



Monday, April 28, 2008

INVESTMENT LETTER

Burlington Northern Santa Fe Corp. (NYSE:BNI) and Polycom, Inc. (NASDAQ: PLCM)

How a few days fighting the traffic in New York City, and a trip on congested Interstates 95 and 91 in New England, headed to New York City on March 20, led to some thoughts about [Burlington Northern, Inc.](#) and [Polycom, Inc.](#)

New York City
Tuesday, March 18, 2008

It is a three and a half hour drive, if everything goes well, from the Hertz rental car office at 222 East 40th Street in Manhattan to the main street of Deerfield, Massachusetts, the home of [Deerfield Academy](#).

I had been in New York City since Saturday, March 15th, seeing my Mom at her rent-controlled apartment on the lower East side, where she had lived since 1964. Retired since 1976, she liked to write poetry, visit museums and art galleries, and usher in off Broadway plays. She was not fazed by the dirt and the noise of the city but, like a true New Yorker, enthralled by the city's vibrancy and adjusted to its inconveniences, she made every irritation of the city a challenge to overcome.

My story is different. After three days in the city, used to the tranquility of Utica Square in Tulsa and the serenity of the Aspen mountainscape, I wanted to get a break from New York's crowded streets and incessantly honking horns. One way to do that, I thought, was to pay a visit to Deerfield, a town of seventy homes and the home of Deerfield Academy, where I had spent four years, unfortunately without girls, from 1957 to 1961. Today Deerfield is co-ed, and has been so since 1987.

The school had featured our firm and my poetry in [Deerfield, the Publication of Deerfield Academy](#), the school's alumni journal, in its fall 2007 issue. [Lee Wicks](#), the head of the school's alumni publications, had asked her right hand person, [Jessica Day](#), to give me two pages to tell the story of our firm in an article titled as follows: [Fighting Jargonitis Soporificia, A fantasy inspired by a hot summer night in Tulsa](#). School was on vacation. [Lee Wicks](#) was out of town but [Jessica](#) was at the school and I wanted to meet her, and thank her in person for her help. (You may read [Fighting Jargonitis Soporificia](#) on our web site, [fredricerussell.com](#). Once on the web site, go to Fredric E. Russell. Should you decide to read this article, be warned: it contains some amateur poetry that I have written.)

It was the morning of Tuesday, March 18. I had been up early and I had walked three blocks from my hotel (the Hotel Giraffe) to the New York Sports Club at 23rd Street and Park Avenue South so that I could get a few minutes on the treadmill and speed up the flow of my blood before my 174.4 mile drive to Main street in Deerfield. After the workout, I walked back to the Giraffe (only in New York City would you have a hotel with such an unusual name) read the Wall Street Journal, The New York Times, and a few pages in a mystery by Peter Robinson, my favorite mystery writer, before I picked up my packed bags and closed the door to my room.

Investment Thesis: Burlington Northern Santa Fe Corp. (NYSE:BNI)

Burlington Northern Santa Fe is on the right track. The railroad industry, rejuvenated by significant deregulation in 1980, now has pricing power. Federal regulations had limited the amount of money that the railroads could charge to ship freight. Deregulation forced efficiency, brought consolidation, created oligopolies and gave pricing power to the survivors.

Compared with trucking, rail transportation looks appealing. Cost-conscious businesses wish to ship product as cheaply as possible, and railroads offer a more efficient transportation solution compared to roadway shipping.

High fuel prices and increased demand for commodities, especially grain from China and India, mean good business for railroads. Also, BNI transports ten per cent of the coal used in this country, and coal will surely take oil's place in many activities, especially in running utilities.

Meantime, congested highways, and highways needing repair, enhance the competitive advantage of railroads. In the last five years the number of vehicle-miles traveled by Americans has nearly doubled, but the number of roadway-lane miles has increased by just 5.7 percent. It is estimated that highway congestion costs the American economy 63.1 billion dollars annually, with this number expected to increase in the coming years. Where does BNSF come into play, you may ask? Railroads consume considerably less fuel per pound hauled than do trucks. One Burlington Northern intermodal train can take 280 trucks off of our highways, which would go a long way toward solving the congestion crisis. (I would think that such a fact would put all railroad executives in a good mode, especially those who are good with people and have superior *intermodal* skills.)

The company has exceptional cash flow from operations which it uses to increase the dividend, repurchase stock every year and restore used track.

It was a little after eight in the morning, about the peak of the Manhattan rush hour. The hotel's front desk had called a cab for me so by the time I had brought my luggage to the lobby and exited through the lobby door, a cab was ready for me. It was less than two miles from The Hotel Giraffe at 26th Street and Park Avenue South to the Hertz location on 40th Street but, as a former New Yorker, I knew better than to expect a trip without incident during the morning rush hour, which lasts from seven to at least nine every week day in Manhattan.

As soon as the cab moved from the curb, there was a problem. A truck had double parked next to a passenger vehicle a few feet ahead of us. The taxi driver honked his horn but it was five minutes before the truck driver moved his vehicle. As he moved his cab from the curb, the taxi driver yelled at the truck driver and used a digital expression, a gesture not part of an ordinary aerobics routine, as the taxi screeched from the curb.

As the driver maneuvered his way through double parked cars and jaywalking office workers I had some time to think about New York City, and its genius in dealing with congestion.

I was born in New York City but it had been decades since I had lived there. Whenever I visit the city I am overwhelmed by the density of people and impressed with the energy of the city as it, without pause or tension, uses its own brand of alchemy to turn, almost without fail, impending chaos into impressive order and efficiency, minute after minute and time after time. Yet with all its creativity, drive, and energy, New York City remains a challenge, especially for the taxi drivers who

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