgen Babanus, General (Ret.) Johann Steinshoff, Wolfgang Stresemann, Prof. Dr. Werner Wedenfeld, Admiral Dieter Wellershoff.
She became the first woman to fly solo across the Atlantic, an author just what you’d expect

Some say things can’t be done. Others do them, proving that with the right combination of bravado and talent, there’s no telling what you can accomplish.

Nicknamed “Lady Lindy,” Amelia Earhart was not only the first woman to fly solo across the Atlantic, she held women’s speed and distance records that earned her place as the first woman to receive the Distinguished Flying Cross.

As a nurse during World War I, Earhart developed an early concern for her fellow man that helped her champion human rights around the world. Her memorable accomplishments in the air moved her to pen three best-selling books.

She served as aviation editor for *Cosmopolitan*. She designed and marketed a line of luggage and founded two successful airlines. An admired poet, she inspired two popular songs and even a foxtrot.
woman aviator to cross entrepreneur and nurse, from a fashion designer.

ptly called the Earhart Hop.

Her adventurous lifestyle so enthralled the American people that he created fashions for top department stores like Macy’s and Marshall Field’s.

If you understand how Amelia Earhart combined many talents in her pursuit of excellence, you’ll understand the commitment of BellSouth.

Individually, the companies of BellSouth are considered to be some of the best in their field. Brought together to serve your needs, they can provide technologically advanced solutions to a variety of problems in healthcare manufacturing, retailing, banking, government and others.

In fact, for the last two years in an annual Fortune magazine survey, senior industry executives have chosen BellSouth as the telecommunications company they most admired in the United States.

Which means if you’re looking at your own business or personal communications needs, it’s quite likely you’ll find the companies of BellSouth to be exactly the kind of partner you’re looking for.

Because after all, when you surround a problem with remarkable talent, there’s no telling how far you can go.

HERE’S HOW BELL SOUTH INTEGRATED MANY DIFFERENT TALENTS TO HELP THE HEALTH CARE INDUSTRY MEET ITS COMMUNICATIONS NEEDS.

Developed a system for electronic insurance claims processing utilizing an advanced interactive network, reducing overhead costs and handling time.

Created disaster recovery systems employing network and cellular services.

Designed an interactive network linking medical centers, physician groups, insurance companies, and employers to achieve a significantly higher level of cost effectiveness in the provision of services.

Everything you expect from a leader
Computers/Communications

Alcatel is turning out to be a happy Franco-American marriage. It is vying with AT&T to become the world's largest maker of telecommunications equipment.

First Europe, then the world

By John Marcom Jr.

Four years ago ITT Corp. got out of the international communications business, handing control of its far-flung equipment-making operations to France's Cie. Générale d'Electricité. The resulting company, Alcatel N.V., has worked better than almost anyone expected. With plants in 22 countries and customers in 80, Alcatel rivals AT&T for first place in sales of the big switches and transmission equipment used for public phone networks.

Last year Alcatel's net income rose 33%, to $630 million, on a 15% sales gain to $16.9 billion, converting at recent exchange rates. Cie. Générale d'Electricité's first-half earnings report was among the cheeriest news last month on Paris' Bourse—which, like every other market, plunged into gloom when Iraq invaded Kuwait. A good part of the group's handsome 20% profit gain stemmed from Alcatel, though Alcatel itself doesn't report half-year results. Alcatel is the biggest part of the group; the other major arm is an electrical-machinery venture with General Electric Co. of Britain, which makes, among other things, the locomotive that pulls France's 180mph trains.

In a market that is off about 30% from its high this year, CEG shares—traded largely in Europe, since the company doesn't sponsor an American Depositary Receipt—are off 18% from their peak. Even that is unwarranted, insists Pierre Suard, the 55-year-old CEG veteran who now runs both companies. The merger gave Suard's group a majority stake in Alcatel, with ITT the minority partner.

Earlier this year ITT booked a $139 million aftertax gain by selling another 7% of Alcatel to CEG, which now holds 69% of Alcatel. The French seem willing to buy more, but given Alcatel's outlook there seems little reason for ITT to rush to sell.

Suard operates under a bold, global strategy. The goal in both sectors is to secure a broad base in Europe and
use that platform to sell around the world. The latest stroke: an alliance and share-swap with Italy's powerful Fiat. Alcatel will take over Fiat's Teletrat telecommunications unit, making it the world leader in yet another market segment, microwave and cable-transmission equipment. Alcatel also gains strength in Italy to challenge a partnership of AT&T and Italy's state-owned equipment maker, Italtel. It adds up to yet another blow to U.S. domination of the world telecommunications industry.

Suard, as befits the company's global ambitions and scope, downplays Alcatel's French accent: English is its official language, and accounts are tallied in European Currency Units, based on a basket of European currency values. The company is run from Paris, but keeps its technical center in Brussels and spreads export orders among other units in Spain, France and Germany—for some of the same reasons that a U.S. defense contractor will spread its plants among as many congressional districts as it can. In the U.S., a North Carolina plant makes advanced transmission equipment, on which rest the company's best hopes of penetrating the U.S. market, where AT&T and Northern Telecom are far ahead in the market for switching equipment.

The geographic dispersion gives Alcatel a great deal of flexibility. It can fill orders wherever currency, costs and political considerations make filling the orders most attractive. In communications equipment, governments are still the main buyers, so politics, diplomacy and export subsidies remain as important as manufacturing skills. Is the buyer in one market angry at France, say? Alcatel can supply the order from Spain, Belgium or Germany.

In Eastern Europe, Alcatel's backyard, the company expects sales to more than double this year, to $260 million. Again, a multinational character helps. The Spanish unit, for instance, took advantage of Spanish government support—the extent of which Alcatel declined to disclose—earlier this year to sell Poland $70 million of new switching equipment.

Nearly every government realizes the importance of a foothold in Eastern Europe and the Soviet Union. Jozef Cornu, a Belgian veteran of ITT and now an Alcatel executive vice president, tells a visitor how backward the East is. In the early 1980s a Soviet factory was granted a license to build switches. The plant has the capacity to make 500,000 lines a year of equipment. It actually produces 200,000 lines. Probably 20,000 work, Cornu says, eagerly anticipating a crack at improving the situation.

In China, Alcatel has greater control of a manufacturing joint venture known as Shanghai Bell, and makes many components in order to insure quality. Alcatel has installed 1 million new phone lines in China, with another 250,000 ordered—a 40% share of a market where the penetration rate is just nudging 1%.

The potential is similarly vast in the rest of the developing world, where consumers are woefully served. Alcatel delivered enough modern digital-switching equipment last year to connect 8 million phone lines. On the crudest of calculations, that still leaves at least 1.6 billion connections to be made. But given the financial pressures—connecting a Chinese customer costs up to $2,500, Alcatel reckons—progress will be slow. Thus the company is not looking to the poorer countries for its fastest growth. "The gap between the highly developed and the slowly developed will get larger in the future," Suard says.

The poorer countries could, of course, develop faster if their governments would get out of the communications business. Following the example of Chile, two countries that have begun moving toward privatization of their phone service are Argentina and Malaysia. "It's a trend which will help," says Suard. "But this will take time. So many countries are so deeply rooted in the idea that telecommunications must belong to the state."

That's clearly an old-fashioned idea—just as old-fashioned as the idea that a business can flourish operating in one market only. Alcatel and its parent are clearly well positioned to profit, as the world continues to move away from these old ideas to a world where globalization and privatization are clear winners.ieron 135 FORBES, OCTOBER 29, 1990
Pinnacle Publishing does very well in the computer newsletter business, partly because it gets by with next to no editors.

Symbiotic software

By David Churbuck

DAVID M. JOHNSON and Owen Wollum plunged into the publishing business with a great idea applied to a doomed market.

In 1985 the pair, then students at Pacific Lutheran University, started publishing a newsletter devoted to the workings of a pioneering database package called O’Hanlon’s Sensible Solution. The company selling Sensible Solution got into financial trouble, and Johnson and Wollum found themselves without an audience. But the partners made one more risky bet. This time they created a periodical on the subject of Clipper, a database program from Nantucket Corp. Clipper, which can run programs written in the popular dBase language, took off. And now Johnson and Wollum, doing business as Pinnacle Publishing in Seattle with seven newsletters, are grossing $4 million a year. With costs low, their pretax profits could be approaching $1 million a year.

The secret to Pinnacle’s success is simple: Find software publishers with which to form symbiotic relationships. The software firm wants the mark of acceptance that comes from an independent publication devoted to its product. Pinnacle wants prospects—a list of the people who have registered with the software firm as buyers. Pinnacle gets the lists free, and they generate the kind of response rates (as high as 7%) that any ordinary magazine publisher would die for. Pinnacle also stuffs flers advertising its journals into software boxes.

Pinnacle keeps its cash outlays to a minimum. The firm has almost no editorial staff, instead contracting out for a freelance editor and letting the subscribers fill the pages with their own comments, queries, suggestions and technical tips. Subscriptions, at up to $100 a year, are paid in advance.

“One of the nicest things about the newsletter business is all the revenue is realized up front,” says David Johnson, 27, a 40% Pinnacle shareholder and vice president for software products. "With 3,000 subscriptions we get an immediate hit of $300,000, and the expenses are staggered over time.”

Why would the developer of Clipper or DataEase or R:Base want to share something as valuable as a customer list? It’s symbiosis. More subscribers to the newsletter means more fanatics using the product, and more sales of the software means more subscribers for Pinnacle.

“Any program that can claim it has a dedicated, independent journal gains a lot of prestige,” says Johnson. “We add value to the program, because there is a limit to the number of things that a software developer can envision his product doing. The user’s manual is directed only at the operation of the product, not the application of it.”

Needless to say, Apple Computer doesn’t have to give away its customer list to get recognition for its Macintosh [MacWeek follows that product]. But a small software house is willing to go along. Thus, Symantec’s Q&A, a database program that accepts ordinary English queries [FORBES, July 23], is featured in a new 12-page Pinnacle newsletter entitled The Quick Answer ($69 for 12 issues).

Pinnacle has found another way to feed off successful software. The company publishes add-on miniprograms that enhance the value of the host: a communications program for Clipper, a pop-up help utility for Microrim’s R:Base, graphics capabilities for five database programs. Again, no overhead. The company either offers a royalty deal to a freelance programmer or agrees to accept unsolicited programs. Pinnacle copublishes software, for instance, from Tom Rettig Associates, Rettig being a former child actor (Tommie on the Lassie show) turned programmer in Marina del Rey, Calif.

Johnson downplays the risk that the publisher of the core product might soup up the product to do what one of Pinnacle’s utilities can do. “The developers of the host products make their money selling compilers, not graphics. They don’t want to be sidetracked with things that wouldn’t add a lot of revenue,” he says.

Pinnacle’s third line of business is running fan clubs—known more formally as conferences. Users pay up to $795—in advance—to attend three days of talks about some obscure database application.

Fan magazines go back a long way in Hollywood. You could say that Johnson and Wollum’s inspiration was simply to apply a very old formula to a new business.
Airborne Express, the world's fastest growing overnight air express company, had strong ideas about what they needed when it came to PCs.

After examining different systems to see how they weighed up, Hyundai came through with flying colors. Airborne installed Hyundai PCs at their central sorting facility and specified them for the Libra II shipping system they offer to high-volume users.

Hyundai has the broadest line of PC-compatible computers and peripherals available. From powerful desktop machines to the latest portables. All competitively priced and available from a first-class, nationwide network of dealers.

For information systems for the long haul, call on Hyundai. Airborne Express did. Hyundai Electronics America, 166 Baypointe Parkway, San Jose, CA 95134
Charles Sporck can make National Semiconductor Corp. profitable only by making it a lot smaller. It's not a happy process.

Pain at National

By Julie Pitta

NATIONAL Semiconductor Corp., the $1.7 billion chip company in Santa Clara, Calif., is very much the creation of Charles Sporck, its taciturn, no-nonsense chief executive who joined it 23 years ago. That could be why it's so hard for him to do what has to be done to save this company: Make it smaller.

Since late 1987 Sporck has shut down four plants, sent nearly 6,000 workers packing and sold off two computer businesses that accounted for 43% of the company's business. Yet this is but a start. National Semi has run up $165 million in losses over the five fiscal years ended in May. In its fiscal 1991 first quarter, ended in August, it lost another $166 million on sales of $443 million. The stock peaked at 22 as recently as three years ago. Recent price: 3%.

Sporck, 62, built National's reputation as a low-cost supplier of commodity chips. This strategy worked until the Japanese came along. Thereafter, it didn't work at all.

Then Sporck diversified into computers—point-of-sale terminals for stores and IBM-compatible mainframes for big commercial customers—as a way to create demand for its own chips. These diversions served only to drain away precious research dollars, which, even at about $250 million a year, are scarcely enough to support a full line of semiconductors.

And then, perhaps out of nationalistic pride or nostalgia, Sporck had National acquire Fairchild Semiconductor in 1987 for $122 million. Sporck started his career at Fairchild, working as a manufacturing expert under designers Gordon Moore and the late Robert Noyce. (Moore and Noyce left Fairchild to found Intel a year after Sporck left for National.) With Fairchild, National gained some lucrative government business, but with it, more overhead and inefficiency.

During the mid- to late 1980s Sporck spent much of his time far away from the office. He was lobbying Congress for protection against Japanese chipmakers, assuming the chairman's role at Sematech, the government-sponsored consortiumchartered to find new chipmaking techniques, and building a dream house in Hawaii for his retirement.

Not that Sporck was alone in seeking government intervention in the chip market. His old friends from Fairchild, Noyce and Moore, were also busy on the industrial policy circuit. Noyce quit day-to-day obligations at Intel to become chief executive at Sematech.

But while Intel was complaining about the Japanese, it was also defending itself. Under its brilliant and energetic chief executive, Andrew Grove, Intel moved out of commodity memory chips into powerful microprocessors that the Japanese couldn't imitate. Result: Intel's sales per employee of $160,000 are three times the National Semi figure. Intel's operating margin in its last fiscal year was 27%, against 3% at National.

One reason: National's portfolio of chips has grown into the thousands, many of them rapidly becoming obsolete. The digital logic division, for instance, produces multipurpose chips, inexpensive parts (25 cents to $1 apiece) that once were the building blocks of any number of electronic gadgets. In today's PCs, most of these multipurpose chips have been replaced by a much smaller quantity of more complex chips—made by smaller companies like Chips & Technologies and LSI Logic.

Two of National's six divisions—memory chips and custom chips (called application-specific integrated circuits)—have been the biggest culprits in its recent losses. Japanese competition in both markets has resulted in dramatic price erosion. "Most of the large American chip companies have tended to stay at each technology phase too long," says Wilfred Corrigan, a Fairchild alumnus who is now president of LSI Logic.

Sporck, who declines to talk much to the press these days, has been slow to pull the plug on losing product lines. "The easy decision has always been 'Let's take out 1,000 people' rather than 'Let's get out of the businesses that are losers,'" says one former National manager. In August Sporck finally shut down most of National's memory and custom chip lines, but not before investing millions of dollars trying to salvage them.

National's newest products—chips for computer networking and telecommunications—have been well received by customers. A new line of imaging chips, a market that could grow from $25 million today to $1 billion by 1993, also has promise.

The bottom line: National could perhaps thrive at half its size, with most of its revenues coming from the new imaging, networking and communications lines. But whether Sporck is willing to preside over the painful dismembering of the firm he built is another matter.
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NEC’s new UltraLite™ 286V.
A six-and-a-half-pound notebook that actually has a large, bright VGA screen. So whether you’re using Windows™ 3.0 or any other software, you’ll get the kind of crystal clear image you only expect to find with larger computers. That’s not all. You can also get 80286 processing power, up to 5MBs of memory. A 20MB hard disk drive. A battery that gives you up to two and a half hours of power. It comes in a package small enough to fit in a briefcase, too. And there’s never an embarrassing spot or streak. For more information call NEC Technologies at 1-800-826-2255. The sparkling new UltraLite 286V. It’ll make you shine.
Science & Technology

Edited by Gary Slutsker

Let the rest of the biotech industry seek a cure for cancer. Genencor International is using its biotech skills to turn new blue jeans into worn blue jeans.

Enzyme-eaten jeans

By Seth Lubove

Did you ever wonder how "stone-washed" jeans get to look worn before they ever are? The old, expensive way is to put them in an industrial washing machine with a bunch of rocks. But it's a fairly laborious process. You have to pay people to pull pebbles out of pockets.

Much more efficient is a technique devised by Genencor International, a biotech firm that was used to be part of Genentech. Genencor designed a bacterial enzyme that breaks down cellulose, the molecular building block of cotton and wood. The enzyme munches on cotton fibers, softening them and releasing some of the indigo dye. Which jeans manufacturers are using the denim-eating enzymes? Genencor's customers would rather you didn't know. Bacteria and enzymes aren't always such good selling points.

Solving the problems of stone-washed jeans might not win a Nobel Prize for any of Genencor's 51 Ph.D.s, but that doesn't seem to bother this company. Genencor is one of the five biggest biotech companies in the country, with projected sales this year of $100 million—compared to last year's $70 million—and an established annual growth rate of 25% to 30%. Molecular biology graduates of schools like MIT and Stanford, some with postgraduate degrees, are among its 450 employees.

Yet, in spite of its successes and future promise, Genencor has remained a stepchild in the biotech industry. Genentech didn't want things like denim-eating enzymes to distract it from curing cancer and heart disease. Thus, Genencor was formed in 1982 as a joint venture between Genentech and Corning Inc., which had been trying to develop an in-house biotech division.

But Genentech never did want to have much to do with its industrial sibling, situated over a nearby hill in industrial South San Francisco. So, earlier this year, when Eastman Kodak and Finnish enzyme firm Cultor Ltd. offered to buy them out, Genentech, Corning and a later partner took the money.

Meanwhile, Genencor's scientists have created a nice business for themselves, making specialized enzymes that help companies shave a few cents off their manufacturing processes. Take apple juice. Press a ton of apples, and you end up with 150 gallons of juice and a lot of skin, seeds and core. Genencor engineers came up with bugs that produce enzymes which then turn the pomace into microscopic bits that are usable in juice. The result: Now you can get 208 gallons per ton, a 39% yield improvement.

Solving seemingly mundane problems like these requires real creativity. Genencor researchers specialize in developing enzymes that eat specific protein molecules. Once the scientists isolate and reproduce a new enzyme using genetic and protein engineering techniques, the marketing department goes into action, searching for industrial or food preparation processes that incorporate the protein the enzyme attacks.

For example, Genencor's re-
A technician prepares enzymes from a tank (far left), pomace before treatment with enzyme (above) and after (right), magnified 100 times

Squeezing a little more from an apple.

searchers had produced an enzyme that dines on a protein found in grains like wheat and barley. The protein, beta-glucan, is a gummy substance that absorbs and retains water. Genencor's insight was in figuring out how its enzyme could save money for bran muffin bakers. When the enzyme breaks down the beta-glucan molecules, water is released. With less water in the batter, baking times are reduced as much as 20%.

"Oftentimes the baker doesn't even know he has a problem," says John Burr, marketing vice president. "We start calling on wheat starch makers, and tell them we have an enzyme that will probably give them more efficiency in their process."

Before genetic engineering, the enzyme business was a matter of turning over rocks and collecting soil samples from odd places, in search of a microbe strain that would produce a useful enzyme. With genetic and protein engineering, enzymes are custom-made. And they can be designed to have special characteristics, such as the ability to withstand the temperature extremes in a baker's oven or the acidity of fruit juices.

You custom design a new enzyme by pinpointing and restructuring the amino acids that give an existing enzyme its character. At Genencor's labs, researchers shoot an X ray through an enzyme molecule, then feed the data into a computer that creates a three-dimensional graphic display. Studying the enzyme, they look for the active amino acids, then simulate the effect of substituting one for another. A DNA sequence, or genetic code, can then be reverse-engineered from the enzyme. When that sequence is inserted into a strain of bacteria, the bacteria produce the desired enzyme. The rejiggered bacteria are mass-produced in Genencor's fermenters.

Some of Genencor's enzymes have turned into very big sellers. In the next few years its enzymes that eat blood and grass stains on clothing could account for as much as $100 million in annual sales to manufacturers of laundry detergent.

"The industrial biotech industry is where the computer chip industry was in 1955," says Robert Leach, Genencor's chief executive officer. "Nobody knows the potential."
We're counting on Josh to save the environment, design a crash-proof car or simply pilot a spacecraft to Mars.

We're counting on Josh, Tam and Erik to help improve our quality of life. They're counting on the American school system to help them realize their potential.

Unfortunately, too many kids graduate from high school unable to read the newspaper, write a letter or count their change at the store.

America's ability to compete in business, science and technology is at risk. Our future depends upon resourceful, innovative, well-educated people.

The responsibility does not rest solely with the schools. The revitalization of our education system requires a partnership among businesses, community leaders, educators and parents.

What Rockwell is doing.

Years ago, we realized that simply throwing money at the schools wouldn't make them a whole lot better. In the past decade, we have backed up more than $50 million in employee and corporate donations with equipment and the personal involvement of our people.

Today, Rockwell employees are voluntarily participating in more than 200 programs nationwide to inspire students from preschool through graduate studies to believe in themselves and strive for higher levels of achievement.

We also encourage our own employees to continue to pursue a dedicated program of lifelong learning.

What you can do.

There are hundreds of ways you and your company can encourage American innovation and leadership through quality education. For more information, simply write Rockwell, P.O. Box 905, Dept. FBA, El Segundo, CA 90245-0905 for printed information created in cooperation with the National Association of Partners in Education (NAPE).

Emphasize Education. It's our future.
The telecommunications world is turning upside down. Telephony is taking to the air, because busy people like to move around. Broadcast is going to earth, because couch potatoes sit still. Congress, all the while, is busy trying to make the world stop turning.

The trouble all stems from our enduring fascination with things that fly in defiance of all laws of nature. There’s Icarus of Greek legend, and the medieval griffin, the winged lion. Walt Disney brought us Dumbo, the flying elephant. And then there’s network television, determined to remain airborne when the forces of nature dictate otherwise.

In June Tele-Communications Inc., the nation’s largest cable operator, offered to carry NBC programming to rural areas that can’t get it otherwise. TCI even proposed to waive the annual fee (about $750,000 on average) that NBC pays its local affiliates for distributing its wares. NBC indignantly refused. Any such deal would have outraged NBC’s existing over-the-air affiliates, who are of course inclined to think that cable is best used for mooring ships. In early September, however, Fox Broadcasting, the upstart fourth over-the-air network, broke ranks and agreed to have TCI carry its programming in Montana.

Meanwhile, telephone service is taking to the air. Pagers are now on wristwatches, the cellular-phone market doubles in size every few years, and mobile phones are destined to become as ubiquitous as cars, boats and airplanes. The Federal Communications Commission has awarded some 20 experimental licenses for new, short-range cellular networks that promise to put a portable phone in every shirt pocket.

With the rapid cabling of America, land lines have surpassed the airwaves for distributing entertainment, and they are perfectly suited to the voracious transmission requirements of high-definition television. At the same time, new spectrum-stretching technologies have made it possible to provide private, two-way connections in abundance over the air. And as the broadcast world moves underground, with wires running side by side with the telephone system, competition between the two systems, air and ground, is not only natural but also inevitable.

So what is Congress doing? Rather than smoothing the transition and embracing competition, it is plodding forward with the murkiest imaginable scheme for new rate regulation of cable television. The solutions on the legislative table are worthy of—and in fact copied straight from—the 1930s. What is to be regulated? Why, “basic” television services, defined to mean those signals that cable companies pirate from the airwaves and simply retransmit.

Trouble is, retransmission is galloping the way of the woolly mammoth. Fifty million homes are already cabled, and as cable becomes as ubiquitous as telephone wire, television signals in the air will make about as much sense as flying elephants. These spectrum-devouring leviathans can better be transmitted underground, and their airspace is now hardly needed for new mobile applications. Happily, for once, Congress’ dependable ineptitude in telecommunications matters won’t much matter. The planned legislation will be made obsolete by the market long before the regulators and federal judges have begun to guess at what it means. The veto threatened by the White House may not even be worth the trouble.

While Congress vainly attempts to impose its own, obsolescent regulatory order on the flying circus, the industries affected are going to go through some wrenching, market-driven changes. Shortly after it snubbed TCI’s offer of free underground carriage, NBC announced a 10% cut in payments to affiliates, because of sliding ratings. Count on more such cuts to come, as cable captures a steadily growing share of the market.

In the entertainment business generally there is going to be a messy falling out between companies whose main asset is entertainment and those whose principal business is distributing it. The national television networks will emerge healthy enough when they finally give in and stampede toward cable, along the trail that Fox has begun to blaze. Broadcasters are going to have to scramble. Their most valuable asset is a government ticket to a slice of spectrum. But the ticket is stamped “broadcast,” the one thing cable companies do far better. The terror of local broadcasters is that their government ticket will just gradually erode in value until someone in Washington finally ends the misery by handing it over to someone else.

The misery, and much reactionary opposition, could be ended much more gently and quickly if the FCC took the lead, invited local airwave broadcasters to migrate their operations to cable, and left them free to plunge into new businesses, like mobile telephony, using the newly available spectrum. Established broadcasters will choke at the thought, as will established mobile carriers, but then, people often choke at both competition and change.

But, as Fox is just beginning to demonstrate, a network without over-the-air affiliates is much like an elephant without a parachute. When the pachyderm finally realizes it doesn’t have to fly, it hardly misses the parachute at all.
Now there's a diesel fuel that helps this machine run better. Until now, the best alternative was cleaner-burning methanol. However, to burn this fuel, engines require a drastic redesign, which lessens the fuel's economic benefits.

Working from a different approach, ICI is developing a way to modify the fuel instead of the engine. We're currently testing an additive called Avocet™ which allows methanol to be used in conventional diesel engines with only minor modifications.

This methanol/Avocet mixture helps engines run better, operate more cleanly and pollute less. Which should help our bodies run better.

Avocet is just one of the many products and technologies ICI is developing as part of our ongoing commitment to help make a better world. And that should help us all breathe just a little bit easier.
Putting your own golf course in your backyard is one way of avoiding the hassles of waiting to tee off.

**Personal links**

Should President George Bush feel the sudden urge to get in a quick game of golf whenever he’s in California, he need merely pop over to his friend Walter Annenberg’s 205-acre Sunnylands estate in Rancho Mirage. Annenberg has his own private 18-hole course at Sunnylands. (He also has a 3-holer at his East Coast home in Wynnewood, Pa., on Philadelphia’s Main Line.)

Closer to the White House, the President could drop in for a round at John Kluge’s house. Kluge doesn’t play much golf himself, but he does have an 18-hole personal course on his 10,000-acre Albemarle estate in Charlottesville, Va. The 6,084-yard, par 70 course was designed by Arnold Palmer.

The half dozen or so personal 18-
hole courses that exist around the U.S. are golfers' fantasies. Imagine never having to make a tee time or getting bogged down by a slow foursome or having to let others play through. Never having to replace divots. Taking ten minutes to line up a putt.

One could include in that fantasy list: Never having to pay a $100 greens fee. But in fact, of course, the costs of a personal course are astronomical. Leave aside the expense of the real estate needed (a professional-quality course requires at least 200 acres). Just the staff, equipment and maintenance involved can run $1 million a year (see box).

The most famous private course in the U.S. is Annenberg's Sunnylands links, built in 1964. The 5,869-yard, par 73 course is a lush oasis in the middle of the Coachella Valley desert. The well-guarded compound has long been a presidential favorite—Eisenhower, Nixon, Reagan and Bush have all played here.

Probably the oldest private course is the one at the Rockefeller estate in Pocantico Hills, N.Y., near the Hudson River. Originally built in 1901, the 5,673-yard, par 70 course was redesigned in the 1930s by the renowned design firm of Toomey & Flynn, which also redesigned Southamptons majestic Shinnecock Hills Golf Club on New York's Long Island, where the 1986 U.S. Open was held.

The newest personal course—and easily the most expensive yet built—is Shadow Creek, in Las Vegas. Completed a year ago, it is the brainchild of Stephen Wynn, the chairman and chief executive of Golden Nugget, Inc. The course is near The Mirage Resort, but none of the hotel's guests gets to play it unless Wynn gives the okay. High rollers, including many Asians whom the Mirage has cultivated, often get that nod.

With a price tag estimated at over $30 million, Shadow Creek is a 7,090-yard, par 72 Shangri-la in the desert. Tom Fazio, the designer, recreated the feel of the northern courses by planting 13,000 mature trees in 3 million cubic yards of soil—quite a feat. Most new courses require only 500,000 yards of soil and roughly 500 trees. Fazio also built numerous waterfalls and one mile of creek. Rarely can another golfer be seen on another hole—but, then again, only a handful of foursomes are allowed each day. Wynn, himself an avid player, oversaw the design of the course.

Private courses have been designed by the likes of Fazio, Robert Trent Jones Sr., Arnold Palmer and Jack Nicklaus. But country singer Kenny Rogers on his home course in Colbert, Ga.

His ball, his cart, his links, his design—and he moves the trees.

An aerial view of Sunnylands
An oasis in Rancho Mirage, Calif.

The Rockefeller course, in Pocantico Hills, N.Y.
Probably the nation's oldest private course, built in 1901.
Imagine a television that meets the disciplines of NASA, the demands of the NFL and the dedication of Disney. You've just imagined a television called Trinitron™ XBR™.

Why do professionals insist upon Trinitron XBR TV's? The answer springs from the legendary Trinitron tube itself—technology which is Sony's alone. And remarkably, the very same technology that graces these Trinitron televisions is embodied in the ones that are available to you. We don't have two sets standards for our television sets.

Nothing demonstrates that single standard of excellence more powerfully than the 32" XBR50. To begin with, this television introduces a quantum leap in picture excellence called ASC™—Active Signal Correction circuitry. Using artificial intelligence, it's able to optimize the picture an astonishing...
times a second—to assure unvarying picture quality. You'll discover SRS™—the Sound Retrieval System technology. This breakthrough expands the impact of stereo and mono sound, creating a "soundstage" that extends far beyond the TV itself.

From its unprecedented accuracy of sight and sound, to its strikingly handsome design, the Trinitron XBR Series represents an acceleration in the evolution of television. In fact, rarely is this level of expert technology available beyond the experts themselves. So the question becomes: why own a television that's made just for amateurs when there's one that satisfies the professionals?
Greens fees worth talking about

Construction of an 18-hole course runs anywhere from $3 million to $6 million. Included in that range is a design fee of at least $250,000 for a top architect, and $1 million for an irrigation system. But the price range doesn't include the cost of the land. And you need at least 200 acres for a full 18-hole course.

Where you build affects costs. If major alterations are needed (planting trees, building lakes, etc.), you'll spend more on construction. In the North and in lush southern states like Florida, for example, designers usually have lots of natural landscaping to work with. But in the desert, everything has to be built from scratch.

Maintenance costs run upwards of $500,000 a year, including water bills, seed, fertilizers, pesticides and salaries for a crew of 18 to 25. You'll need an experienced superintendent; many of them have degrees in agronomy and turf management.

Turf equipment could run another $500,000 initially. To keep fairways cut at about a half an inch, you need special mowers. Models made by Toro cost as much as $49,000 each, and can cut 4½ to 7 acres an hour, depending on the model. You will need one or two.

The greens need to be kept at about a quarter of an inch. Greens mowers from Toro run about $15,000 apiece, depending on attachments. Figure on three.

Add about $10,000 for the little extras like the ball washers, flags, pins and tee markers. And, of course, no links would be complete without golf carts. Textron will sell you an E-Z-GO cart for around $3,700 in either gas or electric (includes extras like a sun canopy).

When picking a designer, look to world-renowned course architects like Tom Fazio, Robert Trent Jones Sr. and, of course, Jack Nicklaus and Arnold Palmer. But if you have Pete Dye in mind, think again. Says Dye, who has also designed some of the world's best courses: "I wouldn't be interested in designing a private course because I would hate to build one and not have a majority of people be able to play it."—E.M.

Rogers decided he'd do it himself when he put a course on his 1,200-acre spread in Colbert, Ga., just east of Athens. What started out as a simple practice hole in his backyard is today a full 18-hole, 6,500-yard, par 72 course complete with waterfalls, brooks and bridges.

But as a course designer, Rogers had to work the kinks out the hard way. For example, his 16th and 17th holes had improper drainage: After every heavy rain fish from the ponds would wash up on the greens. Rogers (who plays with an 11 handicap) now has a complex system of pumps and drains that keep all the brooks and ponds at the proper level.

"If you design a golf course yourself you have to expect to go through some catastrophes," shrugs Rogers.

One thing Rogers can fix whenever he wants, however, is where the trees are placed on his course. With the help of a hydraulic tree mover, Rogers can take planted trees, dig them out of the ground with their roots intact, and replant them where he likes. He rearranges the thousands of trees around the course on a weekly basis.

"Sometimes when I'm playing a hole I'll realize where I want a tree," he says. "So I'll tell my men and later when I come back that afternoon there will be a new tree in the middle of the fairway."

Besides determining how a course looks and where, for example, the trees should be, private course owners enjoy other license. You can, for example, make your own special rules. Another country singer, Willie Nelson, has a nine-hole course in Spicewood, Tex., outside of Austin. On the back of his score cards, for folks who really like golfing parties, is printed: "No more than 12 allowed in your foursome."

And you can take other liberties, too. Walter Annenberg, for example, always had trouble reaching the green of his par 4, 455-yard, 5th hole at Sunnylands in less than three strokes. Frustrated at the thought of never scoring a birdie on the hole, Annenberg simply changed the hole's par 4 to par 5.

Collectors

Was a Swatch that sold for $30 in 1984 really worth $17,000 six years later?

By Christie Brown

The prices paid for some collectibles—$88,000 for a Steiff teddy bear, say, or $33,000 for an art deco wastebasket—often generate giggles. But for a really hearty laugh, consider the news that 99 plastic Swatch watches, made between 1983 and 1989, were recently auctioned off for prices up to $20,500. The least expensive was hammered down at $769.

The auction was held by Sotheby's in Milan, Italy on Sept. 12. Swatches are great timepieces—accurate, and practically indestructible. But scarce they are not. Over 75 million Swatches have been sold worldwide since 1983. The smh Group, Swatch's parent, is based in Biel, Switzerland, is the world's biggest watchmaker, with 1989 sales of $1.6 billion. smh, trading on the Zurich stock exchange, also makes the Omega, Lon-
Swatches normally retail from $35 to $70. So why would anyone pay thousands for one? Or was there something fishy about the auction?

The first clue came with an ad that the Swatch folks ran in the Wall Street Journal Sept. 26 touting the auction results: "Here's one your broker won't tell you about," ran the headline. The ad went on to highlight the five-figure prices paid for five Swatches—all of which had sold originally for $70 or less. The point: Swatches make fabulous investments.

Growing curiouser and curiouser, we called giant smh in Biel. We wanted to know: Was the auction a genuine one? Whose idea was it? Who were the big bidders?

Wolff Heinrichsdorff, vice president of marketing for Swatch, replied enthusiastically. He claimed the auction was Sotheby’s idea. "Sotheby's already had about 60 Swatch watches from private collectors," said Heinrichsdorff. "They asked if we had any to sell also." smh turned over 39 more Swatches, with the proceeds to go for art scholarships. (The event was not billed as a charity affair, however. But Sotheby's, Italy did waive its normal 13% commission, the evening's take was almost $200,000.)

After listening to Heinrichsdorff’s story, we called Sotheby’s. There we heard a different story. Yolanda Galli-Zugaro, of Sotheby’s, Milan, said the whole idea for the auction was Swatch’s. All of the Swatches came out of Swatch’s own inventory, she insisted. "The owner of the [auctioned] Swatches was Swatch itself," says Galli-Zugaro. Indeed, all the Swatches up for sale were unworn and in pristine condition, virtually untouched by human hands, collectors’ hands or otherwise.

The auction took place at Milan’s Superstudio, a large old hall on the Via Forcella. An unusual site for an auction. "The space looks a little rotten, to be honest," admits smh’s Heinrichsdorff. But perhaps he knew something Sotheby’s didn’t—that the turnout would be much too great for Sotheby's own auction facility.

According to Sotheby’s, over 2,000 people showed up. There were also Italian, Swiss and Japanese television crews present, all dutifully alerted by Swatch publicity agents.

Sotheby’s had estimated most of the watches to sell for a few hundred dollars each. But then the bidding got crazy, then crazier. A 1986 Swatch with a Keith Haring design on its face brought $5,500. A 1985 Velvet Underground Swatch—wrapped in white lace—fetched $7,700.

The auctioneer, Simon de Pury, also chairman of Sotheby's in Switzerland, was laughing as each watch went for multiples of what it was supposed to fetch. "I can't believe this," he was overheard saying. "It was a nightmare," sighs Sotheby’s Galli-Zugaro.

Finally, the 1984 Jelly Fish Swatch came up for bid. A Swiss buyer wowed the crowd by paying $17,000.

Who was this well-heeled Swiss fellow? Funny you should ask; none of the media covering the auction did. The buyer turned out to be Jurg Mumenthaler. Through his company, Weitnauer Trading Co., Mumenthaler sells Swatch watches in duty-free shops. The company also has a Swatch watch collection. In other words, Mumenthaler had a certain interest in seeing a lot of highly positive publicity generated for Swatch by the auction. But rather than report this interest, the media stories merely hyped the high prices Swatches commanded, and profiled such Swatch collectors as Catherine Deneuve.

Considering the fortuitous timing, the auction seems to have been a clever way to promote Swatch collecting. Just the month before the auction, smh had launched Swatch collectors clubs in Germany and Switzerland. For $75 club members get a special collectors watch, a Golden Jelly Swatch. Current collectors club enrollment: 5,500 members.

Was the Milan auction a good-humored ploy by smh to generate priceless publicity for its sturdy little plastic Swatches? The evidence points in that direction. In any case, Swatch owners who hope to sell a Swatch for even a fraction of the Milan prices will be sorely disappointed.
Bankers once feared being moved into the backwaters of private banking. Today they clamor for the job.

From dead end to springboard

By Dyan Machan

Louise Gunderson wrinkles her nose to express the revulsion she felt eight years ago when her employer, New York’s Chemical Bank, asked her to take a job in its private banking department. “It’s where you got sent if you were not bad enough to be fired, but not good enough for corporate lending,” she recalls.

Her opinion has changed. After six years of arranging mortgages, making loans, advising clients on investments and generally looking after the personal financial needs of Chemical’s wealthier customers, Gunderson moved up to running the private banking operations for Banca della Svizzera Italiana, Switzerland’s sixth-largest commercial bank. “I wouldn’t want to be anywhere else in the banking industry today,” Gunderson, 43, now says.

Indeed, private banking is booming. At the end of 1989 the private banking departments of the top 100 U.S. banks and foreign banks operating here had more than $900 million in individual assets under management, up more than 58% from 1985. Interestingly, responsibility for a large slice of that money is held by women. Although 69% of all bank employees are women, few hold top positions. But in private banking departments at the nation’s largest banks, an estimated one in six of the senior management positions are held by women.

For instance, the president of Bank of Boston’s Private Banking Group is Susan Haney, at First Interstate Bank of Oregon, the senior vice president of the Personal Financial Services Division is Virginia Willard, at Harris Bank of Chicago, Maribeth Rahe is the senior vice president and group executive for private banking.

Success in private banking, as in many jobs, depends on generating new business, often through referrals from existing clients. On top of that, like all good salespeople, the best private bankers stand ready to add the personal touch, anything from arranging theater tickets to counseling clients’ children about their college admissions interviews.

Leslie Bains, 46, heads the U.S. private banking department for Chase Manhattan ‘Bank. Like Gunderson, Bains was initially reluctant to get into an area of banking that seemed to be a dead end. A freshly minted graduate from American University in 1965, Bains wanted to work in international banking. But, she recalls, she was told during an interview with Citibank that the bank didn’t want to take responsibility for her traveling overseas. Bains was, however, offered a job in Citi’s trust department. She took it.

Once at Citibank, she learned about investing client funds, analyzing companies and picking stocks. In 1973 a job marketing Manufacturers Hanover’s private banking arm to wealthy entrepreneurs became available, and Bains jumped ship.

The Manufacturers Hanover job was an opportunity to demonstrate her sales skills. “We asked for business, instead of waiting for it,” says Bains, adding that she encouraged her staff to solicit private banking business from the ranks of executives who worked at companies that had relationships with Manufacturers Hanover. Over the next six years, nearly $200 million in new individual assets came through the door.

When Bains’ boss, Manufacturers Hanover Vice President Hans
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Ziegler, moved to Chase as head of private banking in 1980, he took Bains along as his marketing and sales chief. In 1987 Ziegler moved to the Boston Co., and Bains was asked to take his place at Chase. Since then her 550-person group has brought in $10 billion in new funds to be managed, bringing Chase's total private banking assets to over $30 billion. Most of that is in custodial accounts, but about $10 billion of it, on which Chase charges an annual fee of 1%, is under active management.

Another fast-growing outfit in private banking is New York-based U.S. Trust, with $18 billion of assets under management. Heading U.S. Trust's business development division is Senior Vice President Mary Lehman.

How did she get to the top? "Sales, sales, sales," is Lehman's uncompro-mising answer.

Educated at Columbia Law School, Lehman arrived at U.S. Trust in 1982 after ten years in private practice. In her first job she was unnerved to find out that she had to meet an unrealistic goal: She was supposed to increase revenues by several hundred thousand dollars, whether by bringing in new money to be managed at a fee, or by getting existing customers to take out more loans. But there seemed to be no way to meet the revenue goal, given that the bank did little marketing back then. Lehman changed that by starting investment seminars for clients and potential clients. She also started an aggressive advertising campaign to target promising prospects, including people who had recently begun their own businesses.

Between 1983 and 1986 Lehman's campaign helped double the private banking department's assets under management. Shortly thereafter, she was promoted to senior vice president and head of the business development division.

If individual banking used to be a dead end, it is no longer perceived that way. Chase's Leslie Bains says she plans to stay in her current private banking job for quite a few years, but does not dismiss the possibility of moving up the ladder in Chase's National Financial Services Group. Mary Lehman, 44, also believes her work in personal banking could give her a shot at the top spot at U.S. Trust. In fact, she says, U.S. Trust's newly appointed president, Jeffrey Maurer, "keeps reminding me that he's only 43." With carrots like that, expect private banking to become an even more popular career path.

There is a line of thought that says women make better personal bankers than men. "It's possible that business owners may be more comfortable revealing personal finances with women," says Banca della Svizzera Italiana's Gunderson. "They don't feel as competitive."

But most would agree with Chase's Bains, who bristles at the suggestion that women have advanced in private banking because of what she disdainfully calls "their nurturing side." Bains has a better explanation. She recalls that one client asked for a woman on his account because, said the client, "women work twice as hard."
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Paulson's pride

Prospective investors laughed at Allen Paulson two years ago when he said he wanted to build the world’s first supersonic corporate jet. Paulson, who recently bought Gulfstream Aerospace Corp. back from Chrysler Corp., figured that developing the new plane would take nearly a decade and cost $1 billion in current dollars. But skeptics argued it would cost much more than that. They also questioned how many buyers would be willing to pay $50 million (at delivery) for a plane that can carry no more than 20 passengers, even if it can fly at twice the speed of sound. That price tag is double the cost of Gulfstream’s current top-of-the-line G-4.

Paulson, 67, will limit his risks by soliciting orders, backed by deposits, before driving a single rivet. Once he has enough buyers’ deposits to use as collateral for financing the project, the production of the supersonic jet will begin.

Searching for production partners, Paulson made an unusual match at last year’s Paris Air Show. He agreed to join forces with the Sukhoi Design Bureau, the Soviet company that makes the SU-27 supersonic fighter. “What intrigued me was how slowly they could fly the SU-27, and the short distance in which it could land and take off,” says Paulson. “That’s what you need in a corporate aircraft, so you can go in and out of a lot of airports.”

Paulson says the Soviet government has expressed an interest in buying 20 of the new jets, citing the vastness of the country and the time it takes to get from one end to the other. Paulson is also optimistic about demand from Japan and other Pacific Rim countries. Assuming the research and development phase proceeds smoothly, the new jets will then be made with low-cost Soviet labor and marketed by Gulfstream.

What about the skeptics? Scoffs Paulson: “Nothing gets done unless you start somewhere, and you can’t just dream.”—Carolyn T. Geer

Upstairs, upstairs

Securities listed on the New York Stock Exchange have been traded off the floor in the after-hours “third market” for many years. But about 18 months ago, Peter DaPuzzo, cohead of equity trading at Shearson Lehman Brothers, asked himself, “If we can trade off the floor after hours, why can’t we do it during the day?”

DaPuzzo, 49, is a lean, gravel-voiced veteran stock trader who relaxes by playing polo near his home in suburban Connecticut. It took all his powers of persuasion to convince the New York Stock Exchange to let him trade Big Board securities away from the Big Board’s floor during the day; the exchange agreed in order to comply with a 1975 amendment to federal securities law.

DaPuzzo’s “upstairs market”—the electronic trading floor in Shearson’s World Financial Center headquarters in downtown Manhattan—now matches up institutional and retail buyers and sellers of the shares of 40 closed-end bond funds, as well as a dozen master limited partnerships and more than ten closed-end equity funds, all listed on the NYSE.

DaPuzzo also makes markets in a dozen Americus Trusts that are listed on the American Stock Exchange. Shearson underwrote more than 20 of the securities DaPuzzo trades, so the firm tends to have sizable inventory
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available. In a typical day, DaPuzzo's seven traders will move more than 6 million shares, up nearly 50% since earlier this year. In some of the securities, DaPuzzo's upstairs market accounts for about 60% of all trading volume.

Will the NYSE someday look like the London market—a cavernous electronic barn with no floor traders, no specialists, no brokers, no clerks? "We don't have the manpower or the desire to trade everything upstairs," says DaPuzzo. "However, I do believe the market is tending that way. The markets will eventually trade around the clock, and not all the volume will necessarily come through the floor. The whole market will be significantly more electronic by the end of the decade."

From Kowloon to Colón

When the U.S. Army pulled out of Fort Randolph in Panama 11 years ago, it never expected an Asian invasion. But an invasion is exactly what Taiwanese entrepreneur Jackson Pai has in mind.

Pai, 40, is developing Fort Randolph into a manufacturing enclave. The site, near the city of Colón at the Atlantic mouth of the Panama Canal, was returned to Panama by the U.S. as part of the 1977 Canal treaty. Two years ago Colón's city government began selling off parts of the site to Pai and his associates for an estimated $10 million. That now seems like a bargain, considering that the Pai group's holdings consist of 175 acres, complete with a network of roads, docks and breakwaters.

Known as Isla Margarita, the site today is home to Pai's Northwest Garment Industrial Inc., which employs some 1,300 Panamanians who stitch together jeans, dress shirts and other garments. Wages are less than $1 an hour, as against pay of closer to $3 an hour in Hong Kong or Singapore. Further enhancing the project's economics, under the 1986 Caribbean Basin Initiative, goods made in Panama can be exported to the U.S. duty free.

Given these advantages, Pai is confident that he can expand Isla Margarita's work force to 25,000 over the next five years. The projected cost of converting Isla Margarita into a mixed manufacturing and residential community is about $250 million. "Financing is no problem," says Pai, who says that a dozen apparel outfits from Hong Kong, Macao, Taiwan and the People's Republic of China have put up 50% of the development's costs in return for choice sites and access to the assembly contracts Pai is lining up with U.S. apparel firms.

The Pacific keeps getting smaller and smaller.—Joel Millman

Not in my driveway

Do consumers really want smaller, more fuel-efficient cars? Volkswagen doesn't think so. "Politicians make rules the public doesn't believe in," says Ulrich Seiffert, chief of research and development at Volkswagen.

Ulrich Seiffert, VW research chief

Let the other guy be green.

wagen and a VW board member. "The public thinks, 'My neighbor should buy that car with the bicycle pedals, but I should buy the Ferrari.'" Seiffert adds that California's pollution curbs "will bring the U.S. back to the bicycle."

Volkswagen is officially filled with concern over the environment, safety and fuel economy. But the company is building cars with a lot of horsepower these days, and buyers like them. The hot talk at VW today is superchargers, which pump more air into engines for higher performance, as well as the powerful V-6 planned for VW's mid-market Passat, and the new Audi V-8. Average mileage on Volkswagen's car fleets has declined about 7% in the past few years—but sales are up, and VW brands are Europe's number one sellers.

Auto executives all over the world, from General Motors to Honda, know that consumers want more power. But Seiffert is one of the few who have the courage to say so publicly. In addition to his other duties, Seiffert, 49, oversees VW's business in America, which never recovered from the death of the Beetle and manufacturing problems at its Pennsylvania plant, long ago closed down.

Seiffert does believe that VW, with its Passat, Corrado and Golf models, can battle the Japanese in the U.S. with more success than it's had. "Finally our organization [in the U.S.], after 20 years, understands that we are not selling a Beetle," he says. "We are not selling a low-priced car. We are selling a high-technology car."

But the stakes are high. "If we don't survive in North America," says Seiffert, "we might have trouble surviving elsewhere."—Jerry Flint
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Are there any optimists left on Wall Street? Here's one. "I turned positive [the last week of September] after discovering that more than half the investment advisers are bearish. The future direction in oil prices is down, since there's still excess supply," says A.C. Moore, senior vice president at Argus Research in New York. Moore also cites recent technical indicators, including low advance-to-decline ratios and an unusually high number of stocks hitting new lows, as further evidence of an oversold condition.

Nonetheless, Moore recommends a defensive investment strategy. His favorite group is the consumer nondurable sector, particularly food and beverage stocks such as General Mills, PepsiCo and Archer Daniels Midland. He also likes drug stocks such as Johnson & Johnson, Merck & Co. and Bristol Myers-Squibb.

The Wilshire index is up 56% from five years ago, which translates into a 9.4% compounded average annual return. Dividends add another 4% per year. By contrast, riskless five-year Treasurys posted an annual return of 10.1% over the period.

High-technology issues dominate the list of worst-performing stocks during the past two weeks. Storage Technology, Sun Microsystems and Unisys were big losers. September volume on the NYSE fell 19%, the sharpest monthly drop this year, and a bearish technical indicator.

### The Best Performing Stocks

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### The Worst Performing Stocks

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### Closeup on the Market

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<td>Wilshire index</td>
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<td>-3.2</td>
<td></td>
<td>Institutional&lt;sup&gt;2&lt;/sup&gt;</td>
<td>88.71</td>
<td>-3.3</td>
<td></td>
</tr>
<tr>
<td>Dow Jones industrials</td>
<td>2,516.83</td>
<td>-0.1</td>
<td></td>
<td>Individual&lt;sup&gt;3&lt;/sup&gt;</td>
<td>85.38</td>
<td>-2.5</td>
<td></td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>312.69</td>
<td>0.4</td>
<td></td>
<td>Russell 2000 index&lt;sup&gt;4&lt;/sup&gt;</td>
<td>127.72</td>
<td>-5.2</td>
<td></td>
</tr>
<tr>
<td>NYSE</td>
<td>171.33</td>
<td>0.1</td>
<td></td>
<td>Gold&lt;sup&gt;5&lt;/sup&gt; (composite quote of 6 major dealers)</td>
<td>392.70</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Amex</td>
<td>308.14</td>
<td>-2.9</td>
<td></td>
<td>Yen&lt;sup&gt;6&lt;/sup&gt; (per U.S.)</td>
<td>133.70</td>
<td>-2.9</td>
<td></td>
</tr>
<tr>
<td>Nasdaq</td>
<td>349.89</td>
<td>-4.0</td>
<td></td>
<td>Commodity index&lt;sup&gt;7&lt;/sup&gt; (CRB futures index, 1967 = 100)</td>
<td>239.70</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>Amex international market index</td>
<td>297.60</td>
<td>3.7</td>
<td></td>
<td>Oil&lt;sup&gt;8&lt;/sup&gt; (W Texas Intermediate)</td>
<td>36.95</td>
<td>6.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>T bills&lt;sup&gt;9&lt;/sup&gt; (90 days)</td>
<td>7.12%</td>
<td>-25 basis points&lt;sup&gt;10&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Broker loan rate&lt;sup&gt;11&lt;/sup&gt;</td>
<td>9.25%</td>
<td>unchanged</td>
<td></td>
</tr>
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</table>

Note: All data for periods ending 10/4/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $400 million or more. Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif.

<sup>1</sup>Average daily volume over a 2-week period. <sup>2</sup>Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. <sup>3</sup>Morgan Stanley Capital International Perspective. <sup>4</sup>For period ending 10/5/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. <sup>5</sup>Knight-Ridder Financial Information. <sup>6</sup>A basis point is equal to one-hundredth of a percentage point. NM, Not meaningful.
New Issues Review

By Robert Balancia

The biggest¹

<table>
<thead>
<tr>
<th>Company/business</th>
<th>Exchange</th>
<th>Offer date</th>
<th>Offer price</th>
<th>Recent price</th>
<th>Offering ($mil)</th>
<th>Lead underwriter</th>
<th>Performance to date absolute</th>
<th>Performance to date rel to mkt²</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1 Svcs/oilfield svc</td>
<td>N</td>
<td>7/20/90</td>
<td>20</td>
<td>24 1/4</td>
<td>$135</td>
<td>First Boston</td>
<td>21%</td>
<td>139</td>
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<tr>
<td>Banner Aerospace/aerospace</td>
<td>N</td>
<td>7/26/90</td>
<td>14</td>
<td>8 3/4</td>
<td>105</td>
<td>Salomon Brothers</td>
<td>-38</td>
<td>71</td>
</tr>
<tr>
<td>Offshore Pipelines/marine construction</td>
<td>N</td>
<td>7/25/90</td>
<td>17</td>
<td>12 ½</td>
<td>49</td>
<td>Prudential-Bache</td>
<td>-26</td>
<td>83</td>
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<tr>
<td>Orthopedic Svcs/rehabilitation svc</td>
<td>O</td>
<td>7/10/90</td>
<td>16</td>
<td>11 1/4</td>
<td>48</td>
<td>Lehman Brothers</td>
<td>-30</td>
<td>80</td>
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<tr>
<td>Caho Resources/oil &amp; gas exploration</td>
<td>O</td>
<td>7/26/90</td>
<td>13</td>
<td>13 3/4</td>
<td>46</td>
<td>Salomon Brothers</td>
<td>5</td>
<td>118</td>
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<tr>
<td>Wet Seal/women’s apparel</td>
<td>O</td>
<td>7/3/90</td>
<td>14 1/4</td>
<td>12</td>
<td>43</td>
<td>First Boston</td>
<td>-16</td>
<td>96</td>
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<tr>
<td>Vintage Petroleum/oil &amp; gas exploration</td>
<td>N</td>
<td>8/3/90</td>
<td>10 1/2</td>
<td>9 3/4</td>
<td>42</td>
<td>Dillon Read</td>
<td>-6</td>
<td>103</td>
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<tr>
<td>Foundation Health/healthcare svc</td>
<td>A</td>
<td>7/11/90</td>
<td>12 1/2</td>
<td>10 1/4</td>
<td>41</td>
<td>Merrill Lynch</td>
<td>-14</td>
<td>99</td>
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<tr>
<td>Grant Norpac/oil &amp; gas exploration</td>
<td>O</td>
<td>9/19/90</td>
<td>10 1/4</td>
<td>9 3/4</td>
<td>41</td>
<td>Salomon Brothers</td>
<td>-5</td>
<td>96</td>
</tr>
<tr>
<td>Environmental Elements/environ controls</td>
<td>O</td>
<td>7/13/90</td>
<td>16 1/2</td>
<td>14 3/4</td>
<td>41</td>
<td>Kidder Peabody</td>
<td>-14</td>
<td>101</td>
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Performance Update

The best¹

<table>
<thead>
<tr>
<th>Company/business</th>
<th>Offer price</th>
<th>Offering ($mil)</th>
<th>Lead underwriter</th>
<th>Performance to date absolute</th>
<th>Performance to date rel to mkt²</th>
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</thead>
<tbody>
<tr>
<td>Marcam/software</td>
<td>14</td>
<td>$18</td>
<td>Hambrecht &amp; Quist</td>
<td>22%</td>
<td>129</td>
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<tr>
<td>B1 Svcs/oil &amp; gas svc</td>
<td>20</td>
<td>135</td>
<td>First Boston</td>
<td>21</td>
<td>139</td>
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<tr>
<td>Pamida Hldgs/retail stores</td>
<td>5</td>
<td>8</td>
<td>Merrill Lynch</td>
<td>20</td>
<td>121</td>
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<tr>
<td>Failure Grp/consulting svc</td>
<td>13</td>
<td>26</td>
<td>Prudential-Bache</td>
<td>17</td>
<td>122</td>
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<tr>
<td>Easel/software</td>
<td>8</td>
<td>13</td>
<td>Robertson Stephens</td>
<td>6</td>
<td>115</td>
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The worst¹

<table>
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<th>Company/business</th>
<th>Offer price</th>
<th>Offering ($mil)</th>
<th>Lead underwriter</th>
<th>Performance to date absolute</th>
<th>Performance to date rel to mkt²</th>
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</thead>
<tbody>
<tr>
<td>In-Store Advertising/billboards</td>
<td>19</td>
<td>$38</td>
<td>Alex Brown &amp; Sons</td>
<td>-81%</td>
<td>22</td>
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<tr>
<td>IKOS Sys/computer sys</td>
<td>6 1/2</td>
<td>20</td>
<td>Alex Brown &amp; Sons</td>
<td>-71</td>
<td>30</td>
</tr>
<tr>
<td>O’Charley’s/restaurants</td>
<td>9</td>
<td>23</td>
<td>Alex Brown &amp; Sons</td>
<td>-46</td>
<td>61</td>
</tr>
<tr>
<td>Banner Aerospace/aerospace</td>
<td>14</td>
<td>105</td>
<td>Salomon Brothers</td>
<td>-38</td>
<td>71</td>
</tr>
<tr>
<td>Trimble Navigation/navig equip</td>
<td>10</td>
<td>30</td>
<td>Smith Barney</td>
<td>-33</td>
<td>78</td>
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The most active investment bankers³

<table>
<thead>
<tr>
<th>Underwriter</th>
<th>Total offerings</th>
<th>Total raised ($mil)</th>
<th>Industry</th>
<th>Total offerings</th>
<th>Total raised ($mil)</th>
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</thead>
<tbody>
<tr>
<td>Goldman Sachs</td>
<td>10</td>
<td>$1,077</td>
<td>Oil &amp; gas svc</td>
<td>17</td>
<td>$1,026</td>
</tr>
<tr>
<td>Alex Brown &amp; Sons</td>
<td>23</td>
<td>595</td>
<td>Magazine publishing</td>
<td>1</td>
<td>420</td>
</tr>
<tr>
<td>First Boston</td>
<td>6</td>
<td>527</td>
<td>Computer systems</td>
<td>9</td>
<td>288</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>9</td>
<td>392</td>
<td>Software</td>
<td>12</td>
<td>244</td>
</tr>
<tr>
<td>Prudential-Bache</td>
<td>6</td>
<td>376</td>
<td>Insurance</td>
<td>3</td>
<td>210</td>
</tr>
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</table>

Industries going public³

Notes: Initial public offerings of common equities with offer date of 7/1/90 to 9/30/90, offering price of $2.50 or more and offering value of $5 million or more. Closed-end funds, limited partnerships, and ADS (American Depositary Shares) of corporations already traded in foreign countries are excluded, as are REITs and spinoffs. ¹Last quarter. ²The ending value of $100 invested in the stock, divided by the ending value of $1 invested in the market. ³Latest 12 months. Source: Securities Data Co.

162 FORBES, OCTOBER 29, 1990
News you can use.
The Money Men

Big real estate developers and their banks are in trouble. That means bargain prices for buyers with cash, like New Plan Realty.

Eat your heart out, Donald

By Suzanne L. Oliver

New Plan Realty Trust has just given a facelift, including three new glass atriums, to its 600,000-square-foot Roosevelt Mall in Philadelphia. The atriums let no sunshine into the stores below, and in fact are lighted from within, serving as beacons for low-budget shoppers. In short, this project won't put the mall in the same league with Donald Trump's Trump Tower or John Portman's Marriott Marquis. But New Plan has something these more glamorous developers don't: a good balance sheet. Its cash will come in handy over the next few years.

New Plan, a Big Board real estate investment trust, has $280 million in book value and almost double that in market value, against a trifling $23 million in debt. This near absence of leverage makes the company something of an oddity in the real estate development business, but it hasn't hurt shareholders. Over the 15 years ending July 31 the trust has turned in a 28% compound annual return, including reinvested dividends. That compares with 15% for the stock market.

Here's something else that's odd about this real estate company: The people running it make their money by enriching their public investors rather than by raking off fat fees. "A 12-cent rise in the price of my family's New Plan stock exceeds my $347,000 annual salary," boasts William Newman, who has been running New Plan since 1961. Newman's family owns 9% of the shares, and this year added 35,000 shares, at an average price of $16.

Roosevelt Mall, which includes a John Wanamaker store, is about as fancy as Newman's tastes go. A more typical New Plan property is the 83,000-square-foot Whitestown Plaza in Whitesboro, N.Y., anchored by a grocery store and a Rite-Aid. Don't sniff at it. New Plan paid $860,000 for the strip shopping center in 1980, and now nets $568,000 a year from it, before depreciation charges. (Like other REITS, New Plan pays no income tax but is required to distribute all its earnings. The current dividend is $1.10 a year.) Another New Plan gem: a shopping center in Cordele, Ga., with a Piggly Wiggly among its tenants. Grocery stores attract customers even in an economic downturn.

New Plan's golden reputation allowed Newman to raise $110 million over the past year in public and private placements of stock, at an average price of 14 1/2%. (Recent price: 14 3/4.) Newman is negotiating to sell another $100 million of equity privately. "I've learned that you should get equity when you can because when you really need it, you can never get it," says Newman, 64.

With all that cash, Newman plans to double the square footage of New Plan's 62-property shopping center portfolio. Today he is negotiating to buy 50 shopping centers, primarily in areas in the East where New Plan already has a presence. That's just the beginning. "We've never seen as many property offerings as we are now," says Newman. In January 1989 he paid $3.4 million ($24 a square foot), all cash, for a shopping center in Jackson, Ky. The center has a Wal-Mart, a Winn-Dixie supermarket and a Revco drugstore as tenants. A New York bank had foreclosed its $10.2 million mortgage on the two-year-old property. New Plan has increased the monthly rental income from $36,000 to $39,000 by filling vacant space, and is already earning an 11% return before depreciation. Profits will go much higher when the remaining vacant 30,000 square feet are filled.

Like Donald Trump, Newman learned real estate from his father. At 15, Newman began working for the family real estate accounting and syndication firm and witnessed firsthand the boom-and-bust pattern of New York real estate. Unlike Trump, Newman was not captivated by big-city lights. When he took over New Plan at the age of 35, he sold the company's 12 Manhattan buildings and began making acquisitions in smaller towns.

Newman does not buy trophy properties. He will pay no more than 50% of the replacement cost of a property and wants tenants to be paying rents at least 50% below the current market rate. His all-cash offers endear him to desperate sellers. Competing bidders may need to find bank financing at a time when loan officers squirm in their desk chairs at the mention of real estate.

New Plan manages its own properties, repaving parking lots and adding the newest architectural frills to facades. "Office buildings have to be technically up-to-date, but shopping centers don't need as much," says Newman. On average, New Plan's properties are 94% filled.

Perhaps Trump could lure a Piggly Wiggly to Trump Tower?  

New Plan Realty Chairman William Newman

Grocers make good anchors.
The Funds

Laws against discounting have all but vanished in the trucking, airline, liquor retailing and stock-trading industries. Not in the fund business. What gives?

**Free market? Horrors!**

By Michael Fritz

Don't try to haggle with your broker over the load on your fund purchase. He can't legally give you a discount. That's a shame, given that some desirable funds charge loads and sometimes the load is rather steep. A $20,000 investment in Seligman's Louisiana tax-exempt bond fund, for instance, would run a sales charge of $950—even if you knew on your own that the fund was for you and your broker spent only four minutes on the transaction.

The Securities & Exchange Commission freed up brokerage commissions on stocks way back in 1975, but it can't do the same for mutual fund commissions. Section 22(d) of the Investment Company Act of 1940 mandates fixed charges.

This year, to celebrate the law's 50th anniversary, the SEC requested public comments on what changes Congress ought to make in the law. Included in the call for comments is the question of whether to repeal 22(d) and allow negotiated sales loads. The Investment Company Institute, the mutual fund trade group, wants the fixed commissions to stay. Without fixed pricing, the trade organization argues, the fund distribution system would unravel, and unsophisticated investors would end up paying higher loads. That, of course, is the same nonsense that stockbrokers used to spout in the days when fixed commissions practically gave them a license to print money.

Canada has required brokers to negotiate fund sales loads for 14 years. According to Keith Douglas, president of the Investment Funds Institute of Canada, Canadian mutual fund sales charges have declined from an average 7% in 1976 to an average 5.3% today. He says small investors are paying less, not more.

Silver lining?

Here's some good news for the founding brokerage houses: After three years of losing ground to mutual funds run by outside companies, brokers' funds are recovering their market share.

Since 1987 brokerages have seen the market share of house-brand mutual funds shrink from 38% of new sales to 24% last April. But the slide seems to have ended. In August brokerage house-brand funds had risen to 46% of new fund sales.

What's behind the shift? A flock of new global currency funds, which sell on the basis of their seemingly high yields—higher than money fund yields, at least. And brokers do know how to sell on yield. Merrill Lynch has signed up $2 billion for its Short-term Global fund, a currency fund launched in mid-July. Shearson's five-month-old Short-Term World Income Fund has drawn $350 million. Prudential-Bache, Dean Witter Reynolds and Kemper Financial Services are joining the crowd.

"The brokerage houses seem to have stemmed the tide," says Shearson Lehman Brothers analyst Dean Eberling.

Penny-foolish

When investors snapped up a $7.5 million offering of the 10-cents-per-share Combined Penny Stock Fund in 1984, Business Week labeled the closed-end fund as an opportunity to "capture the thrill of penny stocks." With the publicity mill thus in gear, sponsor Citadel Asset Management (then called Colorado Asset Management) quickly raised another $2 million by rolling out the Penny Stock Fund of North America.

Some thrill. The funds followed a pattern distressingly familiar to connoisseurs of penny securities: After climbing to 12½ cents bid, 15½ cents asked two weeks after its initial offering, Combined Penny began a downward spiral that recently found it trading at ¼ cent bid, ½ cent asked. Its net asset value is 1 cent per share. Penny Stock Fund of North America, sold to investors at $1 a share in 1984, now trades at 10 cents bid, 20 cents asked.

Little wonder. Over the last five years these two funds' annual expense ratios have averaged 16% and 28%, respectively.

In June, with Combined Penny's assets down to $1.3 million and Penny Stock assets at $684,000, Citadel Asset Management sought shareholder permission to rename both funds and change their investment objectives. Penny Stock Fund of North America, rechristened Infinity Speculative Fund, can now buy any "speculative" companies with market values under $50 million, not just the small ones. No indication that its outsize expenses will shrink, however.
THE NEW YORKER

BEST-WRITTEN, BEST-READ MAGAZINE IN AMERICA.
Do you like low-P/E stocks? Here are sound companies whose shares sell for well below market multiples.

Out of favor

By Gilbert Steedley and Robert Balancia

Over the past half-century the Dow Jones industrial average has traded at an average multiple of 15 times latest 12-month earnings. By this yardstick, today's market, with the Dow multiple down to 11.8, is still not cheap. But there are a good number of large and fairly solid stocks trading at much lower multiples—8 times earnings or less. The table shows 15 of them.

The thesis of low-P/E investing is this: Not all stocks that trade at low multiples deserve those low multiples. Buy an assortment of these unglamorous, out-of-favor companies, and you can do better than the market as a whole.

The low-P/E theory works better some years than others. Recently, low-P/E strategies have done rather poorly. But over long periods the approach works quite well, according to David Dreman, managing director of Dreman Value Management, and a Forbes columnist.

For example, Willamette Industries is a company in an out-of-favor industry, forest products. Portland, Ore.-based Willamette makes containerboard and other paper and wood products. Since the paper and lumber markets are believed to be past a cyclical peak, Wall Street is forecasting earnings declines for the companies in the industry, Willamette included. This stock goes for less than 6 times trailing earnings. Analysts expect Willamette's earnings to fall 18% in 1991, but that still leaves the stock priced at a little less than 7 times estimated future profits. That's rather cheap compared with Wal-Mart, which goes for almost 19 times projected 1991 earnings.

Gary Palermo, a senior paper analyst at Oppenheimer, likes diverse papermakers Potlatch and Westvaco even better. They have moderately strong balance sheets: Potlatch's debt as a percentage of equity is 59%, and Westvaco's is 53%.

Potlatch owns a lot of land, 5 acres for every $3,000 round lot of the stock.

Another group in the low-P/E doghouse right now is insurance stocks. Thomas Cholnoky, a vice president in investment research at Goldman Sachs, attributes the recent price slide of insurance stocks to worries about their investment portfolios, especially real estate. But Cholnoky thinks Safeco is unfairly tarred with this real estate brush. "Safeco has nearly 4% of total assets invested in mortgages, and thus a smaller exposure to the risk," he says. Safeco goes for 6 times earnings.

Harry Millis, an analyst at McDonald Co. in Cleveland, likes B.F. Goodrich. The company quit the tire business in 1988 and is now the world's largest maker of polyvinyl chloride compounds. It sells for about 8 times earnings. That compares with a chemical industry average of 14.

To find other large companies selling at below-market multiples, we screened the Value Line database of 1,700 stocks. We required a minimum market capitalization of $500 million and a price/earnings multiple of 8 or less based on latest 12-month earnings from continuing operations. We dropped companies where debt is more than 60% of equity. In order to avoid companies whose earnings are expected to collapse, we struck those whose P/Es, against 1991 earnings forecasts, are higher than 11. For investors who like the concept of low-P/E investing, the list offers a good hunting ground.

---

**Big and cheap**

<table>
<thead>
<tr>
<th>Company</th>
<th>Recent price</th>
<th>P/E</th>
<th>Latest 12-months</th>
<th>1991E</th>
<th>Yield</th>
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</thead>
<tbody>
<tr>
<td>Willamette Industries</td>
<td>41</td>
<td>5.5</td>
<td>$7.48</td>
<td>$6.17</td>
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<tr>
<td>Safeco</td>
<td>28</td>
<td>6.0</td>
<td>4.64</td>
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<td>Cray Research</td>
<td>28%</td>
<td>6.1</td>
<td>4.64</td>
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<td>Potlatch</td>
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<td>Bowater</td>
<td>19%</td>
<td>6.4</td>
<td>3.01</td>
<td>2.11</td>
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<td>Aetna Life &amp; Casualty</td>
<td>39%</td>
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<td>6.08</td>
<td>6.12</td>
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<td>Tandy Corp</td>
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<td>6.9</td>
<td>6.54</td>
<td>4.66</td>
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<td>Capital Holding</td>
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<td>Champion International</td>
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<td>2.82</td>
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<td>Apple Computer</td>
<td>30%</td>
<td>7.9</td>
<td>3.84</td>
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<td>Deere &amp; Co</td>
<td>46%</td>
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<td>5.81</td>
<td>6.62</td>
<td>4.3</td>
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</tbody>
</table>

Source: Value Line and Institutional Brokers Estimate System (a service of Lynch, Jones & Ryan), via Lotus One Source.

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Capital Markets

MONEY & INVESTMENTS

Why the bonds of a nearly bankrupt city may be a good speculative buy as more municipalities face credit crunches.

PHILADELPHIA STORY

By Ben Weberman

Every day we hear gloomy news about the deficit, the looming recession and the woes of the commercial banks. Many investors fear state and local governments will be the next shakeout victims.

It's not surprising. A number of states and municipalities are facing severe credit problems: Budgets are in the red, and state and local politicians have been so far unwilling to face up to the hard decisions about badly needed spending reductions and tax increases.

The result has been a wave of selling in recent weeks—of uninsured munis issued by weak-credit cities like Philadelphia or states like Massachusetts, of the securities of the municipal bond insurers, and of the major commercial banks' letters of credit guaranteeing weaker governmental credits.

Things may look grim, but there's no need to panic. In general, the bonds of even financially strapped states and cities tend to be good long-term investments. And for those not faint of heart, some of these troubled munis—with yields approaching 10%—are attractive alternatives right now to the purchase of other high-yield, high-risk bonds such as hospital revenue bonds or high-yield "junk" mutual funds.

What's one possibility? Consider Philadelphia, which has run deficits for the last three years—and whose bonds have been clobbered in the market lately. As a result, yields of Philadelphia bonds have risen by 150 basis points over the last two months. Now, shorter maturity issues pay 9.5% while the long bonds are in the 9% cluster.

The city is facing a disappearing manufacturing sector, a shrinking tax base and increases in social services because of, among other things, a high poverty level.

The accumulated deficit of $206 million has been closed by running down reserves, relying on non-recurring revenues and by borrowing in the short-term note market. But a failed offering of $375 million in short-term notes earlier this year raised the possibility of default. This would affect $1.3 billion of the city's general obligations and large amounts of bonds by other agencies whose fund flows are commingled with the city's cash. The city escrowed money for most of the debt service on the general obligation bonds through June 30, 1991.

But the city of Philadelphia obligations are guaranteed in part by the Municipal Bond Investors Assurance Corp., a major bond insurer. Partly because of fears of Philadelphia's weak credit, the insurer's stock dropped by some 30% in September. But Mark Cohen, managing director at Fitch Investors Service, believes the market has overreacted. He points out that MBIA has insured only $123 million of Philadelphia's general obligation bonds. In case of default, MBIA is responsible for principal and interest payments when they come due, for up to 27 years of the life of the bonds. That's not such a high liability, considering that MBIA has about $773 million in capital and $651 million in backup letters of credit, reinsurance and other sources of "soft' capital, as estimated by Fitch.

The $1.2 billion of Philadelphia Water & Sewer revenue bonds have been an investor concern because the authority is facing enormous deficits and, furthermore, has its funds commingled with the general funds of the city.

In mid-September, Philadelphia was downgraded by the rating services: to B by Moody's and Fitch and to CCC by Standard & Poor's. However, bond analysts widely believe the state will step in after the Nov. 6 elections with a program to reduce spending and increase taxes.

Steven J. Hueglin, executive vice president of New York-based Gabriele, Hueglin & Cashman, thinks Philadelphia bonds are a good long-term buy now, despite a small possibility of a temporary default. They would be made whole relatively quickly, Hueglin says; "Philadelphia is too important to the state of Pennsylvania for the state legislature to allow it to founder."

"It is possible yields will go higher as the city approaches insolvency," Hueglin adds, "possibly later in the year, and the price would fall further if an interest payment were actually to be passed." The trick is whether to buy now or wait. If you're inclined to take the plunge, I'd do it now.

For other fiscal basket cases, consider the obligations of Massachusetts, a state with a badly unbalanced budget and a weak economy. A recent $1.3 billion general-obligation bond issue, with the longest maturity in 1997 priced to yield 8%, is protected by a large, dedicated portion of personal income tax revenues. David Madigan, senior municipal strategist at Merrill Lynch Capital Markets, points to the older, longer-term Massachusetts paper, yielding as much as 8.25%. For example, Massachusetts 7% general-obligation bonds, maturing in 2008, sell for 89, to yield 8.2%.

But a word of caution: Before buying any of these troubled bonds, determine if the added yield—and therefore the added risk—is worth it for your own particular investment objectives.
Portfolio Strategy

MONEY & INVESTMENTS

It took Saddam to make people realize we have been in a bear market for a year. Get ready for the next bull market.

IT KINDA SNEAKED UP ON US

By Kenneth L. Fisher

Make no mistake about it. The last year has been a serious bear. The worst since 1974. Worse than 1981-82. And it didn’t start with Saddam Hussein. It has lasted a full year and has dropped stocks more than 25%. It is now scaring people who didn’t even know it was happening before the invasion of Kuwait.

What this means is that the bear market is now much closer to its end than its beginning. Based on historical durations, it will probably be over by mid-spring and some parts of the market are likely to bottom by year-end.

Most stocks—but not the widely watched averages—started falling a full year ago. Take the s&p 500. If you take the same 500 stocks and equal-weight them—that is, envision an equal dollar amount of each stock, the way a portfolio tends to work—their July 1990 prices never got close to their January averages, and January never got close to last October. The last year has been a full 20% downride.

The Value Line Arithmetic is America’s best overall stock index because its 1,700-stock coverage is by far the broadest of any readily available index that equal-weights stocks. It has fallen 26% since its peak last October. And it fell steadily all July, well before Hussein did his thing, as did the 500 s&p stocks, equal-weighted.

The reason most people didn’t notice that silent rout was that they were watching only the big averages and the big stocks. These got hit only after the Kuwait invasion.

Then, too few folks have any sense of the foreign bear market. Note that Japan peaked in December 1989. Britain and Ireland in January. Austria and West Germany in March. Sweden and Switzerland in June 1989. France was a late bloomer in May. None of these markets made new highs in July, as the Dow Jones industrials and s&p 500 did, and most are now down 25% or more from their peaks—some much more—and most wiped out three to four years of gains.

Or, look at the long bond. The 20-year government note double-peak at 142 in September and November 1989. Then it fell steadily, to 128 by April, rose to 134 in July and has fallen ever since, but only to 128—but back to where it was.

What I’m saying is: By the time most people knew we were in a bear market, the bear had already done most of the damage it would do.

I have been saying all year that the 1990s will be exceptional for small-cap stocks. Not only did they do poorly in the 1980s bull market, but they were beaten up much more than big-caps in the bear market. They are like a depressed spring waiting to explode. Historically, big-cap stocks and small-caps have had vacillating periods of performance. When big-caps did well, small-caps often didn’t, and vice versa. After all, why hassle owning small-cap stocks when it’s easy to make money in big-caps?

But take the 1972-82 period as an example. Big-cap stocks did terribly tied to two major recessions, two oil shocks, stagflation and Watergate. Yet small-cap stocks yielded high double-digit returns. The 1990s are likely to be similar.

Another way to see the “depressed spring” is via Ibbotson & Associates’ monthly historical price data for the lowest 20% of market-cap stocks on the New York Stock Exchange. Since World War II, out of 11 bear markets, the average small-cap decline has been 32% and lasted nine months. This current decline is 31% and almost 13 months. Only the 1970 and 1974 bears were longer for small-caps.

Small-caps’ time is soon. And therein lies the opportunity. At any time in the last few years, most folks would have loved the notion of a chance to buy good companies at 1982 prices. Well, now you can. This bear market has unwound most if not all of the 1980s bull market. Ever since I was a kid, Raychem (19) has been my father’s favorite stock. Great company. Well, now you can buy it at 1982 prices, despite Raychem’s being twice as large as it was then.

Other good small-cap firms you can buy at 1982 prices include Watkins-Johnson (13), Reynolds & Reynolds (14), Arnet (23), Harris (19), Orion Pictures (11), Hartware (7) and Brown Group (24). Amazingly, Goodyear Tire (17) is now, by loose definition, a small-cap stock—with a market cap of about $900 million. While it has a lot of debt, it isn’t that bad relative to cash flow, and, if in this high oil-price world it can sell its pipeline business, the debt isn’t bad at all. Yet, it sells for the same price it sold for coming out of the recession of 1958—that’s 1958.

But watch out. This bear may still have a way to go, particularly in the biggest stocks that haven’t suffered nearly as much or for as long. And there will be plenty of market-depressing tax-loss selling. (Folks who do tax-loss selling have not thought through the poor math of it, but that doesn’t stop them.) But before 1990 ends, I want to be fully invested for the next bull market. When small-cap stocks come under pressure from year-end tax-loss selling, I want to be buying them.
Wall Street Irregular

MONEY & INVESTMENTS

A telephone hotline gives an investment service an aura of urgency. It doesn’t necessarily help the investor.

HOTLINES AREN’T SO HOT

By Mark Hulbert

Over the last decade an increasing number of investment letters have turned to the telephone to communicate their advice to subscribers. Indeed, some of them have completely stopped using the mail and have become exclusively electronic services.

In 1980, when I started monitoring investment letters, just a handful of them had telephone hotlines—and even those that did rarely updated them more than once a week. Today, no fewer than 75 of the 120 I monitor in the Hulbert Financial Digest have hotlines, and many of them are updated as often as once a day. (And this doesn’t even take into account advisers’ use of “900”-number services, which are used to update advice several times each day—see my Apr. 30 column).

Obviously, the phone company is doing very well. But what about the subscribers? Are they well served? Consider this: There is no evidence that investors on average do better with a hotline than without.

From the end of 1984 through mid-1990, services with hotlines averaged a return of just over 10% a year. Those without hotlines averaged an annual return of just under 11%. The market averaged 16%.

This general point is well illustrated by the performance of two services that are published by the same adviser, Martin Zweig, one of which has a daily hotline [the Zweig Forecast] and the other not [the Zweig Performance Ratings Report]. Since the end of 1982, the Zweig service that does not use a hotline has made very slightly more than the Zweig service that does have one. They have both come very close to tracking the market’s performance, which, again, has averaged about 16% a year. The Zweig letters’ success in tracking the market puts them at the front of the pack for newsletter performance.

I am not that surprised that hotlines on average don’t lead to superior performance, despite the fact that their existence lets advisers act immediately. Typically, advisers with frequent hotline updates are short-term traders, with many portfolio transactions. If they are to outperform those who trade less often, after taking commissions and other transaction costs into account, they would have to be very good indeed at picking stocks. They are not.

Of course, not all of the services that have telephone hotlines are short-term traders. Market Logic, for example, despite having two hotline updates each week, has more of a long-term focus than almost all of the other services I follow [including those without hotlines]. But it is the exception. Most advisers who have hotlines eventually succumb to the pressure to start recommending more frequent transactions. No doubt they feel that otherwise they can’t ask subscribers to continually call their updates.

Take Mark Leibovit’s Volume Reversal Survey. Leibovit updates his telephone hotline at least four and sometimes five times each week, and it is a rare day in which his portfolio doesn’t have numerous transactions. This has led to an incredible portfolio turnover rate: This past August, for example, it was nearly 300%! Not surprisingly, transaction costs have been one [though not the only] factor in Leibovit’s 47.6% loss for the year (to Aug. 31) and his cumulative 66.4% loss over the last three years.

Clearly, therefore, telephone hotlines are not the automatic blessing that investors and advisers believe them to be. For investors who don’t even subscribe to a newsletter, there is a moral in these statistics: A hot telephone line to your broker wouldn’t be any automatic blessing either. Trading costs money, and the best long-term returns are often enjoyed by investors who sit on positions for years at a time. Besides brokerage commissions and bid/ask spreads, frequent traders usually have to contend with income taxes. My computers don’t take hypothetical taxes into account in computing performance, but if they did, heavy traders would look worse than they do now.

But, while you shouldn’t choose an investment letter because it has a hotline, you shouldn’t always avoid such services, either. You should pick a service according to past performance, regardless of whether it has a hotline.

To be sure, investors may demand hotlines for reasons other than performance, such as having their hands held during times of extraordinary market volatility. But I am cynical about even this use of telephone hotlines. My staff and I listen to as many as 75 hotline messages each day, and rarely do the advisers agree on the meaning of any one event. I am sure that investors who like having their hands held by calling a hotline would find the experience much less soothing if they knew how many other advisers were drawing contradictory conclusions from the same event.

So if your investment letter doesn’t offer a telephone hotline update, don’t be upset. There’s no evidence that your performance has suffered because of it, and your phone bill is lower because of it.

The decade of frantic consumer borrowing and spending is over; the decade of saving and investing is about to begin.

THE SHOPPING BINGE IS OVER

By A. Gary Shilling

The American consumer was king in the 1980s, despite the loss of many high-paid but low-skilled jobs. Industry restructured, and workers ended up in much lower-paying service positions. Rather than admit that the American Dream of ever-increasing purchasing power was over for them, they borrowed to maintain lifestyles they could no longer afford. The ratio of outstanding consumer and mortgage loans to aftertax income—a measure of a household’s ability to repay its debts—jumped from 61% in 1982 to 82% last year.

Clearly, this behavior is unsustainable, and is already reversing. Recession-related layoffs, compounded by the uncertainty over the Gulf crisis and higher oil prices, are causing many consumers to curtail their borrowing and spending. Indeed, extraordinary debt makes the consumer sector the most vulnerable in the current downturn. But this will be only the beginning of consumer retrenchment.

Climbing unemployment will force many to realize that their days as autoworkers or steelworkers making $60,000 a year, including fringes, are gone forever, and that they are lucky to have $30,000 jobs. Then the debts they piled up when they thought their income drop was only temporary will look onerous. They will not only shrink their spending to fit their incomes, but save even more to cut their debts down to manageable size.

Furthermore, as I noted in my May 14 column, saving will also be encouraged by the continuing shift of income into the big-saving hands of upper-income households and by the aging of the population—older people generally save more. With the end of the postwar boom in house prices (see my Feb. 19 column), homeowners will no longer have automatically growing piggybanks to tap via home equity loans and for early retirement funds. As the consumer saving rate more than doubles into double digits in the 1990s, consumer spending’s share of GNP will drop from 65% in 1989 to 61% in 1999, even below the 63% of 1980, before the consumer spending binge commenced.

More saving will help push down interest rates and finance the explosion in capital equipment spending I see in this decade. From 9% of GNP in 1989, this star economic performer should reach 14% in 1999. Manufacturing achieved a 3.5% average annual productivity gain in the 1980s, well above its 2.8% trend, by restructuring. The 1990s will see even greater efforts as stiff international competition continues, and even more reliance on substituting machines for men, now that the easier productivity-enhancing steps have been taken.

Service industry productivity growth in the 1980s was miserable, 0.5%, versus its 2.2% trend. The 1990s, however, will see pressure for improvement both from foreign competitors of U.S. financial and business services, and from manufacturers and others competing globally who purchase American services. Consequently, many service providers will also be investing heavily in computers and other productivity-enhancing equipment.

How do you position your investments to take advantage of this shift from debt-happy, free-spending consumers to savers and producers? Since the bear market is far from over and may well fall to 1987-crash lows, use any rallies to unload remaining consumer cyclical, retailer and consumer lenders. There is probably still room to short highly leveraged and cyclical consumer stocks. We have had very good luck shorting stocks like Household International, Time Warner and usg Corp., Banks, like Chemical, with lots of consumer exposure, as well as real estate and highly leveraged transaction loans, will likely see lower prices. Loses that eliminated their publicly traded common stocks still have junk bonds available. We are short the zero coupons of R.H. Macy and Supermarkets General—with zeros, there is no coupon interest for the short-seller to pay.

In the next bull market, investments in the consumer area must be selective. Spending growth will be subdued, especially for middle-income consumers, whose ranks will keep thinning as income polarization continues. Opportunities will be considerable, however, for firms that provide services to affluent households’ spending and saving activities. Those that can help families pushed to lower-income levels preserve their middle-class dignity will be winners as well. The next bull market will also emphasize high tech and other capital goods producers, business services that aid their customers in improving productivity and firms that prove adept at cutting costs and retaining the benefits.

The passing of the big-borrowing, big-spending consumer and rise of the saver who will finance capital spending is great news for the country. It can be for you, too, if you anticipate it and arrange your business, investment and professional affairs accordingly.
Market Trends

MONEY & INVESTMENTS

Avoid stocks of companies with confusing pricing policies. Mrs. Blumkin said it all: Sell cheap and tell the truth.

OH, WHAT A TANGLED WEB . . .

By Frederick E. Rowe Jr.

Rose Blumkin, the 96-year-old heroine of Warren Buffett’s Berkshire Hathaway annual reports, has a simple, successful business philosophy: “Sell cheap and tell the truth.” Not coincidentally, a number of the great business successes in this country over the last couple of decades have been based on that same philosophy. Wal-Mart, Albertson’s and Southwest Airlines are good examples. Sadly, many businesses use a different philosophy: “Identify your most trusting, profitable customer. Gouge that customer until he/she threatens to quit. Then lower prices.” Airlines and health care providers come to mind.

The popular expression of Rose Blumkin’s business philosophy is “everyday low prices.” Mrs. Blumkin has been rewarded financially by the great success of her store, Nebraska Furniture Mart, and psychiatrically by the praise of Warren Buffett. Public companies that adhere to her philosophy are frequently rewarded with higher-than-market price/earnings ratios and with loyal customers. Albertson’s has been a spectacularly successful grocery company and likewise offers “everyday low prices.” Albertson’s still sells at 19 times earnings.

Wal-Mart? Despite the onset of a bear market, the stock still sells at 26 times earnings, considerably above the average market multiple of 12. Wal-Mart and Sam’s Wholesale Club shoppers have confidence that they are being treated fairly. They do not need to shop around. They are loyal and they spread the word. To some extent, the success of Wal-Mart has come at the expense of Scars, which sells at 7 times earnings, and Kmart, which sells at 7 times estimated earnings.

A business that is a low-cost provider of needed goods and services and prices its products simply and fairly would seem almost assured of success. As I was growing up, one of my poor old mother’s favorite homilies was: “Oh what a tangled web we weave, when first we practice to deceive.” Telling the truth makes life simpler, and business life becomes complicated indeed for companies that must constantly finagle with suggested retail prices, scheduled rates, rebates, bonus clubs, etc.

Conversely, a high-cost producer with deceptive pricing can be expected to encounter problems.

During the 1970s, Southwest Airlines provided a simple pricing structure. There was a higher-priced “business class” that departed during business hours, and a “pleasure class” that departed after business hours and on weekends. There was no need to waste time shopping for the best deal. You chose either class and knew exactly what you were paying for each.

Today, of course, Southwest Airlines’ pricing is as complicated as most other airlines’. The lifeblood of all airlines is the business traveler, for whom scheduled rates are moving inexorably higher. Business travel is a form of communication, and to some extent a habit that is being obsoleted by telecommunications—faxes, video teleconferences, etc. Meanwhile, the popularity of various mileage clubs—a popularity that stems from the fact that the employee’s vacation is being subsidized by his employer and by the taxpayer—masks a trend that is unfavorable for the airlines.

Government and big business employees already pay less for airline tickets than you or I, a fact that the airlines will not admit for the record. Since it’s my money anyway, and since the service is identical whether I stay over the weekend or not, and since I would rather not think about mileage points, I find airline pricing irritating. As an investor, I believe that the pricing structure masks the fundamental trend, which is down. I would not bottom fish this group.

The profitability of health care providers, likewise, has long depended upon the spending of “scheduled ratepayers.” The difficulty is that the percentage of scheduled ratepayers relative to all patients is declining. At the same time, scheduled rates are rising farther than costs or inflation. For example, the scheduled day rate for a patient at Community Psychiatric Centers (24) is about $700 before psychiatric fees. For exactly the same service and care, members of Health Maintenance Organizations and other groups pay about $400. Scheduled rates are up 30% over the last two years, while scheduled ratepayers as a percentage of total patients have dropped dramatically.

In researching this column, I visited a local “store.” I mentioned that group rates produce small gross margins and that the percentage of scheduled ratepayers was dropping. How, I asked, could the company continue to increase its profitability? The answer was simple. Scheduled ratepayers would have to pick up the slack. Good luck.

While Americans may be increasingly troubled by their real and imagined mental problems, their willingness and that of their insurance companies to pick up the full, scheduled tab is on the wane. Despite Community Psychiatric’s more than 80 straight up quarters, I would avoid this stock.
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Streetwalker
Edited by Thomas Jaffe

Danger signals
Gerard Cassidy, a Portland, Me.-based regional banking analyst for Tucker, Anthony, recently returned from a fact-finding mission in California. Cassidy, who turned bearish on New England banks in the summer of 1989, suspected that the California economy was softening (see story, p. 86) and wanted to get a feeling for how that softening would affect California’s regional banking industry. Cassidy’s conclusion after his trip: “The parallels between the California economy today and New England’s two years ago are uncanny. I expect California to go into a recession in 1991.”

Which banks, then, are most vulnerable? “Those,” replies Cassidy, “that have the greatest exposure to construction loans.”

Below are 13 California banks where construction, development and land loans represented 19% or more of total assets as of March 31, 1990. Cassidy’s experience has shown him that banks can get into trouble with loans of this sort representing a far smaller percentage of assets. Our list may not include some of California’s better-known banks but, says Cassidy, “if you’re looking for red flags, these banks are as good a place as any to start.”

Where there’s smoke . . .
For some companies, takeover rumors just never die. Case in point: Cleveland’s $1.1 billion (sales) Ferro Corp., which makes coatings, plastics, chemicals, ceramics and colorants. In the spring of 1989 Streetwalker reported that Dr. Phillip Frost, chairman of Ivax, a small Miami-based pharmaceutical concern, was amassing a stake in Ferro (Forbes, Apr. 3, 1989). Indeed, Frost currently owns nearly 8% of the 19.2 million Big Board shares. But we also cautioned that, minus a bid, the stock was riding for a fall. Well, there’s been no bid to date, and boy, has the stock ever fallen! In the summer of 1989 Ferro rose above 40; lately it’s been trading just shy of 20.

But now a new player has joined the fray: Jon Huntsman of Huntsman Chemical, who earlier this year lost to Japan’s Mitsubishi Corp. in a bidding war for Aristaech Chemical. Huntsman owns at least 3% of Ferro. And Mario Gabelli’s Gabelli Investors owns 5%. Three big institutional holders own 24.5% more. Meanwhile, employees own about 12%; insiders just 2%.

This time around Streetwalker thinks there may be something to the takeover talk. True, earnings this year will be only $1.50 a share or so, down from $2.25 in 1989. And estimates for next year range only between $1.50 and $2. But the fact remains that Ferro would still make a juicy prize for Huntsman, who wants to expand overseas (Forbes, Nov. 27, 1989). Last year Ferro’s foreign operations accounted for 56% of sales and 76% of profits.

Just how cheap is Ferro? Consider that in the current market it trades for only about 33% of sales. Add 10 points to the stock, a healthy 50% gain, and the company would still sell for just half of sales. Nature abhors a vacuum; something’s gotta give.

Crowning achievement
It is a rare company that can lose its longtime chairman around the time it has also roughly doubled in size without somehow stumbling. But if any company can manage this feat, it is Philadelphia-based Crown Cork & Seal Co., Inc., the big packaging and packaging machinery producer. Recent NYSE price: 60½.

Last December $1.9 billion (sales) Crown bought Continental Can Canada for $330 million. That added roughly $400 million of annual sales. Then in July it added another $1.3 billion of sales when it bought the U.S. food and beverage divisions of Continental Can Co. for $336 million plus the assumption of $25 million of debt. That same month John Connely, Crown’s chairman since 1956, died at the age of 85.

Crown has long been known for low-cost production, aggressive expansion, good customer service, technological leadership and stringent control over expenses. This is expected to continue under William Avery, 50, a company veteran who last year was named chief executive officer. But growth has lately been hard to come by. Earnings were hurt by the higher-than-expected cost of aluminum, one of Crown’s main raw materials. Last year the company netted $94 million, or $3.58 a share, not much better than in 1988.

But now things look to be improving. Industry capacity has shrunk, soft drink consumption continues to grow, metals costs have stabilized and increased prices for cans are holding up. Meanwhile, Crown’s recent acquisitions have increased its buying power for aluminum and should lead to other economies of scale as well.

One believer is analyst Cornelius Thornton of First Boston. Assuming higher interest expenses and a higher

<table>
<thead>
<tr>
<th>Company</th>
<th>Const, deval. and land loans (% of assets)</th>
<th>Price Recent 12-month high-low</th>
<th>Exchange</th>
<th>Shares (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Republic Bancorp</td>
<td>25.3%</td>
<td>7</td>
<td>10%-6%</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>BSD Bancorp</td>
<td>25.8%</td>
<td>6½</td>
<td>10%-6%</td>
<td>Amex</td>
</tr>
<tr>
<td>Bank of San Francisco</td>
<td>19.5%</td>
<td>4%</td>
<td>11%-3%</td>
<td>Amex</td>
</tr>
<tr>
<td>California State Bank</td>
<td>19.9%</td>
<td>10½</td>
<td>17½-10%</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>Civic Bancorp</td>
<td>21.8%</td>
<td>8½</td>
<td>13½-8%</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>Cupertino National Bancorp</td>
<td>21.8%</td>
<td>9½</td>
<td>16½-8%</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>First Commercial Bancorp</td>
<td>32.0%</td>
<td>6½</td>
<td>12½-6%</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>First Regional Bancorp</td>
<td>33.2%</td>
<td>3½</td>
<td>4½-3½</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>Guardian Bancorp</td>
<td>19.4%</td>
<td>9½</td>
<td>20½-9</td>
<td>Amex</td>
</tr>
<tr>
<td>Mission Valley Bancorp</td>
<td>23.4%</td>
<td>1⅞</td>
<td>20½-10%</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>Pacific Inland Bancorp</td>
<td>20.6%</td>
<td>4½</td>
<td>6½-4½</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>Pacific Western Bancshares</td>
<td>19.1%</td>
<td>9½</td>
<td>14½-7½</td>
<td>Amex</td>
</tr>
<tr>
<td>Silicon Valley Bancshares</td>
<td>25.7%</td>
<td>8½</td>
<td>16½-7½</td>
<td>Nasdaq</td>
</tr>
</tbody>
</table>

*As of 3-31-90.
tax rate this year, Thornton expects 1990 earnings to be up only 5%, to $3.75 a share. But the following year Thornton thinks the additional leverage from the new operations could help earnings rise as high as $5 a share. At 12 times anticipated 1991 earnings, Crown is his leading recommendation. There are 28.9 million shares. The Connelly charitable trust owns 14%; employees own 30%; CCL Industries owns 9%.

Lubri-job

One company that hasn’t been suffering in the current downturn is $1.3 billion (estimated sales) Lubrizol Corp. Recent NYSE price: $1.16. Headquartered in Wickliffe, Ohio, Lubrizol makes chemical additives used in automotive and industrial lubricants and fuel. Although higher oil prices, hence higher petrochemical prices, have raised the company’s cost of raw materials, it has been able to pass those increases along to its customers and thus sustain margins.

Analyst Charles Rose of Oppenheimer & Co. thinks Lubrizol will benefit handsomely from its growing participation in the fuel additives industry. Rose estimates it will earn $3.25 a share this year from operations, up 29% over 1989; he’s looking for $4 a share in 1991. When you can buy that kind of growth for just 10 times estimated 1991 earnings, says Rose, that makes for a cheap stock.

Evidently, the company agrees. Over the last four years it has bought in roughly 5 million shares—there currently are around 35 million shares outstanding—and plans to repurchase more stock in the coming year. Lubrizol can afford this because it generates roughly $5 a share of operating cash flow, only $1 so or so of which it needs to reinvest in operations and to service debt—long-term debt is less than 10% of total capital.

Lubrizol recently sold half of its venture capital stake in Genentech, Inc., 60% of which has been acquired by Switzerland’s Roche Holding Ltd. This netted Lubrizol $63 million, or $1.80 a share. At recent prices it could buy back over 1.5 million shares with the proceeds. Lubrizol has other venture capital interests, as well as two smallish agricultural businesses it can sell in order to further finance this cap shrink.

Strong earnings, strong cash flow, salable assets and a shrinking capitalization: They add up to a combination that’s hard to beat.

"This is the way you always imagined the South Pacific to be" Read what Andrew Harper’s exclusive guide to unspoiled places says about Malcolm Forbes’ exotic Fiji Island paradise.

T

taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of ‘bula’ are a reflection of the welcome and care extended to visitors.

"This is the way you always imagined the South Pacific to be — an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the Bounty two centuries ago.

Situated 200 miles out to sea northeast of Nadi, Laucala is the finest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior of rife with giant ferns, mango trees and wild birds.

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don’t expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

Meals are a delight here, beginning with breakfast prepared by a cook and housekeeper in the privacy of your own bungalow at any hour you wish. Dinner and lively conversation are enjoyed at the atmospheric Plantation House.

"A wide range of daytime diversions are available including top-notch sport fishing aboard a specially-designed 45-foot deepsea boat staffed with a knowledgeable captain and crew at your call. Tuna, marlin, snapper, jack fish and sailfish are all regularly hooked in these virgin grounds, plus an occasional black marlin. There’s also superb snorkeling/scuba diving (tanks and weights provided) in the transparent offshore waters where stunning reefs harbor colorful coral heads teeming with rare tropical fish and specimen shells...

"It’s always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special — particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific..."

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"The more things change..."  
Items from past issues of FORBES

Seventy years ago in Forbes  
(From the issue of October 30, 1920)  
"The worst of the business alarm and unsettlement is over, however, remains to come to the surface, and the number of failures during the next few weeks may keep alive acute apprehension in business circles. The reassuring truth, however, is that in the highest financial, industrial and commercial circles sentiment is strengthening daily."

W. Averell Harriman at age 29

"A new second-generation star of unusual magnitude is appearing on the horizon, namely, Harriman the Second. This young man, W. Averell Harriman, son of the late E. H. Harriman, the 'Railroad King,' is already being spoken of as 'The new Steamship King.' His shipping interests already outrank those dominated by any other American citizen... Whereas Harriman the First did not begin to do big things until he was 50, Harriman the Second has started before he is 30—he is only 29."

Sixty years ago  
(From the issue of November 1, 1930)  
"Science, which has given freely of its talents to other everyday things of life—the production of a perfect loaf of bread, coffee brewed by formulae, a rust-resistant kitchen knife—has now added the prospect of fresh, perishable food products at moderate prices the whole year round, regardless of distance from the sources of supply. Development of quick-freezing processes and improved mechanical refrigeration methods underlie this promise for a better balanced and more appetizing national menu..."

"Unless the public takes its own bull by the horns and decides to buy automobiles, the present dull level of factory and sales history is likely to establish a really new low mark. In fact, nothing less than a near-miracle can prevent 1930 from recording the most serious year-to-year drop on record."

Fifty years ago  
(From the issue of November 1, 1940)  
"If civil and defense demands clash seriously in any industry, the stage is now set for federal crackdown: The Defense Commission has just acquired a strong-muscled Priorities Board, and the U.S. has recently invoked new powers to requisition goods needed for defense by taking 110 U.S.-built planes away from Sweden against her wishes."

"William S. Knudsen likes America's national card game, poker. I am told that, while in a game recently with a number of Washington nabobs, 'Big Bill' was chided when he bet only a dollar, and that his spontaneous response was: 'Do you want me to bet more than my whole year's salary?'"

Twenty-five years ago  
(From the issue of November 1, 1965)  
"Look at these figures: Profits up from 83 cents a share in 1962 to $3.95 in 1964; for the nine months this year, $3.82. Full-year earnings should approach $5 a share, a 26% gain on top of 1964's 68% gain. As for revenues, they have been in an unbroken ten-year climb from $215 million in 1954 to $544 million last year. You might wonder why the top management of American Airlines bothers to go into the office in the morning. Doesn't American have any troubles?"

"'Well, I wouldn't say exactly troubles,' says Marion Sadler, the husky president of American, 'but like everybody else, we have our problems. For example, passenger travel just can't continue to grow at the rate that it has been.'"

"Can soaring prices and 10-million-share days go on indefinitely? Not very likely. Is the plug about to be pulled? Not very likely. The market's exhilaration isn't the result of too much good spirits. Investors' good spirits result purely and simply from good business."

Ten years ago  
(From the issue of October 27, 1980)  
"The Iraq-Iran fallout was totally undivined and grows curiouser and curiouser. Rather than emerging stronger, that would-be Arab hero, Iraq, appears to be weaker militarily than previously supposed, President Hussein's tenure seems more tenuous, his country's hostile Shiites stronger. Iran's military has been more effective than forecast..."

American Airlines, under Marion Sadler, led the airline boom of the mid-Sixties
Food: Part of the spiritual expression of the French, and I do not believe that they have ever heard of calories.
Beverley Baxter

Cooking: An art, a noble science; cooks are gentlemen.
Richard Burton

Edible: Good to eat, and wholesome to digest, as a worm to a toad, a toad to a snake, a snake to a pig, a pig to a man, and a man to a worm.
Ambrose Bierce

Gluttony is a great fault; but we do not necessarily dislike a glutton. We only dislike the glutton when he becomes a gourmet—that is, we only dislike him when he not only wants the best for himself, but knows what is best for other people.
G.K. Chesterton

A gourmet can tell from the flavor whether a woodcock's leg is the one on which the bird is accustomed to roost.
Lucius Beebe

Gourmet: Usually little more than a glutton festooned with charge cards.
Sidney J. Harris

Not a deed would he do,
Not a word would he utter,
Till he's weighed its relation
To plain bread and butter.
James Russell Lowell

Hunger: One of the few cravings that cannot be appeased with another solution.
Irwin Van Grove

Shake and shake
The catsup bottle,
None will come,
And then a lot'll.
Richard Armour

The true Southern watermelon is a boon apart, and not to be mentioned with commoner things. It is chief of this world's luxuries, king by the grace of God over all the fruits of the earth. When one has tasted it, he knows what the angels eat. It was not a Southern watermelon that Eve took; we know it because she repented.
Mark Twain

No poems can live long or please that are written by water-drinkers.
Horace

A Text...
He that entereth not by the door into the sheepfold, but climbeth up some other way, the same is a thief and a robber.
But he that entereth in by the door is the shepherd of the sheep.
John 10:1-2

Sent in by Arthur J. Eisenla, Sions, N.Y.
What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

When a poor man eats a chicken, one of them is sick.
Yiddish Proverb

Hungry is a mighty fine sauce.
Southern folk saying

But if at the Church they would give us some ale,
And a pleasant fire
Our souls to regale,
We'd sing and we'd pray
All the live-long day,
And never once wish
From the Church to stray.
William Blake
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So whether the hills are mild or steep, the Camry V6 can be counted on to move to the head of its class. Further proof that with the Camry V6, you have just about the perfect car.

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TOYOTA
"Airspeed, 500 knots. Altitude, below 400 feet. Pitch black. You know, if I couldn't see, I might be a little nervous."
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