

Intrinsic Value Weekly

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Particularly notable this week is the remarkable convergence of market prices toward intrinsic value in mid and small capitalization markets. While small cap stocks remain generally under-valued, three small cap sectors are fairly valued or over-valued. In the mid-cap area, five sectors are above intrinsic value. In particular, Mid-Cap Technology stocks soared through our estimate of intrinsic value and are now above fair value. Our data on Page 3 show some details of this sector. Note AOL.

With the stabilization of inflation expectations at low levels and monetary policy geared to offset asset panics as a matter of course, the "average" stock should be sporting a PE ratio of about 25. That assumes revenue growth of 6% and return on capital of about 8.5%. The problem is that many companies have great difficulty at present with getting revenue growth. Revenue shortfalls will likely be a source of punishment for many high multiple stocks in coming months. Please take note of the Intrinsic Value Trend chart of Procter & Gamble on page 5.

ECONOMIC SECTOR VALUATION - FUNDAMENTALS AS OF September, 1998

SECTORS	S&P 500	S&P MIDCAP	S&P SMALL CAP
BASIC INDUSTRY	15.7%	(9.5%)	(3.8%)
CONSUMER CYCLICALS	(3.3%)	(19.3%)	6.2%
CONSUMER STAPLES	63.4%	(11.2%)	14.3%
HEALTH	12.0%	(20.0%)	(1.0%)
ENERGY	(0.2%)	(18.2%)	(27.9%)
FINANCIAL	6.8%	3.1%	(16.6%)
CAPITAL GOODS	18.6%	(10.9%)	(14.4%)
TECHNOLOGY	44.0%	8.4%	0.7%
COMMUNICATIONS	22.1%	7.6%	(19.9%)
UTILITY	(4.5%)	(19.4%)	(3.4%)
TRANSPORTATION	(6.3%)	14.8%	(5.0%)

Black - Overvalued

Red - (Undervalued)

WEEKLY PRICE CHANGE

SECTORS	S&P 500		S&P MIDCAP		S&P SMALL CAP	
	Weight	Price	Weight	Price	Weight	Price
prices as of 11/27/98	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.5%	1.2%	6.0%	0.5%	5.5%	2.0%
CONSUMER CYCLICALS	9.3%	2.2%	14.7%	5.3%	19.2%	2.3%
CONSUMER STAPLES	15.0%	0.8%	8.6%	0.1%	9.3%	1.9%
HEALTH	12.4%	1.3%	8.6%	(0.8%)	10.4%	0.6%
ENERGY	6.8%	2.0%	3.4%	(6.3%)	2.9%	(4.0%)
FINANCIAL	15.3%	3.3%	14.0%	(1.1%)	17.0%	1.4%
CAPITAL GOODS	8.2%	0.2%	9.4%	1.0%	12.3%	2.8%
TECHNOLOGY	17.8%	4.8%	20.4%	12.1%	15.5%	3.2%
COMMUNICATIONS	8.0%	2.2%	2.4%	2.1%	0.3%	(2.2%) *
UTILITY	3.2%	0.1%	11.9%	0.6%	4.8%	1.0%
TRANSPORTATION	0.9%	3.0%	1.7%	2.0%	3.1%	1.5%

* Sector contains only 2 companies

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Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol Name	Price 11/27/98	Intrinsic Value	+/- %	Q Ratio
ALD AlliedSignal Inc.	\$ 44.813	\$48.89	(8%)	2.0
CTL Century Telephone Enterprises, Inc.	\$ 57.750	\$54.16	7%	1.8
DAL Delta Air Lines, Inc.	\$ 55.375	\$74.44	(26%)	1.0
G Gillette Company	\$ 46.125	\$48.20	(4%)	5.6
INTC Intel Corporation	\$110.000	\$112.11	(2%)	6.5
NUE Nucor Corporation	\$ 42.813	\$68.82	(38%)	1.7
PNM Public Service Company of New Mexico	\$ 19.875	\$28.66	(31%)	0.8
SLB Schlumberger Limited	\$ 48.000	\$55.18	(13%)	2.8
WEN Wendy's International	\$ 20.563	\$25.43	(19%)	1.5

Value Drivers

Standard Market Statistics

	Sales		EBIT		Leverage		Yield	PE	PB	PS
	Growth 12M	Margin %	ROC	at Market						
ALD	7.9%	11.4%	11.8%	18.5%	1.3%	16.9	5.0	1.5		
CTL	74.6%	29.7%	9.1%	33.5%	0.5%	18.8	4.0	3.6		
DAL	4.9%	12.0%	14.2%	61.9%	0.2%	7.4	2.0	0.5		
G	-0.3%	23.1%	20.2%	6.9%	1.1%	45.5	9.8	5.0		
INTC	0.7%	39.4%	33.5%	0.5%	0.1%	25.7	6.8	5.8		
NUE	6.0%	11.0%	21.1%	6.1%	1.1%	14.3	2.1	0.9		
PNM	15.4%	14.3%	7.0%	52.0%	4.0%	11.2	1.1	0.8		
SLB	9.6%	15.5%	14.6%	13.0%	1.6%	24.9	3.9	2.2		
WEN	-1.5%	14.9%	11.9%	27.6%	1.2%	25.0	2.1	1.4		

Notes on Intrinsic Value Portfolio

The slump in crude oil prices has depressed SLB's price toward the area we suggested buying the stock two months ago. Another opportunity to swim against the crowd.

No joy in steeltown either, with prices of the various steel products running 6 to 8 percent lower than last year. Even continued strength in autos and housing in the US isn't enough to keep revenues up to par. Nevertheless, Nucor's cost advantages and low stock price make this an ideal contrarian opportunity.

The enthusiasm with which investors have adopted Intel as the next best thing to the internet is moving its stock price close to intrinsic value. We rarely recommend selling a company which has proven its ability to build shareholder wealth unless the valuation becomes silly. Not at silly yet.

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Technology - S&P Mid Cap Index

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Company Name	Ticker	Last 12		ROE	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow	Return on Capital	Dividend Yield
		Market Value - Equity	Mo. Sales Gr. %							
ADC TELECOMMUNICATIONS INC	ADCT	\$ 3,876.4	21.6%	14.5	12.2	27.9	5.1	19.5	19.2	0.00%
ALTERA CORP	ALTR	\$ 5,053.3	6.3%	28.2	22.8	32.1	8.6	28.3	19.7	0.00%
AMERICA ONLINE INC	AOL	\$ 43,466.6	58.1%	15.4	11.0	248.0	69.7	133.7	15.0	0.00%
ANALOG DEVICES	ADI	\$ 3,567.4	6.2%	16.4	18.1	23.8	3.3	13.0	15.3	0.00%
ARROW ELECTRONICS INC	ARW	\$ 2,168.3	13.9%	12.0	3.7	13.2	1.6	10.1	12.3	0.00%
ATMEL CORP	ATML	\$ 1,300.7	6.4%	0.2	12.3	(8.1)	1.6	37.4	8.4	0.00%
AVNET INC	AVT	\$ 2,146.4	10.7%	11.5	5.5	18.3	1.6	12.2	15.0	1.02%
CADENCE DESIGN SYS INC	CDN	\$ 6,223.4	36.5%	25.0	32.1	(68.2)	8.4	(558.7)	42.5	0.00%
CAMBRIDGE TECHNOLOGY PARTNER	CATP	\$ 1,288.3	50.8%	22.0	15.5	30.1	8.1		43.6	0.00%
CIRRUS LOGIC INC	CRUS	\$ 814.2	-1.7%	8.0	6.0	(8.6)	1.9	(35.8)	6.8	0.00%
CITRIX SYSTEMS INC	CTXS	\$ 3,742.5	123.8%	21.0	55.3	150.8	18.8	119.4	35.2	0.00%
COMDISCO INC	CDO	\$ 2,907.1	16.9%	15.9	17.2	19.3	3.6		8.0	0.52%
COMPUWARE CORP	CPWR	\$ 11,921.1	46.3%	27.4	24.6	44.7	16.5	39.9	45.1	0.00%
COMVERSE TECHNOLOGY INC	CMVT	\$ 2,631.4	29.1%	16.6	14.9		5.7		11.3	0.00%
CYPRESS SEMICONDUCTOR CORP	CY	\$ 886.8	-4.2%	2.9	2.3	(8.7)	1.5	146.6	1.5	0.00%
ELECTRONIC ARTS INC	ERTS	\$ 2,675.0	34.0%	12.9	11.9	49.3	4.7	32.9	22.7	0.00%
FISERV INC	FISV	\$ 3,770.8	24.3%	11.8	11.7	34.4	4.8	22.7	4.9	0.00%
FORE SYSTEMS INC	FORE	\$ 1,676.6	28.6%	6.9	10.9	(10.8)	3.3	(14.6)	10.1	0.00%
IMATION CORP	IMN	\$ 662.7	-3.9%	(26.4)	2.5	(4.7)	1.0	(125.3)	4.6	0.00%
INFORMIX CORP	IFMX	\$ 956.5	0.1%	(604.7)	(27.7)	24.7	14.7	10.8	(70.4)	0.00%
INTEGRATED DEVICE TECH INC	IDTI	\$ 522.0	-1.3%	1.5	7.6	(1.8)	0.9	(3.3)	5.1	0.00%
INTUIT INC	INTU	\$ 3,620.4	2.8%	(1.1)	3.0	(86.4)	3.3	(182.4)	2.3	0.00%
KEANE INC	KEA	\$ 2,133.9	55.3%	18.6	5.1	26.2	8.3		12.4	0.00%
LEXMARK INTL GRP INC -CL A	LXK	\$ 5,261.2	16.5%	32.6	11.0	24.8	10.9	18.1	36.0	0.00%
LINEAR TECHNOLOGY CORP	LLTC	\$ 5,431.2	23.1%	23.9	56.0	29.9	7.3	26.5	40.2	0.39%
LITTON INDUSTRIES INC	LIT	\$ 2,895.0	5.4%	15.2	8.9	16.3	2.5	8.9	13.7	0.00%
MAXIM INTEGRATED PRODUCTS	MXIM	\$ 5,442.8	29.0%	28.2	47.7	29.1	8.6		48.2	0.00%
MEDAPHIS CORP	MEDA	\$ 235.9	-4.9%	(18.6)	(1.4)	(0.4)	0.4	(0.5)	(1.1)	0.00%
MENTOR GRAPHICS CORP	MENT	\$ 580.4	3.2%	(11.3)	(1.4)	(74.0)	2.1	31.5	(1.4)	0.00%
MICROCHIP TECHNOLOGY INC	MCHP	\$ 1,787.8	5.0%	17.5	18.7	31.6	5.0	15.1	19.6	0.00%
NCR CORP	NCR	\$ 3,555.0	-3.1%	0.5	(1.7)	33.9	2.8	7.3	(3.1)	0.00%
NETWORKS ASSOCIATES INC	NETA	\$ 6,631.7	44.2%	(7.9)	31.7	(22.7)	14.9		75.5	0.00%
NOVA CORP/GA	NIS	\$ 2,259.5	136.8%	16.9	8.2	56.3	9.2	50.6	24.2	0.00%
PLATINUM TECHNOLOGY INC	PLAT	\$ 1,480.0	40.1%	(48.4)	6.2	(21.8)	4.5		5.6	0.00%
POLICY MANAGEMENT SYSTEMS CP	PMS	\$ 1,905.6	17.2%	12.2	14.3	33.7	4.6	14.5	16.3	0.00%
QUALCOMM INC	QCOM	\$ 3,828.7	59.7%	11.3	7.0	35.0	@NA	15.5	12.5	0.00%
QUANTUM CORP	QNTM	\$ 3,904.1	-16.0%	12.4	5.6	(254.9)	2.7	46.4	19.1	0.00%
SEQUENT COMPUTER SYSTEMS INC	SQNT	\$ 559.0	9.2%	6.4	6.9	(16.1)	0.9	10.8	8.6	0.00%
SIEBEL SYSTEMS INC	SEBL	\$ 2,207.4	101.5%	(2.2)	27.8	552.8	15.7		34.0	0.00%
STERLING COMMERCE INC	SE	\$ 3,556.4	39.8%	@NA	0.0	(57.9)	@NA	(179.5)	0.0	0.00%
STERLING SOFTWARE INC	SSW	\$ 2,141.5	35.5%	@NA	0.0	28.7	@NA	18.0	0.0	0.00%
STORAGE TECHNOLOGY CP	STK	\$ 3,762.5	7.6%	20.8	11.8	17.7	3.6	10.8	18.3	0.00%
STRATUS COMPUTER INC	SRA		2.2%	12.3	12.6		1.4		13.7	
STRUCTURAL DYNAMICS RESEARCH	SDRC	\$ 648.0	13.3%	16.9	18.0	15.1	3.6		38.1	0.00%
SUNGARD DATA SYSTEMS INC	SDS	\$ 3,358.3	28.6%	13.9	10.8	31.0	5.1	21.5	12.5	0.00%
SYMANTEC CORP	SYMC	\$ 1,159.2	13.2%	26.8	19.2	26.2	3.6	16.7	31.4	0.00%

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		Market Value - Equity	Mo. Sales Gr. %							
SYNOPSIS INC	SNPS	\$ 3,325.4	11.0%	0.11	17.6	21.7	51.3	6.4	31.29	0.00%
TERADYNE INC	TER	\$ 2,908.6	40.2%	0.40	13.6	13.5	21.2	3.1	17.43	0.00%
VARIAN ASSOCIATES INC	VAR	\$ 1,163.1	-0.3%	0.00	22.0	5.1	15.8	2.2	9.95	1.02%
XILINX INC	XLNX	\$ 3,886.9	2.0%	0.02	23.0	21.2	33.8	7.2	16.31	0.00%

