

Intrinsic Value Weekly

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"A Popular Delusion"

The big worry of today is now, again, the prospect of growth in an engineered slowing of the economy. The internal contradictions within the "inflation-comes-from-too-much-growth" theory of inflation called the "Phillips Curve" are corrosive to the process of assessing the future. If we're growing too fast, then we have to slow down. But if we slow down, could that lead to recession. And by the way, how about those sticky energy prices? How come, now that we're slowing down, they don't start ebbing the way they used to in the past? Has the anti-energy industry policy of the current Federal administration finally strangled the ability of energy producers to step up production when rising prices signal the need for it? Inflation from growth? The answer is staring us in the face. When supply is strangled, growth slows and prices get sticky. For those of you too young to remember the seventies, this was called stagflation. High interest rates, falling dollar, rising commodity prices, vicious bracket creep in the tax system all combined to wreak havoc with the stock market. We have some of those symptoms now. It will take a long time to undo the damage wrought by anti-growth regulation and constant Federal intervention to "cure" perceived market failures. But first, the fact that the damage exists must be recognized. And as long as inflation is popularly blamed on growth, that recognition will not come. These popular delusions come and go. Who now remembers that the market pundits used to pore over every wiggle in the weekly money supply numbers? It took several years for that one to fade into oblivion. Well after the time when any Fed policy was driven by changes in money supply. So, this one will go too. And growth will again take its rightful place among the good things.

The Intrinsic Value Portfolio again reflected the waning of near term growth expectations. But the discount from Intrinsic Value just gets larger and opportunity higher.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 9/15/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change *
HON	Honeywell Int'l Inc.	4/29/1999	\$ 36.500	\$64.60	(43.5%)	1.7	0.5%
BGP	Borders Group, Inc.	3/6/2000	\$ 13.625	\$33.81	(59.7%)	1.1	0.9%
BGG	Briggs & Stratton	3/6/2000	\$ 41.500	\$106.86	(61.2%)	1.3	(2.6%)
CTL	CenturyTel, Inc.	3/6/2000	\$ 27.625	\$50.51	(45.3%)	1.4	(3.1%)
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 47.000	\$66.30	(29.1%)	0.9	(4.1%)
G	Gillette Company	3/2/2000	\$ 29.813	\$50.55	(41.0%)	3.4	(2.9%)
LOW	Lowe's Companies	3/6/2000	\$ 48.188	\$63.82	(24.5%)	2.5	(6.0%)
MLHR	Herman Miller, Inc.	3/6/2000	\$ 28.500	\$46.28	(38.4%)	3.2	(5.2%)
NYT	New York Times Co.	2/10/2000	\$ 38.625	\$49.37	(21.8%)	2.6	6.2%
NUE	Nucor Corporation	3/6/2000	\$ 34.438	\$59.99	(42.6%)	1.1	(9.8%)
WEN	Wendy's International	3/6/2000	\$ 18.938	\$24.49	(22.7%)	1.4	0.0%

Average: (39.1%) Average: (2.4%)

S&P 500 (1.9%)

Bold - Outperformed the S&P 500 for the week

* two week change

Value Drivers

Standard Market Statistics

Symbol	Capital Turnover	Sales		EBIT Margin %	Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/ Book	Price/ Market Cap Sales (\$billions)
		Growth Last 12M	Return On Capital							
HON	1.2	0.7%	13.8%	14.0%	5.9%	2.1%	17.7	3.6	1.6	30.9
BGP	1.0	13.7%	5.7%	10.9%	10.9%	0.0%	10.9	1.3	0.3	1.0
BGG	2.1	5.9%	12.9%	28.7%	(9.2%)	2.9%	7.2	2.7	0.6	0.9
CTL	0.4	2.0%	30.3%	11.1%	1.5%	0.7%	17.5	2.2	2.3	4.0
DAL	0.7	8.0%	12.7%	10.4%	12.9%	0.2%	4.8	1.5	0.4	6.1
G	0.9	(0.1%)	21.3%	14.5%	2.0%	2.2%	25.4	9.6	3.3	31.6
LOW	2.2	18.9%	7.4%	11.1%	18.7%	0.3%	21.9	3.6	1.1	17.2
MLHR	2.0	9.7%	12.7%	18.4%	20.9%	0.5%	18.1	12.2	1.2	2.5
NYT	1.1	12.0%	18.7%	13.1%	13.6%	1.2%	19.2	4.7	2.0	6.6
NUE	1.4	20.1%	9.3%	14.4%	21.7%	1.7%	9.6	1.4	0.7	3.0
WEN	0.9	9.6%	13.8%	10.2%	7.8%	1.3%	12.9	2.1	1.0	2.1

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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	(22.1%)	(34.3%)	(13.6%)
CONSUMER CYCLICALS	(27.8%)	(21.3%)	(7.6%)
CONSUMER STAPLES	(11.9%)	(23.5%)	(11.7%)
HEALTH	(28.3%)	25.0%	25.1%
ENERGY	22.2%	138.0%	77.3%
FINANCIAL	(8.6%)	(28.2%)	(23.1%)
CAPITAL GOODS	(13.4%)	9.5%	8.8%
TECHNOLOGY	3.8%	7.9%	23.2%
COMMUNICATIONS	(28.2%)	47.8%	(42.0%) *
UTILITY	14.9%	(1.6%)	(16.6%)
TRANSPORTATION	(40.3%)	(17.6%)	(6.5%)
Weighted Total:	(8.0%)	7.8%	6.5%

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 9/15/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	1.7%	(5.5%)	3.7%	(7.9%)	3.4%	(5.6%)
CONSUMER CYCLICALS	7.1%	(0.0%)	12.2%	(1.0%)	18.4%	0.8%
CONSUMER STAPLES	9.7%	(1.9%)	6.8%	2.8%	7.7%	(0.2%)
HEALTH	10.5%	0.9%	12.6%	0.9%	12.8%	1.3%
ENERGY	5.8%	4.1%	7.4%	3.6%	5.4%	5.7%
FINANCIAL	15.1%	(1.2%)	11.0%	1.4%	12.4%	(3.8%)
CAPITAL GOODS	8.3%	(4.0%)	7.4%	(7.4%)	14.1%	0.1%
TECHNOLOGY	31.5%	(4.7%)	24.1%	(2.7%)	19.0%	(5.7%)
COMMUNICATIONS	6.7%	(1.6%)	1.6%	(6.6%)	0.2%	(8.7%) *
UTILITY	3.1%	3.5%	11.8%	3.0%	3.3%	5.3%
TRANSPORTATION	0.5%	(0.9%)	1.4%	(2.5%)	3.3%	(2.0%)
Index Total:		(1.9%)		(0.5%)		0.2%

* Sector contains only 2 companies

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

Sector Comments Technology is now taking on the mien of the battered warrior, bruised and bloody. As we have expected, the coming under-valuation of the sector will finally stem from lower prices rather than intrinsic values racing ahead of their market values. When the outlook is the bleakest, opportunity to over-weight the sector will come again, just as it has for all sectors at one time or another.

Take the Utility Sector, for instance. In the middle of 1999, you couldn't give away these stocks. Even in the first quarter of this year they were steeply undervalued. Now, as the need for expansion of electric production is met with regulatory roadblocks and "NIMBY" (not-in-my-backyard) objections from other industries. (see the Cisco Systems/Calpine stories in today's paper) And when regulations that created so-called free market electric power create spikes as high as \$300/kilowatt-hour, shortages at certain times of day and times of year are becoming common. How this all comes out, we don't yet know. The possibility of re-regulation popping up again makes us nervous. And the system for allowing construction of new electric power plants is anything but efficient or quick. So, the ability of some power producers to earn high rates of return on existing investment may persist for a while. But, we'll be forgiven if we can't forget the anti-power, anti-growth protesters picketing new construction sites over the past thirty years. Those folks are still around. Page 3 this week displays the value drivers of the Large Cap Utility Sector, now over-priced.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
	\$ 12,902,380	90.5%	\$967,150
			6.8%
			\$ 388,729
			2.7%

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The Hot New Sector: Utility Companies

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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
AES CORP	AES	\$29,938	140.3%	67.5	(13.62)	20.3	55.9	10.0	53.4	4.41	0.0%
AMEREN CORP	AEE	\$5,832	9.4%	42.5	55.86	23.3	13.2	1.8	7.8	9.54	6.0%
AMERICAN ELECTRIC POWER	AEP	\$12,337	7.0%	38.3	42.90	18.9	15.8	1.4	6.6	7.08	6.3%
CINERGY CORP	CIN	\$5,036	38.7%	31.7	40.39	12.7	10.8	1.8	6.6	8.81	5.7%
CMS ENERGY CORP	CMS	\$3,225	20.1%	29.3	30.81	14.9	11.3	1.2	3.9	7.66	5.0%
COASTAL CORP	CGP	\$16,942	62.3%	79.0	27.33	12.4	25.7	3.7	17.2	7.72	0.3%
COLUMBIA ENERGY GROUP	CG	\$5,626	-1.6%	70.8	88.54	20.8	14.7	2.8	9.9	11.77	1.3%
CONSOLIDATED EDISON INC	ED	\$7,300	38.1%	34.4	66.03	19.1	9.4	1.2	5.9	10.56	6.3%
CONSTELLATION ENERGY CO	CEG	\$6,783	1.2%	45.3	47.60	20.2	19.9	1.8	8.6	8.22	3.7%
CP&L ENERGY INC	CPL	\$6,444	17.0%	40.4	49.77	25.3	13.5	1.7	7.3	10.24	5.1%
DOMINION RESOURCES INC	D	\$14,001	56.3%	58.9	53.45	23.4	31.2	2.1	8.7	8.01	4.4%
DTE ENERGY CO	DTE	\$5,573	24.2%	39.1	48.96	19.1	10.4	1.3	4.7	7.81	5.3%
DUKE ENERGY CORP	DUK	\$29,900	132.9%	81.3	19.06	7.6	28.7	3.0	16.4	6.60	2.7%
EASTERN ENTERPRISES	EFU	\$1,726	20.1%	63.6	7.02	8.8	27.6	2.3	12.6	4.86	2.7%
EDISON INTERNATIONAL	EIX	\$8,186	29.6%	25.1	12.02	19.0	11.8	1.4	3.6	6.72	4.5%
EL PASO ENERGY CORP/DE	EPG	\$15,308	62.7%	66.0	(38.82)	0.7	83.2	4.5	38.7	0.57	1.2%
ENRON CORP	ENE	\$66,087	74.6%	89.4	0.21	3.4	56.2	7.2	33.7	4.86	0.6%
ENTERGY CORP	ETR	\$8,436	-7.7%	37.8	23.45	14.3	11.6	1.0	6.7	5.87	3.2%
FIRSTENERGY CORP	FE	\$6,290	12.1%	27.4	54.28	24.5	9.6	1.3	4.0	9.15	5.5%
FLORIDA PROGRESS CORP	FPC	\$5,153	12.0%	52.3	53.98	15.0	14.3	2.5	7.7	9.99	4.2%
FPL GROUP INC	FPL	\$11,054	3.5%	62.2	44.78	14.3	12.4	1.8	6.3	7.38	3.5%
GPU INC	GPU	\$3,904	43.4%	32.2	18.71	23.0	27.3	1.1	3.9	6.18	6.8%
KEYSPAN CORP	KSE	\$4,015	74.3%	36.9	48.62	17.4	16.2	1.4	7.8	7.60	4.8%
NIAGARA MOHAWK HOLDINGS	NMK	\$2,517	14.3%	15.3	(2.57)	12.9	(56.0)	0.8	7.3	3.91	0.0%
NICOR INC	GAS	\$1,739	28.2%	37.9	50.19	13.1	13.5	2.2	6.7	9.75	4.4%
ONEOK INC	OKE	\$1,066	134.0%	36.5	67.40	11.9	@NA	0.8	4.8	8.66	3.4%
PECO ENERGY CO	PE	\$9,927	14.5%	58.5	61.34	25.2	13.7	4.9	12.4	10.20	1.7%
PEOPLES ENERGY CORP	PGL	\$1,196	19.3%	33.9	45.54	13.8	12.3	1.5	6.8	9.49	5.9%
PG&E CORP	PCG	\$10,912	20.4%	28.3	(7.67)	4.2	55.7	1.6	6.0	2.89	4.2%
PINNACLE WEST CAPITAL	PNW	\$4,025	39.0%	47.5	59.23	23.9	11.1	1.6	6.1	8.30	2.9%
PPL CORP	PPL	\$5,713	29.2%	39.5	41.47	18.7	9.3	3.0	6.1	8.08	2.7%
PUBLIC SERVICE ENTRP	PEG	\$9,233	5.9%	43.1	80.89	28.3	10.3	2.0	7.3	10.10	5.0%
RELIANT ENERGY INC	REI	\$11,952	57.8%	40.7	31.28	8.4	4.9	2.1	4.6	6.14	3.7%
SEMPRA ENERGY	SRE	\$4,108	-1.6%	20.1	27.09	13.8	10.1	1.6	3.7	6.84	5.0%
SOUTHERN CO	SO	\$21,323	14.5%	32.9	33.02	24.6	15.0	2.2	8.4	8.21	4.1%
TXU CORP	TXU	\$10,134	23.1%	38.4	65.54	15.9	8.5	1.2	4.7	7.58	6.3%
UNICOM CORP	UCM	\$9,417	7.2%	53.3	40.84	22.2	12.7	1.9	8.2	6.63	3.0%
WILLIAMS COS INC	WMB	\$20,337	43.5%	45.9	(0.20)	14.9	36.6	3.6	22.4	6.00	1.3%
XCEL ENERGY INC	XEL	\$4,188	8.3%	26.6	18.80	18.8	14.6	1.5	7.1	6.69	2.4%

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