

Intrinsic Value Weekly

Volume 3, No. 19

Published Weekly by Intrinsic Value Associates, LLC

May 8, 2000

"The Temptations of Market Timing"

First, the Intrinsic Value Portfolio on average improved vs. the S&P 500 Index last week. But the volatility of its members was high: the mean absolute percentage change was 3%. **Pfizer (PFE- NYSE)** closed within a gnat's eyelash of fair value. We'll remove it when it exceeds that number. Our purpose is to find companies that are selling at a deep discount to intrinsic value and exploit the closing of that gap. We always expect that the timing of that closure is unknowable. We do know that buying stocks above their intrinsic value is mostly a losers game. I say mostly because no estimate of intrinsic value is perfect and we are more likely to underestimate a stock's value.

The imminent and widely touted intention of the Federal Reserve Open Market Committee to raise overnight interest rates by as much as half a point next week has had its effect we think mostly on those companies having the highest growth expectations. Many pundits have noted that few of these companies borrow money, so they should be immune. But their valuations depend on discounting future free cash flows (no matter how far in the future those flows may be). So we pay attention to forces that may lift the rate at which free cash flows will be discounted in the future. But we also pay attention to the indicators which legitimately would cause higher a higher pre-tax nominal discount rate. Like higher inflation or higher tax rates. But with gold prices in the tank and the dollar reigning supreme in the world, we're highly skeptical of the current expectations. Thus, we'd be buyers of any weakness either before or after the Fed meeting. But then we're not market timers, so feel free to ignore our advice.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

| Symbol | Name | Updated Valuation | Price 5/5/2000 | Intrinsic Value | Over/ (Under) Priced | Q Ratio | Weekly Price Change |
|--------------|------------------------------|-------------------|------------------|-----------------|----------------------|-------------|---------------------|
| AC | Alliance Capital Mgt LP | 3/6/2000 | \$ 42.250 | \$48.58 | (13.0%) | 6.3 | (5.7%) |
| HON | Honeywell Int'l Inc. | 4/29/1999 | \$ 54.313 | \$64.60 | (15.9%) | 2.3 | (3.0%) |
| BGP | Borders Group, Inc. | 3/6/2000 | \$ 16.188 | \$33.81 | (52.1%) | 1.1 | 2.0% |
| BGG | Briggs & Stratton | 3/6/2000 | \$ 39.188 | \$106.86 | (63.3%) | 1.5 | 2.1% |
| CTL | CenturyTel, Inc. | 3/6/2000 | \$ 25.688 | \$50.51 | (49.1%) | 1.3 | 4.8% |
| DAL | Delta Air Lines, Inc. | 3/6/2000 | \$ 55.563 | \$66.30 | (16.2%) | 0.9 | 5.3% |
| G | Gillette Company | 3/2/2000 | \$ 34.063 | \$50.55 | (32.6%) | 4.0 | (7.9%) |
| LOW | Lowe's Companies | 3/6/2000 | \$ 47.813 | \$63.82 | (25.1%) | 3.1 | (3.4%) |
| MLHR | Herman Miller, Inc. | 3/6/2000 | \$ 29.750 | \$46.28 | (35.7%) | 2.8 | 8.7% |
| NYT | New York Times Co. | 2/10/2000 | \$ 37.813 | \$49.37 | (23.4%) | 2.8 | (8.2%) |
| NUE | Nucor Corporation | 3/6/2000 | \$ 42.688 | \$59.99 | (28.8%) | 1.3 | (0.7%) |
| * PFE | Pfizer, Inc. | 6/23/1999 | \$ 44.625 | \$44.97 | (0.8%) | 10.3 | 5.9% |
| WEN | Wendy's International | 3/6/2000 | \$ 21.688 | \$24.49 | (11.5%) | 1.6 | (3.1%) |

Average: (28.3%) Average: (0.2%)
S&P 500 (1.4%)

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

| Symbol | Value Drivers | | | | | Standard Market Statistics | | | | |
|-------------|------------------|-----------------------|---------------|-------------------|---------------------|----------------------------|-------------|-------------|--------------|-------------------------|
| | Capital Turnover | Sales Growth Last 12M | EBIT Margin % | Return On Capital | Quarterly Sales Y/Y | Yield | PE Last 12M | Price/ Book | Price/ Sales | Market Cap (\$billions) |
| AC | 1.6 | 39.9% | 29.5% | 41.1% | 30.7% | 5.9% | 15.0 | 13.9 | 3.6 | 7.6 |
| HON | 1.2 | 0.7% | 13.8% | 14.0% | (1.0%) | 1.4% | 17.7 | 5.2 | 1.6 | 44.5 |
| BGP | 1.0 | 15.6% | 5.7% | 10.9% | 15.6% | 0.0% | 13.7 | 1.5 | 0.4 | 1.2 |
| BGG | 2.2 | 13.3% | 12.0% | 26.4% | (1.6%) | 3.1% | 6.1 | 2.4 | 0.6 | 0.9 |
| CTL | 0.4 | 3.4% | 30.3% | 11.1% | (0.3%) | 0.7% | 15.1 | 1.9 | 2.1 | 3.4 |
| DAL | 0.7 | 6.8% | 12.7% | 10.4% | 13.0% | 0.2% | 5.5 | 1.6 | 0.5 | 7.0 |
| G | 0.9 | 0.3% | 21.3% | 14.5% | 5.5% | 1.9% | 31.9 | 11.8 | 3.6 | 39.0 |
| LOW | 2.5 | 19.3% | 7.4% | 18.8% | 19.6% | 0.3% | 28.1 | 5.6 | 1.1 | 18.9 |
| MLHR | 2.0 | 2.7% | 12.7% | 18.4% | 13.4% | 0.5% | 15.8 | 10.4 | 1.3 | 2.2 |
| NYT | 1.1 | 9.5% | 18.7% | 13.1% | 14.1% | 1.1% | 21.6 | 4.9 | 2.0 | 7.2 |
| NUE | 1.4 | 10.5% | 9.3% | 13.6% | 34.2% | 1.4% | 12.6 | 1.8 | 0.9 | 3.7 |
| PFE | 1.1 | 14.9% | 29.7% | 25.0% | 9.9% | 0.8% | 44.8 | 18.2 | 10.3 | 162.1 |
| WEN | 0.9 | 7.4% | 13.8% | 10.2% | 9.1% | 1.1% | 15.8 | 2.5 | 1.2 | 2.6 |

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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 | 10.2% | (25.8%) | (16.1%) |
| CONSUMER CYCLICALS | (18.6%) | (21.1%) | (15.8%) |
| CONSUMER STAPLES | (12.8%) | (6.0%) | (7.3%) |
| HEALTH | (27.1%) | 8.4% | 2.3% |
| ENERGY | 9.6% | 96.7% | 51.1% |
| FINANCIAL | (16.6%) | (40.1%) | (29.4%) |
| CAPITAL GOODS | 23.4% | 14.8% | 13.0% |
| TECHNOLOGY | 21.8% | 28.5% | 56.3% |
| COMMUNICATIONS | (7.8%) | 68.6% | (34.6%) * |
| UTILITY | (9.8%) | (17.9%) | (23.4%) |
| TRANSPORTATION | (34.1%) | (22.8%) | (6.8%) |
| Weighted Total: | 1.0% | 6.6% | 11.0% |

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 5/5/2000 | % of Total | % Change | % of Total | % Change | % of Total | % Change |
| BASIC INDUSTRY | 2.4% | 3.9% | 4.6% | 2.0% | 3.5% | 1.4% |
| CONSUMER CYCLICALS | 8.1% | (4.2%) | 13.3% | 0.0% | 16.6% | 0.5% |
| CONSUMER STAPLES | 10.2% | (1.2%) | 8.6% | 2.3% | 7.3% | 2.7% |
| HEALTH | 10.3% | 2.8% | 11.0% | 4.6% | 11.6% | 8.0% |
| ENERGY | 5.6% | 3.3% | 6.5% | 5.4% | 4.4% | 4.4% |
| FINANCIAL | 12.7% | (2.2%) | 9.5% | (0.2%) | 10.5% | (1.8%) |
| CAPITAL GOODS | 8.7% | (0.7%) | 9.3% | (2.6%) | 14.6% | 1.5% |
| TECHNOLOGY | 31.9% | (3.1%) | 24.7% | 0.5% | 25.4% | (2.4%) |
| COMMUNICATIONS | 7.1% | (5.6%) | 1.8% | 0.6% | 0.2% | (1.2%) * |
| UTILITY | 2.6% | 0.2% | 9.6% | (0.9%) | 2.7% | (5.3%) |
| TRANSPORTATION | 0.6% | 0.9% | 1.2% | (0.9%) | 3.1% | 1.3% |
| Index Total: | | (1.4%) | | 0.8% | | 1.1% |

* Sector contains only 2 companies

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

Sector Comments Technology has bounced enough to be vulnerable again. And the dogs of the New Year's celebrations, the health stocks, have recovered much of their discount to fair value. The new bad guys are consumer and financial stocks, in reaction to worries about the economy's vulnerability to Fed policy moves. The deep discount of utility stocks is still with us as well. Transportation stocks are very attractive as well, just the opposite of their traditional antagonists, the Energy stocks. Our earlier commentary about the surge in popularity of energy stocks has been borne out. Energy stocks are up year-to-date 6%, 31% and 49% for Large Cap, Mid Cap and Small Cap markets. Transport stocks are down 8%, up 12% and up 2% Large, Mid and Small markets. The most effective way to exploit this arbitrage is through airlines (see Delta Airlines DAL-NYSE on Page 1).

Communications stocks have been under pressure with the price war in long distance voice markets in full roar. But the communications companies are rapidly transforming toward data transmission and wireless voice businesses. The road to such metamorphoses is rarely smooth, but detailed analysis of the relative growth rates for the overall business reveals a potentially lucrative value discount for those companies that survive the journey. On Page 3, we present the fundamental value drivers for Communications stocks in all three markets. Remember that these numbers are historical and valuations are dependent solely on estimates of future data.

| (\$millions) | <u>Large Capitalization</u> | | <u>Mid-Cap Capitalization</u> | | <u>Small-Cap Capitalization</u> |
|--------------|-----------------------------|-------|-------------------------------|------|---------------------------------|
| \$ | 12,120,604 | 90.2% | \$927,962 | 6.9% | \$ 383,603 |
| | | | | | 2.9% |

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The Communications Business is Growing Fast

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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 | Return on Capital | Dividend Yield |
|-------------------------------|-------------|-----------------------|------------------------|---------------|------------------------|--------------|-------------|------------------|-----------------|-------------------|----------------|
| ALLTEL CORP | AT | \$20,474 | 17.2% | 64.9 | 33.94 | 17.3 | 25.0 | 5.0 | 12.7 | 11.34 | 2.0% |
| AT&T CORP | T | \$122,800 | 12.3% | 38.4 | 13.02 | 13.3 | 24.3 | 2.6 | 15.8 | 7.01 | 2.3% |
| BELL ATLANTIC CORP | BEL | \$83,754 | 7.1% | 53.9 | 47.52 | 21.6 | 24.3 | 5.8 | 8.0 | 12.27 | 2.9% |
| BELLSOUTH CORP | BLS | \$86,448 | 8.6% | 45.9 | 28.11 | 18.2 | 23.9 | 6.2 | 10.7 | 11.06 | 1.7% |
| BROADWING INC | BRW | \$5,895 | 94.1% | 28.9 | (14.63) | 11.6 | (235.9) | 2.7 | 26.5 | 3.13 | 1.4% |
| CENTURYTEL INC | CTL | \$3,602 | -0.3% | 25.7 | 37.73 | 30.3 | 15.1 | 1.9 | 6.1 | 11.07 | 0.7% |
| COMSAT CORP -SER 1 | CQ | \$1,348 | 18.6% | 25.4 | (11.52) | 3.7 | 188.0 | 2.2 | 8.3 | 1.24 | 0.8% |
| GENERAL COMMUNICATION -C | GNCMA | \$247 | 6.2% | 4.9 | (3.01) | 5.6 | (25.0) | 1.2 | 7.4 | 2.37 | 0.0% |
| GLOBAL CROSSING LTD | GBLX | \$27,861 | 528.3% | 34.8 | (8.62) | 7.5 | (90.0) | 2.7 | 111.9 | 1.23 | 0.0% |
| GTE CORP | GTE | \$62,256 | 3.8% | 64.1 | 61.29 | 22.2 | 16.7 | 6.1 | 7.9 | 10.81 | 2.9% |
| MCI WORLDCOM INC | WCOM | \$121,694 | 10.9% | 42.9 | 23.84 | 23.3 | 28.5 | 2.5 | 14.7 | 7.53 | 0.0% |
| NEXTEL COMMUNICATIONS | NXTL | \$41,417 | 62.5% | 119.8 | (65.38) | (16.7) | (28.2) | 17.7 | (166.1) | (3.55) | 0.0% |
| POWERWAVE TECHNOLOGIES | PWAV | \$3,976 | 85.4% | 195.0 | 21.96 | 9.8 | 146.5 | 24.7 | 128.5 | 21.58 | 0.0% |
| SBC COMMUNICATIONS INC | SBC | \$146,001 | 72.0% | 43.0 | 31.31 | 19.4 | 18.3 | 5.6 | 9.7 | 13.46 | 2.4% |
| SPRINT FON GROUP | FON | \$47,724 | 5.4% | 60.6 | 25.29 | 14.7 | 30.1 | 4.6 | 12.3 | 9.67 | 0.8% |
| SPRINT PCS GROUP | PCS | \$54,259 | 94.8% | 59.6 | (60.84) | (80.8) | (21.6) | 16.3 | (56.6) | (15.03) | 0.0% |
| TALK.COM INC | TALK | \$637 | 41.1% | 9.7 | 11.81 | 11.0 | 10.5 | 15.8 | 9.9 | 80.47 | 0.0% |
| TELEPHONE & DATA | TDS | \$5,761 | 10.8% | 105.1 | 35.79 | 15.6 | 18.3 | 2.8 | 9.6 | 5.64 | 0.5% |
| U S WEST INC | USW | \$37,023 | 6.1% | 72.9 | 47.29 | 20.6 | 32.4 | 28.7 | 10.6 | 11.06 | 2.9% |

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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