

Intrinsic Value Weekly

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"Does the Fed Want Deflation?"

In the wreckage of last week's market, some bright spots stand out: AC, DAL and PFE. Plus, more IV stocks beat the S&P than lost to it, 8 to 5. But the big drops in HON and CTL were damaging to the average. Nevertheless, coming out on top when the bottom falls out is a bit satisfying. We can say we're going broke slower than everyone else.

The economic numbers certainly spooked the market. And the word "spooked" is apt because, as with ghosts, the reasons for worrying about inflation are insubstantial, ephemeral and non-existent. Look at the foreign exchange value of the US dollar and gold prices, as well as general commodity prices. No inflation signals at all. None. Oil is not a monetary asset, but the conventional wisdom has it that oil causes inflation. Doesn't. So, if the Fed does move on this ephemeral evidence, it could cause some disruption. But, as has happened in the past, if the Fed does move, some deflationary effects could arise. As they did in the summer of 1998, the Fed could push some commodity-based economies elsewhere into liquidity problems and de-stabilize the current pattern of world economic recovery. That would be shameful, and, as with the last time, the financial press will not connect the dots. So, instead of being a stabilizing force, the Fed may become a cyclical force. Markets won't like that one bit. If the Fed boosts rates, stay in improving-efficiency, under-priced stocks that won't suffer from deflation.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 1/28/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
AC	Alliance Capital Mgt LP	9/24/1999	\$ 37.375	\$44.68	(16.3%)	5.4	1.0%
HON	Honeywell Int'l Inc.	4/29/1999	\$ 45.188	\$64.60	(30.1%)	2.4	(11.9%)
BGP	Borders Group, Inc.	1/10/2000	\$ 14.000	\$33.34	(58.0%)	1.2	(3.9%)
BGG	Briggs & Stratton	9/20/1999	\$ 44.875	\$117.62	(61.8%)	2.0	(6.5%)
CTL	CenturyTel, Inc.	3/1/1999	\$ 37.688	\$45.97	(18.0%)	2.0	(13.6%)
DAL	Delta Air Lines, Inc.	3/1/1999	\$ 47.250	\$66.79	(29.3%)	0.9	0.8%
G	Gillette Company	6/23/1999	\$ 38.000	\$48.52	(21.7%)	4.5	(2.6%)
LOW	Lowe's Companies	9/27/1999	\$ 44.563	\$61.77	(27.9%)	4.2	(5.9%)
MLHR	Herman Miller, Inc.	7/5/1999	\$ 21.750	\$46.47	(53.2%)	2.5	(1.1%)
NYT	New York Times Co.	3/1/1999	\$ 46.313	\$48.21	(3.9%)	3.3	(0.7%)
NUE	Nucor Corporation	3/1/1999	\$ 50.688	\$57.99	(12.6%)	1.9	(0.7%)
PFE	Pfizer, Inc.	6/23/1999	\$ 35.188	\$42.73	(17.7%)	9.4	0.4%
WEN	Wendy's International	3/1/1999	\$ 18.625	\$29.86	(37.6%)	1.6	(7.5%)
Average:					(31.0%)	Average:	(4.0%)
Bold - Outperformed the S&P 500 for the week						S&P 500	(5.6%)

Value Drivers

Standard Market Statistics

Symbol	Sales		EBIT Margin %	ROC	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Sales
	Growth Last 12M								
AC	41.2%	27.7%	38.6%	67.7%	5.3%	13.8	11.9	2.7	
HON	131.3%	13.0%	11.5%	513.0%	1.5%	21.7	6.1	0.9	
BGP	13.7%	6.4%	8.8%	17.6%	0.0%	15.9	1.8	0.4	
BGG	14.4%	12.0%	26.4%	17.3%	2.7%	9.8	3.4	0.8	
CTL	6.3%	30.4%	10.9%	2.8%	0.5%	28.4	4.3	3.9	
DAL	4.5%	12.7%	10.4%	7.7%	0.2%	6.2	1.6	0.5	
G	(1.6%)	23.1%	17.1%	(4.4%)	1.6%	33.5	9.6	4.6	
LOW	19.7%	6.8%	10.7%	19.2%	0.3%	35.6	6.7	1.4	
MLHR	(1.3%)	12.7%	18.4%	(0.2%)	0.7%	13.6	8.8	1.1	
NYT	3.7%	17.5%	11.8%	6.9%	0.9%	30.3	5.8	3.1	
NUE	(12.2%)	9.9%	12.6%	1.6%	1.0%	23.0	2.3	1.3	
PFE	19.6%	27.0%	20.2%	16.6%	0.9%	47.7	14.3	7.6	
WEN	2.0%	12.6%	9.2%	11.4%	1.3%	18.6	2.4	1.3	

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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	18.3%	(29.1%)	(7.6%)
CONSUMER CYCLICALS	(16.6%)	(23.5%)	(22.4%)
CONSUMER STAPLES	(8.2%)	(11.1%)	(14.4%)
HEALTH	(32.8%)	1.2%	3.6%
ENERGY	(2.2%)	42.8%	9.8%
FINANCIAL	(18.9%)	(37.0%)	(35.1%)
CAPITAL GOODS	13.0%	5.1%	2.1%
TECHNOLOGY	21.1%	26.7%	77.8%
COMMUNICATIONS	(3.1%)	64.2% *	100.4% *
UTILITY	(16.6%)	(25.0%)	(15.7%)
TRANSPORTATION	(34.6%)	(38.9%)	(16.2%)
Weighted Total:	(1.4%)	(1.5%)	13.8%

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 1/28/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.8%	(5.2%)	4.6%	(2.4%)	3.9%	(3.3%)
CONSUMER CYCLICALS	8.6%	(7.4%)	14.3%	(3.9%)	16.0%	(6.1%)
CONSUMER STAPLES	11.5%	(5.2%)	8.7%	0.4%	7.3%	(2.5%)
HEALTH	10.1%	(1.3%)	10.8%	(6.8%)	12.2%	(9.5%)
ENERGY	5.6%	(8.3%)	4.6%	(10.1%)	3.0%	(8.0%)
FINANCIAL	12.9%	(1.5%)	10.3%	(0.1%)	9.8%	1.5%
CAPITAL GOODS	8.1%	(5.6%)	7.6%	(5.7%)	13.0%	(4.6%)
TECHNOLOGY	29.1%	(8.4%)	27.2%	(7.6%)	27.4%	(9.3%)
COMMUNICATIONS	8.2%	(7.9%)	1.5%	(5.7%) *	0.9%	(3.1%) *
UTILITY	2.6%	(4.0%)	9.4%	(2.5%)	3.4%	(2.7%)
TRANSPORTATION	0.6%	(4.9%)	1.0%	(5.2%)	3.1%	(3.7%)
Index Total:		(5.6%)		(5.0%)		(6.0%)

* Sector contains only 3 companies

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

Sector Comments Under-priced groups fared well this past week. That isn't always the case, but how else does a group get under-priced?

With the collapse of Technology stocks predicted confidently in this publication last week, we ought to quit now, while we're ahead. But most Technology stocks remain over-priced for any reasonable scenario of future sales growth and profit margins.

The Year-to-date performance derby has been won by two of the more under-priced groups: Health and Utilities. In each case, the industry is faced with tremendous challenges, but has prospects for much higher than historical growth rates and margins. This combination of rapid change and under-pricing has been the source of sector high-performance in the past; specifically Technology stocks beginning in mid-1998. We don't expect the magnitude of out-performance to match Technology's record, but we do expect great things from these two groups.

Page 3 shows data for the best-performing group of the week, Small Cap Financial stocks (which are also very under-priced.)

(Millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
\$	11,350,231	\$872,332	\$ 363,054
	90.2%	6.9%	2.9%

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Small Cap Financials Are Perking Up - And they're under-priced

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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
AMERICREDIT CORP	ACF	\$1,198	52.3%	16.3	30.00	49.7	14.0	3.0	12.0	18.48	0.0%
ANCHOR BANCORP INC/WI	ABCW	\$356	2.0%	14.1	(75.69)	23.5	17.2	1.9	9.8	6.15	1.8%
BANKNORTH GROUP INC/DE	BKNG	\$574	5.7%	24.5	0.00	0.0	17.0	@NA	13.7	-	2.9%
BLANCH E W HLDGS INC	EWB	\$633	2.7%	48.1	6.41	26.2	20.4	7.1	14.1	6.23	1.0%
CAROLINA FIRST CORP	CAFC	\$424	13.8%	16.5	(76.20)	18.1	16.6	1.2	11.7	7.06	2.2%
CASH AMERICA INTL INC	PWN	\$243	5.7%	9.7	3.57	9.7	21.7	1.3	9.2	5.74	0.5%
CENTURA BANKS INC	CBC	\$1,132	13.8%	40.3	(164.36)	21.9	12.4	1.9	8.1	6.82	3.2%
CHITTENDEN CORP	CHZ	\$832	94.8%	29.4	(85.05)	26.8	(740.6)	2.4	11.7	20.59	3.0%
COMMERCE BANCORP INC/NJ	CBH	\$1,090	30.3%	37.0	(129.65)	23.2	17.6	3.4	13.4	14.55	2.3%
COMMERCIAL FEDERAL	CFB	\$858	12.1%	14.5	(147.94)	20.4	10.3	1.1	6.2	4.33	1.9%
COMMUNITY FIRST BANKSHAR	CFBX	\$661	-0.9%	13.2	0.00	@NA	11.9	@NA	8.5	-	4.2%
CULLEN/FROST BANKERS INC	CFR	\$1,278	5.5%	24.2	(75.72)	23.9	14.4	2.7	12.2	14.93	2.9%
DAIN RAUSCHER CORP	DRC	\$633	21.1%	50.7	(21.85)	12.9	11.7	1.8	23.5	9.94	1.7%
DELPHI FINANCIAL GRP -CL A	DFG	\$707	47.5%	34.3	(20.53)	24.8	8.9	1.1	6.5	4.68	0.0%
DOWNEY FINANCIAL CORP	DSL	\$558	43.0%	19.8	0.00	0.0	10.0	@NA	8.6	-	1.8%
EATON VANCE CORP	EV	\$1,463	44.9%	41.5	35.69	23.4	26.0	@NA	27.1	21.67	0.9%
ENHANCE FINANCIAL SVCS GR	EFBS	\$533	-13.9%	14.0	33.20	58.6	7.3	0.9	@CF	9.92	1.7%
FIDELITY NATIONAL FINL INC	FNF	\$364	3.8%	12.8	42.57	10.3	4.7	1.0	2.9	13.36	3.1%
FIRST AMER FINL CP CA	FAF	\$783	-1.6%	12.0	44.20	10.1	6.1	1.0	2.8	14.87	2.0%
FIRST BANCORP P R	FBP	\$532	10.0%	18.6	(39.43)	16.6	10.7	2.3	9.2	2.86	1.9%
FIRST MIDWEST BANCORP INC	FMBI	\$977	1.0%	23.6	(60.91)	23.7	16.2	2.5	16.2	9.68	3.0%
FREMONT GENERAL CORP	FMT	\$556	39.5%	7.9	(10.53)	34.5	11.0	0.5	3.2	5.44	4.0%
FRONTIER INS GRP INC	FTR	\$109	18.8%	3.1	(95.68)	(14.6)	(0.5)	0.3	(3.7)	(3.59)	0.0%
GALLAGHER (ARTHUR J.) & CC	AJG	\$993	10.8%	54.1	72.37	15.4	18.2	5.7	14.1	40.19	3.0%
HILB ROGAL & HAMILTON CO	HRH	\$369	49.5%	28.1	12.28	11.3	20.2	7.5	12.9	10.01	2.3%
HUDSON UNITED BANCORP	HU	\$933	2.2%	23.3	(102.86)	21.2	10.5	2.3	22.5	8.74	4.3%
INVESTORS FINANCIAL SVCS C	IFIN	\$546	34.7%	37.5	(42.14)	13.3	32.5	7.0	27.8	4.16	0.2%
JEFFERIES GROUP INC	JEF	\$534	-19.7%	22.3	(9.93)	17.2	9.5	1.4	5.3	14.74	0.9%
JSB FINL INC	JSB	\$455	-3.0%	48.9	(43.78)	45.7	15.3	1.3	10.0	11.90	3.7%
MAF BANCORP INC	MAFB	\$453	25.0%	18.9	0.00	0.0	10.5	@NA	10.6	-	1.9%
MUTUAL RISK MANAGEMENT L	MM	\$707	40.7%	16.2	(36.06)	28.2	12.1	2.0	9.6	3.31	1.7%
NATIONAL DISC BROKERS INC	NDB	\$376	30.1%	22.1	3.05	9.6	21.7	2.6	11.9	6.16	0.0%
PIONEER GROUP INC	PIOG	\$388	-2.8%	14.6	(28.73)	(9.1)	(32.8)	2.7	14.3	(5.66)	2.7%
PROVIDENT BANKSHARES COI	PBKS	\$367	8.1%	14.4	(130.72)	16.6	10.4	1.5	5.5	4.81	4.5%
QUEENS COUNTY BANCORP IN	QCSB	\$479	10.8%	22.8	0.00	0.0	16.0	@NA	17.4	-	4.4%
RADIAN GROUP INC	RDN	\$1,491	62.8%	40.3	65.91	37.8	13.0	2.1	10.1	15.76	0.3%
RAYMOND JAMES FINANCIAL C	RJF	\$886	19.8%	18.8	(35.53)	14.6	10.4	1.6	8.4	25.71	1.6%
RIGGS NATL CORP WASH D C	RIGS	\$290	-5.8%	10.3	(109.68)	20.7	13.2	1.0	4.2	6.29	2.0%
SEI INVESTMENTS CO	SEIC	\$1,855	29.5%	104.6	54.16	19.4	33.4	35.6	31.9	34.34	0.4%
SELECTIVE INS GROUP INC	SIGI	\$412	10.6%	14.9	(31.65)	7.4	8.6	0.8	6.8	2.59	4.0%
SILICON VY BANCSHARES	SIVB	\$1,220	24.3%	54.5	0.00	0.0	31.9	@NA	36.8	-	0.0%
STATEN ISLAND BANCORP INC	SIB	\$682	29.5%	17.6	(14.24)	33.8	13.8	1.2	15.9	4.81	2.5%
SUSQUEHANNA BANCSHARES	SUSQ	\$527	0.4%	14.3	(70.98)	21.6	11.5	1.5	9.3	8.26	4.8%
TRENWICK GROUP INC	TWK	\$149	-10.4%	14.3	(15.32)	18.2	80.7	0.5	@CF	4.57	7.3%
TRUSTCO BANK CORP/NY	TRST	\$644	-0.3%	12.0	(24.47)	28.7	18.8	3.8	17.2	14.82	5.0%
U S TRUST CORP	UTC	\$2,202	5.7%	118.0	(118.97)	45.0	20.3	6.1	26.7	13.62	0.7%

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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 Research Insight®, Intrinsic Value Associates, LLC

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Small Cap Financials Are Perking Up - And they're under-priced

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UNITED BANKSHARES INC/WV	UBSI	\$911	7.0%	21.4	(63.24)	21.7	17.6	2.4	16.0	9.08	3.9%
WHITNEY HOLDING CORP	WTNY	\$742	18.2%	32.9	(128.22)	21.6	15.0	1.5	10.1	9.56	4.0%
ZENITH NATIONAL INSURANCE	ZNT	\$346	-26.9%	20.1	(62.56)	4.7	5.4	1.0	11.9	1.91	5.0%

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