

Intrinsic Value Weekly

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"The Ides of March"

After a week like the last one, investors have to feel like they've been attacked, even betrayed. But, after all, even the most naïve investor knows that the processes of legislating tax cuts and deciding Fed policy are never easy ones. A little like making sausage perhaps; better not to watch too much. If you needed a reminder of how difficult forecasting short term wiggles in stock prices really is, you got a big one this year. But several questions now rise in importance. First, are we entering a new era of austerity and deprivation? Probably not, though short term economic performance and company profits probably will look pretty gaunt. Has the Fed lost its touch? The past several years, what with characterizations like "goldilocks economy" and such, Chairman Greenspan and the Federal Open Market Committee have been idolized excessively and for the wrong reasons. The reduction in the rate of inflation is and should be the primary goal of Fed policy. Much of the elevated valuation in stocks in the past two years was due to the disappearance of an inflation premium in the discounting process. But, the Fed-induced volatility associated with Y2K and the subsequent reversal of that mistake has now created illiquidity conditions that are playing havoc with inflation expectations at a time of fiscal policy changes. The rapid rise in the range of possible outcomes has confused and frightened investors and now instead of an inflation premium we have an uncertainty premium. Whenever an additional premium of any kind gets built into the stock-price-making mechanism, that means lower stock prices. The good news on this current event is that when the uncertainty gets resolved, (assuming it does) then stock prices will be much higher. One way of expressing this phenomenon is through "under-valuation". Higher uncertainty, more undervalued. That also means that in the intermediate to longer term, an investor's expected return is higher. Investors now demand more (lower prices) in order to offset their perceptions of increased risk. In the short run, should investors become even more worried and confused, stocks will trade lower. If events resolve these uncertainties, investors will price stocks commensurately and valuations will be higher. The problem for the short run is that no one can forecast perceptions and if events change perceptions favorably, prices will move in giant leaps and those on the sidelines now will forego the gains implicit in accepting the current level of perceived risk.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	3/16/01	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
BGP	Borders Group, Inc.	9/22/00	\$ 16.110	\$29.31	(45.0%)	1.0	0.7%
BGG	Briggs & Stratton	9/22/00	\$ 39.160	\$98.87	(60.4%)	1.3	(7.8%)
CTL	CenturyTel, Inc.	9/22/00	\$ 26.940	\$40.74	(33.9%)	1.4	(4.5%)
DAL	Delta Air Lines, Inc.	3/6/00	\$ 39.390	\$66.30	(40.6%)	0.8	(11.2%)
MLHR	Herman Miller, Inc.	3/6/00	\$ 23.750	\$46.28	(48.7%)	2.5	(11.8%)
NUE	Nucor Corporation	9/22/00	\$ 41.780	\$60.65	(31.1%)	1.2	(10.9%)
WEN	Wendy's International	9/22/00	\$ 22.940	\$28.69	(20.0%)	1.7	(10.0%)
Average:					(40.0%)	Average:	(7.9%)
						S&P 500	(6.7%)

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Capital Turnover	Sales Growth		Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/ Sales	Market Cap (\$billions)
		Last 12M	EBIT Margin %							
BGP	1.5	9.2%	5.2%	7.9%	9.0%	0.0%	13.1	1.5	0.4	1.3
BGG	2.2	(13.5%)	12.9%	30.5%	(12.9%)	3.2%	10.6	2.1	0.6	0.8
CTL	0.4	10.1%	30.3%	11.1%	23.6%	0.7%	17.5	2.2	2.2	3.8
DAL	0.6	13.8%	11.6%	8.6%	1.5%	0.3%	6.0	1.1	0.3	4.8
MLHR	1.9	18.4%	12.1%	17.6%	27.7%	0.6%	13.4	6.8	1.0	1.8
NUE	1.4	14.4%	9.3%	14.4%	(7.5%)	1.4%	11.6	1.7	0.8	3.3
WEN	0.9	8.2%	13.8%	10.2%	7.6%	1.0%	16.7	2.7	1.4	2.6

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ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	(8.8%)	(30.7%)	(14.3%)
CONSUMER CYCLICALS	(30.5%)	(17.4%)	(13.9%)
CONSUMER STAPLES	(13.7%)	(16.1%)	(1.5%)
HEALTH	(31.4%)	(17.5%)	(7.8%)
ENERGY	11.9%	114.9%	75.4%
FINANCIAL	(17.8%)	(23.6%)	(30.7%)
CAPITAL GOODS	(27.9%)	(13.8%)	(15.9%)
TECHNOLOGY	(54.9%)	(32.8%)	(29.7%)
COMMUNICATIONS	(42.3%)	(1.8%)	(45.9%) *
UTILITY	(2.7%)	(24.7%)	(15.4%)
TRANSPORTATION	(40.2%)	(24.6%)	(22.8%)
Weighted Total:	(26.9%)	(12.0%)	(10.0%)

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 3/16/2001	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.5%	(9.1%)	4.3%	(7.2%)	4.2%	(7.1%)
CONSUMER CYCLICALS	8.7%	(6.6%)	14.9%	(7.7%)	19.3%	(6.3%)
CONSUMER STAPLES	12.2%	(5.9%)	8.4%	(4.9%)	10.2%	(5.1%)
HEALTH	13.3%	(7.9%)	10.3%	(7.5%)	10.5%	(7.6%)
ENERGY	7.2%	(6.5%)	7.7%	(12.8%)	8.0%	(7.1%)
FINANCIAL	17.5%	(5.2%)	15.9%	(4.3%)	12.2%	(3.6%)
CAPITAL GOODS	9.0%	(9.6%)	6.7%	(8.1%)	12.8%	(6.4%)
TECHNOLOGY	19.0%	(7.0%)	20.4%	(9.5%)	15.4%	(9.4%)
COMMUNICATIONS	6.2%	(3.4%)	1.5%	(5.0%)	0.2%	(4.9%) *
UTILITY	3.8%	(5.5%)	8.1%	(3.2%)	4.5%	(1.8%)
TRANSPORTATION	0.6%	(8.4%)	1.9%	(12.8%)	2.7%	(9.1%)
Index Total:		(6.7%)		(7.4%)		(7.0%)

* Sector contains only 3 companies

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

Sector Comments: Well now we have the market prices of pretty much all sectors, except Energy, reflecting the fear and confusion that has driven Technology stocks from 35% of the S&P 500 Index to less than 20%. Of course, in 1990 that sector was in middle single digits percent of the S&P and the huge gains of the past 10 years were just a glint in Bill Gates' eye. Ok, so now what? Well, look at the average sectoral discount to intrinsic value. That implies a level for the S&P 500 Index of 1570 or so. But as we have seen, sectors and stocks may average near intrinsic value over time, though when they reach intrinsic value seems thoroughly without predictability. With that in mind, any investor right now has a choice of becoming a non-investor or adopting a long term mind-set. We have always believed that a long term mind-set is essential to investing; anything else is simple speculation, guesswork and totally random. For any investor looking at an historical chart of stock prices, it is important to understand that each price in the time-series on a chart has its own context; its own set of information and its own investor psychology. For a chart that starts out at a very low price several years ago and rises sharply, the reality is that at those old, low prices, many investors were reluctant to invest. And the more recent, higher prices, investor enthusiasm was rampant. The truth is that buying low is uncomfortable. Buying at the top is easy.

On Page 3 this week we focus our Value Driver attention on the best performing group of last week, Small Cap Utilities. These stocks are moderately under-priced and a very small part of the market.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
\$	10,059,269	\$775,130	\$ 316,859
	90.2%	7.0%	2.8%

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Small Cap Utilities: A Small Place to Hide

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Company Name	Ticker	Market Value - Equity	12 Mo.	Current Price	Free Cash		PE Ratio	Price/Book Ratio	Leverage At Market	Return on Capital	Dividend Yield
			Quarterly Sales Growth		Flow Annuity	NOPAT Margin					
AMERICAN STATES WATER CC	AWR	\$8,134	2.2%	30.8	38.52	25.78	15.9	1.6	47.6%	8.80	4.2%
ATMOS ENERGY CORP	ATO	\$905	97.3%	23.3	26.78	10.89	16.8	1.9	40.6%	7.84	5.0%
AVISTA CORP	AVA	\$749	50.3%	15.9	18.95	2.96	10.6	@NA	66.9%	3.14	3.0%
BANGOR HYDRO-ELEC CO	BGR	\$191	12.2%	26.0	44.43	22.79	17.6	1.4	53.9%	8.15	3.1%
CASCADE NATURAL GAS CORI	CGC	\$218	42.2%	19.8	33.02	14.47	13.1	1.8	39.0%	11.45	4.9%
CENTRAL VERMONT PUB SERV	CV	\$170	(25.0%)	14.8	26.77	11.66	11.1	@NA	47.7%	7.37	5.9%
CH ENERGY GROUP INC	CHG	\$695	95.9%	42.5	75.77	16.95	14.4	@NA	42.5%	8.56	5.1%
ENERGEN CORP	EGN	\$925	36.3%	30.4	36.98	17.24	14.6	2.1	37.3%	9.75	2.2%
GREEN MOUNTAIN POWER CC	GMP	\$73	8.6%	13.4	4.82	4.82	(243.7)	0.8	53.6%	4.23	4.1%
LACLEDE GAS CO	LG	\$438	128.0%	23.2	29.63	11.18	13.0	1.6	40.9%	8.08	5.8%
NEW JERSEY RESOURCES	NJR	\$697	153.4%	39.5	55.22	8.06	13.3	2.1	34.1%	11.11	4.5%
NORTHWEST NATURAL GAS C	NWN	\$598	43.6%	23.7	39.84	19.61	13.6	1.4	38.7%	8.55	5.2%
NORTHWESTERN CORP	NOR	\$561	122.6%	24.3	8.39	3.41	12.8	1.9	61.5%	6.00	4.9%
NUI CORP	NUI	\$362	37.3%	28.0	40.77	6.59	13.0	1.4	49.8%	7.09	3.5%
PHILADELPHIA SUBURBAN COI	PSC	\$1,235	9.4%	23.0	18.64	42.49	22.5	@NA	35.3%	9.17	2.7%
PIEDMONT NATURAL GAS CO	PNY	\$1,083	74.0%	33.8	40.36	14.89	14.5	1.9	32.7%	10.23	4.3%
RGS ENERGY GROUP INC	RGS	\$1,281	34.2%	37.1	50.39	14.43	14.0	1.6	43.7%	7.94	4.9%
SOUTHERN UNION CO	SUG	\$1,027	152.7%	20.2	5.36	10.83	53.0	1.5	43.7%	6.26	0.0%
SOUTHWEST GAS CORP	SWX	\$643	29.9%	20.4	28.13	14.01	17.1	1.3	52.7%	7.73	4.0%
SOUTHWESTERN ENERGY CO	SWN	\$254	32.0%	10.1	5.26	12.86	(5.7)	1.4	44.5%	6.04	2.4%
UGI CORP	UGI	\$657	58.0%	24.3	40.36	9.50	13.1	2.7	60.8%	8.06	6.4%
UIL HOLDINGS CORP	UIL	\$672	58.9%	47.7	87.70	16.97	11.3	@NA	48.3%	8.81	6.0%
UNISOURCE ENERGY CORP	UNS	\$633	44.9%	19.1	38.92	21.25	15.0	1.7	75.2%	8.53	2.1%

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