

# RAILROAD WEEK IN REVIEW

January 13, 2023

*“The trading in any stock is largely the result of the analysis of the company’s fundamentals [price/earnings, earnings/share, financial outlook, etc.] made by each buyer and seller of each share of stock. The stock chart is a pictorial record of such trading and is a reflection of all those other factors, and, from a purely technical standpoint, needs no further engagement with such fundamental considerations.” — Richard W. Schabacker, Technical Analysis and Stock Market Profits, © 1932*

*“The Fed has recently been in a tug of war with financial market participants—one where it seems to have gained a little ground, though market participants remain skeptical. It believes that the lags associated with monetary policy taming inflation are long. And the longer inflation stays high in the interim, the greater the risk of both inflationary expectations becoming unanchored and of a wage-price spiral gaining traction.” — William Blair Morning Research, January 9*

*“Stuck in the Middle with You. The SPX has spent the majority of the last three weeks between 3,800 and 3,900. While a breakout above 3,900 would be encouraging, there is still meaningful resistance in the 3,930-3,950 range, followed by the declining 200 SMA (3,996). We continue to think a break below 3,500 is likely in the coming months.” — BITG Research, January 9*

*For much of the world, everything changed when Russia invaded Ukraine. As a result of the invasion and resulting western embargo on Russian goods and raw materials, there’s been a huge uptick in demand for Pennsylvania anthracite. Russia and the eastern portion of Ukraine were major international suppliers of anthracite.” — Reading, Blue Mountain & Northern press release, January 10*

**Regular Week in Review** readers have noticed, no doubt, the increasing references to and examples of stock charts. There are two reasons for this. In the first place, investors buy and sell shares based on the perceived future value of the underlying company. In the case of railroads, future values depend in part on the rates of change of revenue units, revenue, operating income, net earnings, debt, and cash flow.

In the second place, stock charts reveal the relative supply and demand for shares and what traders are willing to pay for them. Price then reflects the sum total of all the players’ analysis of the fundamentals and their conclusions about the earnings potential of

the railroad in question. Strong outlooks create a greater demand for the shares and limit their supply, driving prices up. The reverse is true as well.

And so it is that those of us with a financial stake in the railroad industry must pay close attention to the stock charts and what they reveal about the market's perception of the various names. I feel therefore share price trends tell us a lot about a railroad's fundamentals. And that's why WIR pays attention to railroad share price trends.



This three-year weekly NS stock chart reveals a number of key performance indicators. First, shares started the period about where they were last October. They led the 200-day statistical moving average until May, 2021, telling me that shares had by then fallen out of favor and there were more shares offered for sale than there were buyers.

Shares regained the SMA-200 in the summer of 2021, only to fall out of favor again last spring, using the 200 as resistance until late in the last quarter. It was here that NS President Alan Shaw's initiatives began to take hold and investors seemed to be encouraged, pushing shares above the 200 once again.

Total 2020 revenue units dropped 13 percent from the 2019 total and earnings fell at twice that rate. By the end of 2021 volumes had recovered with a positive six percent gain and earnings were up more than a third. But volumes dropped four percent and income gained four percent in 1Q2022, ergo the dip in share prices. Volumes and net income for 2Q2022 improved slightly, getting us back to the 200.

Share prices dipped again in October — Q3 revenue units were off two percent and the net gained 27 percent largely on fuel surcharges and income tax adjustments. Fast forward to today and NS total 4Q2022 revenue units were essentially unchanged vs last year. The chart has formed a “cup-and-handle” technical chart pattern, suggesting shares should resume the upward run this quarter.

I mention all this to show how charting share prices tells you all you need to know about company fundamentals. I’m hopeful this little demonstration has helped explain why technical chart analysis can help you gauge a railroad’s Wall Street perception which can in turn help you anticipate a Class I’s likely future performance.

**The surge in export Pennsylvania anthracite** comes as a result of the conflict in Ukraine. By way of background, Russia and the eastern portion of Ukraine were major international suppliers of anthracite, and Pennsylvania producers stepped in to save the day. Just in the last few months the Reading & Northern and its anthracite customer base have seen a significant growth in anthracite carloads, much of it for export to markets that had lost access to their usual sources.

R&N teamed up with NS to move the business in manifest service, instead of traditional unit train service. This shift allowed more regular shipments to the export terminals and eliminated the need for NS to provide power and crews to move unit trains. Reading was able to make this alternate transportation plan work because over the past year or so it had purchased more than 550 rapid discharge cars for the export market.

Coincidentally, the domestic anthracite trade continued to increase as more electric arc furnace facilities expanded and came on-line. Steel mills are increasingly looking to use anthracite as their charge carbon and to meet this growing demand, RBMN has continued to invest in purchasing additional rail cars and expanding its rail-truck transfer network. With new steel facilities opening in Texas and Ontario, and continued growth in the export market, RBMN is forecasting double digit anthracite growth in 2023 as well.

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