

Intrinsic Value Weekly

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"The Margin of Safety Gets Larger"

When valuation is low, the margin of safety is high. Price relative to intrinsic value is now a discount of 34.9% for the Intrinsic Value Portfolio. The variation in performance among the IV stocks was quite remarkable: a range of plus 9.9% for **HON** and a minus 7.6% for **LOW**. Both stocks are still under-priced, but big upsides seem to occur with frequency among the deepest discounts. Speaking of the deepest discounts, you'd think that there's something seriously wrong with the fundamentals of **BGP**, **BGG**, **MLHR** and **WEN**. Just look at the latest numbers, though and everything is intact, solid and right on track relative to the assumptions in our valuations. Real steals and good fundamentals too. We'd concentrate on owning these or buying some more if you already have them. Finding a bottom is difficult in this turbulent market though. So if you'd prefer to watch and see, that's all right too.

A short note on Chairman Greenspan's Humphrey-Hawkins testimony: baloney. There is no evidence whatsoever that high stock and property prices cause inflation. Inflation is a monetary phenomenon caused by too much money chasing too few goods and as long as the Fed continues operating a price rule, selling government securities when the price level rises, buying them when the price level falls, inflation will remain under control. In fact, low inflation causes high stock markets. This aberrant notion of stock markets causing inflation is just too weird and if the Fed acts on it, dangerous to your portfolio.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 2/18/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
AC	Alliance Capital Mgt LP	9/24/1999	\$ 37.938	\$44.68	(15.1%)	6.7	(0.7%)
HON	Honeywell Int'l Inc.	4/29/1999	\$ 44.313	\$64.60	(31.4%)	2.1	4.9%
BGP	Borders Group, Inc.	1/10/2000	\$ 12.125	\$33.34	(63.6%)	1.1	(7.2%)
BGG	Briggs & Stratton	9/20/1999	\$ 36.313	\$117.62	(69.1%)	1.7	(4.9%)
CTL	CenturyTel, Inc.	11/22/1999	\$ 34.625	\$45.97	(24.7%)	1.8	(8.6%)
DAL	Delta Air Lines, Inc.	3/1/1999	\$ 46.188	\$66.79	(30.8%)	0.9	(1.6%)
G	Gillette Company	6/23/1999	\$ 37.563	\$48.52	(22.6%)	4.1	2.9%
LOW	Lowe's Companies	9/27/1999	\$ 43.500	\$61.77	(29.6%)	1.9	(5.4%)
MLHR	Herman Miller, Inc.	7/5/1999	\$ 20.875	\$46.47	(55.1%)	2.4	(1.8%)
NYT	New York Times Co.	2/10/2000	\$ 43.875	\$49.37	(11.1%)	3.1	(7.9%)
NUE	Nucor Corporation	3/1/1999	\$ 48.813	\$57.99	(15.8%)	1.7	3.6%
PFE	Pfizer, Inc.	6/23/1999	\$ 34.000	\$42.73	(20.4%)	10.5	(0.5%)
WEN	Wendy's International	3/1/1999	\$ 16.625	\$29.86	(44.3%)	1.5	(4.3%)

Average: (34.9%) Average: (2.4%)
S&P 500 (3.0%)

Bold - Outperformed the S&P 500 for the week

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%	6.6%	17.3	14.9	3.4
HON	0.7%		13.0%	11.5%	(1.0%)	1.5%	17.7	5.1	1.6
BGP	13.7%		6.4%	8.8%	17.6%	0.0%	13.5	1.5	0.4
BGG	14.4%		12.0%	26.4%	17.3%	3.3%	7.1	2.8	0.6
CTL	6.3%		30.4%	10.9%	2.8%	0.5%	22.5	3.5	3.2
DAL	4.5%		12.7%	10.4%	7.7%	0.2%	5.0	1.4	0.4
G	(1.6%)		23.1%	17.1%	(4.4%)	1.6%	32.4	8.8	4.2
LOW	21.6%		7.4%	0.0%	30.0%	0.3%	26.6	5.0	@NA
MLHR	(1.3%)		12.7%	18.4%	(0.2%)	0.7%	12.9	8.3	1.0
NYT	3.7%		17.5%	11.8%	6.9%	1.0%	28.2	5.4	2.8
NUE	(3.4%)		9.9%	12.6%	25.0%	1.1%	17.8	2.1	1.1
PFE	19.6%		27.0%	20.2%	16.6%	0.9%	42.6	15.9	8.5
WEN	6.7%		12.6%	9.2%	11.8%	1.4%	13.8	2.2	1.2

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	11.1%	(34.0%)	(11.5%)
CONSUMER CYCLICALS	(24.0%)	(34.6%)	(25.5%)
CONSUMER STAPLES	(13.7%)	(16.9%)	(15.9%)
HEALTH	(35.8%)	(2.2%)	32.3%
ENERGY	(5.0%)	54.6%	13.7%
FINANCIAL	(26.5%)	(42.7%)	(37.7%)
CAPITAL GOODS	6.9%	11.3%	(3.9%)
TECHNOLOGY	32.1%	41.8%	93.5%
COMMUNICATIONS	(7.0%)	47.4% *	135.6% *
UTILITY	(17.4%)	(26.5%)	(20.2%)
TRANSPORTATION	(38.6%)	(38.4%)	(24.6%)
Weighted Total:	(0.2%)	3.6%	24.3%

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 2/18/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.6%	0.3%	4.2%	(0.4%)	3.7%	(2.4%)
CONSUMER CYCLICALS	8.0%	(8.7%)	11.7%	(4.9%)	14.7%	(2.1%)
CONSUMER STAPLES	11.5%	(4.3%)	8.3%	(4.5%)	6.9%	2.0%
HEALTH	9.6%	(1.3%)	10.2%	5.3%	14.2%	15.5%
ENERGY	5.5%	2.7%	5.0%	4.3%	3.0%	3.7%
FINANCIAL	11.6%	(5.8%)	9.3%	(4.6%)	9.0%	(1.9%)
CAPITAL GOODS	7.6%	(2.1%)	8.0%	0.8%	11.9%	0.0%
TECHNOLOGY	32.5%	(2.7%)	31.5%	(1.7%)	30.3%	(2.7%)
COMMUNICATIONS	8.0%	(6.1%)	1.5%	(0.9%) *	1.0%	9.5% *
UTILITY	2.5%	(0.8%)	9.2%	(0.7%)	3.1%	(2.4%)
TRANSPORTATION	0.6%	1.2%	1.0%	0.6%	2.4%	(8.6%)
Index Total:		(2.9%)		(1.0%)		1.2%

* Sector contains only 3 companies

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

Sector Comments Small Cap Health stocks blew the roof off last week. But they weren't the only winners. Small Consumer Staples and Energy stocks also rose. In fact, Energy stocks of all stripes rose, reflecting the peek over \$30 per barrel of crude oil prices. Large Consumer Cyclical reflected the piling up of SUV's on dealer lots as some gasoline prices scale the heights not seen since the heyday of Iraqi belligerence. But, you'll notice that overall, the three markets are now quite different in average valuation. Small cap stocks are now quite over-valued due to the dramatic increase in technology stock prices, and now bio-tech stocks too. Most sectors are still under-valued, some really depressed. Even Barron's magazine is now commenting on this dichotomy: everyone piling into one or two sectors and dropping all the others like a hot potato. Astute value-oriented investors can take advantage of this phenomenon, but doing so requires a central reference point, an estimate of the intrinsic value of each stock. Without it, a buyer runs the risk of "catching a falling knife", incurring quick market value losses. And that's possible even if you have a solid estimate of intrinsic value. In the short run, investors as a group are just not very rational. Speaking of irrational valuations, we'd like to suggest you look at the best performing group so far this year: Large Capitalization Utilities. Irrational because these stocks are still 38% under-priced. So take a look at the tables on Page 3. You'll find high yields, some revenue growth and big discounts.

(\$millions)	<u>Large Capitalization</u>		<u>Mid-Cap Capitalization</u>		<u>Small-Cap Capitalization</u>
\$	11,412,472	90.0%	\$879,562	6.9%	\$ 385,768 3.0%

Intrinsic Value Weekly

Utilities are not only rising, they're cheap.

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
AES CORP	AES	\$17,600	74.6%	88.0	22.41	30.0	62.6	8.1	31.6	7.70	0.0%
AMEREN CORP	AEE	\$4,151	8.2%	30.3	59.10	25.3	11.6	1.5	5.6	9.89	8.4%
AMERICAN ELECTRIC POWER	AEP	\$5,811	14.0%	29.9	43.36	20.6	12.5	1.3	5.1	7.82	8.0%
CAROLINA POWER & LIGHT	CPL	\$4,818	15.9%	30.2	0.00	0.0	12.6	1.7	5.5	-	6.6%
CENTRAL & SOUTH WEST COF	CSR	\$3,801	5.8%	17.9	43.52	19.1	9.3	1.2	3.7	7.92	9.7%
CINERGY CORP	CIN	\$3,645	4.2%	22.9	31.37	10.5	9.8	1.6	6.2	7.40	7.8%
CMS ENERGY CORP	CMS	\$2,121	31.1%	18.3	40.12	15.1	12.8	1.6	2.9	8.22	8.0%
COASTAL CORP	CGP	\$8,918	39.1%	41.8	26.61	12.0	15.8	2.3	9.6	7.82	0.6%
COLUMBIA ENERGY GROUP	CG	\$4,871	25.2%	59.9	63.12	8.5	15.1	2.7	9.9	10.54	1.5%
CONSOLIDATED EDISON INC	ED	\$6,132	16.8%	28.1	66.63	20.8	10.4	1.3	5.2	11.15	7.6%
CONSTELLATION ENERGY COF	CEG	\$4,741	34.6%	31.7	0.00	0.0	13.8	1.5	6.0	-	5.3%
DOMINION RESOURCES INC	D	\$7,764	-79.5%	40.7	39.77	17.5	14.5	1.5	6.1	6.18	6.3%
DTE ENERGY CO	DTE	\$4,660	10.0%	32.1	51.44	22.2	10.4	1.4	4.2	8.46	6.4%
DUKE ENERGY CORP	DUK	\$18,866	48.1%	51.7	61.53	13.3	25.6	2.6	8.7	10.75	4.3%
EASTERN ENTERPRISES	EFU	\$1,555	23.4%	57.6	5.82	7.2	25.2	2.4	10.3	4.62	3.0%
EDISON INTERNATIONAL	EIX	\$9,461	-4.0%	27.3	31.17	17.0	16.3	2.0	4.0	7.67	4.0%
EL PASO ENERGY CORP/DE	EPG	\$4,405	95.1%	37.3	16.71	8.8	(30.4)	1.8	8.6	5.52	2.1%
ENRON CORP	ENE	\$49,512	42.5%	69.2	0.51	3.9	52.6	6.5	29.9	5.28	0.7%
ENTERGY CORP	ETR	\$5,216	-33.2%	21.4	38.68	13.2	7.8	0.8	3.0	6.50	5.6%
FIRSTENERGY CORP	FE	\$4,763	25.8%	20.4	41.07	23.4	9.1	1.2	3.9	8.11	7.3%
FLORIDA PROGRESS CORP	FPC	\$4,154	4.8%	42.2	61.00	16.6	13.2	2.2	6.5	11.02	5.2%
FPL GROUP INC	FPL	\$7,222	-6.8%	40.3	77.80	18.8	10.4	1.5	3.7	10.44	5.2%
GPU INC	GPU	\$3,248	34.2%	26.3	31.96	22.7	7.9	1.1	3.8	7.07	8.1%
NEW CENTURY ENERGIES INC	NCE	\$3,229	-1.3%	27.9	59.95	19.0	9.6	1.3	5.2	9.77	8.3%
NIAGARA MOHAWK HOLDINGS	NMK	\$2,364	14.7%	12.6	(38.81)	4.4	(209.4)	0.7	10.1	1.40	0.0%
NICOR INC	GAS	\$1,550	26.0%	32.9	46.14	14.2	13.0	2.1	6.2	9.63	4.7%
NORTHERN STATES POWER/M	NSP	\$2,807	-3.9%	18.2	35.47	20.9	13.5	1.2	4.5	8.71	8.0%
ONEOK INC	OKE	\$721	42.3%	23.9	67.40	11.9	11.7	0.7	3.1	8.66	5.2%
PECO ENERGY CO	PE	\$7,350	18.8%	39.6	55.85	24.6	13.7	3.1	7.6	9.81	2.5%
PEOPLES ENERGY CORP	PGL	\$1,033	31.6%	29.1	45.54	13.8	11.2	1.4	5.9	9.49	6.7%
PG&E CORP	PCG	\$8,267	20.2%	22.5	32.83	10.1	11.4	1.0	3.7	6.52	5.3%
PINNACLE WEST CAPITAL	PNW	\$2,436	12.4%	28.8	55.77	26.6	9.7	1.2	3.9	8.02	4.9%
PP&L RESOURCES INC	PPL	\$3,027	25.6%	21.1	39.47	21.8	7.4	2.0	4.5	8.70	4.7%
PUBLIC SERVICE ENTRP	PEG	\$6,713	8.8%	30.7	63.28	27.1	10.4	1.5	5.3	9.32	7.0%
RELIANT ENERGY INC	REI	\$6,265	52.7%	21.2	40.72	12.9	3.9	1.6	8.8	8.75	7.1%
SEMPRA ENERGY	SRE	\$4,502	14.0%	18.7	17.87	11.1	11.2	1.5	3.6	7.88	8.3%
SOUTHERN CO	SO	\$15,560	3.8%	23.1	27.81	22.8	13.8	1.8	6.3	7.81	5.8%
TEXAS UTILITIES CO	TXU	\$9,173	-2.9%	33.2	60.79	17.7	10.0	1.2	4.9	9.00	7.2%
UNICOM CORP	UCM	\$8,100	-1.5%	37.3	17.98	18.7	14.2	1.9	5.6	5.74	4.3%
WILLIAMS COS INC	WMB	\$18,257	9.8%	42.0	(2.12)	10.0	78.0	4.0	22.7	5.17	1.4%

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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