

Intrinsic Value Weekly®

Volume 1, No. 1

Published Weekly by Intrinsic Value Associates, LLC

October 19, 1998

This past week saw a significant change in the market's estimate of the cost of equity capital. The differences of COEC by market capitalization are now dramatic as shown in this week's valuation table below. The tremendous drop in the value of MidCap stocks so far this year has produced a striking undervaluation of most economic sectors in the MidCap and Small Cap markets. We expect this anomaly to be eliminated over the next few quarters as the current obsession with risk fades. Note that the financial sector has significant undervaluation at present prices in all markets. And finally, both large cap and midcap consumer cyclicals are significantly undervalued.

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	6.4%	(20.5%)	(8.8%)
CONSUMER CYCLICALS	(22.8%)	(32.5%)	(2.5%)
CONSUMER STAPLES	42.3%	(19.6%)	3.7%
HEALTH	0.4%	(30.7%)	(9.6%)
ENERGY	(2.0%)	(14.7%)	(24.0%)
FINANCIAL	(12.5%)	(12.6%)	(22.6%)
CAPITAL GOODS	1.0%	(24.4%)	(26.5%)
TECHNOLOGY	18.8%	(14.4%)	(19.4%)
COMMUNICATIONS	6.6%	(5.0%)	(22.9%)
UTILITY	(4.4%)	(19.8%)	(6.1%)
TRANSPORTATION	(8.6%)	(7.4%)	(20.3%)

Black - Overvalued

Red - (Undervalued)

Investors' concerns regarding the risks to financial institutions seem to focus on their ability to extend loans and provide capital. Since small and mid-size companies have less access to the market in turbulent times, they depend upon the banking system to a greater extent than large companies. The price of credit has risen sharply also, as shown by the current yield spread of "junk" bonds versus U.S. Treasuries, now the highest since the 1990-91 period. Broken mergers are more evidence of extreme anxiety. At times such as these, new value opportunities arise rapidly. We suggest looking at American Bankers Insurance (ABI -NYSE) in particular. Our quick valuation, with very conservative assumptions, pegs its intrinsic value at \$44.75.

Intrinsic Value Weekly

Page 2

Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol	Name	Price	Intrinsic		Yield
			Value	+/- %	
ALD	AlliedSignal Inc.	\$ 38.000	\$48.89	-22%	1.58%
CTL	Century Telephone Enterprises, Inc.	\$ 49.500	\$54.16	-9%	0.53%
DAL	Delta Air Lines, Inc.	\$ 98.000	\$148.87	-34%	0.20%
G	Gillette Company	\$ 44.625	\$48.20	-7%	1.14%
INTC	Intel Corporation	\$ 83.750	\$100.81	-17%	0.14%
NUE	Nucor Corporation	\$ 44.750	\$68.82	-35%	1.07%
PNM	Public Service Company of New Mexico	\$ 21.375	\$28.66	-25%	3.74%
SLB	Schlumberger Limited	\$ 52.000	\$55.18	-6%	1.44%
WEN	Wendy's International	\$ 22.500	\$25.43	-12%	1.07%

Notes on Company Events

The **Intrinsic Value Portfolio** had a great week, and though we only look at short-term fluctuations as potential opportunities (such as last week's **SLB** breaking briefly below \$45, e.g.), the bulk of the portfolio has considerable distance to travel to intrinsic value. The reorganization of **Gillette's** business focus is exactly the direction we discussed (sans the details) that **G** needs to develop the dominance in its non-shaving divisions that it has in shaving. The filing of dumping requests by the steel industry is highly significant of the price pressures in the industry. The targets, Russia, Brazil and Japan, have all been suffering exchange rate pressure. Now that the evils of devaluation have been acknowledged by one and all, even the International Monetary Fund, we expect that over the next few quarters relief on prices will come from any recovery in those three countries and help **Nucor's** business. **Intel** continues to surprise investors with its strength. We will be updating its valuation this month. Next week, we'll issue a new Intrinsic Value Report on American Bankers Insurance (ABI - NYSE); our preliminary intrinsic value is \$44.75.