



Russ Kaplan

For 26 years, Russ Kaplan Investments has been serving Nebraska with sound stock advice for investors with portfolios of all sizes.

The Stock Market

Russ Kaplan

We are in second quarter earnings season, and that means a lot of volatility in the market.

One of the reasons I am optimistic is that expectations are so low right now that most everything looks good. Take the banks for example: all of them were down from this time last year, but they did way better than expected. That is all Wall Street usually takes into consideration in the short term.

Last quarter the worry was that banks were going to go bankrupt. This quarter no one believes that, but didn't expect much.

Lunch with Russ

Russ Kaplan

For the general public, one person per year gets to bid for lunch with Warren Buffett. For 2009, it cost that person \$1.68 million (I don't know if the lunch was included). As an alternative, how about doing lunch with me? The amount of people is unlimited and the cost for having me present is nothing.

Greenest Shoot

Russ Kaplan

You hear so often in the press about "green shoots" which usually means some indication we are coming out of the recession.

What I consider to be the greenest shoot is something that is not given much publicity. After so long with a zero or negative savings rate, the *Wall Street Journal* recently reported in that the U.S. savings rate is now 6.9%. Apparently it took a recession to bring about what I have been advocating for so long.

Yes, this is a long term event, but what that means is with a positive savings rate we have a better ability than we had before to add to the capital base of the country. This will eventually lead to more output, higher wages, and a higher standard of living -- which will be good for both the country and the stock market.

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Black Hills

Black Hills Corporation (BKH) is a utility company which we have held since 2002. Like most utility companies, this one pays a good dividend but does not show a lot of potential for growth.

This was okay in the past, but in this depressed market you have the opportunity to purchase companies which are so depressed in price that they also pay high dividends, and with these other companies you have in addition the potential for long term gains.

I therefore am recommending that you sell Black Hills Corporation and replace it with a high dividend stock from our model portfolio. Why settle for just a high dividend when you can have both a high dividend and the potential for capital gains.

CIT Group

In their wisdom, "the powers that be" felt it necessary to bail out a lot of financial institutions, but one they declined to bail out was CIT Group (CIT). For a while it looked like the company would go bankrupt but was saved at least for a time by a corporate rescue.

Whatever the outcome, the company is severely wounded and has been changed on the model portfolio to a sell. I was wrong on this one.

Kosher Lunch

As always, we are trying to be as inclusive as possible. I know that some of our clients keep kosher, so if there is interest, I would be happy to meet with a group for an on-your-own breakfast, lunch, or whatever at the Bagel Bin at a mutually convenient time.

If there is interest we shall be happy to arrange it.

Burlington Northern

It is time for us to add another railroad stock (we already have Union Pacific) to our model portfolio.

Our recommendation this month is Burlington Northern (BNI). Burlington Northern is the largest railroad company in the United States. As you can see, once again this is a dull company that provides for an essential need and often earns us good capital gains.

Technologically it was the hottest thing in 1850. Still, it is in pristine financial condition with a solid record of growth and a decent dividend.

In the scenario of rising oil prices, I foresee railroads as being the most efficient. They are also the way to move heavy and bulky things like coal and agricultural products.

The company had good earnings in a recession economy. They should be quite a bit better when the recovery I see finally arrives.

If you buy Burlington Northern you are in good company. Warren Buffett's Berkshire Hathaway owns 22.6% of the stock and I seriously doubt he is going to change his position.

Pulte Centex Merger

At *Heartland Adviser* we like to inform you on how we think you should vote on various ballot measures presented to shareholders. One of these concerns the merger between Pulte Homes and Centex Corporation, two stocks in housing industry.

Both of these are housing stocks and both of them are in our model portfolio. Pulte plans to merge with Centex and I believe that you should vote for this merger.

This will result in a much stronger and more competitive industry. Yes, things have been rough in the housing industry, but I believe we are in the early stages of a turnaround and this new merged company will be better able to take advantage of this situation.

Recession's End?

Tim Hahn

After 5 months of market gains, many people are beginning to wonder: "is the recession finally over?" Kiplinger developed the Kiplinger Recovery Index, a tool designed to help answer that very question. The Index is based upon six key economic indicators: interest rate spreads, existing home sales, consumer confidence, retail sales, durable goods, and jobless claims.

Let's first discuss the good news. Interest rate spreads have returned to pre recession levels. The difference in rates between the risk-free treasuries and short term bank interest rates is minimal, meaning that there is an increasing confidence that banks are solvent. Existing home sales have risen for three consecutive months now, which could very well mean that prices have bottomed out.

Jobless claims, however, are still looking very bad. Employment is usually a lagging indicator as companies only hire after the economy has bottomed. The growing number of unemployed Americans is clearly a drag on the economy, though, as it does mean that consumers (which make up 2/3rd of the economy) will have less to spend. The remaining three indicators all seem to be mixed, but heading in a positive direction. Retail sales and durable goods orders have increased over the previous months, but they are still very low. Consumer confidence has also rebounded from the early year lows, but remains well below year ago levels.

I think it is clear at this point the economy has significantly improved since the end of the first quarter. The six indicators in the Kiplinger Recovery Index seem, collectively, to agree with this. After 5 months of gains, the stock market may be agreeing as well. In the very short term, I wouldn't be surprised to see a modest correction as the market rarely moves in a straight line up or down. But I think the long term prospects remain compelling.

Intelligent Investor Luncheons

Just a reminder that you are always invited to join us for our Intelligent Investor Luncheons, held in both Omaha and Lincoln. They are an opportunity to not just have lunch with Russ, but to have your questions or concerns answered as well. Tim Hahn, from our Montana office, will be in town for the Omaha lunch and we invite you to meet him!

Responding to this email OR calling the office gives us a good idea as to how many of you will be attending – *which we very much appreciate*. Lunches are promptly at Noon...please plan on joining us, won't you?

Upcoming Events

Saturday, August 15th 12 pm (Lincoln)

Monthly Luncheon

Lonestar Steakhouse, 70th & O Streets

Saturday, August 22nd 12 pm

Monthly Luncheon

Spezia, 3125 South 72nd Street

