

Intrinsic Value Weekly

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"Volatility is Your Friend"

Volatility can be your friend, but only if you use intrinsic value as a tool to steer the proper course. The heavy seas of this current market are somewhat masked by the averages, but the metaphor breaks down sometimes when the waves are widely spaced. Only the patient investor can navigate in such waters. Many of our Intrinsic Value stocks have experienced such extended troughs. The discounts now exhibited in the table below have been at the trough for some time now and many investors would perhaps give up in frustration and sell. But, we are patient, or try to be, and see that the time will come when prices will rise toward that much-anticipated peak at or above intrinsic value. Many of the discounts are caused by investors extrapolating what are temporary factors. But, the definition of "temporary" is malleable. One quarter may extend into two or three and the temptation will arise to assign the term "trend" to what is only a wide trough. **Honeywell (HON - NYSE)** and **Gillette (G - NYSE)**, are the most recent examples, but many others are in extended worry-filled troughs. These companies are well-managed and have excellent discipline in their management of capital, but their businesses are often difficult, competitive and complex. However, these companies continue to build intrinsic value even though their market prices don't reflect it though some are building that value slowly. The problem with waiting for an acceleration in the rate at which intrinsic value is rising is that when you finally realize it's happening, much of the discount will have disappeared. So, the payment for patience is extra discount. The cost is measured in lost opportunity in companies building their intrinsic value at a much higher pace. It is rare that the rapid builders of intrinsic value are priced at a discount. Again, there is no free lunch when it comes to investing. Big discounts require patience. Fast movers don't have discounts, in fact, often have big premiums to intrinsic value. This portfolio will require patience, but their long-run fundamentals are sound and their managements are talented and disciplined.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 7/21/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change *
HON	Honeywell Int'l Inc.	4/29/1999	\$ 35.063	\$64.60	(45.7%)	1.6	(4.3%)
BGP	Borders Group, Inc.	3/6/2000	\$ 13.375	\$33.81	(60.4%)	1.1	(6.1%)
BGG	Briggs & Stratton	3/6/2000	\$ 35.875	\$106.86	(66.4%)	1.3	(3.0%)
CTL	CenturyTel, Inc.	3/6/2000	\$ 29.000	\$50.51	(42.6%)	1.4	(3.5%)
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 54.500	\$66.30	(17.8%)	0.9	(1.7%)
G	Gillette Company	3/2/2000	\$ 30.500	\$50.55	(39.7%)	3.8	(8.4%)
LOW	Lowes Companies	3/6/2000	\$ 45.125	\$63.82	(29.3%)	2.3	(5.7%)
MLHR	Herman Miller, Inc.	3/6/2000	\$ 31.438	\$46.28	(32.1%)	2.7	4.1%
NYT	New York Times Co.	2/10/2000	\$ 40.688	\$49.37	(17.6%)	2.6	(3.7%)
NUE	Nucor Corporation	3/6/2000	\$ 37.063	\$59.99	(38.2%)	1.0	3.1%
WEN	Wendy's International	3/6/2000	\$ 18.125	\$24.49	(26.0%)	1.4	(4.6%)

Average: (37.8%) Average: (3.1%)

Bold - Outperformed the S&P 500 for the week

S&P 500 (2.0%)

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)
HON	1.2	0.7%	13.8%	14.0%	5.9%	2.1%	17.7	3.1	1.6	26.9
BGP	1.0	14.7%	5.7%	10.9%	10.1%	0.0%	12.9	1.5	0.3	1.2
BGG	2.2	13.3%	12.0%	26.4%	(1.6%)	3.3%	5.5	2.2	0.5	0.8
CTL	0.4	3.4%	30.3%	11.1%	(0.3%)	0.7%	17.7	2.2	2.4	4.0
DAL	0.7	8.9%	12.7%	10.4%	12.9%	0.2%	5.3	1.6	0.5	6.2
G	0.9	(2.2%)	21.3%	14.5%	(6.8%)	2.1%	30.1	11.1	3.3	36.5
LOW	2.2	19.0%	7.4%	11.1%	18.4%	0.3%	21.4	3.3	1.0	15.7
MLHR	2.0	9.7%	12.7%	18.4%	20.9%	0.5%	14.7	9.8	1.3	2.0
NYT	1.1	12.0%	18.7%	13.1%	13.6%	1.1%	20.7	4.7	2.1	6.8
NUE	1.4	20.1%	9.3%	14.4%	21.7%	1.6%	9.7	1.3	0.7	2.8
WEN	0.9	7.4%	13.8%	10.2%	9.1%	1.3%	12.5	2.0	1.0	2.0

Intrinsic Value Weekly

ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	(15.5%)	(28.6%)	(13.7%)
CONSUMER CYCLICALS	(20.9%)	(26.8%)	(13.3%)
CONSUMER STAPLES	(10.5%)	(9.7%)	(6.6%)
HEALTH	(27.5%)	19.9%	21.9%
ENERGY	4.6%	83.1%	40.6%
FINANCIAL	(11.7%)	(37.0%)	(30.0%)
CAPITAL GOODS	(16.1%)	8.9%	6.0%
TECHNOLOGY	17.1%	15.1%	37.0%
COMMUNICATIONS	(16.5%)	46.2%	(48.4%) *
UTILITY	(6.2%)	(14.3%)	(22.3%)
TRANSPORTATION	(37.1%)	(24.0%)	(10.0%)
Weighted Total:	(4.0%)	1.9%	5.4%

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 7/21/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	1.9%	(3.7%)	4.7%	(0.9%)	3.7%	(2.6%)
CONSUMER CYCLICALS	7.8%	(4.0%)	12.5%	(3.1%)	17.8%	(3.5%)
CONSUMER STAPLES	9.8%	0.1%	8.4%	1.3%	7.7%	(1.1%)
HEALTH	9.8%	(0.6%)	12.8%	0.6%	12.1%	(0.1%)
ENERGY	5.2%	(3.1%)	6.8%	(4.7%)	4.2%	(6.7%)
FINANCIAL	14.1%	(0.5%)	10.4%	(2.1%)	11.9%	(1.7%)
CAPITAL GOODS	8.3%	1.7%	7.9%	(3.6%)	14.1%	(3.4%)
TECHNOLOGY	33.7%	(4.6%)	22.1%	(5.5%)	22.1%	(7.1%)
COMMUNICATIONS	6.4%	(3.7%)	1.9%	(3.0%)	0.2%	0.8% *
UTILITY	2.6%	1.2%	11.2%	(0.3%)	3.0%	(0.9%)
TRANSPORTATION	0.5%	(0.9%)	1.3%	(0.5%)	3.2%	(1.7%)
Index Total:		(2.0%)		(2.5%)		(3.4%)

* Sector contains only 2 companies

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

Sector Comments Our concentration on mainframe-related Technology companies last week was aptly timed as IBM Corp. came out with favorable results and promptly rose more than 10%. Often, widely-held perceptions are wrong. While hardware revenues were soft, certain parts of the company are growing at 30% rates and higher. These transitions are encompassing the decline of old businesses and the rapid ascent of new ones. During the transition, results are often below the long-term trend, but the seeds of rapid growth are germinating and the overall revenue growth will be more and more dominated by the successful divisions as each quarter passes. Seeing through this jungle of chaos is necessary for doing proper valuation. Technology companies are generally over-priced for those companies with no old businesses and under-priced for the transition companies. Some of the latter will not complete the cycle and will be swallowed up or sold for scrap. Knowing which makes all the difference.

Last week's market showed great volatility in the Mid Cap and Small Cap markets. Technology was weak, reflecting many quarterly earnings warnings. Communications and Consumer Cyclical were weak too, for much the same reason, but continuing crunching of credit at current levels seems likely, given the Fed Chairman's remarks about slowing economic growth. So Basic stocks were weak too. The only strength showed in Capital Goods and Utilities. Slow growth is not good for market valuations.

Page 3 shows the value drivers for Large Capital Goods makers this week.

(\$millions)	<u>Large Capitalization</u>		<u>Mid-Cap Capitalization</u>		<u>Small-Cap Capitalization</u>
	\$ 12,471,934	90.8%	\$895,819	6.5%	\$ 373,565 2.7%

Intrinsic Value Weekly

Capital Goods Makers are Generally Under-Priced

Page 3

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
ALLIED WASTE INDS INC	AW	\$1,984	237.8%	10.5	(4.25)	22.0	(6.6)	3.1	12.2	8.30	0.0%
AMERICAN PWR CNVRSON	APCC	\$9,080	11.6%	46.8	22.26	20.9	36.4	8.7	38.2	34.56	0.0%
AVERY DENNISON CORP	AVY	\$6,452	3.4%	65.3	45.77	10.2	25.0	8.2	17.6	17.82	1.7%
BALL CORP	BLL	\$1,052	-0.3%	35.3	59.42	6.6	9.1	1.7	3.9	8.75	1.7%
BOEING CO	BA	\$40,554	-1.9%	47.0	27.96	4.2	16.7	3.2	10.4	9.10	1.2%
BRIGGS & STRATTON	BGG	\$803	-1.6%	35.9	112.17	12.2	5.5	2.2	5.4	26.42	3.3%
CATERPILLAR INC	CAT	\$12,723	5.1%	36.5	24.41	7.9	12.0	2.2	6.8	5.64	3.6%
COOPER INDUSTRIES INC	CBE	\$3,098	12.3%	33.3	78.92	14.7	9.0	1.8	6.5	13.70	4.2%
CRANE CO	CR	\$1,364	-4.1%	22.5	25.65	8.7	16.5	2.7	8.7	9.99	1.8%
CROWN CORK & SEAL CO INC	CCK	\$1,938	-6.1%	15.1	32.44	8.4	11.5	0.7	2.6	6.20	6.6%
CUMMINS ENGINE	CUM	\$1,243	6.1%	32.6	49.05	4.5	5.9	0.7	3.2	6.74	3.7%
DANAHER CORP	DHR	\$6,858	15.1%	48.4	29.56	11.3	25.7	4.1	17.8	13.22	0.1%
DEERE & CO	DE	\$9,312	9.3%	39.8	(0.16)	4.2	30.8	2.1	12.8	2.73	2.2%
DOVER CORP	DOV	\$9,456	28.0%	46.6	26.84	9.7	18.4	4.0	16.0	13.50	1.0%
EATON CORP	ETN	\$4,944	1.5%	68.0	51.43	6.3	7.4	1.9	5.3	7.31	2.6%
EMERSON ELECTRIC CO	EMR	\$27,790	8.5%	65.1	52.08	12.1	19.0	4.2	14.5	14.39	2.2%
FLUOR CORP	FLR	\$2,337	-17.3%	30.9	41.53	2.5	10.4	1.5	5.6	8.81	3.2%
GENERAL DYNAMICS CORP	GD	\$11,626	25.4%	57.9	83.03	12.9	14.1	3.3	10.9	42.56	1.8%
GENERAL ELECTRIC CO	GE	\$536,105	20.3%	54.2	(28.28)	13.1	46.8	12.3	30.7	2.37	1.0%
GOODRICH (B F) CO	GR	\$3,723	-2.4%	34.7	65.71	12.1	20.9	2.9	11.0	15.71	3.2%
HONEYWELL INTERNATIONAL	HON	\$27,986	5.9%	35.1	40.14	11.5	17.3	3.1	11.5	14.03	2.1%
ILLINOIS TOOL WORKS	ITW	\$16,641	63.2%	55.2	45.58	12.2	18.3	3.6	14.0	12.81	1.3%
INGERSOLL-RAND CO	IR	\$6,606	7.0%	40.8	51.96	10.7	11.5	2.1	8.1	10.20	1.7%
ITT INDUSTRIES INC	IIN	\$2,863	2.6%	32.6	51.08	8.2	11.1	2.4	7.6	38.19	1.8%
JOHNSON CONTROLS INC	JCI	\$4,587	4.7%	53.5	57.20	3.3	10.5	2.0	5.3	8.67	2.1%
LOCKHEED MARTIN CORP	LMT	\$10,525	-10.1%	26.3	(4.81)	4.2	18.2	1.6	6.1	4.14	1.7%
MCDERMOTT INTL INC	MDR	\$456	-21.0%	7.6	(17.61)	2.9	62.9	0.7	6.7	1.59	2.6%
MILLIPORE CORP	MIL	\$3,136	27.5%	68.1	22.40	12.5	42.6	19.3	28.3	12.12	0.6%
MINNESOTA MINING & MFG CC	MMM	\$34,114	7.3%	86.2	68.45	13.5	17.7	5.2	13.3	16.23	2.7%
MOLEX INC	MOLX	\$9,609	33.2%	49.0	18.20	13.8	46.0	6.3	27.7	16.36	0.2%
NATIONAL SERVICE INDS INC	NSI	\$800	13.2%	19.6	36.09	7.1	7.5	1.3	4.4	9.17	6.7%
NAVISTAR INTERNATIONL	NAV	\$1,883	4.5%	31.8	109.07	7.9	3.6	1.5	2.8	11.69	0.0%
NORTHROP GRUMMAN CORP	NOC	\$4,952	-0.6%	70.9	146.11	10.7	8.4	1.4	5.7	11.74	2.3%
OWENS-ILLINOIS INC	OI	\$2,033	1.8%	13.9	1.52	9.9	6.7	1.0	2.6	5.03	0.0%
PACCAR INC	PCAR	\$3,394	8.3%	44.3	172.59	11.9	5.0	1.5	4.7	18.21	2.7%
PALL CORP	PLL	\$2,437	6.1%	19.8	11.74	10.9	15.3	3.1	19.4	8.74	3.3%
PARKER-HANNIFIN CORP	PH	\$4,289	11.0%	38.3	42.66	8.3	10.8	2.1	9.0	11.41	1.8%
PITNEY BOWES INC	PBI	\$9,697	5.0%	37.6	41.83	23.0	15.8	6.5	9.3	13.62	3.0%
ROCKWELL INTL CORP	ROK	\$6,863	0.7%	36.5	46.97	10.7	9.6	2.3	7.6	10.32	2.8%
SANMINA CORP	SANM	\$14,727	223.3%	99.3	19.77	14.3	70.1	16.1	84.0	12.03	0.0%
SEALED AIR CORP	SEE	\$4,246	5.5%	50.8	13.67	9.6	28.5	7.9	10.4	7.17	0.0%
SOLECTRON CORP	SLR	\$27,031	51.8%	44.9	10.13	5.8	56.6	8.1	51.1	13.94	0.0%
TEXTRON INC	TXT	\$8,543	17.8%	59.0	(71.02)	0.5	12.7	1.8	8.2	0.42	2.2%
THERMO ELECTRON CORP	TMO	\$3,521	7.8%	22.4	(0.44)	7.6	(234.0)	1.6	35.4	3.09	0.0%
THOMAS & BETTS CORP	TNB	\$1,203	7.8%	20.8	35.00	8.7	7.4	1.0	4.9	9.29	5.4%
TIMKEN CO	TKR	\$1,161	9.7%	19.0	6.95	3.7	18.4	1.1	5.5	3.67	3.8%

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Bold Blue - Favorable Drivers

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Intrinsic Value Weekly

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Page 4

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TYCO INTERNATIONAL LTD	TYC	\$91,786	27.5%	54.4	22.94	15.9	30.7	6.5	45.7	16.12	0.1%
UNITED TECHNOLOGIES CORP	UTX	\$27,643	15.2%	58.8	45.95	8.6	30.3	3.9	16.5	12.94	1.4%
WASTE MANAGEMENT INC	WMI	\$11,596	4.8%	18.4	0.96	6.7	(17.3)	2.7	9.5	4.29	0.2%

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