

**The Railroad Week in Review**  
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**The AAR** reports that the Transportation Services Index (TSI) reached the highest level in the 14-year period covered by the index with a point oh-eight pct rise in April, and the Freight TSI reached an all-time high with a 0.5% increase, according to the Department of Transportation's Bureau of Transportation Statistics. The overall TSI has risen every month since August 2003 except for a drop in January this year. TSI is a single seasonally adjusted index of the month-to-month changes in the output of services provided by the for-hire transportation industries, including railroad, air, truck, inland waterways, pipeline, and local transit.

Now before we get to the AAR commodity reports, it's important to translate. Most of us think in terms of STCC codes while the AAR carload data comes in generic commodities. As a public service WIR presents a chart from the AAR (see table following Disclosure below) that shows what goes with what. For 2Q04 the AAR reports that 13 of the 19 major commodity categories saw U.S. carload increases: coal up 3.9%, grain up 14.8%, chemicals up 8.2%, and primary metal products up 14.2%. Let's see how the individual roads compare when they report 2Q03 results starting next week.

**Meanwhile**, Michael Kahn's "Getting Technical" series in *Barron's On-Line* for Monday carries the headline, "Transports Hit the Brakes." The argument is in the nine months leading up to early 2004 the Dow Jones Transport Index lead the broader DJIA, in effect pulling it along. Then when transports faltered in Feb the DJIA slipped too. Reference is made to the "Dow Theory," which holds that a trend is afoot when both are running in synch. When one changes direction, as the DJT did in Mar, the other is sure to follow. (See Michael O'Higgins, *Beating the Dow*, p. 42.)

And so they did. Transports lagged industrials through March '04 when they started closing the gap, crossing the DJIA curve in early June. They hit a peak two weeks ago and when they started down so did the broader market. The rationale behind the Dow Theory, says O'Higgins, "is that transport companies provide a confirming indication of business activity and thus the direction of the stock market."

The question thus becomes one of whether the Transports are just taking a breather. As I look at the daily charts for the rails, I don't see a lot of conviction in the selling. Volumes are slight and there are over-sold signals at CSX and GWR while RRA and UNP are coming off their lows. BNI and NSC meanwhile are humming along ahead of their SMAs, the former hitting new 52-week highs intra-day on Tues and again on Wed.

I think they'll hold. The recent DJT reversal at about 3200 dipped down to the Feb-04 high (new support) of about 3090 and appears to be stopped there. Even among truckers that have had their dips JBHT and ABFS are recovering while Swift and Yellow are still above their SMAs. So whether you're a Dow Theorist or not the transports still look like a good bet, at least from the technical side. As Schwab's Ken Tower says in his seminars, "The trend is your friend."

**Bill** Schafer, Norfolk Southern's Man in Philadelphia who oversees coordination with passenger train operators, adds this tidbit clarifying the new NS-CP operating agreement between Detroit and Chicago (WIR 7/2/2004). "CP gets trackage rights between Detroit and Chicago on NS via Butler, IN. A review of available maps shows that route is not the one used by Amtrak via Ann

Arbor and K'zoo, but rather a combination of ex-Wabash and ex-NYC lines -- a very fast, high-capacity route.

“This is not true of the Ann Arbor-K'zoo route, not to mention that Amtrak would charge CP [considerably more] to use the K'zoo-Porter portion of that route. What's more, besides STB approval, NS needs to construct a connection in the northwest quadrant of the crossing at Butler before CP operations begin.” Thanks, Bill.

**RailAmerica's** 300-mile Dallas Garland and Northeastern Railroad (DGNO) has assumed operation of the UP's Mockingbird Yard and 11 miles of track in Dallas. The 10-year agreement makes the DGNO the serving carrier for UP customers on the line segment. The intention is to grow the business and create a more efficient interchange with the UP. Probably frees up a UP crew or two in the bargain.

RRA North American carloads for June were up 12.1% yoy; same-railroad shipments in 11 out of 14 commodity groups increased. Year-to-date total North American carloads increased 8.9% overall and 3.8% same-railroad. By way of comparison, the AAR says cumulative carload (ex-intermodal) volume for the first 26 weeks of 2004 on 15 reporting U.S. and Canadian railroads was up 4.8% yoy. With intermodal the total AAR business book was up 6.3%.

**Shortline** tidbits: Rich Timmons, President of the American Shortline and Regional Railroad Assn, promptly posts his public remarks on line at [www.aslrra.org](http://www.aslrra.org). In his March 2004 testimony before the House RR Subcommittee he trotted out some rather amazing facts. I reiterate them here so that shortline readers can use these factoids in conversation with their own local politicians.

Shortline railroads serve over 11,500 rail customers. These customers employ more than one million workers. Eighty-one percent of total short line mileage is operated by railroads that were established after 1980 when Staggers went into effect. Shortline customers enjoy lower truck rates than they would have to pay if the shortline were not there. Moreover, truck rates are lower as well for other area customers because of the shortline's competitive threat. Loads representing about \$8 billion of the total \$44 billion in annual US railroad freight revenues (out of a total national freight spend of \$550 billion) are touched by a shortline at some point in the route.

**My** remarks on technical analysis for rail stocks (WIR 7/9/2004) brought some helpful comment. For example, an investment banker with whom I enjoy a close working relationship writes, “Loved the technical analysis. But I'm not sure I get the "rent not own" view. From what you say it appears as though the Class Is are maximizing profits in an environment of capacity constraints. Sounds like profits should be going up, especially for premier operators such as NS and BNSF. Wouldn't that suggest a hold strategy for those two?”

Excellent observation. With respect to those two the strategy suggests holding them as long as they meet the objectives you set when you bought. Set stops to minimize loss, then reset stops as the price increases. In this way you don't get whipsawed in a volatile market. The Union Pacific chart since early Mar, for example, shows a \$4 drop to \$56 from \$60 and is now range-bound between those points. Outside the rail industry Coca-Cola (NYSE: KO) is similarly locked between \$50 and \$52. One really can't make any profits holding a range-bound stock. That's one reason so much money remains on the sidelines today.

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## What STCCs are in What AAR Commodity Groups

<b>AAR Commodity Group</b>	<b>STCC</b>
Chemicals	28, 49
Coal	11
Coke	29911,3,4
Crushed Stone, Sand	142, 144
Food & Kindred Prods	other 20 0113, 01144
Grain	204, 20923
Grain Mill Products	other 24
Lumber & Wood	10
Metallic Ores	34
Metals	371, 41118
Motor Vehicles	other 14 all other 01
Nonmetallic Minerals	291
Other Farm Products	241
Petroleum	33
Primary Forest Prods	26
Primary Metal Products	32
Pulp & Paper	40, 48
Stone, Clay, Glass	
Waste & Scrap	