

THE

Real Speech

AUSTIN LETTER

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Dear Client:

So you're already tired of political ads on TV? You should be. This is the most expensive election season in Texas history – so far. And, Election Day is still a month away. Hang on. It will ratchet up even more when the early voting period starts.

But, the increased bombardment will not only be concentrated in local TV newscasts, as it has been up to this point. It will spill over into the entire spectrum of TV programming that claims any hold on an adult viewer.

Do you realize about **\$40 million has been spent statewide so far** on political ads? Most of that has been spent by Republican Governor **Rick Perry** and his Democratic challenger **Tony Sanchez**, as well as Republican Lieutenant Governor hopeful **David Dewhurst**. They still have huge sums available to be spent on their behalf. Now, all the other statewide and local candidates are unleashing their barrage of ad messages on the tube.

Some of the late starters are going to have trouble finding the best airtime for political messages (local news is the favorite choice because viewers of that programming have a higher interest in the issues of the day – compared to viewers of frothy fare such as *The Bachelor*.) **The big spenders have already bought local news availabilities** way in advance.

This is where the spillover effect comes. Candidates for lesser state offices and local political positions will try to get a little bit of attention, during *other* TV programming, as voters finally start making decisions. **The big trigger date is 10/21/02** – the first day you can cast an early vote for your choices.

There is no question the Big Three statewide races will spend the bulk of the bucks over the next month. You've seen what Sanchez and Perry and Dewhurst can do. The Dem candidate for Lt. Gov, **John Sharp**, has started spending – as have the two candidates for the USSenate – Dem **Ron Kirk** and GOp **John Cornyn**. Now, local candidates who have put up all those less-expensive campaign signs around town will start their TV ads. The cacophony will be deafening. Be patient. This, too, shall pass. In about 30 days. This is democracy at work, as the candidates vie for your vote. **But, you can't help shaking your head at how expensive "free" speech has become** these days.

If the residential real estate market is important to you, what's happening – now and in the future – to long-term interest rates is of significance. Here's what's going on.

First of all, borrowers who think they've seen the low for mortgage interest rates, continue to get fooled. In fact, the average for 30-year, **fixed-rate mortgages** hit another record low last week, dipping to **an amazing 5.99%**. Records go back only until 1971, but this is significant.

Okay, this is now, but what about the immediate future? Well, it's anybody's guess, but from what we've been able to learn, you can look for long-term interest rates to **go up about a percentage point in 2003**. Thirty-year fixed mortgages could reach about 6.75%.

Can you take this to the bank? Nope. Will current rates drop even more? Don't know. But, financial analyst **Greg McBride** of Bankrate.com has some good advice. He cautions against waiting for rates to fall further. He says, typically when they start moving higher, they do so more quickly than people expect.

The hoo-haw following the decision by Farmers Insurance to stop writing homeowners insurance in Texas is pretty interesting. As we've told you, there has been a lot of posturing by the politicians, but what about the marketplace – and the poor homeowner?

In a very public way (news conferences, full-page newspaper ads), Farmers announced it could "no longer serve the state's homeowners insurance customers." It said "we simply can't allow the state to force our customers to accept the **financial instability that would come from conducting homeowners business in an unsound manner.**" In other words, they're outta here, as far as homeowners insurance is concerned. They'll still be a significant presence on the Texas insurance scene, writing auto, small business, life, financial services and other lines.

What about the abandoned customers? When you live in a capitalist, competitive country you can expect other companies to fill the void. That's already started. **San Antonio-based USAA has said it will accept applications from Farmers' customers** who are eligible for USAA coverage (current USAA members, military personnel on active duty, those active in the reserves or National Guard and children of current USAA members). Other companies should follow suit.

And of course, the state stepped in this week, offering to pick up some of the slack by expanding its Texas Windstorm Insurance Association to include limited coverage for Farmers' customers. **So it looks as if many of those who hold Farmers homeowners' policies will be able to find alternate solutions as their policies expire.** Remember, no Farmers policies are being cancelled. They simply will not be renewed. What about the future? Look for Farmers to re-enter the Texas homeowners market in the next year or so, a bit battered and bruised.

This week Dell Computer wowed Wall Street by predicting the world's fastest growing computer systems company will reach record revenues this quarter. So what's with whiz kid Michael Dell? How can he swim upstream against a worldwide slowdown in his industry?

"How have I survived all these years?" Dell asked himself. "One, I'm having fun. Two, I think I've always approached my job by **asking what the company needs to be successful**. Whatever it is, I'm going to do it. And that means I have to change," Dell told *FSB Fortune Small Business*. This is from a guy whose mantra has always been to focus on customers while delivering the best technology at the best prices.

What does Dell mean *he* has to change? "For instance, we have a 360 process inside our company where **employees are evaluated by those above and below them**," he explains. I stood up before our executive team a few months ago and said, 'Here's my 360 – here's what I'm working on improving'. The important message for our team was **we all have to improve and we're all going to improve**. And this is serious stuff. When we talk about growing new elements of our business, you can't say, 'I've been here ten years, so I don't have to do that'."

The management style at Dell appears to be pretty demanding. "From the beginning," he says, "we've tried to create a management structure that doesn't have a lot of layers. This means first of all understanding the business model, being result-oriented, being speedy, and setting aggressive goals. **It also means being self-critical** and willing to talk about problems openly."

How does that work, Michael? "Let's say somebody knows that there's a problem, but he comes to a meeting and tries to pretend there isn't one. We just tell him right there in the meeting, 'That's not going to work'," Dell said. "The organization has such a well-honed culture at this point that **if somebody shows up and doesn't drive for results and try to eliminate bureaucracy, the organization bypasses him**. We're not going to pay attention to that person."

One last bit of insight into Michael Dell. In the early days, he says "the funny thing is, there really wasn't one moment when the idea for the business came to me. It was a little more pragmatic and incremental than that. It doesn't sound like a story made for television, but it's true. I said to myself, '**If I can make \$80,000 selling computers from my apartment, I can probably do \$1 million a month with an office and a tie**'." The rest is history.

In this tight labor market, one profession is short-handed and will be one of the fastest growing occupations, with demand continuing to increase, at least until 2008. It is projected Texas will need 82,000 new teachers by that time. What about salary? In addition to signing bonuses of up to \$3,000, Texas teachers just received a \$3,000 pay increase – the highest across-the-board nationwide – raising the average 9-month teacher salary to \$38,857.

It's that time of year again when publications such as this one (which has print as well as web subscribers) are required to publish certain information about print circulation and ownership. This relates to our Periodical Mailing Permit. This US Postal Service permit is important because it gives a "preferred" status to newspapers/newsletters to help ensure timely delivery.

Traditionally, we've taken this opportunity to tell you a bit about how we operate. First of all, we're pleased most of our subscribers are now getting the newsletter very fast, for the same price, on our website, www.AustinLetter.com. We notify web subscribers by e-mail when each Friday's issue is posted on the Web. At the same time, the print edition goes to our printer.

I am the sole owner of Austin Letter, Inc. and I serve as reporter, writer, editor and publisher. If you have any questions or comments about subscriptions, you may contact us by phone at 512-498-9495, by fax at 512-327-1976 or by e-mail at News@AustinLetter.com. Our mailing address is P. O. Box 1905, Austin, 78767-1905. Except for the last two weeks of the calendar year, we publish weekly at an annual subscription rate of \$150 (plus tax), or at the discounted 2-year rate of \$249 (plus tax). We have not raised our prices since 1987.

During the preceding 12 months, now that most subscribers get their newsletter on-line, we only printed an average of 161 copies of each issue. We had an average of 125 paid mail subscribers, with 11 distributed free, for a total distribution of 136, of which 92% was paid circulation. We held 25 copies for office use. Our report to the US Postal Service this year included actual figures for the 9/20/02 issue, when we printed 142 copies, of which 106 were paid mail subscribers, 11 were distributed free, for a total distribution of 117. Of the 9/20/02 issue's circulation, 91% was to paid subscribers and 25 copies were held for office use.

We're especially proud that during our 23 years of publishing this Letter, we've never missed a Friday deadline. Occasionally, the Post Office may not get your mail processed on a timely basis, but they try very hard to make sure your copy is delivered to you on schedule. If you're not receiving your printed copy by Tuesday of each week, we'd like to know.

If at any time, from anywhere you travel, you'd like access to the current newsletter early each Friday morning, we encourage you to switch to an Internet subscription. Obviously, there's no additional charge. Finally, let me say how pleased we are to have you as a subscriber.

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Sincerely



Editor/Publisher