

Intrinsic Value Weekly

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"Opportunity Knocks"

When everything is going right for a company, revenues are clicking along at "better-than-expected" rates, margins are expanding, competitors are dropping like flies and the stock price is soaring, valuation seems to be the last thing investors care about. But, of course, even the best companies encounter adversity. And when they do, the stock gets hammered. Examples in recent weeks include **Intel** and **Apple**, as all of us have noted. Is this phenomenon predictable? Should we have been able to anticipate these truly huge drops. This is the province of valuation. The process of valuing stocks is straightforward. Forecast revenue growth, margins and capital requirements. Add in assumptions about financial policy, leverage, buybacks of stock and dividends. You'll come up with an estimate of the real worth of a stock. And if the stock price is well above that estimate, you should avoid it. If the stock is selling well below its real worth, consider buying it. The same process can be used to estimate what the market price implies about the assumptions investors are using to value the stock. Our Free Cash Flow Annuity variable is an attempt to estimate what a stock is worth if the company's operating profit were to stay exactly the same into the infinite future, no growth in other words. When a stock is selling below that level, investors are predicting shrinkage in revenues, or margins, or increases in capital usage. If the company can be reasonably expected to perform better than that, then the stock could be a good investment. No one can know the future exactly, but making reasonable assumptions, grounded in knowledge of the business conditions which drive revenues, margins and capital usage, is a sensible approach to using valuation techniques for deciding which stocks are acceptable and which to avoid. We dropped **Intel (INTC - NASDAQ)** from the Intrinsic Value Portfolio about a year ago for valuation reasons. The market price seemed to forecast growth in excess of what was reasonable, given the likely slowing of the PC business. While the stock continued to rise afterward, we did not succumb to the temptation to raise our assumptions. (Continued on Page 2)

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 9/29/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
HON	Honeywell Int'l Inc.	9/22/2000	\$ 35.625	\$59.52	(40.1%)	1.7	(1.9%)
BGP	Borders Group, Inc.	9/22/2000	\$ 13.938	\$29.31	(52.5%)	1.1	2.8%
BGG	Briggs & Stratton	9/22/2000	\$ 37.813	\$98.87	(61.8%)	1.5	(0.8%)
CTL	CenturyTel, Inc.	9/22/2000	\$ 27.250	\$40.74	(33.1%)	1.4	3.6%
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 44.375	\$66.30	(33.1%)	0.9	(3.1%)
G	Gillette Company	9/14/2000	\$ 30.875	\$40.84	(24.4%)	3.4	1.6%
INTC	Intel Corporation	9/11/2000	\$ 41.563	\$67.55	(38.5%)	13.2	NA
LOW	Lowe's Companies	9/22/2000	\$ 44.875	\$56.04	(19.9%)	2.5	(11.6%)
MLHR	Herman Miller, Inc.	3/6/2000	\$ 32.063	\$46.28	(30.7%)	3.5	8.3%
NYT	New York Times Co.	9/22/2000	\$ 39.313	\$46.26	(15.0%)	2.6	(0.2%)
NUE	Nucor Corporation	9/22/2000	\$ 30.125	\$60.65	(50.3%)	1.1	(0.6%)
WEN	Wendy's International	9/22/2000	\$ 20.063	\$28.69	(30.1%)	1.4	0.9%

Average: (35.8%) Average: (0.1%)
S&P 500 (0.8%)

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Sales					Standard Market Statistics				
	Capital Turnover	Growth Last 12M	EBIT Margin %	Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Market Cap Sales (\$billions)	Market Cap (\$billions)
HON	1.2	0.7%	13.8%	14.0%	5.9%	2.1%	17.7	3.6	1.6	28.5
BGP	1.0	13.7%	5.7%	10.9%	10.9%	0.0%	10.9	1.3	0.3	1.1
BGG	2.2	5.9%	12.9%	30.5%	(9.2%)	3.2%	7.2	2.3	0.5	0.8
CTL	0.4	2.0%	30.3%	11.1%	1.5%	0.7%	17.5	2.2	2.3	3.8
DAL	0.7	8.0%	12.7%	10.4%	12.9%	0.2%	4.8	1.5	0.4	5.4
G	0.9	(0.1%)	21.3%	14.5%	2.0%	2.1%	25.4	9.6	3.4	32.5
INTC	0.9	12.9%	34.6%	24.3%	23.0%	0.2%	53.1	15.3	8.7	279.1
LOW	2.2	18.9%	7.4%	11.1%	18.7%	0.3%	21.9	3.6	1.0	17.2
MLHR	2.2	11.2%	12.1%	26.5%	11.4%	0.5%	18.1	12.2	1.3	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%	2.0%	9.6	1.4	0.6	2.4
WEN	0.9	9.6%	13.8%	10.2%	7.8%	1.2%	12.9	2.1	1.1	2.3

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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	(23.4%)	(37.1%)	(18.0%)
CONSUMER CYCLICALS	(31.4%)	(23.4%)	(13.1%)
CONSUMER STAPLES	(10.6%)	(23.6%)	(9.1%)
HEALTH	(23.7%)	30.6%	27.1%
ENERGY	19.0%	124.6%	67.4%
FINANCIAL	(7.2%)	(27.9%)	(20.7%)
CAPITAL GOODS	(12.8%)	5.1%	1.2%
TECHNOLOGY	(5.5%)	7.8%	14.1%
COMMUNICATIONS	(26.8%)	42.1%	(51.6%) *
UTILITY	14.7%	(2.6%)	(19.0%)
TRANSPORTATION	(39.8%)	(23.4%)	(13.3%)
Weighted Total:	(10.7%)	6.4%	2.5%

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 9/22/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	1.7%	2.3%	3.5%	1.2%	3.3%	0.8%
CONSUMER CYCLICALS	6.9%	(3.3%)	11.8%	(0.8%)	18.0%	0.4%
CONSUMER STAPLES	10.1%	1.9%	6.8%	2.1%	8.2%	(1.0%)
HEALTH	11.4%	0.1%	13.3%	2.2%	13.4%	(0.8%)
ENERGY	5.8%	2.5%	7.0%	6.6%	5.5%	6.9%
FINANCIAL	15.6%	3.1%	11.2%	2.6%	13.2%	5.5%
CAPITAL GOODS	8.5%	1.2%	7.2%	3.6%	13.7%	0.2%
TECHNOLOGY	29.3%	(6.8%)	24.7%	(0.9%)	18.1%	(2.3%)
COMMUNICATIONS	7.0%	6.3%	1.5%	6.6%	0.2%	(9.9%) *
UTILITY	3.2%	6.3%	11.7%	3.9%	3.3%	1.4%
TRANSPORTATION	0.6%	1.5%	1.3%	(2.6%)	3.1%	(6.3%)
Index Total:		(0.8%)		2.3%		0.5%

* Sector contains only 2 companies

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

(Continued from Page One) As revenues have slowed, investors are once again extrapolating this new low growth rate. We have often commented that the chip business is cyclical, though within a better-than-average uptrend in sales. When the stock is suddenly discounting a growth rate below trend, opportunity is created for investment. So now, we note that Intel's intrinsic value is now well above the current price and are prepared to recommend investment in the company. Thus, we are adding **Intel (INTC - NASDAQ)** to the Intrinsic Value Portfolio.

Sector Comments Technology sank again and Utilities soared. It must seem that the valuations are terribly out of synch. Large cap Techs are undervalued and Large Cap Utilities are overvalued. Those who have been following our valuation work and have over-weighted Large Cap Utilities might now consider moving into Small Cap Utilities to find better opportunities. The mortar fire in the Tech sector is probably not over with earnings season still young. Many new opportunities will likely be created before it's all over.

The overall market is now cheaper, on average. Financials still look good. Basics, Consumer and Large Capital Goods also. Large Communications companies are very cheap, with everyone now expecting terrible earnings in the Telephone industry. As usual, we expect the excesses to correct over some period. So, this week we present the current value drivers for Large Communications companies on Page 3.

(\$millions)	Large Capitalization		Mid-Cap Capitalization		Small-Cap Capitalization	
\$	12,647,961	90.4%	\$962,622	6.9%	\$ 377,511	2.7%

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Communications Companies are Cheap

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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	\$16,466	8.9%	52.2	33.94	17.3	9.9	3.8	10.2	11.34	2.5%
AT&T CORP	T	\$196,686	3.0%	29.4	13.02	13.3	16.2	1.8	12.1	7.01	3.0%
BELLSOUTH CORP	BLS	\$75,710	9.8%	40.3	28.11	18.2	17.0	4.7	9.3	11.06	1.9%
CENTURYTEL INC	CTL	\$3,830	1.5%	27.3	37.73	30.3	17.5	2.2	6.5	11.07	0.7%
GLOBAL CROSSING LTD	GBLX	\$27,238	387.3%	31.0	(9.64)	4.5	(27.6)	2.6	99.8	0.73	0.0%
NEXTEL COMMUNICATIONS	NXTL	\$35,577	58.9%	46.8	(32.69)	(16.7)	(30.7)	17.9	(129.7)	(3.55)	0.0%
QWEST COMMUNICATION INTL Q	Q	\$79,544	6.9%	48.1	47.29	20.6	44.9	20.8	7.0	11.06	4.5%
SBC COMMUNICATIONS INC	SBC	\$169,478	7.7%	50.0	31.31	19.4	19.4	5.3	11.2	13.46	2.0%
SPRINT FON GROUP	FON	\$23,360	5.5%	29.3	25.29	14.7	17.5	2.5	6.0	9.67	1.7%
SPRINT PCS GROUP	PCS	\$32,388	98.4%	35.1	(60.84)	(80.8)	(20.7)	14.9	(33.3)	(15.03)	0.0%
VERIZON COMMUNICATIONS	VZ	\$131,654	15.7%	48.4	47.03	21.5	12.2	4.3	7.2	12.19	2.8%
WORLDCOM INC	WCOM	\$87,158	12.4%	30.4	23.84	23.3	21.0	2.0	10.4	7.53	0.0%

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