

# Intrinsic Value Weekly

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## "Volatility Up, Buy"

**Notes on Intrinsic Value Portfolio** The volatility of prices is obviously increasing. The increase in long-term U.S. Treasury bond yields bears much of the responsibility for it. We have traditionally read changes in yields as reflective of changes in inflation expectations or changes in marginal income tax rates. Since the latter haven't changed this year, then we have to assume that inflation expectations have changed. But, the conditions which would create inflation (depreciating dollar, irresponsible monetary policy) haven't appeared, we must view this as an eruption of anxiety fed by changes in specific prices like oil, tobacco or automobiles. In the past, when these inflation "head fakes" have occurred, the correct investment posture was to use them as buying opportunities. So, thus, our Buy recommendation of last week.

At the core of the discounting mechanism is the real after-tax required return. If this has changed, and it rarely does, then the long-term growth rate of the economy has changed too. An increase in the long-term growth rate would force an increase in our forecasts of revenue growth for all our companies. An increase in revenue growth would largely offset any increase in the discount rate. For this reason, we have maintained our previous assumption of no change. The increases would tend to offset and valuations would generally not be affected. So, our overall buy recommendation for most sectors remains in effect.

## Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 10/22/1999	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
<b>AC</b>	<b>Alliance Capital Mgmt LP</b>	<b>9/24/1999</b>	<b>\$ 26.250</b>	<b>\$44.68</b>	<b>(41.2%)</b>	<b>6.6</b>	<b>5.8%</b>
ALD	AlliedSignal Inc.	4/29/1999	\$ 55.625	\$64.60	(13.9%)	2.5	(5.4%)
BGG	Briggs & Stratton	9/20/1999	\$ 55.625	\$117.62	(52.7%)	2.1	1.5%
CTL	Century Telephone Ent.	3/1/1999	\$ 39.500	\$42.51	(7.1%)	1.8	(0.8%)
DAL	Delta Air Lines, Inc.	3/1/1999	\$ 49.438	\$66.79	(26.0%)	0.9	(1.4%)
G	Gillette Company	6/23/1999	\$ 36.000	\$48.52	(25.8%)	4.1	(0.5%)
<b>HD</b>	<b>Home Depot</b>	<b>9/27/1999</b>	<b>\$ 72.313</b>	<b>\$58.33</b>	<b>24.0%</b>	<b>7.0</b>	<b>5.6%</b>
<b>LOW</b>	<b>Lowes Companies</b>	<b>9/27/1999</b>	<b>\$ 53.125</b>	<b>\$61.77</b>	<b>(14.0%)</b>	<b>3.7</b>	<b>7.7%</b>
MLHR	Herman Miller, Inc.	7/5/1999	\$ 21.938	\$46.47	(52.8%)	3.3	(5.4%)
NYT	New York Times Co.	3/1/1999	\$ 39.313	\$48.21	(18.5%)	2.6	0.8%
<b>NUE</b>	<b>Nucor Corporation</b>	<b>3/1/1999</b>	<b>\$ 45.938</b>	<b>\$57.99</b>	<b>(20.8%)</b>	<b>1.6</b>	<b>7.5%</b>
<b>PFE</b>	<b>Pfizer, Inc.</b>	<b>6/23/1999</b>	<b>\$ 41.625</b>	<b>\$42.73</b>	<b>(2.6%)</b>	<b>10.8</b>	<b>12.9%</b>
WEN	Wendy's International	3/1/1999	\$ 23.563	\$29.86	(21.1%)	2.0	(5.0%)
<b>Average:</b>					<b>(19.3%)</b>	<b>Average:</b>	<b>1.8%</b>
						<b>S&amp;P 500</b>	<b>4.4%</b>

**Bold** - Outperformed the S&P 500 for the week

## Value Drivers

## Standard Market Statistics

Symbol	Sales		ROC	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Sales
	Growth Last 12M	EBIT Margin %						
<b>AC</b>	<b>30.1%</b>	<b>27.7%</b>	<b>52.7%</b>	<b>36.2%</b>	<b>7.2%</b>	<b>12.6</b>	<b>10.9</b>	<b>2.9</b>
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	2.8%	12.7%	10.9%	2.0%	0.2%	6.1	1.5	0.5
G	(0.0%)	23.1%	18.5%	(0.9%)	1.6%	27.6	7.9	3.8
<b>HD</b>	<b>26.2%</b>	<b>8.8%</b>	<b>13.0%</b>	<b>28.1%</b>	<b>0.2%</b>	<b>51.2</b>	<b>11.6</b>	<b>2.9</b>
<b>LOW</b>	<b>19.6%</b>	<b>6.8%</b>	<b>11.0%</b>	<b>18.8%</b>	<b>0.2%</b>	<b>31.3</b>	<b>5.5</b>	<b>1.2</b>
MLHR	1.5%	12.7%	23.8%	5.7%	0.7%	13.7	9.1	1.1
NYT	3.7%	17.5%	11.9%	6.9%	1.1%	23.1	4.4	2.3
<b>NUE</b>	<b>(12.2%)</b>	<b>9.9%</b>	<b>12.6%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>20.0</b>	<b>2.0</b>	<b>1.1</b>
<b>PFE</b>	<b>22.1%</b>	<b>27.0%</b>	<b>20.8%</b>	<b>19.8%</b>	<b>0.8%</b>	<b>52.8</b>	<b>15.8</b>	<b>8.7</b>
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&amp;P 500</u>	<u>S&amp;P MIDCAP</u>	<u>S&amp;P SMALL CAP</u>
BASIC INDUSTRY	19.0%	(30.7%)	(11.8%)
CONSUMER CYCLICALS	(12.5%)	(23.6%)	(16.4%)
CONSUMER STAPLES	(9.0%)	(12.6%)	(12.9%)
HEALTH	(27.0%)	(23.2%)	(31.3%)
ENERGY	11.4%	38.2%	6.0%
FINANCIAL	(12.4%)	(25.5%)	(29.4%)
CAPITAL GOODS	12.7%	(5.6%)	(12.1%)
TECHNOLOGY	3.3%	3.3%	25.3%
COMMUNICATIONS	7.9%	38.7% *	52.5% *
UTILITY	(19.4%)	(24.1%)	(2.7%)
TRANSPORTATION	(29.1%)	(32.6%)	(22.3%)
<b>Weighted Total:</b>	<b>(4.0%)</b>	<b>(11.9%)</b>	<b>(8.0%)</b>

RED - Overvalued

BLUE - (Undervalued)

Bold - outperformed the relevant index

## WEEKLY PRICE CHANGE

<u>SECTORS</u>	<u>S&amp;P 500</u>		<u>S&amp;P MIDCAP</u>		<u>S&amp;P SMALL CAP</u>	
	Weight	Price	Weight	Price	Weight	Price
prices as of 10/22/1999	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.1%	2.7%	4.5%	(2.0%)	4.0%	0.3%
CONSUMER CYCLICALS	9.3%	5.6%	15.6%	0.5%	19.2%	0.3%
CONSUMER STAPLES	12.1%	4.1%	9.0%	2.4%	8.3%	(1.2%)
HEALTH	11.3%	9.1%	9.1%	1.7%	9.7%	1.6%
ENERGY	6.4%	6.2%	4.6%	5.8%	3.2%	1.3%
FINANCIAL	14.1%	11.5%	12.4%	5.8%	13.7%	3.3%
CAPITAL GOODS	8.6%	(0.5%)	8.5%	1.3%	12.4%	(3.3%)
TECHNOLOGY	23.5%	(0.4%)	23.2%	(0.3%)	21.5%	3.4%
COMMUNICATIONS	8.0%	(0.8%)	1.3%	7.4%	0.7%	7.3% *
UTILITY	2.7%	0.3%	10.4%	(1.3%)	4.5%	0.3%
TRANSPORTATION	0.8%	3.2%	1.4%	1.1%	2.9%	1.5%
<b>Index Total:</b>		4.4%		2.1%		0.9%

\* Sector contains only 3 companies

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

**Sector Comments** Sector returns were wild last week. Financials celebrated the passage of Federal legislation that would roll back much of the Glass-Steagall Act and allow further consolidation. Large Energy stocks bounced upward on their way toward lower valuations. Large Consumer Cyclical improved, headed toward higher valuations. Technology stocks were heavily affected by earnings warnings, as we warned last week. Large Health stocks bounced but still have far to go to reflect their high growth, high return drivers.

Opportunities still remain widespread in Transportation stocks. Fears of a slowdown in the economy combined with fears of higher fuel costs have driven the prices of these companies to the largest overall discounts among the sectors. Page 3 updates the fundamental value drivers for these companies and highlights the most interesting ones. Our Intrinsic Value Portfolio is represented by Delta Airlines (DAL), but other companies look similarly attractive. Note the Free Cash Flow Annuity column which shows the stock valuation if one assumes current free cash flow continues forever with no increase.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
\$	10,620,403	\$810,571	\$ 323,671
	90.4%	6.9%	2.8%

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Transportation is the most Under-priced Sector

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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
AIR EXPRESS INTERNATIONAL	AEIC	\$812	-1.4%	24.3	18.44	4.6	16.4	2.5	13.4	20.26	1.2%
AIRBORNE FREIGHT CORP	ABF	\$1,100	2.0%	22.6	26.62	6.2	8.3	1.3	3.4	10.98	0.7%
<b>ALASKA AIR GROUP INC</b>	<b>ALK</b>	<b>\$1,013</b>	<b>9.2%</b>	<b>38.6</b>	<b>90.50</b>	<b>13.4</b>	<b>7.4</b>	<b>1.4</b>	<b>4.2</b>	<b>8.99</b>	<b>0.0%</b>
ALEXANDER & BALDWIN INC	ALEX	\$1,002	-24.0%	23.1	64.50	6.3	24.4	1.5	8.5	4.44	3.9%
AMERICAN FREIGHTWAYS CO	AFWY	\$565	19.5%	17.7	36.95	5.4	13.5	2.3	6.7	7.22	0.0%
AMR CORP/DE	AMR	\$8,241	2.1%	54.8	106.48	11.7	10.3	1.3	3.4	8.69	0.0%
<b>ARKANSAS BEST CORP</b>	<b>ABFS</b>	<b>\$253</b>	<b>4.9%</b>	<b>12.9</b>	<b>21.57</b>	<b>3.1</b>	<b>6.1</b>	<b>1.4</b>	<b>3.4</b>	<b>7.70</b>	<b>0.0%</b>
ARNOLD INDUSTRIES INC	AIND	\$297	2.9%	11.9	5.49	14.3	8.8	1.4	4.5	20.06	3.7%
<b>ATLANTIC COAST AIRLINES HI ACAI</b>	<b>ACA</b>	<b>\$397</b>	<b>16.5%</b>	<b>21.3</b>	<b>46.63</b>	<b>19.8</b>	<b>11.0</b>	<b>3.1</b>	<b>11.3</b>	<b>14.43</b>	<b>0.0%</b>
BRLNGTN NTHRN SANTA FE	BNI	\$12,973	-0.5%	27.9	49.30	22.5	11.9	1.7	6.6	8.14	1.7%
<b>CNF TRANSPORTATION INC</b>	<b>CNF</b>	<b>\$1,531</b>	<b>9.8%</b>	<b>31.7</b>	<b>63.82</b>	<b>5.4</b>	<b>11.1</b>	<b>2.0</b>	<b>5.3</b>	<b>8.49</b>	<b>1.3%</b>
COMAIR HOLDINGS INC	COMR	\$2,220	16.8%	23.1	39.19	20.7	11.5	3.8	12.6	11.90	0.5%
<b>CSX CORP</b>	<b>CSX</b>	<b>\$8,066</b>	<b>5.1%</b>	<b>37.0</b>	<b>125.91</b>	<b>10.5</b>	<b>18.3</b>	<b>1.6</b>	<b>7.0</b>	<b>4.55</b>	<b>3.2%</b>
<b>DELTA AIR LINES INC</b>	<b>DAL</b>	<b>\$6,850</b>	<b>2.0%</b>	<b>49.4</b>	<b>99.89</b>	<b>14.8</b>	<b>6.1</b>	<b>1.5</b>	<b>3.3</b>	<b>10.89</b>	<b>0.2%</b>
EXPEDITORS INTL WASH INC	EXPD	\$1,815	37.2%	36.2	83.65	5.0	31.2	7.3	28.2	20.84	0.3%
<b>FDX CORP</b>	<b>FDX</b>	<b>\$11,934</b>	<b>5.8%</b>	<b>40.0</b>	<b>82.62</b>	<b>6.8</b>	<b>18.0</b>	<b>2.5</b>	<b>7.2</b>	<b>7.92</b>	<b>0.0%</b>
FRITZ COS INC	FRTZ	\$394	14.4%	10.8	13.51	1.8	29.6	1.4	9.6	6.80	0.0%
FROZEN FOOD EXPRESS INDS	FFEX	\$82	8.3%	5.0	2.39	4.5	12.5	1.0	4.3	14.03	2.4%
GATX CORP	GMT	\$1,542	-4.4%	31.1	102.51	23.4	10.6	2.1	3.9	6.60	3.5%
HEARTLAND EXPRESS INC	HTLD	\$388	0.5%	12.9	6.50	19.2	12.8	2.3	7.6	27.29	0.0%
HUNT (JB) TRANSPRT SVCS IN	JBHT	\$476	10.7%	13.4	12.37	5.4	13.2	1.3	2.5	10.96	1.5%
<b>KANSAS CITY SOUTHERN INDE</b>	<b>KSU</b>	<b>\$4,758</b>	<b>33.6%</b>	<b>43.1</b>	<b>73.09</b>	<b>24.2</b>	<b>22.4</b>	<b>5.5</b>	<b>17.9</b>	<b>10.81</b>	<b>0.4%</b>
KIRBY CORP	KEX	\$397	-2.2%	19.8	40.73	6.4	17.7	2.9	10.9	5.11	0.0%
LANDSTAR SYSTEM INC	LSTR	\$403	8.5%	40.0	38.97	2.7	8.5	3.2	9.3	14.37	0.0%
M S CARRIERS INC	MSCA	\$319	16.7%	26.0	23.65	8.6	10.3	1.4	4.2	12.01	0.0%
MESA AIR GROUP INC	MESA	\$171	-10.5%	5.1	460.52	0.6	13.9	1.4	(5.2)	0.27	0.0%
MIDWEST EXPRESS HOLDING	MEH	\$432	11.6%	30.5	45.54	11.9	9.4	3.8	9.4	13.07	0.0%
<b>NORFOLK SOUTHERN CORP</b>	<b>NSC</b>	<b>\$8,465</b>	<b>10.7%</b>	<b>22.3</b>	<b>42.06</b>	<b>24.6</b>	<b>18.6</b>	<b>1.6</b>	<b>7.9</b>	<b>6.03</b>	<b>3.6%</b>
OVERSEAS SHIPHOLDING GRC	OSG	\$458	-12.4%	12.6	29.42	11.0	(12.9)	0.8	10.0	2.50	4.8%
PITTSTON CO-BAX GROUP	PZX	\$139	13.1%	6.7	93.56	0.8	(20.7)	0.6	6.2	1.84	3.6%
RAILTEX INC	RTEX	\$155	14.8%	16.7	27.20	14.9	10.4	1.1	5.7	6.75	0.0%
ROLLINS TRUCK LEASING	RLC	\$552	0.9%	9.6	12.06	18.0	10.5	2.0	2.5	9.12	2.1%
RYDER SYSTEM INC	R	\$1,376	-2.3%	19.7	55.54	10.4	13.7	1.3	1.8	8.06	3.0%
SKYWEST INC	SKYW	\$565	36.1%	23.0	51.21	16.9	11.4	2.1	8.4	8.92	0.5%
<b>SOUTHWEST AIRLINES</b>	<b>LUV</b>	<b>\$8,128</b>	<b>12.8%</b>	<b>16.1</b>	<b>24.75</b>	<b>16.3</b>	<b>15.8</b>	<b>3.2</b>	<b>11.8</b>	<b>11.33</b>	<b>0.2%</b>
SWIFT TRANSPORTATION CO	SWFT	\$1,055	23.0%	16.4	26.05	9.2	19.7	3.8	10.3	10.47	0.0%
<b>UNION PACIFIC CORP</b>	<b>UNP</b>	<b>\$12,857</b>	<b>-9.0%</b>	<b>51.9</b>	<b>492.34</b>	<b>4.6</b>	<b>133.5</b>	<b>1.6</b>	<b>29.4</b>	<b>1.56</b>	<b>1.5%</b>
US AIRWAYS GROUP INC	U	\$1,995	-4.8%	27.9	97.75	14.3	5.3	3.7	2.7	9.23	0.0%
<b>USFREIGHTWAYS CORP</b>	<b>USFC</b>	<b>\$1,127</b>	<b>21.9%</b>	<b>42.6</b>	<b>57.41</b>	<b>4.8</b>	<b>13.3</b>	<b>2.7</b>	<b>7.4</b>	<b>10.38</b>	<b>0.9%</b>
WERNER ENTERPRISES INC	WERN	\$723	23.0%	15.3	10.85	11.3	13.5	1.9	5.2	15.51	0.7%
WISCONSIN CENTRAL TRANSF	WCLX	\$694	6.8%	13.6	17.73	37.5	10.1	1.6	7.2	10.61	0.0%
YELLOW CORP	YELL	\$418	15.6%	16.8	18.44	3.6	9.5	1.1	3.0	10.06	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