

Intrinsic Value Weekly

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"Don't Short the Shortfalls"

When a company announces that the current quarter won't meet the expectations of analysts, the company's stock usually trades sharply lower. Sometimes this phenomenon is a prelude to a new trend in the company's fortunes, a loss of competitive position, a change in the company's cost position. But when the general business environment is slowing, such announcements have a different context. You might think that the analytical community might "get it", but they don't. The analysts seem always to lag events and so are "surprised" when the effects become public. But more, if this slowdown is temporary, as we believe, then the reactions of investors may well be overdone. Certainly, if a downward blip in growth hits a company whose stock is already undervalued, then an enhanced opportunity is created. This morning, **Lowes Companies (LOW - NYSE)** announced a slowing in sales growth and reduced expectations for earnings for the current quarter. Like other retailers, LOW has a disproportionate amount of sales in the current final quarter of the year. So, the shortfall looks larger than if it had occurred earlier in the year. And since there is a general slowdown in the economy, slowing sales at retailers is not a surprise to us. But we are not inclined to reduce our value estimate since the "surprise" is not a result of a weakening in the long run growth in the company, just a reflection of the current environment. Temporary downward blips in growth do not reduce a company's intrinsic worth.

Last week's comments on **Nucor (NUE - NYSE)** coincided with an immediate stock price rise. Pure coincidence. A perusal of the price action of the Intrinsic Value stocks last week shows great volatility in investors' estimates of growth rates. The price of **Intel (INTC - NASDAQ)** experienced a 15% swing as investors struggled to find a growth rate more in line with a sluggish PC market. We think that the long run outlook for the PC market will be driven by the need for greater power, as it has been in the past. We do think that the push from getting new PC owners is diminished however. Further, the continuation of Moore's law is likely to keep price/performance ratios on track and revenues growing at an average of 18% for **INTC**.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	12/8/00	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
HON	Honeywell Int'l Inc.	9/22/00	\$ 54.500	\$59.52	(8.4%)	2.1	9.1%
BGP	Borders Group, Inc.	9/22/00	\$ 12.688	\$29.31	(56.7%)	1.0	(2.4%)
BGG	Briggs & Stratton	9/22/00	\$ 38.438	\$98.87	(61.1%)	1.3	1.8%
CTL	CenturyTel, Inc.	9/22/00	\$ 36.438	\$40.74	(10.6%)	1.6	3.7%
DAL	Delta Air Lines, Inc.	3/6/00	\$ 48.688	\$66.30	(26.6%)	0.9	0.9%
G	Gillette Company	9/14/00	\$ 32.625	\$40.84	(20.1%)	3.7	(3.2%)
INTC	Intel Corporation	9/11/00	\$ 34.000	\$67.55	(49.7%)	6.8	(0.4%)
LOW	Lowes Companies	9/22/00	\$ 39.875	\$56.04	(28.8%)	2.2	2.6%
MLHR	Herman Miller, Inc.	3/6/00	\$ 23.000	\$46.28	(50.3%)	2.4	(4.2%)
NYT	New York Times Co.	9/22/00	\$ 40.938	\$46.26	(11.5%)	2.3	14.7%
NUE	Nucor Corporation	9/22/00	\$ 40.188	\$60.65	(33.7%)	1.0	7.7%
WEN	Wendy's International	9/22/00	\$ 25.375	\$28.69	(11.5%)	1.8	0.5%

Average: (30.8%) Average: 2.6%

S&P 500 4.2%

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Sales					Yield	PE Last 12M	Price/Book	Price/Market Cap Sales (\$billions)	
	Capital Turnover	Growth Last 12M	EBIT Margin %	Return On Capital	Quarterly Sales Y/Y					
HON	1.2	0.7%	13.8%	14.0%	3.0%	1.4%	17.7	4.5	1.6	43.5
BGP	1.0	11.4%	5.7%	10.9%	7.2%	0.0%	11.0	1.2	0.3	1.0
BGG	2.2	(6.6%)	12.9%	30.5%	(39.5%)	3.2%	8.1	2.0	0.6	0.8
CTL	0.4	4.8%	30.3%	11.1%	15.1%	0.5%	21.1	2.7	2.8	5.1
DAL	0.6	11.0%	11.6%	8.6%	13.5%	0.2%	4.8	1.2	0.4	6.0
G	0.9	(0.2%)	21.3%	14.5%	(1.4%)	2.0%	28.7	10.8	3.9	34.4
INTC	0.9	15.4%	34.6%	24.3%	19.1%	0.2%	24.5	7.8	7.6	228.8
LOW	2.2	17.9%	7.4%	11.1%	15.2%	0.4%	18.7	3.3	0.8	15.3
MLHR	1.9	11.2%	12.1%	17.6%	11.4%	0.6%	13.3	6.3	0.9	1.8
NYT	1.1	12.1%	18.7%	13.1%	7.9%	1.1%	16.5	4.2	1.8	6.7
NUE	1.4	23.2%	9.3%	14.4%	13.3%	1.5%	8.9	1.3	0.6	3.1
WEN	0.9	9.2%	13.8%	10.2%	8.5%	0.9%	17.7	3.0	1.5	2.9

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ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	(11.5%)	(31.9%)	(15.6%)
CONSUMER CYCLICALS	(30.2%)	(19.0%)	(17.6%)
CONSUMER STAPLES	(5.8%)	(12.9%)	(0.8%)
HEALTH	(19.1%)	26.5%	7.5%
ENERGY	13.2%	90.7%	51.3%
FINANCIAL	(8.8%)	(14.7%)	(25.4%)
CAPITAL GOODS	(10.4%)	1.8%	(4.9%)
TECHNOLOGY	(28.9%)	(7.3%)	1.7%
COMMUNICATIONS	(35.1%)	34.3%	(55.7%) *
UTILITY	7.3%	(12.3%)	(17.3%)
TRANSPORTATION	(30.1%)	(20.3%)	(3.4%)
Weighted Total:	(16.4%)	(0.3%)	(4.3%)

RED - Overvalued

BLUE - (Undervalued)

Bold - outperformed the relevant index

WEEKLY PRICE CHANGE

<u>SECTORS</u>	<u>S&P 500</u>		<u>S&P MIDCAP</u>		<u>S&P SMALL CAP</u>	
	Weight	Price	Weight	Price	Weight	Price
prices as of 12/8/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.1%	2.6%	3.5%	5.7%	3.8%	5.1%
CONSUMER CYCLICALS	7.3%	6.2%	12.9%	3.0%	17.0%	3.4%
CONSUMER STAPLES	11.0%	(0.3%)	8.0%	4.9%	9.3%	1.1%
HEALTH	12.8%	0.2%	12.9%	(0.7%)	11.3%	4.8%
ENERGY	6.3%	(0.7%)	5.9%	7.6%	5.8%	5.6%
FINANCIAL	16.2%	5.8%	13.5%	13.5%	12.9%	6.4%
CAPITAL GOODS	9.2%	6.8%	7.4%	4.9%	13.6%	6.2%
TECHNOLOGY	25.6%	5.4%	22.9%	15.1%	19.0%	9.8%
COMMUNICATIONS	5.8%	2.1%	1.7%	11.5%	0.1%	27.2% *
UTILITY	3.2%	0.6%	9.7%	2.2%	3.9%	(1.0%)
TRANSPORTATION	0.7%	2.4%	1.6%	(3.8%)	3.4%	0.5%
Index Total:		4.2%		7.6%		5.3%

* Sector contains only 2 companies

Weekly price changes may not match prior issues due to changes in composition of sectors.

Sector Comments: When Technology rebounds, as inevitably it must when valuation is attractive, all else seems to pale in comparison. The major issue is the growth rate of revenues. Slow growth isn't worth much, as investors are realizing to their horror. Valuation of Technology stocks depends almost entirely on the growth and profit margin estimates, with each having a supercharge effect on value with only a small change in the estimate. The slowdown in economic growth this quarter looms large in the estimating process and a review of the environment is appropriate. First, the prospect of Federal Reserve action to reduce or eventually eliminate the inversion in the yield curve is necessary and soon. We believe that time-preference effects of anticipating a 2001 tax rate cut, together with Fed policy, have been an important influence in the current slowdown. The season of "pre-announcements" by companies is in full cry now and investors have seemed in a mood to extrapolate any shortfalls. We think this is a major mistake. Our belief, though, rests on a confidence that the current electoral problem will be resolved in favor of the pro-growth agenda. If a tax rate cut is suddenly unlikely, then, ironically, near-term growth should look better, but longer term growth worse. We favor the odds of a tax rate cut, so slow growth this quarter and faster growth next year and beyond. Those managers who have been amassing cash reserves will be left at the gate should the controversy work as we expect. Page 3 this week displays the Value Drivers for Large Cap Technology stocks.

(Millions)	Large Capitalization		Mid-Cap Capitalization		Small-Cap Capitalization	
\$	12,080,341	90.3%	\$938,801	7.0%	\$ 356,097	2.7%

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Large Cap Technology: What's the Growth Rate?

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Company Name	Ticker	Market Value - Equity	12 Mo.	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow	Return on Capital	Dividend Yield
			Quarterly Sales Growth								
ADAPTEC INC	ADPT	\$1,179	-4.5%	11.9	34.49	31.2	7.4	1.3	5.4	21.40	0.0%
ADC TELECOMMUNICATIONS II	ADCT	\$20,124	77.2%	26.1	10.36	15.8	16.8	@NA	82.7	20.01	0.0%
ADOBE SYSTEMS INC	ADBE	\$16,433	26.1%	68.4	18.55	28.2	49.3	29.3	56.2	54.43	0.1%
ADVANCED MICRO DEVICES	AMD	\$5,182	82.2%	16.1	(21.39)	(9.8)	5.2	2.3	11.2	(6.84)	0.0%
AGILENT TECHNOLOGIES INC	A	\$22,586	37.7%	59.4	41.71	9.8	31.1	@NA	22.9	18.59	0.0%
ALTERA CORP	ALTR	\$11,645	83.8%	29.4	11.59	35.7	26.5	8.5	46.0	28.71	0.0%
AMERICA ONLINE INC	AOL	\$109,399	33.7%	46.9	9.28	27.1	65.5	15.3	70.7	17.12	0.0%
ANALOG DEVICES	ADI	\$21,259	86.9%	59.5	10.10	17.8	29.0	10.7	62.1	12.22	0.0%
ANDREW CORP	ANDW	\$1,869	31.9%	23.0	23.50	12.8	18.6	@NA	14.7	19.87	0.0%
APPLE COMPUTER INC	AAPL	\$5,056	40.0%	15.1	20.54	8.3	6.8	1.8	7.1	13.29	0.0%
APPLIED MATERIALS INC	AMAT	\$35,842	81.0%	44.2	20.76	23.2	15.8	7.1	33.8	21.29	0.0%
AUTODESK INC	ADSK	\$1,616	9.8%	28.1	9.16	4.3	16.8	2.5	23.5	6.64	0.9%
AUTOMATIC DATA PROCESSING INC	AUD	\$39,763	17.4%	63.0	21.10	18.6	47.5	9.1	35.2	13.57	0.6%
AVAYA INC	AV	\$3,635	@AF	12.9	10.59	4.1	(8.4)	@NA	@NA	12.47	0.0%
BMC SOFTWARE INC	BMCS	\$4,404	-22.3%	17.9	24.83	25.1	25.8	2.4	9.8	20.23	0.0%
BROADCOM CORP -CL A	BRCM	\$30,150	128.7%	128.2	11.66	30.9	184.0	40.9	275.6	36.00	0.0%
BROADVISION INC	BVSN	\$6,364	302.9%	23.8	0.87	13.2	(64.6)	16.0	246.9	6.72	0.0%
CABLETRON SYSTEMS	CS	\$3,190	-26.7%	17.3	1.36	3.2	9.7	1.3	5.4	2.48	0.0%
CERIDIAN CORP	CEN	\$3,413	-1.3%	23.4	19.95	20.4	41.0	3.9	15.0	16.80	0.0%
CISCO SYSTEMS INC	CSCO	\$373,853	66.4%	52.4	9.80	24.3	111.3	12.9	105.9	23.39	0.0%
CITRIX SYSTEMS INC	CTXS	\$5,371	7.3%	28.9	8.79	33.4	39.7	8.1	36.2	19.74	0.0%
COMPAQ COMPUTER CORP	CPQ	\$33,248	21.6%	19.5	3.38	1.1	22.9	2.5	16.8	3.06	0.5%
COMPUTER ASSOCIATES INTL	CA	\$15,531	5.5%	26.8	47.07	39.5	15.1	2.2	12.4	19.16	0.3%
COMPUTER SCIENCES CORP	CSC	\$12,506	12.0%	74.1	43.61	7.4	26.6	3.8	14.0	10.60	0.0%
COMPUWARE CORP	CPWR	\$2,588	-14.4%	7.1	16.48	20.2	12.1	2.1	6.1	26.85	0.0%
COMVERSE TECHNOLOGY INC	CMVT	\$16,845	34.7%	105.9	13.16	20.5	65.5	18.6	82.3	13.88	0.0%
CONEXANT SYSTEMS INC	CNXT	\$6,501	24.2%	28.7	2.56	5.0	(22.6)	@NA	@CF	3.90	0.0%
CORNING INC	GLW	\$67,534	55.0%	76.5	7.95	12.6	77.3	18.5	65.0	10.63	0.3%
DELL COMPUTER CORP	DELL	\$48,190	21.8%	18.6	16.36	11.2	22.1	9.3	26.2	53.65	0.0%
EASTMAN KODAK CO	EK	\$11,707	0.3%	39.0	79.65	14.2	7.7	3.3	5.2	14.87	4.5%
ELECTRONIC DATA SYSTEMS	EDS	\$27,585	0.7%	59.1	18.85	6.6	28.6	5.4	21.0	8.70	1.0%
EMC CORP/MA	EMC	\$190,222	33.6%	86.9	7.44	18.0	111.0	31.2	129.3	17.00	0.0%
EQUIFAX INC	EFX	\$4,406	16.5%	32.8	23.75	17.8	20.2	20.7	12.9	15.61	1.1%
FIRST DATA CORP	FDC	\$21,409	4.1%	54.1	5.48	19.1	15.8	5.5	14.6	13.68	0.1%
GATEWAY INC	GTW	\$5,655	16.1%	17.5	28.39	6.9	11.3	3.0	9.9	32.89	0.0%
GRAINGER (W W) INC	GWW	\$3,500	5.6%	37.3	20.88	3.5	19.6	2.3	12.9	6.83	1.8%
HEWLETT-PACKARD CO	HWP	\$66,120	16.7%	33.4	23.78	8.3	17.6	3.5	15.2	13.23	1.0%
INTEL CORP	INTC	\$228,820	19.1%	34.0	17.41	26.9	24.5	7.8	21.6	24.31	0.2%
INTL BUSINESS MACHINES CO	IBM	\$172,115	3.0%	97.0	31.93	10.0	22.2	8.2	12.5	7.39	0.5%
JDS UNIPHASE CORP	JDSU	\$71,695	241.8%	74.6	(10.32)	(34.8)	(23.6)	1.9	(81.9)	(3.24)	0.0%
KLA-TENCOR CORP	KLAC	\$6,685	95.8%	35.9	25.26	20.5	15.9	3.0	21.2	20.62	0.0%
LEXMARK INTL GRP INC -CL A	LXK	\$5,566	9.7%	43.8	46.13	12.7	17.9	8.9	14.1	31.44	0.0%
LINEAR TECHNOLOGY CORP	LLTC	\$17,432	57.4%	55.1	20.38	59.1	45.1	11.3	55.5	37.08	0.2%
LSI LOGIC CORP	LSI	\$6,907	34.7%	21.7	5.27	9.0	20.3	2.9	12.3	5.98	0.0%
LUCENT TECHNOLOGIES INC	LU	\$51,555	-11.5%	15.4	18.84	12.8	26.8	3.5	10.0	17.91	0.5%
MAXIM INTEGRATED PRODUCTS INC	MXIM	\$16,833	58.3%	59.1	20.95	44.6	45.5	12.9	@CF	37.77	0.0%

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@AF - Annual Figure @NA - Not available @CF - Combined Figure @SF - SemiAnnual Figure Red - Warning
Bold Blue - Favorable Drivers Source: Standard & Poors Corporation Compustat Research Insight®, Intrinsic Value Associates, LLC

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Large Cap Technology: What's the Growth Rate?

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Company Name	Ticker	Market Value - Equity	12 Mo. Quarterly Sales Growth	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow	Return on Capital	Dividend Yield
MERCURY INTERACTIVE CORP	MERQ	\$8,039	67.4%	99.4	7.51	20.2	102.0	26.3	200.9	22.01	0.0%
MICRON TECHNOLOGY INC	MU	\$19,678	137.8%	34.7	61.16	32.1	11.5	2.8	8.1	32.41	0.0%
MICROSOFT CORP	MSFT	\$289,392	7.7%	54.4	32.02	48.0	30.5	7.3	28.5	31.14	0.0%
MOTOROLA INC	MOT	\$42,049	17.7%	19.3	9.64	6.0	27.0	2.3	11.8	7.09	0.8%
NATIONAL SEMICONDUCTOR C	NSM	\$4,018	15.8%	22.5	24.31	14.6	4.5	2.0	4.5	17.45	0.0%
NCR CORP	NCR	\$4,803	-4.3%	49.9	7.14	2.8	13.9	2.7	6.7	4.76	0.0%
NETWORK APPLIANCE INC	NTAP	\$27,556	109.1%	87.2	5.75	20.1	179.5	32.2	303.7	30.01	0.0%
NORTEL NETWORKS CORP	NT	\$128,879	35.7%	42.9	4.33	5.6	(82.1)	8.7	110.2	6.82	0.2%
NOVELL INC	NOVL	\$2,130	-20.7%	6.5	10.51	17.5	35.4	1.2	8.2	14.81	0.0%
NOVELLUS SYSTEMS INC	NVLS	\$4,395	131.8%	33.4	11.78	21.6	12.8	4.0	37.4	12.43	0.0%
ORACLE CORP	ORCL	\$168,276	14.0%	30.1	5.88	22.9	22.8	23.0	25.2	28.75	0.0%
PALM INC	PALM	\$30,635	127.2%	54.2	2.19	7.7	402.1	19.9	568.4	15.04	0.0%
PARAMETRIC TECHNOLOGY C	PMTC	\$3,523	-16.1%	12.9	13.87	23.0	(1,112.5)	5.7	19.8	48.23	0.0%
PAYCHEX INC	PAYX	\$17,449	21.5%	46.9	10.73	17.7	103.8	38.3	81.5	51.26	0.8%
PEOPLESOFT INC	PSFT	\$12,518	28.0%	44.2	(0.16)	2.7	95.0	11.8	(148.7)	3.54	0.0%
PERKINELMER INC	PKI	\$4,903	11.2%	102.1	(0.84)	2.5	54.6	7.5	50.1	2.77	0.5%
POLAROID CORP	PRD	\$325	-1.0%	7.2	8.76	4.9	4.7	0.9	2.8	4.92	8.3%
QUALCOMM INC	QCOM	\$77,195	-40.0%	103.3	20.94	32.8	86.3	10.9	84.5	20.76	0.0%
RAYTHEON CO -CL B	RTN.B	\$10,240	0.9%	30.1	45.81	9.7	31.3	1.1	8.6	7.03	2.7%
SABRE HLDGS CORP -CL A	TSG	\$4,761	8.1%	36.9	23.13	10.5	17.1	3.7	8.1	11.57	0.0%
SAPIENT CORP	SAPE	\$1,397	89.0%	11.6	6.83	18.4	42.6	6.7	32.7	22.03	0.0%
SCIENTIFIC-ATLANTA INC	SFA	\$8,213	71.0%	51.0	18.13	11.7	26.4	5.3	39.3	17.67	0.1%
SIEBEL SYSTEMS INC	SEBL	\$42,545	130.7%	101.0	5.23	25.9	263.7	40.3	272.2	19.57	0.0%
SUN MICROSYSTEMS INC	SUNW	\$125,380	60.4%	38.9	11.22	15.6	57.6	16.6	47.3	24.77	0.0%
TEKTRONIX INC	TEK	\$2,594	-0.9%	27.4	(5.72)	(0.7)	44.3	2.3	45.9	(0.71)	0.9%
TELLABS INC	TLAB	\$26,607	46.2%	64.8	23.16	26.6	31.7	10.5	40.7	32.83	0.0%
TERADYNE INC	TER	\$6,713	70.6%	38.3	22.50	14.5	10.9	4.4	23.6	20.38	0.0%
TEXAS INSTRUMENTS INC	TXN	\$85,632	25.0%	49.5	13.35	18.0	22.1	6.6	33.6	15.83	0.2%
UNISYS CORP	UIS	\$4,898	-9.4%	15.5	37.19	12.0	10.8	1.9	7.1	22.52	0.0%
VERITAS SOFTWARE CO	VRTS	\$50,155	72.9%	122.7	(17.07)	(61.4)	(58.1)	11.2	1,543.4	(15.06)	0.0%
XEROX CORP	XRX	\$3,168	-3.6%	4.8	41.62	16.5	(693.8)	0.9	1.3	9.39	4.2%
XILINX INC	XLNX	\$15,908	83.2%	48.3	14.78	32.6	16.8	7.1	22.9	21.52	0.0%
YAHOO INC	YHOO	\$19,510	89.6%	34.9	4.36	25.8	99.1	16.7	179.9	16.68	0.0%

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@AF - Annual Figure

@NA - Not available

@CF - Combined Figure

@SF - SemiAnnual Figure

Red - Warning

Bold Blue - Favorable Drivers

Source: Standard & Poors Corporation Compustat Research Insight®, Intrinsic Value Associates, LLC