

Intrinsic Value Weekly

Volume 2, No. 1

Published Weekly by Intrinsic Value Associates, LLC

January 4, 1999

Talk about a spectacular finish to a volatile year. **The average stock is now over-priced.** Some Mid Cap and Small Cap stocks are still attractive, but the moves in Consumer, Health, Technology and Communications stocks have been spectacular. The capitalization-weighted prices of all three markets are above fair value now. Much of the Mid Cap market is still under-priced, but Small and Mid Cap Energy stocks have good value now. The rapid consolidation of energy companies will provide many opportunities for those willing to swim against the current.

The cost of equity capital can be seen in two distinct dimensions: the warranted cost and the inferred cost. The warranted cost of equity is driven by inflation expectations and tax rates and is used in our valuation model to estimate intrinsic value. The observed cost of equity is extracted from the same valuation model, but is inferred by using current price instead of intrinsic value. We note that the inferred cost of equity is now nearly 75 basis points below that which is warranted by inflation expectations or tax rates. We do note, though, that the market could be forecasting a drop in either inflation rates or tax rates in the coming months.

ECONOMIC SECTOR VALUATION - FUNDAMENTALS AS OF September, 1998

SECTORS	S&P 500	S&P MIDCAP	S&P SMALL CAP
BASIC INDUSTRY	9.5%	(11.4%)	(2.6%)
CONSUMER CYCLICALS	(0.4%)	(15.4%)	14.2%
CONSUMER STAPLES	16.6%	(8.4%)	22.5%
HEALTH	7.6%	(13.5%)	6.9%
ENERGY	(3.6%)	(23.3%)	(34.6%)
FINANCIAL	1.5%	4.4%	(19.1%)
CAPITAL GOODS	20.4%	(4.6%)	(10.2%)
TECHNOLOGY	23.0%	36.3%	8.3%
COMMUNICATIONS	26.6%	9.0%	2.0%
UTILITY	(3.2%)	(20.9%)	1.2%
TRANSPORTATION	(3.6%)	21.4%	4.0%
Weighted Total:	11.8%	1.5%	2.1%

Black - Overvalued

Red - (Undervalued)

PRICE CHANGE (from 12/18/98)

SECTORS	S&P 500		S&P MIDCAP		S&P SMALL CAP	
	Weight	Price	Weight	Price	Weight	Price
prices as of 12/31/98	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.2%	3.4%	5.3%	8.3%	5.4%	1.9%
CONSUMER CYCLICALS	9.1%	5.1%	14.2%	11.5%	19.8%	8.9%
CONSUMER STAPLES	15.2%	3.2%	8.3%	6.9%	9.7%	6.2%
HEALTH	12.4%	5.7%	9.0%	11.2%	10.9%	7.8%
ENERGY	6.4%	(0.9%)	2.9%	5.7%	2.5%	6.3%
FINANCIAL	14.2%	0.3%	12.9%	7.0%	15.4%	5.5%
CAPITAL GOODS	8.1%	4.9%	9.3%	9.7%	12.1%	6.4%
TECHNOLOGY	19.1%	3.2%	23.5%	19.5%	15.8%	4.9%
COMMUNICATIONS	8.0%	(1.4%)	1.9%	7.1%	0.3%	48.3% *
UTILITY	3.2%	(0.5%)	10.9%	1.9%	4.7%	3.3%
TRANSPORTATION	0.9%	2.9%	1.7%	12.3%	3.2%	7.9%

* Sector contains only 2 companies, one of which doubled since 12/19/98

Intrinsic Value Weekly

Page 2

Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol Name	Price 12/31/98	Intrinsic Value	+/- %	Q Ratio
ALD AlliedSignal Inc.	\$ 44.313	\$48.89	(9%)	2.2
CTL Century Telephone Enterprises, Inc.	\$ 67.500	\$62.64	8%	1.8
DAL Delta Air Lines, Inc.	\$ 52.000	\$74.44	(30%)	1.0
G Gillette Company	\$ 47.813	\$48.20	(1%)	5.7
INTC Intel Corporation	\$118.563	\$112.11	6%	7.9
NUE Nucor Corporation	\$ 43.250	\$68.82	(37%)	1.6
PNM Public Service Company of New Mexico	\$ 20.438	\$28.66	(29%)	0.8
SLB Schlumberger Limited	\$ 46.375	\$55.18	(16%)	2.4
WEN Wendy's International	\$ 21.813	\$25.43	(14%)	1.6

Value Drivers

Standard Market Statistics

	Sales Growth 12M	EBIT Margin %	ROC	Leverage at Market	Yield	PE	PB	PS
ALD	7.9%	11.4%	11.8%	18.7%	1.4%	19.1	5.6	1.6
CTL	74.6%	29.7%	9.1%	30.3%	0.4%	18.9	4.0	3.6
DAL	4.9%	12.0%	14.2%	63.3%	0.2%	7.5	2.0	0.6
G	-0.3%	23.1%	20.2%	6.6%	1.1%	46.4	10.0	5.1
INTC	0.7%	39.4%	33.5%	0.5%	0.1%	31.0	8.2	7.0
NUE	6.0%	11.0%	21.1%	6.1%	1.1%	13.3	2.0	0.9
PNM	15.4%	14.3%	7.0%	51.4%	3.9%	9.9	1.0	0.7
SLB	9.6%	15.5%	14.6%	13.4%	1.6%	21.2	3.3	1.9
WEN	-1.5%	14.9%	11.9%	26.4%	1.1%	23.8	2.0	1.3

Notes on Intrinsic Value Portfolio

Another 4.7% since last issue, but it took two weeks this time. Better than the S&P 500, but less than the 10.5% and 7.7% of the Mid Cap and Small Cap markets.

The big jumps were in Century Telephone, Gillette and Wendy's. CTL's price move moved us to re-run the valuation. Century Tel is now worth \$62.64. The passage of time increases intrinsic value. Also, perhaps investors are more optimistic than us in their forecasts of revenue growth. Our assumption is 13%. The stock is sensitive to revenue growth assumptions: for each percentage point above or below our forecast the intrinsic value is 10.3% higher or 8.8% lower. With such sensitivity, any forecaster needs to be humble.

On Page 3.

Our industry highlight this week is the most over-priced of any: Mid Cap Technology
Be very nervous if you own stocks in this sector.

Intrinsic Value Weekly

Technology - S&P Mid Cap Index

Page 3

Company Name	Ticker	Market Value - Equity	Last 12MM Sales Growth	ROE	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow	Return on Capital	Dividend Yield
ADC TELECOMMUNICATIONS INC	ADCT	\$ 4,687.7	18.5%	14.5	12.2	27.4	5.3	19.3	19.2	0.00%
ALTERA CORP	ALTR	\$ 5,922.8	6.3%	28.2	22.8	30.3	8.2	26.7	19.7	0.00%
AMERICA ONLINE INC	AOL	\$ 70,614.1	58.1%	15.4	11.0	228.9	64.3	123.4	15.0	0.00%
ANALOG DEVICES	ADI	\$ 5,102.1	-1.0%	16.4	18.1	27.6	3.0	0.0	15.3	0.00%
ARROW ELECTRONICS INC	ARW	\$ 2,550.6	13.9%	12.0	3.7	12.6	1.5	9.7	12.3	0.00%
ATMEL CORP	ATML	\$ 1,524.7	6.4%	0.2	12.3	(7.5)	1.5	34.7	8.4	0.00%
AVNET INC	AVT	\$ 2,200.4	10.7%	11.5	5.5	18.1	1.6	12.1	15.0	0.99%
CADENCE DESIGN SYS INC	CDN	\$ 6,599.4	36.5%	25.0	32.1	(65.4)	8.0	(536.1)	42.5	0.00%
CAMBRIDGE TECHNOLOGY PARTNER	CATP	\$ 1,295.6	50.8%	22.0	15.5	28.6	7.7	0.0	43.6	0.00%
CIRRUS LOGIC INC	CRUS	\$ 626.6	-1.7%	8.0	6.0	(8.3)	1.8	(34.5)	6.8	0.00%
CITRIX SYSTEMS INC	CTXS	\$ 4,118.6	123.8%	21.0	55.3	140.7	17.5	111.4	35.2	0.00%
COMDISCO INC	CDO	\$ 2,565.1	16.9%	15.9	17.2	18.4	3.5	0.0	8.0	0.59%
COMPUWARE CORP	CPWR	\$ 14,328.1	46.3%	27.4	24.6	42.9	15.8	38.3	45.1	0.00%
COMVERSE TECHNOLOGY INC	CMVT	\$ 3,145.6	27.3%	16.6	14.9	@NA	5.5	0.0	11.3	0.00%
CYPRESS SEMICONDUCTOR CORP	CY	\$ 714.8	-4.2%	2.9	2.3	(8.6)	1.4	0.0	1.5	0.00%
ELECTRONIC ARTS INC	ERTS	\$ 3,414.1	34.0%	12.9	11.9	47.3	4.5	31.6	22.7	0.00%
FISERV INC	FISV	\$ 4,216.6	24.3%	11.8	11.7	33.1	4.6	21.8	4.9	0.00%
FORE SYSTEMS INC	FORE	\$ 2,023.0	28.6%	6.9	10.9	(9.9)	3.0	(13.3)	10.1	0.00%
IMATION CORP	IMN	\$ 712.2	-3.9%	(26.4)	2.5	(4.7)	1.0	(124.8)	4.6	0.00%
INFORMIX CORP	IFMX	\$ 1,701.6	0.1%	(604.7)	(27.7)	23.5	14.0	10.3	(70.4)	0.00%
INTEGRATED DEVICE TECH INC	IDTI	\$ 504.0	-1.3%	1.5	7.6	(1.7)	0.9	(3.0)	5.1	0.00%
INTUIT INC	INTU	\$ 4,315.3	2.8%	(1.1)	3.0	(82.7)	3.2	(193.5)	2.3	0.00%
KEANE INC	KEA	\$ 2,811.8	55.3%	18.6	5.1	24.4	7.7	0.0	12.4	0.00%
LEXMARK INTL GRP INC -CL A	LXK	\$ 6,604.1	16.5%	32.6	11.0	23.6	10.4	17.2	36.0	0.00%
LINEAR TECHNOLOGY CORP	LLTC	\$ 6,732.7	23.1%	23.9	56.0	29.0	7.1	25.7	40.2	0.31%
LITTON INDUSTRIES INC	LIT	\$ 2,967.3	9.7%	15.2	8.9	15.3	2.4	8.2	13.7	0.00%
MAXIM INTEGRATED PRODUCTS	MXIM	\$ 5,723.1	29.0%	28.2	47.7	27.4	8.1	0.0	48.2	0.00%
MEDAPHIS CORP	MEDA	\$ 258.1	-4.9%	(18.6)	(1.4)	(0.4)	0.4	(0.4)	(1.1)	0.00%
MENTOR GRAPHICS CORP	MENT	\$ 558.5	3.2%	(11.3)	(1.4)	(71.9)	2.0	30.6	(1.4)	0.00%
MICROCHIP TECHNOLOGY INC	MCHP	\$ 1,893.6	5.0%	17.5	18.7	31.6	5.0	15.1	19.6	0.00%
NCR CORP	NCR	\$ 4,091.5	-3.1%	0.5	(1.7)	34.8	2.8	7.5	(3.1)	0.00%
NETWORKS ASSOCIATES INC	NETA	\$ 8,902.6	51.1%	(7.9)	31.7	(22.7)	14.8	0.0	75.5	0.00%
NOVA CORP/GA	NIS	\$ 2,496.1	@SF	16.9	8.2	54.9	9.0	0.0	24.2	0.00%
PLATINUM TECHNOLOGY INC	PLAT	\$ 1,649.8	33.5%	(48.4)	6.2	(22.4)	4.6	0.0	5.6	0.00%
POLICY MANAGEMENT SYSTEMS CP	PMS	\$ 1,824.4	17.2%	12.2	14.3	33.2	4.6	14.3	16.3	0.00%
QUALCOMM INC	QCOM	\$ 3,657.5	59.7%	11.3	6.9	35.0	4.0	15.5	12.1	0.00%
QUANTUM CORP	QNTM	\$ 3,210.9	-16.0%	12.4	5.6	(245.8)	2.6	44.8	19.1	0.00%
SEQUENT COMPUTER SYSTEMS INC	SQNT	\$ 528.0	9.2%	6.4	6.9	(15.9)	0.9	10.7	8.6	0.00%
SIEBEL SYSTEMS INC	SEBL	\$ 3,000.2	101.5%	(2.2)	27.8	538.9	15.3	0.0	34.0	0.00%
STERLING COMMERCE INC	SE	\$ 4,253.0	39.8%	(8.2)	33.2	(54.1)	4.6	(167.6)	23.0	0.00%
STERLING SOFTWARE INC	SSW	\$ 2,225.8	47.2%	8.8	21.2	27.4	2.5	0.0	20.5	0.00%
STORAGE TECHNOLOGY CP	STK	\$ 3,559.7	7.6%	20.8	11.8	16.5	3.4	10.1	18.3	0.00%
STRUCTURAL DYNAMICS RESEARCH	SDRC	\$ 721.3	13.3%	16.9	18.0	14.8	3.5	0.0	38.1	0.00%
SUNGARD DATA SYSTEMS INC	SDS	\$ 4,181.9	28.6%	13.9	10.8	30.8	5.1	21.4	12.5	0.00%
SYMANTEC CORP	SYMC	\$ 1,224.7	13.2%	26.8	19.2	26.0	3.6	16.5	31.4	0.00%
SYNOPSIS INC	SNPS	\$ 3,609.5	11.0%	9.6	24.7	48.8	@NA	29.3	26.2	0.00%

Intrinsic Value Weekly

Technology - S&P Mid Cap Index

Page 4

Company Name	Ticker	Market Value - Equity	Last		NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow	Return on Capital	Dividend Yield
			12MM Sales Growth	ROE						
TERADYNE INC	TER	\$ 3,562.2	40.2%	13.6	13.5	19.7	2.9	13.1	17.4	0.00%
VARIAN ASSOCIATES INC	VAR	\$ 1,128.4	-0.3%	22.0	5.1	16.0	2.3	0.0	10.0	1.06%
XILINX INC	XLNX	\$ 4,655.3	2.0%	23.0	21.2	31.5	6.7	24.3	16.3	0.00%

* America Online is now part of the S&P 500.