

Intrinsic Value Weekly

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"Irrational Exuberance Redux"

ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	26.3%	(21.2%)	(6.3%)
CONSUMER CYCLICALS	(14.3%)	(14.9%)	(12.1%)
CONSUMER STAPLES	(1.7%)	(10.5%)	(0.4%)
HEALTH	(26.1%)	(9.6%)	(25.8%)
ENERGY	15.3%	44.3%	14.3%
FINANCIAL	(8.6%)	(22.5%)	(25.3%)
CAPITAL GOODS	21.2%	(2.4%)	(2.8%)
TECHNOLOGY	9.1%	8.4%	15.1%
COMMUNICATIONS	10.6%	12.3% *	10.6% *
UTILITY	(11.5%)	(20.9%)	2.3%
TRANSPORTATION	<u>(21.1%)</u>	<u>(25.1%)</u>	<u>(17.9%)</u>
Weighted Total:	0.7%	(6.5%)	(6.1%)

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 8/27/1999	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.3%	(4.3%)	5.1%	(4.2%)	4.3%	(1.3%)
CONSUMER CYCLICALS	8.7%	(0.5%)	15.5%	(2.1%)	19.1%	(1.3%)
CONSUMER STAPLES	12.5%	0.6%	8.7%	(1.6%)	9.8%	(0.2%)
HEALTH	10.8%	1.8%	10.6%	1.8%	9.6%	(1.1%)
ENERGY	6.3%	(3.6%)	5.2%	(3.5%)	3.2%	(12.4%)
FINANCIAL	14.0%	(1.4%)	12.3%	(1.9%)	14.0%	(5.8%)
CAPITAL GOODS	8.5%	1.6%	8.4%	(1.2%)	12.5%	(1.6%)
TECHNOLOGY	23.6%	4.4%	21.5%	(0.2%)	19.1%	0.7%
COMMUNICATIONS	8.4%	1.2%	1.0%	1.2% *	0.5%	4.2% *
UTILITY	2.9%	0.5%	10.2%	2.3%	4.7%	0.9%
TRANSPORTATION	0.9%	0.5%	1.5%	(3.1%)	3.1%	(1.8%)
Index Total:		0.9%		(0.9%)		(1.3%)

* Sector contains only 3 companies

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

Sector Comments

There is a theory in vogue currently that when interest rates are rising smaller stocks do better than large cap stocks. Sounds logical. Last week wasn't one of those periods. But another theory suggests that higher interest rates are good for financial stocks. The market clearly doesn't believe that one, especially for smaller cap financials. But such historically-based constructs are a thin reed during periods when an industry's fundamental structure is changing. Real Estate Investment Trusts ought to have been soaring between last October and April of this year. They didn't. Banks ought to be soaring when interest rates drop. They aren't. Maybe something else is going on. The move away from capital intense bricks and mortar in the banking business was underscored by the Bank One announcement last week. The bank's dilemma reminds me of a boater who has one foot in the boat and one on the dock. Only if the bank doesn't jump for it will it not get "wet". And what this phenomenon says about the rest of the financial industry is quite profound. After all is said and done, the only impediment of the financial industry moving to all-digital architecture is the deposit taking function. It seems that not all ATM's are capable of accepting deposits. And no one wants to use "snail mail" to deposit checks. The obvious solution is for all ATM's to get deposit capability. Then watch the change in the relative price of bank branch real estate.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
\$	11,004,539	90.2%	\$855,861
			7.0%
\$			337,518
			2.8%

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Notes on Intrinsic Value Portfolio The crazy thing is that Alan Greenspan **could** prevent bubbles if he wanted. For a while anyway: just by making monetary policy so restrictive that commodity prices and many other prices would trend downward. But why? This obsession with preventing "bubbles", formerly addressed by the Chairman as "irrational exuberance", is misplaced. Investors invest to make money, not lose it. Occasionally, they make mistakes. The incentive to make correct judgments depends, in part, on the penalty for making mistakes. Should that penalty be taken away, the market would become less efficient in pricing future cash flows. "Why, I don't pay attention to the risk of loss!", an investor might say. "The Fed takes care of that for me!". Clearly, the Fed is off its turf when it comes to assessing the market's valuation. And the Chairman erred when evaluating the accounting issues as well. At issue is the accruals for expenses, important for determining executive compensation, but an inferior way of valuing a company. Never confuse Net Income with the value of an enterprise. The connection is loose at best.

The Intrinsic Value Portfolio performed well again. **NUE** dropped sharply, in concert with the recent weakness in Basic Industry stocks. Opportunity is knocking again, as it did in May.

The enthusiasm for **INTC** got even more intense last week, as its popularity soared. The risk is high now.

Health stocks jumped last week, as we hoped and expected, with **PFE** leading. Few thought in June that our intrinsic value for **PFE** was realistic; more do now. Page three looks at Communications stocks, a fresh opportunity.

Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol	Name	Updated Valuation	Price 8/27/1999	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
ALD	AlliedSignal Inc.	4/29/1999	\$ 64.250	\$64.60	(0.5%)	2.7	2.1%
CTL	Century Telephone Ent.	3/1/1999	\$ 39.563	\$42.51	(6.9%)	1.9	1.1%
DAL	Delta Air Lines, Inc.	3/1/1999	\$ 54.125	\$66.79	(19.0%)	1.0	5.7%
G	Gillette Company	5/24/1999	\$ 46.875	\$48.52	(3.4%)	5.1	4.0%
HD	Home Depot	3/1/1999	\$ 64.000	\$53.65	19.3%	6.5	1.9%
INTC	Intel Corporation	7/23/1999	\$ 83.000	\$62.52	32.8%	8.9	3.8%
LOW	Lowe's Companies	3/1/1999	\$ 47.500	\$52.28	(9.1%)	4.0	(1.3%)
MLHR	Herman Miller, Inc.	3/1/1999	\$ 25.563	\$46.47	(45.0%)	4.6	3.0%
NYT	New York Times Co.	3/1/1999	\$ 38.750	\$48.21	(19.6%)	2.7	3.5%
NUE	Nucor Corporation	3/1/1999	\$ 48.313	\$57.99	(16.7%)	1.7	(8.0%)
PFE	Pfizer, Inc.	6/23/1999	\$ 38.625	\$42.73	(9.6%)	10.2	4.6%
SLB	Schlumberger Limited	3/1/1999	\$ 65.500	\$51.09	28.2%	2.6	(2.9%)
WEN	Wendy's International	3/1/1999	\$ 28.625	\$29.86	(4.1%)	2.2	0.7%
Average:					(4.1%)	Average:	1.4%
						S&P 500	0.9%

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Sales Growth		ROC	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Sales
	Last 12M	EBIT Margin %						
ALD	-0.4%	13.0%	11.5%	-1.3%	1.1%	25.4	6.8	2.4
CTL	31.6%	30.4%	10.9%	7.3%	0.5%	26.6	3.9	3.6
DAL	4.1%	12.0%	11.0%	5.2%	0.2%	7.8	2.2	0.6
G	-1.5%	23.1%	18.5%	3.8%	1.3%	48.5	10.2	4.8
HD	26.2%	8.8%	13.0%	28.1%	0.2%	53.2	10.8	2.7
INTC	14.7%	32.5%	25.8%	13.8%	0.1%	31.2	9.7	8.2
LOW	22.8%	6.8%	11.0%	29.5%	0.3%	33.8	5.9	1.3
MLHR	2.8%	12.7%	41.3%	-7.1%	0.6%	15.5	9.9	1.2
NYT	2.0%	17.5%	11.9%	4.0%	1.1%	25.2	4.7	2.5
NUE	-14.3%	9.9%	12.6%	-11.6%	1.1%	20.7	2.0	1.1
PFE	22.5%	27.0%	20.8%	14.1%	0.8%	54.3	14.9	8.6
SLB	-16.7%	14.7%	11.9%	-29.5%	1.1%	71.2	4.1	3.2
WEN	-2.8%	12.6%	9.7%	-0.3%	0.8%	26.9	3.4	1.9

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Communications Stocks have swooned in the August heat

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Company Name	Ticker	Market Value - Equity	Quarterly Sales Growth	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow per sh.	Return on Capital	Dividend Yield
ALLTEL CORP	AT	\$19,617	12.7%	69.6	(129.31)	16.2	41.8	6.1	15.5	12.39	1.8%
AMERITECH CORP	AIT	\$72,672	12.0%	66.1	25.15	20.7	27.3	7.3	11.9	12.71	1.9%
AT&T CORP	T	\$211,916	18.8%	47.5	91.32	14.4	21.4	5.4	12.7	12.34	1.9%
BELL ATLANTIC CORP	BEL	\$98,792	4.6%	63.6	85.67	18.4	29.8	7.6	11.2	10.99	2.4%
BELLSOUTH CORP	BLS	\$87,417	8.5%	46.4	37.19	17.6	27.4	5.8	11.5	11.03	1.6%
CENTURYTEL INC	CTL	\$5,514	7.3%	39.6	47.96	31.7	26.6	3.9	9.8	10.92	0.5%
CINCINNATI BELL INC	CSN	\$2,583	15.5%	18.8	121.67	11.8	30.4	20.4	13.3	6.70	2.1%
COMSAT CORP -SER 1	CQ	\$1,869	3.2%	35.4	80.24	11.2	44.4	2.9	7.6	3.56	0.6%
FRONTIER CORP	FRO	\$7,840	-0.2%	45.3	(14.26)	10.2	54.9	9.5	21.1	10.35	0.4%
GENERAL COMMUNICATION - (GNCMA		\$319	32.9%	6.4	(36.55)	3.5	(56.8)	1.6	12.5	1.39	0.0%
GTE CORP	GTE	\$69,438	0.2%	71.1	41.61	19.3	21.2	8.1	10.9	10.87	2.6%
MCI WORLDCOM INC	WCOM	\$145,743	246.3%	78.5	(527.46)	15.1	(61.1)	3.4	(402.5)	5.04	0.0%
NEXTEL COMMUNICATIONS	NXTL	\$17,526	88.2%	55.6	(186.10)	(66.1)	(9.4)	(253.8)	(23.4)	(12.03)	0.0%
POWERWAVE TECHNOLOGIES	PWAV	\$718	224.6%	40.0	(9.84)	5.4	(395.8)	8.6	605.3	6.25	0.0%
SBC COMMUNICATIONS INC	SBC	\$100,087	5.2%	50.9	(59.07)	20.9	25.5	8.8	10.8	12.36	1.9%
SPRINT FON GROUP	FON	\$36,819	7.6%	47.1	64.23	14.2	27.6	3.9	9.4	12.07	1.1%
SPRINT PCS GROUP	PCS	\$25,543	178.0%	59.5	@NC	(183.2)	(13.4)	6.4	(73.9)	-	0.0%
TALK.COM INC	TALK	\$610	5.4%	10.1	231.55	10.0	(3.9)	(4.2)	(1.8)	10.43	0.0%
TELEPHONE & DATA	TDS	\$4,304	23.5%	70.0	(60.23)	0.8	23.4	2.0	9.0	0.27	0.7%
U S WEST INC	USW	\$27,235	6.7%	54.0	37.94	19.1	18.4	38.2	7.3	11.73	4.0%

Bold Blue - Favorable Drivers

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@AF - Annual Figure

@NA - Not available

@CF - Combined Figure

@SF - SemiAnnual Figure

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