

Intrinsic Value Weekly

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"Ouch, Buy"

Notes on Intrinsic Value Portfolio In a week that was terrible for bond holders, equity owners felt the heat too. When energy stocks cratered last winter, the reduction of measured inflation was judged by many to be a boon to stocks. Now that crude oil has returned to its more normal relative price, the seismic shocks are shaking investors' perceptions of the trend of all other prices. The one notable characteristic of any set of prices is that they tend to fluctuate relative to each other over time. But when oil is the price doing the violent fluctuating, its effect is to shake investors' confidence in a stable price regime. None of this means that the current obsession with Fed policy is misplaced. The stakes are very high in the game of "guess the inflation rate". If the Fed had a more explicit and more focused price stability objective, then all this nervousness might be avoided. But, it doesn't and we have to guess sometimes. We believe that the primary job of the Fed, as the Fed sees it, is to maintain as close to zero an inflation rate as possible. The logical action then is to buy stocks when the investing public is the most concerned about that statement being wrong. It's like buying straw hats in winter. Take advantage of the "sale" prices now available at your local stocks store. Maybe it is too early, maybe not. But the angst we see among investors seems to be getting near fever pitch. And in that condition good bargains appear. As to the portfolio, stay with the under-priced and buy the biggest drops.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 10/15/1999	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
AC	Alliance Capital Mgmt LP	9/24/1999	\$ 24.813	\$44.68	(44.5%)	6.6	(12.2%)
ALD	AlliedSignal Inc.	4/29/1999	\$ 58.813	\$64.60	(9.0%)	2.5	(4.1%)
BGG	Briggs & Stratton	9/20/1999	\$ 54.813	\$117.62	(53.4%)	2.1	(4.0%)
CTL	Century Telephone Ent.	3/1/1999	\$ 39.813	\$42.51	(6.3%)	1.8	(4.8%)
DAL	Delta Air Lines, Inc.	3/1/1999	\$ 50.125	\$66.79	(24.9%)	0.9	(7.7%)
G	Gillette Company	6/23/1999	\$ 36.188	\$48.52	(25.4%)	4.1	(5.7%)
HD	Home Depot	9/27/1999	\$ 68.500	\$58.33	17.4%	7.0	(8.1%)
LOW	Lowes Companies	9/27/1999	\$ 49.313	\$61.77	(20.2%)	3.7	(7.1%)
MLHR	Herman Miller, Inc.	7/5/1999	\$ 23.188	\$46.47	(50.1%)	3.3	(1.6%)
NYT	New York Times Co.	3/1/1999	\$ 39.000	\$48.21	(19.1%)	2.6	(7.3%)
NUE	Nucor Corporation	3/1/1999	\$ 42.750	\$57.99	(26.3%)	1.6	(5.4%)
PFE	Pfizer, Inc.	6/23/1999	\$ 36.875	\$42.73	(13.7%)	10.8	(6.6%)
WEN	Wendy's International	3/1/1999	\$ 24.813	\$29.86	(16.9%)	2.0	(4.6%)

Average: (20.7%) Average: (6.1%)

Bold - Outperformed the S&P 500 for the week

S&P 500 (6.6%)

Value Drivers

Standard Market Statistics

Symbol	Sales		EBIT Margin %	Quarterly ROC	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Sales
	Growth Last 12M	%							
AC	28.5%	27.7%	52.7%	26.1%	7.7%	13.8	10.9	3.1	
ALD	(0.3%)	13.0%	11.6%	2.6%	1.2%	22.5	6.3	2.2	
BGG	14.2%	12.0%	26.4%	33.5%	2.2%	10.6	3.7	0.9	
CTL	31.6%	30.4%	10.9%	7.3%	0.5%	25.2	3.7	3.4	
DAL	4.1%	12.7%	10.9%	5.2%	0.2%	6.4	1.5	0.5	
G	(1.5%)	23.1%	18.5%	3.8%	1.6%	37.7	7.9	3.8	
HD	26.2%	8.8%	13.0%	28.1%	0.2%	51.2	11.6	2.9	
LOW	19.6%	6.8%	11.0%	18.8%	0.2%	31.3	5.5	1.2	
MLHR	1.5%	12.7%	23.8%	5.7%	0.6%	13.7	9.1	1.1	
NYT	3.7%	17.5%	11.9%	6.9%	1.1%	23.1	4.4	2.3	
NUE	(14.3%)	9.9%	12.6%	(11.6%)	1.2%	20.4	2.0	1.1	
PFE	22.5%	27.0%	20.8%	14.1%	0.9%	57.6	15.8	9.1	
WEN	(2.8%)	12.6%	9.7%	(0.3%)	1.0%	24.3	3.1	1.7	

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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	15.8%	(29.3%)	(12.1%)
CONSUMER CYCLICALS	(17.1%)	(23.9%)	(16.6%)
CONSUMER STAPLES	(12.6%)	(14.7%)	(11.9%)
HEALTH	(33.1%)	(24.5%)	(32.4%)
ENERGY	4.9%	30.6%	4.6%
FINANCIAL	(21.5%)	(29.6%)	(31.6%)
CAPITAL GOODS	13.2%	(6.8%)	(9.1%)
TECHNOLOGY	3.7%	3.6%	21.1%
COMMUNICATIONS	8.8%	29.2% *	42.1% *
UTILITY	(19.7%)	(23.1%)	(2.9%)
TRANSPORTATION	(31.3%)	(33.3%)	(23.4%)
Weighted Total:	(6.7%)	(13.1%)	(9.2%)

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 10/15/1999	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.2%	(5.0%)	4.8%	(4.7%)	4.1%	(6.5%)
CONSUMER CYCLICALS	9.1%	(7.1%)	15.5%	(7.8%)	19.3%	(3.3%)
CONSUMER STAPLES	12.1%	(6.2%)	8.9%	(3.6%)	8.5%	(2.2%)
HEALTH	10.8%	(7.7%)	9.1%	(9.9%)	9.7%	(4.9%)
ENERGY	6.2%	0.3%	4.6%	7.1%	3.2%	1.7%
FINANCIAL	13.0%	(10.0%)	12.1%	(4.7%)	13.3%	(3.5%)
CAPITAL GOODS	8.6%	(7.3%)	8.3%	(1.9%)	12.9%	(4.0%)
TECHNOLOGY	24.4%	(6.4%)	23.5%	0.4%	20.9%	(2.9%)
COMMUNICATIONS	9.0%	(5.3%)	1.2%	(0.2%)	0.7%	6.9% *
UTILITY	2.8%	(2.0%)	10.5%	(0.3%)	4.5%	(0.9%)
TRANSPORTATION	0.8%	(7.9%)	1.4%	(4.2%)	3.0%	(6.1%)
Index Total:		(6.6%)		(2.6%)		(2.7%)

* Sector contains only 3 companies

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

Sector Comments More inflation scare, and this time the Midcap and Small Cap stocks have shown strength. Utilities have done well; by dropping less than others, of course. But Energy stocks were at the forefront of the inflation hedge brigade. And as a result, the Transports underperformed again. As we mention elsewhere, we expect this nervousness about inflation to wane over the next few months and current trends to reverse. Inflation scares tend to be episodic, and thus useful as buying opportunities. That also means that if you've used Energy stocks to hedge against the current scare, that the pain will be intense when it ends.

The current valuations in Technology stocks are, on average, not extended now. But our examination of Value Drivers on Page 3 shows that some of the larger Technology stocks over-pricing is being offset by under-pricing of other Technology companies. Just remember that while high growth rates of revenue will earn a high PE ratio, inflation scares are very bad for the highest PE companies. And those most vulnerable are the companies whose growth is suddenly less than buyers had hoped.

(\$millions)	Large Capitalization	Mid-Cap Capitalization	Small-Cap Capitalization
	\$ 10,236,973	90.0%	\$ 320,839
		\$810,748	7.1%
			2.8%

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The Range of Valuation in Technology is Very Wide.

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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
3COM CORP	COMS	\$10,342	-1.3%	30.0	33.01	10.0	23.0	3.2	15.8	17.70	0.0%
ADAPTEC INC	ADPT	\$4,010	6.5%	38.8	114.57	12.4	43.1	5.3	168.7	7.79	0.0%
ADC TELECOMMUNICATIONS I	ADCT	\$6,115	22.5%	45.0	118.16	11.3	64.5	6.2	28.7	15.35	0.0%
ADOBE SYSTEMS INC	ADBE	\$5,556	17.0%	117.4	184.80	18.5	36.5	13.4	44.3	26.95	0.2%
ADVANCED MICRO DEVICES	AMD	\$2,585	-3.5%	17.6	(39.40)	(5.6)	(19.1)	1.2	7.0	(4.13)	0.0%
AMERICA ONLINE INC	AOL	\$119,997	46.0%	109.0	1,123.42	15.0	142.6	37.8	121.7	21.95	0.0%
ANDREW CORP	ANDW	\$1,097	-8.9%	13.4	5.70	19.6	33.4	2.9	8.0	27.71	0.0%
APPLE COMPUTER INC	AAPL	\$11,990	-14.1%	74.6	204.80	6.3	15.1	5.7	24.0	12.58	0.0%
APPLIED MATERIALS INC	AMAT	\$30,226	62.1%	79.9	358.98	10.8	94.7	9.2	51.2	10.72	0.0%
AUTODESK INC	ADSK	\$1,216	-10.5%	19.9	12.56	20.4	33.7	2.3	6.9	36.55	1.2%
AUTOMATIC DATA PROCESSIN	AUD	\$27,479	11.6%	44.1	95.80	15.2	38.6	6.9	28.3	16.04	0.7%
BMC SOFTWARE INC	BMCS	\$13,055	43.5%	54.6	96.84	36.1	52.6	12.7	31.6	36.98	0.0%
CABLETRON SYSTEMS	CS	\$2,884	-3.8%	16.5	(70.61)	(2.9)	(24.9)	2.5	(21.7)	(3.58)	0.0%
CERIDIAN CORP	CEN	\$2,904	13.4%	20.1	19.60	18.9	20.5	5.5	13.2	23.69	0.0%
CISCO SYSTEMS INC	CSCO	\$219,772	48.5%	67.2	257.48	28.6	105.5	19.2	85.1	36.79	0.0%
COMPAQ COMPUTER CORP	CPQ	\$35,871	61.5%	21.2	58.01	2.7	38.8	3.4	(19.3)	7.68	0.4%
COMPUTER ASSOCIATES INTL	CA	\$28,153	16.7%	52.4	57.88	36.4	49.3	12.0	30.1	30.57	0.2%
COMPUTER SCIENCES CORP	CSC	\$9,690	17.6%	60.6	81.29	7.8	31.5	4.7	12.9	15.73	0.0%
COMPUWARE CORP	CPWR	\$9,826	30.8%	27.6	31.93	30.8	25.2	8.9	26.0	52.77	0.0%
DATA GENERAL CORP	DGN	\$1,127	1.3%	22.3	(932.82)	(0.2)	56.9	2.7	(19.4)	(0.28)	0.0%
DELL COMPUTER CORP	DELL	\$108,745	41.8%	42.8	149.63	10.4	60.6	45.8	69.7	73.34	0.0%
EASTMAN KODAK CO	EK	\$22,432	1.9%	70.9	104.50	11.3	18.0	6.1	10.2	12.36	2.5%
EG&G INC	EGG	\$1,682	45.3%	36.9	162.65	2.8	43.2	4.5	10.8	4.92	1.5%
ELECTRONIC DATA SYSTEMS	EDS	\$25,273	10.3%	51.3	123.42	5.0	46.4	4.4	15.3	8.06	1.2%
EMC CORP/MA	EMC	\$72,330	35.7%	71.4	415.13	19.4	74.7	21.6	74.2	20.65	0.0%
EQUIFAX INC	EFX	\$3,472	12.5%	25.1	27.50	17.4	20.2	10.7	11.8	21.12	1.4%
FIRST DATA CORP	FDC	\$17,616	9.5%	40.9	133.79	18.6	30.7	5.1	21.3	14.42	0.2%
GATEWAY INC	GTW	\$16,425	18.1%	52.4	107.09	6.6	34.4	10.2	36.3	39.20	0.0%
GENERAL INSTRUMENT CORP	GIC	\$8,338	7.9%	48.1	130.69	9.8	51.1	4.9	58.4	11.58	0.0%
GRAINGER (W W) INC	GWV	\$4,119	4.9%	44.1	53.43	5.7	20.5	3.5	13.2	13.03	1.5%
HARRIS CORP	HRS	\$1,981	@AF	24.9	115.33	3.3	43.8	1.4	17.5	1.87	3.9%
HEWLETT-PACKARD CO	HWP	\$84,312	12.4%	82.8	155.80	6.4	30.1	5.4	17.5	13.05	0.8%
IKON OFFICE SOLUTIONS	IKN	\$1,305	-0.7%	8.8	35.83	3.8	267.2	1.3	21.0	4.33	1.8%
INTEL CORP	INTC	\$234,455	8.9%	70.9	161.17	24.2	33.9	10.5	26.5	25.75	0.2%
INTL BUSINESS MACHINES CO	IBM	\$195,156	16.4%	107.9	274.73	8.8	28.8	11.6	18.3	9.41	0.4%
KLA-TENCOR CORP	KLAC	\$6,372	33.0%	72.9	872.04	3.8	84.4	4.6	72.9	2.60	0.0%
LEXMARK INTL GRP INC -CL A	LXK	\$11,992	17.2%	93.0	222.67	10.6	37.3	18.2	38.3	35.18	0.0%
LSI LOGIC CORP	LSI	\$7,098	49.0%	48.6	389.60	4.7	(40.6)	4.9	89.8	2.95	0.0%
LUCENT TECHNOLOGIES INC	LU	\$179,890	21.9%	59.0	297.10	9.6	66.2	30.9	82.2	15.16	0.1%
MICRON TECHNOLOGY INC	MU	\$18,914	56.2%	71.0	(235.35)	(16.2)	(255.8)	5.3	45.4	(11.34)	0.0%
MICROSOFT CORP	MSFT	\$449,914	38.8%	88.1	239.72	50.9	58.8	16.9	54.4	44.57	0.0%
MOTOROLA INC	MOT	\$53,433	7.5%	88.0	822.84	1.6	85.4	4.3	42.8	2.18	0.5%
NATIONAL SEMICONDUCTOR (NSM	\$5,188	2.6%	30.3	(38.89)	(15.1)	(6.0)	5.7	(8.5)	(16.35)	0.0%
NETWORK APPLIANCE INC	NTAP	\$5,122	80.0%	69.6	377.30	20.0	120.4	17.6	115.9	30.23	0.0%
NORTEL NETWORKS CORP	NT	\$71,453	30.2%	52.7	220.45	6.5	(57.6)	6.2	40.6	9.46	0.3%
NOVELL INC	NOVL	\$6,054	20.1%	18.1	67.06	9.1	44.0	4.7	34.3	6.36	0.0%
ORACLE CORP	ORCL	\$64,065	13.5%	45.0	130.54	15.6	49.1	17.6	39.5	30.21	0.0%

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@AF - Annual Figure

@NA - Not available

@CF - Combined Figure

@SF - SemiAnnual Figure

Bold Blue - Favorable Drivers

Source: Standard & Poors Corporation Compustat PC Plus®, Intrinsic Value Associates, LLC

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The Range of Valuation in Technology is Very Wide.

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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/Price/	Return on Capital	Dividend Yield
PARAMETRIC TECHNOLOGY C	PMTC	\$3,871	7.8%	14.4	10.61	32.7	30.0	11.1	28.8	61.86	0.0%
PAYCHEX INC	PAYX	\$8,631	16.2%	35.0	97.65	16.0	56.2	19.3	53.5	48.36	0.7%
PE CORP	PEB	\$16,896	22.3%	65.8	865.46	6.6	74.9	22.6	116.6	6.75	0.5%
PEOPLESOFT INC	PSFT	\$3,693	-2.6%	14.8	14.22	20.0	(41.3)	6.0	17.7	44.20	0.0%
POLAROID CORP	PRD	\$931	3.2%	20.9	(311.10)	(1.0)	(12.0)	2.9	23.2	(1.00)	2.9%
QUALCOMM INC	QCOM	\$29,775	14.7%	198.5	2,573.90	4.6	257.4	27.9	111.9	8.07	0.0%
RAYTHEON CO -CL B	RTN.B	\$8,990	2.4%	26.6	22.43	12.3	18.3	1.5	5.5	10.06	3.0%
SCIENTIFIC-ATLANTA INC	SFA	\$3,838	17.0%	49.6	316.96	3.0	37.3	5.2	25.9	4.82	0.1%
SEAGATE TECHNOLOGY	SEG	\$6,547	8.3%	28.6	30.94	8.8	5.8	2.0	3.7	11.69	0.0%
SHARED MEDICAL SYSTEMS C	SMS	\$1,308	18.5%	49.0	67.22	8.3	17.1	3.1	12.2	14.13	1.7%
SILICON GRAPHICS INC	SGI	\$1,837	7.1%	10.1	(17.50)	(3.6)	37.7	1.4	6.7	(4.86)	0.0%
SUN MICROSYSTEMS INC	SUNW	\$71,953	25.3%	92.6	258.73	13.6	60.4	15.0	43.4	32.14	0.0%
TEKTRONIX INC	TEK	\$1,457	4.1%	30.9	106.65	2.3	(28.9)	2.5	71.6	3.74	1.6%
TELLABS INC	TLAB	\$22,262	39.4%	56.8	187.09	25.1	50.2	16.1	48.6	33.63	0.0%
TEXAS INSTRUMENTS INC	TXN	\$64,817	8.3%	82.5	403.09	10.3	70.6	9.8	40.9	11.41	0.2%
UNISYS CORP	UIS	\$7,039	4.7%	24.9	34.24	10.0	27.2	119.4	11.8	19.58	0.0%
XEROX CORP	XRX	\$18,182	2.5%	27.4	32.96	17.1	15.9	5.7	12.8	11.36	2.9%

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