The Railroad Week in Review
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Preston Claytor, VP Safety & Operating Practices at RailAmerica, writes, "I hope that your newsletter motivates other shortlines and regionals to focus on safety as it is the industry as a whole that benefits. Please note that our statistics include Canada where we hold to the same reporting criteria as our US properties. We are expecting to finish 2003 with a 2.0 rate per 200,000 man-hours worked ratio. This is down from a 3.06 during 2002. I think that is possible through an organized effort. Clearly the Class 1s have this organization. We have been able to incorporate most of the organization without the higher costs.

"I agree with you on housekeeping issues. A clean shop is an indicator that the facility is likely a safe shop. However with transportation employees we often find that it is harder to remove 100% of physical risks (though we strive to do so). With these employees, education, attitude and rules compliance can overcome the occasional slip trip or fall hazard found on [mostly] all railroads."

[NOTE: The US Class Is average just under two reportables per 200,000 hours; the shortline average is around four. But then, so is Amtrak with MNCR and NJT at three-plus.]

Stock Market gooroo Jim Kramer says, "The confidence level is higher than I can ever recall going into a New Year. Yet, to me, the logical move is still higher." He has a point. Take a look at the Exchange Traded Funds (ETFs, for short). Materials (AMEX: XLB), Financials (XLF), energy (XLE), and industrial (XLI) have all had good runs since early Nov.

I sure wouldn't want to be caught short on any of these. These ETFs include the main names in chemicals, forest products, heavy manufacturing, metals and energy (coal and petrol products) and if they're doing well so will the rails. Yet it could be argued rails may have gotten a bit ahead of themselves. For the first time I can recall everybody is trading above the 50-day moving average (see chart), generally a bullish sign. Over the past few weeks most have hit 52-week highs, some several times. Hold or fold? I'm taking a conservative position with trailing stops equal to the lowest price over the past three days' trading. So far no sales.

As if to second that thought, Tom Murray writes in his *Rail Stock Watch* newsletter, "Not to put a damper on things, but here's something to consider. At this time a year ago, the forward PE ratios of the six largest rail stocks (based on the next year 's estimated earnings) ranged from 11.3 to 14.2. Currently they range from 13.7 to 15.6. Translation: there 's a lot more optimism about rail stocks today than there was a year ago. Is it justified? We'll see."

And Larry Kaufman, always an excellent foil for this quill-driver, writes apropos of intermodal carrying its own weight, "Intermodal has reached critical mass and not only can be the growth driver but an earnings driver as well. With new hours of service regulation for truck drivers taking effect on Jan. 4, there may be a further shift to intermodal.

"Rate increases for truck service are expected to be the order of the day as the new rules will amount to a reduction in capacity just as the economy has entered a growth cycle. Add in urban highway congestion and there is little to cheer the truckers – except that they increasingly are saving driver hours and reducing fuel expenditures and exposure to congestion by becoming customers of the railroads."

Now couple this with my intermodal revenue per carload equivalent (WIR 10/10/2003) and the impact of BNSF making 80% of the carload average in IM with no extra trains. To which Larry adds, “Almost all intermodal operations today are in trainload service. From a cost standpoint, intermodal is just like coal and much grain service. It operates from a single origin to a single destination. Much of the cost has been removed, and margins today are comparable to those of coal, grain and other clearly profitable business. Moreover, intermodal is the fastest growing line of business the railroads have – because the price/service package increasingly is attractive to customers.” Thanks, Larry.

Kansas City Southern reports that TMM has been held in contempt for taking action inconsistent with its October 29, 2003 order. At the time the court ordered TMM to abide by the terms and conditions of the Acquisition Agreement pending arbitration of the parties' dispute over the Agreement. The court held that by TMM causing its subsidiary Grupo TFM (GTFM) to revoke powers of attorney it violated provisions of the Acquisition Agreement.

In a press release KCS said it believes the Delaware Court's decision is appropriate and upholds KCS's belief that TMM cannot arbitrarily take actions without KCS's concurrence. A ruling is expected by March but according to a KCS spokesman, “Nobody really knows.” Still, it seems to me that to play in the US market one has to play by the rules. And reneging on an agreement on the eve of closure is not playing the game. The gentler gamester is the surest winner.

Norfolk Southern got a nice Christmas present from the STB in its Dec 23 finding that a significant portion of its rate increase on coal shipments to several of Carolina Power & Light's facilities to be reasonable. We can expect to hear more at the Jan 28 Fourth Quarter and Year-End analysts’ presentation in NYC. You can read the decision at www.stb.dot.gov in the “Decisions & Notices “ section.

Railroad Development Corporation President Henry Posner finally completed his acquisition of the Iowa Interstate (IAIS). In a phone conversation he told me, “Nothing’s changed; it’s just more of he same. Not bad considering we’re paralleled by three class Is and I-80.” By way of review, the IAIS has the former Rock Island across Iowa and competes with the UP (ex-CNW), BNSF (Ex-Burlington) and CN (ex-IC) for the Chicago-Council Bluffs trade.

Heartland was originally formed in 1984 to purchase the Rock’s main when it closed and IAIS was formed at the same time to operate the line as a through route. Heartland and RDC have been partners since 1991 in the ownership of the IAIS. Kudos are in order as the IAIS finished 2003 with no reportable injuries. And the yard in Council Bluffs is tidy, too.

Pennsylvania’s Nittany & Bald Eagle Railroad has been noted as one of the Top 100 businesses in 2003 according to the Pennsylvania Business Central Newspaper. Marketing VP Todd Hunter writes, “This was a total surprise and we are honored that we are the only railroad company so noted in the Top 100. Meanwhile the company has installed northern PA’s only weigh-in-motion track scale at Williamsport. See photo attached.

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Rails Lead Their 50-day Moving Averages

Moving Averages

close		**6-Jan**	
Tick	**close**	**SMA-50**	**Spread**
GWR	$ 32.43	$ 27.10	19.7%
RRA	$ 12.75	$ 11.11	14.8%
NSC	$ 23.87	$ 21.66	10.2%
BNI	$ 32.62	$ 30.12	8.3%
CNI	$ 64.20	$ 60.07	6.9%
UNP	$ 68.48	$ 64.76	5.7%
CP	$ 28.92	$ 27.58	4.9%
CSX	$ 35.53	$ 34.48	3.0%
KSU	$ 14.10	$ 13.70	2.9%

North Shore Rail Group weigh-in-motion scale, Williamsport, PA. 1/6/2004. Note auto racks, a rarity on shortlines.