THE Neal Spelce AUSTIN LETTER

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Dear Client:

If you're trying to get an early handle on who may be the Republican nominee for president to succeed George W. Bush, take a look at the health care problem. There's one strong-credentialed GOP-er who may try to ride the health care horse into the White House.

The presidential election is still two years away, and no consensus candidate has yet emerged for the Republicans, even though Arizona Senator **John McCain** is getting the most ink these days. Health care is an issue that touches all voters *personally* and, in some cases, *deeply*. And one candidate thinks he has a solution (not just a plan) that is being "tested" in the marketplace.

Massachusetts GOP Governor **Mitt Romney** has just received approval of his state's Democratic-controlled Legislature for statewide universal health coverage. **Romney's Big Idea is to require citizens to buy health coverage**, just as states mandate auto coverage. Individuals and small businesses are given access to group rates. Those who can afford the insurance will have to buy it and those who can't buy coverage will be subsidized by the state. It should lower all health care costs.

There is a mountain of detail in Romney's solution, but it has **support in Massachusetts from most of those involved with the health care problem**, including those businesses struggling with rising insurance costs. "Mittcare" has just gone into operation. The final verdict is still out. So far, however, so good.

How does this tie into the possibility you may get a chance to vote for Mitt Romney for president? Well, first of all, he is not seeking re-election this year, leaving the door open for a run for the presidency. Secondly, he has a **resume befitting a presidential candidate**.

Born in 1947, Romney is the son of Michigan's former governor (and presidential candidate) **George W. Romney**. He gave Massachusetts Democratic USSenator **Ted Kennedy** the closest race of Kennedy's career, but lost before Romney was elected governor in Kennedy's heavily-Democratic state.

Romney gained national attention when he was **brought in as CEO to salvage the scandal-plagued 2002 Winter Olympics in Salt Lake City**. He was spectacularly successful. Before that, he co-founded Bain Capital, one of the nation's most successful venture capital investment companies. There's more, but this gives you enough to keep your eye on him – and health care.

The biggest single influence on the housing market for the past three years has been historically low mortgage interest rates. What will happen as mortgage interest rates rise from these lows?

A research economist with the Real Estate Center at TexasA&M, **James P. Gaines**, posed that question and came up with an interesting forecast. First of all, he pointed out low interest rates encouraged people who were **renters to become homeowners**. They also enabled existing **homeowners to sell and move up** to higher-priced larger housing with more amenities.

The low rates allowed homeowners to **refinance their properties**, thereby converting home equity into tax-free disposable capital. And they made acquiring a **second or vacation home** a practical alternative. All of these activities contributed significantly to the overall economy.

The question is, what will happen as mortgage interest rates rise and how high will rates have to go before a significant impact is felt? First of all, Gaines points out most projections for **mortgage interest rates this year anticipate the 30-year fixed rate to stay below 7%**. If these expectations hold, he feels mortgage rates should continue to be attractive.

He notes that a 7% rate is still **well below** what the housing market bore throughout the 1990s and **considerably lower** than prevailing rates in the 1980s, when they were in the double digits.

Gaines says home prices in Texas have not experienced the high rates of appreciation seen in other areas of the US and that **residential construction costs have not escalated beyond normal increases** in labor and material costs.

Texas residential construction had two of its best years in 2004 and 2005, in spite of slightly higher interest rates. And seven of the top 30 US markets projected to be among the best in the nation are in Texas.

San Antonio leads the Texas pack (and the nation) with 8.3% projected real estate growth in 2006 and 7% in 2007. El Paso (8.1%, 7.1%) … Houston (7%, 6.6%) … Fort Worth-Arlington (6.3%, 5%) … McAllen-Edinburg-Mission (6.1%, 6.2%) … **Austin** (**6.1**%, **5**%) and Dallas (5.9%, 6.3%) make up the rest of the seven.

There will be changes coming down the pike, according to Gaines. Changes in mortgage credit underwriting and qualifying procedures may tighten during the coming year. Due to a tightening-up by governmental oversight agencies, mortgage lenders may change their lending practices and loan-approval standards. Loan underwriting changes in Texas will primarily affect marginal buyers: people trying to **buy higher-priced houses than they can really afford** or entry-level, first-time buyers coming into the market with **weak credit records or little capital for down payments**. The qualified buyer need not worry.

Twenty-seven *FORTUNE* 500 firms are still run by the CEOs who built them – and they're tearing up the market. An Austinite is at the top of the pack. No, it's not Michael Dell.

There are some big company names in this set of 27 – names like Apple Computer and FedEx. **But this list does *not* include Dell, Nike, Microsoft and Starbucks** because, while their founders are still very active, they no longer carry the title of CEO. Michael Dell and these other founders are now chairmen.

So, who is the founder-CEO Austinite who tops this nationwide list of big names and big companies when it comes to the best ten-year average annual stock returns? It's **John Mackey**, founder-CEO of Whole Foods Market.

When analysts at *FORTUNE* magazine reviewed this year's list of the 500 biggest companies, it found an interesting development: **The stocks of these 27 companies still run by their founder-CEOS returned an average of 18.5% annually** from year-end 1995 through 2005. This is seven percentage points better than the *FORTUNE* 500's average return over the same period. Their profit growth has also been superior, increasing at an average rate of 19.6% a year during this past decade versus 11.7% for the *FORTUNE* 500.

How did John Mackey's Whole Foods Market do? It was at the top of the list with a whopping 36.6% ten-year average annual stock return. Impressive! Number 2 was Kinder Morgan at 31.6%, followed by Capital One Financial (27.4%), EchoStar Communications (24.9%) and Apple Computer (24.6%).

One of the theories on why these results are being obtained is that founder-CEOs simply care more. One founder-CEO put it this way: "There's no way a babysitter can feel the same way about a child as the parents." Costco founder-CEO **Jim Sinegal** said "It would be truly devastating to me if this company ever failed." As a result, he doesn't let near-term cost pressures divert him from what he thinks is good business. For instance, he resists the urge to hike markups on in-demand luxury goods that keep Costco shoppers coming back.

Speaking of doing business, don't buy too many of those new 39-cent stamps. Two more postal rate hikes are in the works.

On January 1st, 2007, your first-class stamp price jumps 3-cents, to **42-cents each** and a year after that, the price kicks up to **44-cents each**. Business mailers will go up 10% on average next year and about 4%-6% January 1st, 2008.

What's happening here? According to reports we get from our friends at *The Kiplinger Letter*, the US Postal Service wants to **maximize revenues before the start of postal reforms** that will limit future rate hikes.

When four top employees in a 25-person Austin firm announced they were pregnant during a 6-week period, what could have spelled disaster to the small shop turned into a nationally-recognized program that developed as the company has now grown to 150 workers.

"My lawyer hated the idea," said **Gay Gaddis**, owner of Austin's T3 advertising agency. The idea: she invited the new moms to bring their kids to the office all day. The attorney worried **T3 would be sued if a child was hurt at the office**. But the idea caught on to the point that it is featured in the May 2006 issue of *FSB* (*FORTUNE Small Business*) magazine.

A large office was equipped with cribs and baby swings ("We made sure employees who couldn't stand the sound of crying babies didn't sit near the 'romper room'," said Gaddis). As T3 grew, **additional moms and even dads brought their babies to work**.

"The only unexpected hitch came when an employee told me the program wasn't fair," said Gaddis. "She never planned to have children, but her elderly dog was like a child to her. I decided to let her bring him in." So others brought their dogs to work, as well. "**In addition to more dogs**, **we also had a goat that someone's child was raising in 4-H**. A flea outbreak soon followed."

That's when Gaddis said she "made some rules." **No more goats** and dogs had to have flea and tick protection and owners cleaned up after the dogs, inside and out.

"So far, 33 babies and a small army of dogs have 'grown up' at our company," she said. And how has T3 done? "Today the company that I founded in 1989 is the **largest privately-held**, **woman-owned** advertising agency in the country. I'm convinced we would never have reached this size if I hadn't found a creative way to keep our best employees – and their kids – happy."

Dr. Louis Overholster is fond of quoting humorist Dave Barry who said if a woman has to choose between catching a fly ball and saving an infant's life, she will choose to save the infant's life without even considering if there's a man on base."

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