

Wall Street Week with Louis Rukeyser; 2341; Two Hall of Famers

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- Transcript

Wall Street Week With Louis Rukeyser is made possible by the Corporation for Public Broadcasting and by the annual financial support from viewers like you by the travelers insurance companies over 30 million Americans benefit from our insurance financial services and managed health care. The Travelers Insurance companies buy in FS and FS helping huge will find an institutional investors achieve their financial goals since 1924 and by Prudential Securities with more than fifty six hundred financial advisers nationwide credential securities can help you invest your money wisely. Produce Friday April 8 tonight special guest star Peter Lynch trustee fidelity Management and Research Company and a John M. Templeton founder of Templeton fun. Good evening I'm Louis Rukeyser This is Wall Street Week. Welcome back. Well this was the week when the financial markets demonstrated one of the great truths of clinical

psychiatry. Even a certifiable hysteric has to take an occasional rest. Just when every perennially wrong perennial pessimist and emerge scarily from the woodwork to assure us that nothing good was ever going to happen again at least until the 23rd century. The panic subsided and both the stock and the bond markets actually finished the week with gains not very robust convincing gains to be sure. The markets were faltering again at week's end as jitters resumed about reports coming next week on both producer and consumer prices. And the fear that any mild whiff of inflation would push the Federal Reserve into its third interest rate rise of the tough new year. And as if that weren't enough still another Japanese prime minister resigned in disgrace. Adding to tensions about deadlock trade talks between the nation's. Two Fed governors delivered the presumably startling news that the economy was better than it had been. And anonymous sources claim that Fed Chairman Alan Greenspan

was losing his grip on policy anyhow. As you might reasonably conclude it doesn't take much to frighten the institutional trader these days and the combination of rising interest rates and the notorious computer selling at least four rounds of which were tracked on Friday alone made it difficult for the markets to get out of their own ham handed way. Even if they had been an actual human being on the job. Still the markets perform notably better than had been predicted by any number of knee jerk ascenders over the weekend particularly after they learned the absolutely devastating news that more Americans were beginning to find jobs. If you can imagine anything as awful as that despite learned forecasts read in less skeptical precincts than this one that the Dow would be plummeting by hundreds of points this week. It just dipped briefly below 30 600 for the

first time since November and then managed to finish at a level higher than it ever attained before last October. In fact as of now

the sober reality is that the market seems to be undergoing a perfectly normal correction more than overdue and stocks are going virtually straight up for nearly three and a half years and that the rash of news magazine covers and television fascination with the doomsday crowd was merely providing its traditional function of staying lean that most of the bad news was probably already behind us. But as the Bears gather their strength to try one or two more thrust to the downside it seemed appropriate to look beyond this essentially futile day to day speculation and talk with two of the all time greats in what it really takes not to be a passing sensation literally to make money. Big money enduring money in investing. And here for this special and creditor naturally Well time program are the two greatest mutual fund figures of this century. John Templeton and Peter Lynch in short something to remember. A program not a programmed trade. But first let's see what happened. Just when you thought it wasn't safe to go back in the water in Wall Street this

week and as the Dow Jones Industrial Average indicates the tumble in bond prices sending long term yields close to seven and a half percent and providing what some savvy traders regarded as a rare buying opportunity scared stocks as the week started. But as rates stabilized so did equities and the Dow finished with a gain of more than 38 points at thirty six seventy four point two six bouncing a bit after a two week loss of nearly 260 points further adding to doubts about a resurgence of severe inflation was the fact that the only broader index that did not advance this week was the resource heavy American exchange one ELPH bounce to. Gail Dudack who in a stunningly good call when the Dow was hundreds of points higher predicted the decline to thirty six hundred now says the worst of the correction phase is over and the Dow was likely to hit 40 200 later this year. But the index at a consensus minus five remains in a cell mode with crises

from Africa to Japan with overblown fears about inflation and with investors confidence shaken all over the globe. The flop of the year continued to be gold which despite all the predictions of a rapid move to \$500 an ounce and then much much higher is now down to three hundred eighty four dollars well below where it was when 1994 began. But if 1979 ever comes back saue And speaking of optimistic threads amid the wide despair Paris and New York designers this week were showing some of the shortest skirts since Eve done the fig leaf a traditionally bullish indicator that even if it doesn't pan out is certain to get considerable attention. Now before we meet tonight's special guests let me offer a special thank you to all the viewers who responded to our invitation to submit nominations for the fifth annual installation into the Wall Street Week With Louis Rukeyser Hall of Fame tonight as promised as a night when we reveal our 1994 in death scenes

as regular weekly viewers will recall we began this institution in 1990 by inducting four of your all time favorite guests. Now Kim Forbes Peter Lynch nor Ruth Kaiser and John Templeton. And in 1991 they were joined by the first two panelists to be selected. Thank cap yellow and Carter Randall in 1992 the honor roll expanded to include Milton Friedman Julia Montgomery Walsh and Marty's wise. And last year saw the installation of Bob Pharrell and Monte Gordon. This year new

nominations have come by the hundreds from more than 50 different viewer favorites. Which I suppose is scarcely surprising since we've now been on public television for 24 years during which time we have had would you believe it. Precisely. Eight hundred seventeen different guests. The judges after considering all your nominees some of whom are not picked this year may well earn that honor in years to come. I have decided the two choices stand out for induction in 1904. These men personify a tradition in which this

program pioneered in your behalf until we went on the air in 1970 specific investment advice from the leading experts in the business of the kind that formally was available if at all only to those with large financial resources. It was unheard of in the mass market. Not only was it unprecedented it was actively discouraged as far as the so-called best people were concerned it simply wasn't done. What tell the whole poloi the same thing we're telling our top clients. I thought I. In fact some of the great financial institutions of Wall Street actually had rules for bidding the naming of individual stocks by analysts appearing on radio and television. This program changed all that as a champion of the small investor and the men we honored tonight are two outstanding examples of how the job of an industry analyst on this program should be done. The first is Charles team Maxwell the preeminent energy analyst of the past quarter century who regularly kept our view as well ahead of the curve in a series of memorable appearances including this one back in 1973.

Charlie how serious is the energy crisis. Lou it's large. It's going to be with us for a long time. It's going to be a fact of life which we have never experienced before. Which is going to change our way of life and the future of our industrial society. Our clothing and hairstyles had changed a bit by the time Wolfgang diminish arrived but he showed the same brilliant ability to make accurate and specific predictions. Well done to measure who is just made a vice president of Morgan Stanley is making his fourth appearance in four years on this program which shows what we think of his consistently highly rated analyses of aerospace and defense stocks. On his last appearance as my guest in May 1980 I asked him what further events might be anticipated on the international security scene and he replied and I quote.

Well God only knows Iran invading Iraq Libya tried to bump off President Sadat. Various things which affect our interests fairly directly. With that kind of precision in public forecasting is rare anyway on any subject. What is your crystal ball tell you now about the international scene. Well I hope for peace will break out as we proceed during the course of the year. The mist was a little early but remember you heard it here first. So is these two splendid examples of top flight industry analysts receive their well-earned honors. Here they all are welcome Forbes Peter Lynch Ruth Kaiser John Templeton Frank Capiello Carter Randall Milton Friedman Julia Montgomery Walsh Martin Zweig Robert Pharrell Monte Gordon and the two newest inductees into the Wall Street Week With Louis Rukeyser Hall of Fame Wolfgang diminish and Charles T-Max Well quite a pantheon. And speaking of superstars with me tonight are two of the charter members of our Hall of Fame John Templeton the dean of global investing tonight set still another record

by making an unprecedented 13th appearance as my guest on this program. In October 1992 he sold all his companies to Franklin Resources for close to a billion dollars. If the 54 stellar years in the investment community Mr. Templeton or Sir John as he is known at his home in the Bahamas now devotes his time to 30 church and charity organizations. Peter Lynch the most successful mutual fund manager of all time tonight makes his 8th appearance on this program and his third since ostensibly retiring in June 1990. Lynch however is still very much a part of the financial world both on behalf of these charitable organizations and as a member of the Fidelity group's board of trustees. Gentlemen let me start by asking each of you what is the correct message that investors should draw from the recent tumult in the financial markets. John you want to talk. Markets have always been volatile in almost every nation. The remarkable thing is that over three years went by in which the American market had no fluctuation of 10 percent. So we are back to normal now.

Would you agree with that. Well I actually think it's 12 years in a row the market had gone up through '93 so we obviously need to pause to get back to normal levels and I think we've done some of that already. Is it a bear market and do you care. I actually couldn't find many good stocks in January as they start to salivate the last week with all these talks going on if we get a real bear market I'll have to get out my drool bucket to catch the excitement at that. John you always have to bargain to do's see bargains yet. Not a lot but there are always many good bargains. For example the drug stocks now are thoroughly depressed. The great growth companies will double their earnings in the next five years are selling for only 12 13 14 times earnings. Paying higher dividends and more average market. Like Merck or. Or Bristol-Myers Squibb or Johnson Johnson. What do you think those stocks are so depressed fear that the Clinton health plan will permanently damage their interests. That is certainly a major factor. But those companies are worldwide they're not dependent on one nation. Were you looking for actually a Johnson Johnson I think is another great stock I agree John he's a company that

spends a billion to an R&D and they're now cutting costs and their stock was 52 years ago and it's now thirty seven and they can raise a dividend in a month and buy and buy their stocks I think Warner-Lambert the track of a lot of financial stocks attractive Fannie Mae Freddie Mac traverses lots of attractive stocks and one stock that you mention on this program several times when people thought you were crazy with Chrysler now it's been one of the stars of the market. Do you still like the autos. I think the honesty I think of it in baseball analogy I don't think we're in the eighth or ninth inning I think we're still in the third fourth or fifth inning I think we're just starting to get to trend line I think we have several years of good growth and now these companies have great products good balance sheets and they're the lowest cost in the world so I think I get that too. You know we're going to all the stocks in the next couple years. John you sound as if you're not convinced that this market is dirt cheap that is that is that true. Yes that is true. The American market is moderately higher than it has been normal throughout the American history and the same thing is true if you look at all the markets in the world. But as always there are many bargains if you search for just for example the bank

stocks they're going to be many more offers to buy out regional and small banks and you take a spread of those in the form such as pilgrim regional bank shares. They're going to have many of their holdings bought out at higher prices and you can buy their stock at a discount. Since since you mention a mutual fund it seems fair to me to ask both of you. Some of the people who are pessimistic about the markets saw it as a reason for their pessimism. The tremendous rush of new investors into mutual funds. Is this a concern of you let's have both of you on this journey with them but they can't take their money out of pilgrim because it's a closed end fund. But. Yes the vast amount going into mutual funds is greater than any of us ever expected to happen. But that has been true for the public putting the money into stocks before they were mutual funds. I believe putting it through mutual funds will cause less volatility than the newer days when they put it into individual stocks.

Peter does it worry you. Well actually you've had a lot of money flowing in and it's gone into twelve hundred companies going public in the last two years that 60 billion dollars is going to come as a big number is only twenty four hundred Tommies the New York Stock Exchange so there's money flowing in has gone into great investments to add to plant add to equipment add to research things a very productive thing for a country. And even with the rush of interest in mutual funds if you had mutual fund assets for the stock assets is not as high a percentage of household assets as it was in the 60s you're right. And also people been very conservative in even the for want to pay investors who put the money to bond funds or asset allocation funds or balance funds they have been putting in the growth. The real speculative funds where there's been a little people a little crazy at the end of last year in these emerging markets and put some money there but that was only speculative binge we've had the last 12 months. Touch on it see there John you have a longer history in global investing than anybody I know. Suddenly you're in fashion suddenly. As of last year everybody wanted to look at the most obscure place in the world and invest. Was that in itself a signal that the thing had been overdone. No.

It's true that for the first time the American public is waking up. The American public has only about 6 percent of its total assets outside America whereas 60 65 percent of all the stocks in the world outside America. So it's only a beginning tray and not the end of a trend. However I don't think they're too high. I think emerging market shares are about in line with American share prices not higher. Emerging markets covers a pretty wide range these days which the markets you particularly like. The ones where you can get bargains or where there's been a lot of pessimism. For example in Indonesia the market went down to 50 percent and more. Also in Thailand also in Korea in Portugal and Turkey. Those markets are up way down because this is an area where virtually all individual investors probably have to do most of their investments in mutual funds. And oh yes they'll be hopeless for an individual to know which one company by Turkey or Portugal. Peter you look around the world are you still too fascinated by America.

No I think there's so many great stocks here and I just I stay here I mean I do own body shop International which is. British company and I want British Petroleum but not very much outside the US. Well John mentioned financial stocks I remember when you said on this program once that you

own was it 35 stocks in Fidelity Magellan that had first in their name is or maybe it was 135 I think around 200 companies or west the Charles River there were banks so that I think the bank energy is a track about in Boston I like Sharman Bank of Boston like Pam RAPPO New Jersey like DNN financial in mission I think there's a lot of these companies that are very cheap but I think they're they're definitely going to improve their earnings. The conventional wisdom which neither of you has ever been guilty of is that with interest rates rising it's too late to buy the financial companies What's your response to that. Well actually right now the banking system is record Eckerd assets and they have more investment security of loans that's the first time since the 1950s so this is one pillar one part of the stool. It's in great shape is very shaky in 1900 and you know the media's missed this turn around the banking industry and I've never met a banker yet that wanted a recession I don't think they like non-performing loans they like the economy get better. They're

not rooting for this. You know adding 40000 jobs last month is a good thing for everybody. Let's talk about the economy. John what do you think of the American economy now from a long range view point. I believe the rate of progress is going to be greater in the next 20 years and any previous 20 years in history because the two greatest worries of our lifetime have been largely removed. One was a fear of nuclear war up until four years ago that was a major factor for everybody. The other one was the fear that the Communists were right when they said they were going to dominate the earth they had captured 23 nations none that ever will come for you again up until four years ago. Those two great threats had a depressing influence. Now that they're gone there's going to be more investing across international boundaries more foreign trade more less money wasted on armaments more spread of brotherhood in religion the whole world is coming into a peaceful glorious rapidly growing period. I was appearing on another program yesterday and was regarded as something of a Pollyanna because I rejected the idea that the next generation of Americans will live worse than the present one. I take

it you share my trendy optimism. I would go as far as to say I believe the standard of living in America will double within 25 years which is an enormous rate. What are some of the reasons or double. What for example 50 percent of all the scientists ever live girl LIVE TODAY. Fifty percent of all the books published were published just in the last 60 years. Fifty percent of all the scientific discoveries ever made were in this century. If the pessimists say that we're threatened by foreign competition that our educational system is a wreck that we have going to have too many people in retirement that has more. Oh yes the playthings to worry about always have been always will be plenty of things to worry about for a person a family a corporation a nation. But the there are so many good things that are not published. For example the number of people attending universities in America is ten times as great as it was 100 years ago. The number of people getting doctors degrees in America now is ten times as great as it was just 60 years ago.

Everywhere you go let's take agriculture at eighteen hundred eighty five percent of the people had to live on the farm just to produce enough food now with a little over three percent of Americans on the farms. We worry about surpluses not shortages of food. This could go on and on. Peter I almost

hesitate to ask you about the overall economy because you always pick on the tires an individual company if you make any kind of an overall appraisal. Well I think we've had nine recessions is where we're to we just had number nine we've had a slow recovery. That's not surprising. We've added three point four million jobs off the bottom we lost 2 million. We lost 5000 in a factory jobs have only added back about 10000. But I'm impressed by a job creation in this country and in the decade the 80s we had 18 million jobs. The 500 largest companies eliminating three million. We're going to do that again this decade not quite as fast as many people entering the workforce so it's quite a machine. The cynics say oh yes but they're all hamburger flippers at McDonald's that was in that with you know those 2.1 million businesses start in the 80s if they just have 10 employees each. That's 21 million jobs I mean I think they're wrong and they continue to be wrong and I think this catalyst trend we've

had it's treading productivity's and proving there is a weak hitch that America used to work right for about 90 percent of Americans is now working made for 65. A lot of people in inner city a lot of people in rural country. We need to do this retraining America is very important. John mentioned the revival of religion I know that interests you but it also interest you that you're working in the inner city in Boston they're very concerned there. Tell us what your ideas are how we're going to get to those 35 percent. Well I think you have to stop this high school dropout rate which is approaching 50 percent in every major city it has lots of scholarships available to people to make it through high school that did it but they're gone if they don't if they drop out in eighth or ninth grade we have to keep open the branches of the public libraries as a very important as a Big Brother Big Sister we have to do more of the boys club and Girls Club These are wonderful things that keep people interested. They need to just keep away from despair and we have to get jobs Indian city. We have good factories in there. Returning to this nervous financial market situation John are you concerned that inflation is rolling back in America. I know you always even hear us.

Yes I am that is one of the many worries me if you want five things to worry about. There will be there markets out. I would say that is likely to be two major bear markets every 12 years in almost every major nation including America. But on top of that there is a long term trend toward inflation. Now that too will go in cycles sometimes will be good years with maybe 1 percent inflation other times bad years in America with 15 percent inflation. But if it averages out to 6 percent a year that'll double your cost of living every 12 years and 40 years and cost you ten times as much to live as now. Neither you nor Peter spent a lot of time worrying about market forecasts. There's this market which you said still with a little rich to you look like one that can go up over the next couple of years I don't worry about that. It will go up but I don't know when it will go up. My analysis is that sometime before the end of 2000 there's a better than even chance the Dow will go up up to 6000. That will be either good or bad depending on how much inflation we have between now and then. Yes. Peter how does it look

to you in this market overall. Well I think Johnson Johnson is going to double earnings the next six years I think the stock will double I mean when I look at the stock market evidence of the economy I

think profits will be good the next few years and I think the stock market will do well if there is a fear that inflation heats up that's a fear we'll find out in a couple years. What would you avoid. Well I think the electrical industry is definitely in for a competition. It's not the same industry it was being for an all fronts it's not growing they can't cut costs I don't telephone utilities like Nynex or Southwestern Bell. Thank you both for some wise words in a moment of. High nerves in the market. Thanks Peter Lynds Thanks John Templeton. And I hope you'll continue to join me later this evening. Indeed coming up next on most of these PBS stations please check your own local listings for a very special hour. It could be of vital importance not just to you but to your children and grandchildren too. It's called there goes our money and you'll find out at last how the federal government manages to spend a trillion and a half dollars a year with much much more to come. I'll be talking with a variety of Americans ordinary and extraordinary from Nobel

Prize winning economist Milton Friedman to President Clinton's budget boss Leon Panetta about the real reasons this federal spending monster has gotten so out of control and where all that money really goes. And don't tell the politicians but we'll even have a few thoughts on how. You could make it stop. I hope you'll join me and I hope you'll be back here next week when I'll be taking a night off but my friend and colleague Mary Fowler we set in for me and talking with the highly successful value fund manager David Schaffer. Meanwhile this has been Wall Street Week. I'm with guys on the knife on Wall Street Week With Louis Rukeyser is a production of Maryland Public Television made possible by the Corporation for Public Broadcasting. And by the annual financial support from viewers like you by the travelers insurance companies providing American business with insurance financial services and managed health care the travelers insurance companies by

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responsible for its content. Says PBS.

- Episode Number
- 2341
- Episode
- Two Hall of Famers
- Producing Organization
- Maryland Public Television
- Contributing Organization
- Maryland Public Television (Owings Mills, Maryland)

- AAPB ID
- cpb-aacip-394-35t76v43

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- Description
- Episode Description
- In a very special program, Louis Rukeyser interviews two of the greatest money managers ever. John Templeton, The Templeton Funds; Peter Lynch, Fidelity Management & Research Co. - Guests
- Series Description
- "Wall Street Week is an educational talk show hosted by Louis Rukeyser, who provides viewers with information on finances and the economy and conducts discussions with experts. "
- Broadcast Date
- 1994-04-08
- Asset type
- Episode
- Genres
- Talk Show
- Media type
- Moving Image
- Duration
- 00:27:28
- Credits
 - Producing Organization: Maryland Public Television

- AAPB Contributor Holdings
- Maryland Public Television
 - Identifier: cpb-aacip-b56c8cc68ce (Filename)
 - Format: Betacam
 - Generation: Master
 - Duration: 00:26:46

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- Citations
- Chicago: "Wall Street Week with Louis Rukeyser; 2341; Two Hall of Famers," 1994-04-08, Maryland Public Television, American Archive of Public Broadcasting (GBH and the Library of

Congress), Boston, MA and Washington, DC, accessed June 13, 2026,

<http://americanarchive.org/catalog/cpb-aacip-394-35t76v43>.

- MLA: "Wall Street Week with Louis Rukeyser; 2341; Two Hall of Famers." 1994-04-08. Maryland Public Television, American Archive of Public Broadcasting (GBH and the Library of Congress), Boston, MA and Washington, DC. Web. June 13, 2026.
<<http://americanarchive.org/catalog/cpb-aacip-394-35t76v43>>.
- APA: Wall Street Week with Louis Rukeyser; 2341; Two Hall of Famers. Boston, MA: Maryland Public Television, American Archive of Public Broadcasting (GBH and the Library of Congress), Boston, MA and Washington, DC. Retrieved from
<http://americanarchive.org/catalog/cpb-aacip-394-35t76v43>