

Intrinsic Value Weekly

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"Big Drops Need a Cushion"

While the market averages were mostly calm last week, the average absolute percentage change within the Intrinsic Value Portfolio was more than 7%. But with the outlook for a resumption of economic growth getting brighter with each drop in the Fed's Federal Funds Rate target and especially with talk of retroactivity in the cut in marginal income tax rates, our concentration of cyclically sensitive stocks ought to be perking up. If not now, when? Much is left to be done in repairing the financial and tax conditions, but with a huge average discount to Intrinsic Value, the expected return for the portfolio is quite high.

In the case of **CenturyTel, Inc. (CTL - NYSE)**, the company reported excellent results, but lowered its expectation for its performance in 2001 to the apparent shock of Wall Street. One well-known analyst confirmed its estimate for 2001 on the day of earnings announcement, then dropped the number 13% after the conference call. While the short-term is likely to be littered with special items obscuring the company's performance, the long term strategy of building a strong regional telecommunications company remains intact and the stock now shows an attractive discount to intrinsic value. As a reminder, though, regular readers of this publication were admonished recently to de-emphasized stocks whose discount had diminished to single-digit territory. We contend that big drops are more likely when surprises occur with little or no valuation cushion.

The current troubles besetting the airline industry: high energy prices, softening demand, congestion at airports, labor unrest and angst in the Congress about potential mergers. All these seem to combine to keep airline stock prices under pressure and well below intrinsic value. Our favorite among the group, **Delta Airlines (DAL - NYSE)**, has plenty to worry about. With its labor problems, the company stands to lose loyal travelers if its suffers a strike. And at a time when the impulse to compete is as intense as it has ever been. While **DAL** has admirable financials and excellent returns, its competitors are less highly committed to such financial quality and could make life difficult. Current rumors aside, we expect that more consolidation must occur within the industry and **DAL's** management will find the right answer for its shareholders.

LOW and **NYT** are now nearly close enough to intrinsic value to consider removal from the list. See our comments on valuation above. Finally, **WEN** has dropped enough to consider additional investment.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	2/2/2001	Intrinsic Value	Over/Under Priced	Q Ratio	Weekly Price Change
BGP	Borders Group, Inc.	9/22/00	\$ 14.020	\$29.31	(52.2%)	1.0	12.7%
BGG	Briggs & Stratton	9/22/00	\$ 41.850	\$98.87	(57.7%)	1.5	3.2%
CTL	CenturyTel, Inc.	9/22/00	\$ 30.450	\$40.74	(25.3%)	1.7	(16.1%)
DAL	Delta Air Lines, Inc.	3/6/00	\$ 47.390	\$66.30	(28.5%)	0.9	5.6%
LOW	Lowes Companies	9/22/00	\$ 53.840	\$56.04	(3.9%)	2.4	10.3%
MLHR	Herman Miller, Inc.	3/6/00	\$ 28.125	\$46.28	(39.2%)	2.7	0.5%
NYT	New York Times Co.	9/22/00	\$ 42.900	\$46.26	(7.3%)	2.6	3.1%
NUE	Nucor Corporation	9/22/00	\$ 43.240	\$60.65	(28.7%)	1.1	10.5%
WEN	Wendy's International	9/22/00	\$ 23.600	\$28.69	(17.7%)	1.8	(3.4%)
Average:					(28.9%)	Average:	2.9%
						S&P 500	(0.4%)

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Capital Turnover	Sales				Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Market Sales	Market Cap (\$billions)
		Growth Last 12M	EBIT Margin %	Return On Capital	Return On Sales						
BGP	1.0	11.4%	5.7%	10.9%	7.2%	0.0%	10.0	1.1	0.3	1.1	
BGG	2.2	(13.5%)	12.9%	30.5%	(12.9%)	3.0%	9.7	2.4	0.7	0.9	
CTL	0.4	10.1%	30.3%	11.1%	23.6%	0.6%	21.4	2.7	2.7	4.3	
DAL	0.6	13.8%	11.6%	8.6%	1.5%	0.2%	7.1	1.3	0.4	5.8	
LOW	2.2	17.9%	7.4%	11.1%	15.2%	0.3%	20.8	3.6	0.9	20.6	
MLHR	1.9	18.4%	12.1%	17.6%	27.7%	0.5%	15.1	7.6	1.1	2.2	
NYT	1.1	10.8%	18.7%	13.1%	7.8%	1.1%	18.7	4.8	2.0	7.1	
NUE	1.4	14.4%	9.3%	14.4%	(7.5%)	1.4%	10.2	1.5	0.8	3.4	
WEN	0.9	9.2%	13.8%	10.2%	8.5%	1.0%	17.3	2.9	1.5	2.7	

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ECONOMIC SECTOR VALUATION

SECTORS	S&P 500	S&P MIDCAP	S&P SMALL CAP
BASIC INDUSTRY	(4.6%)	(28.7%)	(10.1%)
CONSUMER CYCLICALS	(23.7%)	(9.0%)	(6.0%)
CONSUMER STAPLES	(7.4%)	(10.7%)	3.0%
HEALTH	(22.0%)	0.2%	1.4%
ENERGY	14.3%	119.2%	64.3%
FINANCIAL	(7.3%)	(16.5%)	(25.6%)
CAPITAL GOODS	(17.4%)	(2.2%)	(2.7%)
TECHNOLOGY	(34.5%)	(13.1%)	(2.4%)
COMMUNICATIONS	(32.8%)	23.9%	(30.2%)*
UTILITY	0.2%	(23.6%)	(16.9%)
TRANSPORTATION	(25.6%)	(7.9%)	(4.9%)
Weighted Total:	(17.8%)	(2.0%)	(1.8%)

RED - Overvalued

BLUE - (Undervalued)

Bold - outperformed the relevant index

WEEKLY PRICE CHANGE

SECTORS	S&P 500		S&P MIDCAP		S&P SMALL CAP	
	Weight	Price	Weight	Price	Weight	Price
prices as of 2/2/2001	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.2%	5.3%	3.9%	4.5%	3.9%	4.4%
CONSUMER CYCLICALS	8.1%	2.6%	14.7%	2.1%	19.0%	3.9%
CONSUMER STAPLES	11.1%	1.0%	8.3%	(0.2%)	9.5%	(0.7%)
HEALTH	12.9%	0.5%	10.7%	(7.1%)	9.9%	(1.4%)
ENERGY	6.2%	1.3%	6.9%	0.6%	6.4%	0.5%
FINANCIAL	17.2%	0.2%	14.8%	0.2%	12.2%	0.8%
CAPITAL GOODS	8.7%	1.4%	7.3%	0.8%	13.3%	0.9%
TECHNOLOGY	23.5%	(4.4%)	22.5%	1.0%	18.7%	(1.4%)
COMMUNICATIONS	6.0%	1.0%	1.7%	(1.7%)	0.2%	5.3%*
UTILITY	3.4%	(5.0%)	7.2%	(2.4%)	3.9%	(0.6%)
TRANSPORTATION	0.6%	6.6%	2.0%	4.6%	3.0%	2.7%
Index Total:		(0.4%)		(0.1%)		0.8%

* Sector contains only 3 companies

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

Sector Comments: The short-run profit picture continues to dominate the **Technology** stocks. Investors, used to double and triple digit profit comparisons, seemingly can't adjust to the cyclicality of profits. It is as if investors are incapable of looking at the historical financial performance of **Technology** stocks. Or, perhaps **Technology** investing is now an existential exercise, having no past or future, just the "now" of news events. Such may be the legacy of ubiquitous availability of information and day-trading software. But, of course, such absurdity creates an advantage to the fundamentally-grounded investor, one with a perspective that allows placing the current weakness within an historical context. Such interruptions in growth and declines in profit have, and will, be reversed. The resumption of growth in both revenue and profit will probably come as a surprise to many. But not to us. Among Large Cap stocks, those in the **Technology** sector are now, on average, the most under-priced of any group.

Our commentary on Utilities last week presaged a bad performance by those sectors, especially the Large Cap Utilities. While ultimately implementation of full deregulation in California would, with easier rules for building new electric plants, go a long way toward solving that state's energy problems. But the political climate in California seems ill-suited to free-market solutions and we'd expect more trouble yet to come.

Page 3 shows value drivers for **Large Cap Basic's**. We expect this sector to perform well in the next year.

(\$millions)	Large Capitalization	Mid-Cap Capitalization	Small-Cap Capitalization
	\$ 11,817,231	90.5%	\$ 356,659
		\$884,022	6.8%
			2.7%

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The Market May Begin to Discount Recovery Among Basic Industry Stocks

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Company Name	Ticker	Market Value - Equity	12 Mo.	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Leverage At Market	Return on Capital	Dividend Yield
			Quarterly Sales Growth								
AIR PRODUCTS & CHEMICALS	APD	\$8,134	14.0%	38.0	34.73	14.1	70.7	3.1	31.1%	10.06	2.0%
ALCAN ALUMINIUM LTD	AL	\$7,816	66.9%	37.6	44.46	10.8	10.7	@NA	37.3%	7.84	1.6%
ALCOA INC	AA	\$32,479	54.2%	37.6	33.62	11.8	18.4	@NA	27.9%	11.84	1.3%
ALLEGHENY TECHNOLOGIES II	ATI	\$1,364	1.6%	17.0	33.14	10.5	9.6	@NA	50.2%	10.84	4.7%
ARCHER-DANIELS-MIDLAND CO	ADM	\$9,695	44.5%	15.3	4.75	3.7	25.5	1.6	34.4%	3.98	1.3%
BARRICK GOLD CORPORATION	ABX	\$6,071	13.6%	15.3	12.35	29.5	20.7	@NA	11.4%	8.44	1.4%
BEMIS CO	BMS	\$1,744	15.8%	33.2	60.01	11.2	13.6	@NA	28.2%	15.70	2.9%
BOISE CASCADE CORP	BCC	\$1,898	-0.5%	33.1	45.26	5.3	8.8	1.3	54.6%	7.65	1.8%
DOW CHEMICAL	DOW	\$22,925	2.8%	33.8	49.20	13.0	16.0	@NA	30.5%	11.31	3.4%
DU PONT (E I) DE NEMOURS	DD	\$43,874	-11.5%	42.3	28.18	11.8	83.3	4.0	32.9%	9.01	3.3%
EASTMAN CHEMICAL CO	EMN	\$3,640	9.3%	47.3	6.47	5.9	18.8	2.2	47.9%	4.19	3.7%
ECOLAB INC	ECL	\$5,356	8.3%	42.2	21.62	10.3	28.6	7.3	10.3%	13.87	1.2%
ENGELHARD CORP	EC	\$2,921	35.2%	22.9	24.74	6.0	11.7	3.4	32.2%	12.04	1.7%
FMC CORP	FMC	\$2,197	-7.7%	72.1	101.40	8.5	12.1	2.9	54.2%	8.39	0.0%
FREERT MCMOR COP&GLD	FCX	\$1,898	0.4%	12.8	6.49	13.4	77.8	@NA	48.0%	6.91	1.6%
GEORGIA-PACIFIC GROUP	GP	\$5,208	7.0%	30.5	32.86	5.3	7.6	1.4	60.4%	7.22	1.6%
GREAT LAKES CHEMICAL CORP	GLK	\$1,702	9.5%	33.8	0.00	0.0	14.9	@NA	0.0%	-	0.9%
HERCULES INC	HPC	\$1,519	-1.6%	14.1	16.22	11.5	14.0	2.3	71.1%	6.26	0.0%
HOMESTAKE MINING	HM	\$1,316	-0.6%	5.0	(3.14)	(0.4)	(12.3)	1.4	27.6%	(0.18)	0.5%
INCO LTD	N	\$3,043	18.2%	16.7	(6.48)	6.8	9.4	0.9	33.5%	1.97	0.6%
INTL FLAVORS & FRAGRANCE IFF	IFF	\$2,173	14.5%	22.0	40.27	19.8	13.2	2.5	9.6%	24.97	2.7%
INTL PAPER CO	IP	\$18,544	14.4%	38.5	1.97	5.0	23.2	1.6	39.3%	4.35	2.6%
LOUISIANA-PACIFIC CORP	LPX	\$1,182	-20.2%	11.4	2.36	4.3	14.5	@NA	59.5%	4.72	4.9%
MEAD CORP	MEA	\$2,993	10.1%	29.8	33.10	8.4	13.6	@NA	45.3%	7.23	2.3%
NEWMONT MINING CORP	NEM	\$2,597	10.4%	15.4	2.52	9.6	155.1	2.0	36.6%	5.36	0.8%
NUCOR CORP	NUE	\$3,367	-7.5%	43.2	64.20	10.6	10.2	1.5	14.1%	14.36	1.4%
PACTIV CORP	PTV	\$1,813	4.6%	11.5	21.69	12.2	(35.4)	@NA	55.2%	8.71	0.0%
PHELPS DODGE CORP	PD	\$3,660	8.0%	46.5	(33.63)	2.4	(21.1)	1.3	49.1%	1.19	4.3%
PLACER DOME INC	PDG	\$2,890	14.5%	8.8	5.77	17.9	481.3	1.9	31.9%	7.82	1.1%
POTLATCH CORP	PCH	\$918	4.7%	32.3	20.82	6.8	(104.9)	1.0	46.2%	5.03	5.4%
PPG INDUSTRIES INC	PPG	\$8,046	-3.0%	47.7	67.65	11.8	12.3	@NA	31.6%	11.87	3.4%
PRAXAIR INC	PX	\$7,150	5.8%	45.1	51.86	15.7	15.0	@NA	37.5%	10.00	1.4%
ROHM & HAAS CO	ROH	\$7,788	-1.7%	35.5	12.82	10.6	21.4	2.3	38.5%	7.93	2.3%
SIGMA-ALDRICH	SIAL	\$3,092	2.4%	39.9	19.53	14.2	24.7	3.1	10.9%	8.99	0.8%
TEMPLE-INLAND INC	TIN	\$2,498	7.8%	50.8	(108.36)	12.0	13.0	1.5	84.4%	5.59	2.5%
UNION CARBIDE CORP	UK	\$7,188	3.0%	53.2	19.36	8.0	20.7	2.8	39.0%	6.04	1.7%
USX-U S STEEL GROUP	X	\$1,456	-5.0%	16.4	(23.22)	4.4	11.1	0.8	74.6%	2.57	6.1%
VULCAN MATERIALS CO	VMC	\$4,609	4.1%	45.6	42.21	14.2	19.3	@NA	18.3%	12.71	1.8%
WESTVACO CORP	W	\$2,643	33.6%	26.3	51.39	16.3	11.5	1.3	47.3%	10.01	3.4%
WEYERHAEUSER CO	WY	\$11,490	17.7%	52.4	46.93	10.8	14.0	1.7	40.5%	9.42	3.1%
WILLAMETTE INDUSTRIES	WLL	\$5,147	6.4%	47.0	72.58	14.0	15.1	@NA	30.6%	14.31	1.8%
WORTHINGTON INDUSTRIES	WOR	\$854	-3.4%	10.0	28.71	10.0	10.9	1.0	36.0%	13.86	6.4%

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