

# Intrinsic Value Weekly

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## "Looking for Cushions on a Bumpy Road"

We now clearly have a consensus. When the Federal Reserve finally accepts that there is a slowing economy, there is no one else left to decide. This month will be a pretty good test of whether the slowing in the fourth quarter of 2000 was part of the beginning of a recession or a predictable shifting of activity into the next tax year as a way of trying to save on income tax bills. If, miraculously, business activity seems to pick up again, we'd bet that the latter explanation is much better than looking at Fed action as the proximate cause. Nearly all the talk of tax cuts, though, has been of getting a bill through quickly and even making cuts retroactive to January first. Good. But, if they phase in the cuts, the incentive to move activity to the lower taxed period could postpone any recovery and force the Fed to keep cutting rates and overshoot to the downside, causing a hiccup in inflation, a falling dollar exchange rate and another round of instability. We are not sanguine about the awareness of such incentive effects within the incoming Bush administration, especially after viewing television appearances of their highly placed economic advisers. And certainly the Congress is devoid of such analysis. While inflation remains low for now, the risks of errors in monetary policy are rising. Fortunately, we are currently cushioned by an overall undervaluation for stocks on average. Nevertheless, as these factors play out, we expect volatility to be high throughout this year.

The Intrinsic Value Portfolio has performed quite well this year, partly because these deeply undervalued stocks have quite a lot of sensitivity to changes in the economy. And now the Federal Reserve has acted and the instant pundit analysis on television says that cyclically-sensitive stocks are now the cats meow. Clearly, many cyclical stocks are very under-priced now. And we don't mind that a *deus ex machina* in the form of the Fed has catalyzed the movement of these stocks toward their intrinsic values. But, if the crosscurrents coming from the political winds cause rapid changes in investor expectations (and we expect that), then the path toward intrinsic value will look pretty bumpy. As with our assessment of the overall market, our expectations for these stocks is for high volatility. You will note that three of these stocks are now within 10% of intrinsic value. We believe that if these come within kissing distance of our estimate of intrinsic value, and the tax consequences of a sale are not an obstacle, that the better part of valor will be to retire them from the portfolio. And certainly there are lots of newly under-priced stocks with which to replace them. So, be alert. Set stop orders if you cannot watch continually. Continued volatility will turf up new opportunities with increasing frequency.

## Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	1/5/2001	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
BGP	Borders Group, Inc.	9/22/2000	\$ 12.000	\$29.31	(59.1%)	1.0	2.7%
BGG	Briggs & Stratton	9/22/2000	\$ 44.500	\$98.87	(55.0%)	1.5	0.3%
CTL	CenturyTel, Inc.	9/22/2000	\$ 37.500	\$40.74	(7.9%)	1.7	4.9%
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 52.750	\$66.30	(20.4%)	0.9	5.1%
LOW	Lowes Companies	9/22/2000	\$ 51.813	\$56.04	(7.5%)	2.4	16.4%
MLHR	Herman Miller, Inc.	3/6/2000	\$ 27.750	\$46.28	(40.0%)	2.7	(3.5%)
NYT	New York Times Co.	9/22/2000	\$ 42.375	\$46.26	(8.4%)	2.6	5.8%
NUE	Nucor Corporation	9/22/2000	\$ 39.750	\$60.65	(34.5%)	1.1	0.2%
WEN	Wendy's International	9/22/2000	\$ 24.938	\$28.69	(13.1%)	1.8	(5.0%)
<b>Average:</b>					<b>(27.3%)</b>	<b>Average:</b>	<b>3.0%</b>
						<b>S&amp;P 500</b>	<b>(1.7%)</b>

Bold - Outperformed the S&P 500 for the week

## Value Drivers

## Standard Market Statistics

Symbol	Capital Turnover	Sales		EBIT Margin %	Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/ Book	Price/ Market Cap Sales (\$billions)
		Growth Last 12M	Return On Capital							
BGP	1.0	11.4%	5.7%	10.9%	7.2%	0.0%	10.0	1.1	0.3	0.9
BGG	2.2	(6.6%)	12.9%	30.5%	(39.5%)	2.8%	9.7	2.4	0.7	1.0
CTL	0.4	4.8%	30.3%	11.1%	15.1%	0.5%	21.4	2.7	3.0	5.3
DAL	0.6	11.0%	11.6%	11.9%	13.5%	0.2%	5.1	1.3	0.4	6.5
LOW	2.2	17.9%	7.4%	11.1%	15.2%	0.3%	20.8	3.6	1.1	19.8
MLHR	1.9	18.4%	12.1%	17.6%	27.7%	0.5%	15.1	7.6	1.0	2.1
NYT	1.1	12.1%	18.7%	13.1%	7.9%	1.1%	18.7	4.8	2.2	7.0
NUE	1.4	23.2%	9.3%	14.4%	13.3%	1.5%	10.2	1.5	0.7	3.1
WEN	0.9	9.2%	13.8%	10.2%	8.5%	1.0%	17.3	2.9	1.3	2.8

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## ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&amp;P 500</u>	<u>S&amp;P MIDCAP</u>	<u>S&amp;P SMALL CAP</u>
BASIC INDUSTRY	(3.5%)	(30.6%)	(13.3%)
CONSUMER CYCLICALS	(26.1%)	(14.9%)	(13.1%)
CONSUMER STAPLES	(8.4%)	(12.0%)	(1.3%)
HEALTH	(24.2%)	2.0%	(3.8%)
ENERGY	15.0%	104.6%	68.6%
FINANCIAL	(7.8%)	(17.5%)	(27.1%)
CAPITAL GOODS	(17.3%)	(9.4%)	(11.7%)
TECHNOLOGY	(40.2%)	(23.2%)	(17.6%)
COMMUNICATIONS	(35.1%)	23.4%	(22.1%) *
UTILITY	(0.2%)	(24.6%)	(16.3%)
TRANSPORTATION	(25.3%)	(8.6%)	(11.0%)
<b>Weighted Total:</b>	(19.8%)	(6.6%)	(7.7%)

**RED - Overvalued**

**BLUE - (Undervalued)**

**Bold - outperformed the relevant index**

## WEEKLY PRICE CHANGE

<u>SECTORS</u>	<u>S&amp;P 500</u>		<u>S&amp;P MIDCAP</u>		<u>S&amp;P SMALL CAP</u>	
	Weight	Price	Weight	Price	Weight	Price
prices as of 1/5/2001	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.3%	(1.1%)	4.0%	(0.5%)	4.1%	(4.1%)
CONSUMER CYCLICALS	8.2%	4.9%	14.8%	(0.7%)	19.2%	3.5%
CONSUMER STAPLES	10.9%	(4.4%)	8.4%	1.3%	10.0%	(4.8%)
HEALTH	12.9%	(10.4%)	11.2%	(16.3%)	10.1%	(11.3%)
ENERGY	6.4%	(2.9%)	7.1%	(8.4%)	7.0%	(9.0%)
FINANCIAL	17.2%	(1.9%)	15.2%	(6.4%)	12.8%	(4.8%)
CAPITAL GOODS	8.9%	(2.3%)	7.0%	(2.6%)	12.9%	(1.6%)
TECHNOLOGY	22.9%	2.4%	21.1%	(2.1%)	16.4%	(6.7%)
COMMUNICATIONS	6.1%	10.3%	1.8%	(0.5%)	0.3%	(1.3%) *
UTILITY	3.3%	(13.7%)	7.4%	(10.9%)	4.2%	(8.1%)
TRANSPORTATION	0.7%	5.9%	2.1%	3.2%	3.0%	4.3%
<b>Index Total:</b>		(1.7%)		(5.3%)		(4.1%)

\* Sector contains only 3 companies

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

**Sector Comments:** The sectoral price trend pattern changed radically last week with the large drop in overnight interest rates. Credit-sensitive areas among Consumer Cyclicals certainly responded quickly. But, the other bright spots among Large Cap stocks were Technology, Communications and Transportation. All four of these sectors are under-priced, so we're not surprised they were strong. But, the patterns of other sectors are interesting. The recent sell-off in the price of crude oil is now being met by an effort by OPEC to reduce production. But the market doesn't seem to believe them. Energy stocks were down across the board last week and in the face of bitter cold and snow in New York, too. If OPEC does manage to stabilize production at prices near current levels, we believe they will begin, over time, to lose market share to other producers. And, to the extent that technology continues to improve the effectiveness and cost of finding and developing energy resources, that should provide, at current prices, an ever-increasing overhang of production capacity. That is good for the market, except for energy stocks. And they are over-priced for such a scenario. Transportation stocks are well-positioned for both higher economic growth and lower fuel prices. Utility stocks were shocked by the developing crisis in California. We have spoken before about the nutty regulatory scheme there, and the likely outcome. This one. With utility distributors bled dry and electric producers wondering about the outlook for the ultimate electric user, this drama has implications for Tech stocks too. Page 3 presents Large Cap Utility value drivers this week. Note the leverage numbers.

(\$millions)	<b>Large Capitalization</b>		<b>Mid-Cap Capitalization</b>		<b>Small-Cap Capitalization</b>	
	\$ 11,406,541	90.7%	\$838,404	6.7%	\$ 331,586	2.6%

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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								
AES CORP	AES	\$23,561	107.9%	51.4	(13.62)	20.3	42.0	8.7	35.8%	4.41	0.0%
<b>ALLEGHENY ENERGY INC</b>	<b>AYE</b>	<b>\$4,645</b>	<b>42.8%</b>	<b>42.1</b>	<b>54.46</b>	<b>22.8</b>	<b>18.6</b>	<b>3.1</b>	<b>38.3%</b>	<b>9.70</b>	<b>4.1%</b>
AMEREN CORP	AEE	\$5,489	0.2%	40.0	55.86	23.3	14.9	2.1	31.0%	9.54	6.3%
<b>AMERICAN ELECTRIC POWER</b>	<b>AEP</b>	<b>\$13,141</b>	<b>11.0%</b>	<b>40.8</b>	<b>42.90</b>	<b>18.9</b>	<b>20.7</b>	<b>1.8</b>	<b>39.4%</b>	<b>7.08</b>	<b>5.9%</b>
CALPINE CORP	CPN	\$9,798	171.0%	35.1	(0.25)	29.5	46.6	11.8	25.5%	7.11	0.0%
<b>CINERGY CORP</b>	<b>CIN</b>	<b>\$4,868</b>	<b>29.0%</b>	<b>30.6</b>	<b>40.39</b>	<b>12.7</b>	<b>13.9</b>	<b>2.1</b>	<b>40.9%</b>	<b>8.81</b>	<b>5.9%</b>
<b>CMS ENERGY CORP</b>	<b>CMS</b>	<b>\$3,422</b>	<b>63.4%</b>	<b>28.3</b>	<b>30.81</b>	<b>14.9</b>	<b>14.9</b>	<b>1.5</b>	<b>70.8%</b>	<b>7.66</b>	<b>5.2%</b>
COASTAL CORP	CGP	\$16,798	53.2%	78.1	27.33	12.4	30.8	4.8	29.6%	7.72	0.3%
<b>CONSOLIDATED EDISON INC</b>	<b>ED</b>	<b>\$7,247</b>	<b>20.2%</b>	<b>34.2</b>	<b>66.03</b>	<b>19.1</b>	<b>12.4</b>	<b>1.5</b>	<b>37.2%</b>	<b>10.56</b>	<b>6.4%</b>
CONSTELLATION ENERGY COF	CEG	\$5,927	-2.8%	39.4	47.60	20.2	22.6	2.1	36.3%	8.22	4.3%
DOMINION RESOURCES INC	D	\$13,482	41.4%	56.4	53.45	23.4	40.1	2.6	36.1%	8.01	4.6%
DTE ENERGY CO	DTE	\$5,064	7.4%	35.5	48.96	19.1	13.1	1.4	43.1%	7.81	5.8%
DUKE ENERGY CORP	DUK	\$26,937	128.9%	73.0	19.06	7.6	24.4	3.5	31.5%	6.60	3.0%
DYNEGY INC	DYN	\$14,493	82.5%	46.5	2.43	1.9	39.2	9.8	19.9%	5.31	0.6%
<b>EDISON INTERNATIONAL</b>	<b>EIX</b>	<b>\$3,360</b>	<b>23.3%</b>	<b>10.3</b>	<b>12.02</b>	<b>19.0</b>	<b>7.5</b>	<b>1.0</b>	<b>68.7%</b>	<b>6.72</b>	<b>10.9%</b>
EL PASO ENERGY CORP/DE	EPG	\$14,984	114.1%	64.1	(38.82)	0.7	64.5	5.6	33.0%	0.57	1.3%
ENRON CORP	ENE	\$53,285	153.5%	71.4	0.21	3.4	55.4	7.0	21.7%	4.86	0.7%
ENTERGY CORP	ETR	\$8,241	12.0%	37.4	23.45	14.3	15.3	1.4	43.7%	5.87	3.4%
EXELON CORP	EXC	\$10,179	-5.8%	59.7	61.34	25.2	19.1	7.2	36.3%	10.20	1.1%
<b>FIRSTENERGY CORP</b>	<b>FE</b>	<b>\$6,397</b>	<b>9.2%</b>	<b>28.1</b>	<b>54.28</b>	<b>24.5</b>	<b>11.9</b>	<b>1.6</b>	<b>48.6%</b>	<b>9.15</b>	<b>5.3%</b>
FPL GROUP INC	FPL	\$11,210	10.3%	63.4	44.78	14.3	16.1	2.4	29.0%	7.38	3.4%
<b>GPU INC</b>	<b>GPU</b>	<b>\$4,217</b>	<b>2.2%</b>	<b>34.8</b>	<b>18.71</b>	<b>23.0</b>	<b>46.0</b>	<b>1.3</b>	<b>62.0%</b>	<b>6.18</b>	<b>6.3%</b>
<b>KEYSPAN CORP</b>	<b>KSE</b>	<b>\$4,029</b>	<b>75.9%</b>	<b>37.0</b>	<b>48.62</b>	<b>17.4</b>	<b>19.0</b>	<b>1.7</b>	<b>33.7%</b>	<b>7.60</b>	<b>4.8%</b>
KINDER MORGAN INC	KMI	\$5,096	50.8%	44.6	(12.21)	17.4	27.8	3.5	37.5%	3.24	0.4%
<b>NIAGARA MOHAWK HOLDINGS</b>	<b>NMK</b>	<b>\$2,674</b>	<b>6.3%</b>	<b>16.7</b>	<b>(2.57)</b>	<b>12.9</b>	<b>(151.7)</b>	<b>1.0</b>	<b>60.0%</b>	<b>3.91</b>	<b>0.0%</b>
<b>NICOR INC</b>	<b>GAS</b>	<b>\$1,752</b>	<b>32.4%</b>	<b>38.4</b>	<b>50.19</b>	<b>13.1</b>	<b>44.1</b>	<b>2.6</b>	<b>33.1%</b>	<b>9.75</b>	<b>4.3%</b>
NISOURCE INC	NI	\$3,389	45.1%	27.9	25.09	14.7	20.1	2.8	44.0%	8.42	3.9%
<b>ONEOK INC</b>	<b>OKE</b>	<b>\$1,374</b>	<b>319.7%</b>	<b>47.1</b>	<b>67.40</b>	<b>11.9</b>	<b>@NA</b>	<b>1.3</b>	<b>42.8%</b>	<b>8.66</b>	<b>2.6%</b>
<b>PEOPLES ENERGY CORP</b>	<b>PGL</b>	<b>\$1,396</b>	<b>28.1%</b>	<b>39.6</b>	<b>52.50</b>	<b>12.5</b>	<b>18.3</b>	<b>2.0</b>	<b>37.7%</b>	<b>8.78</b>	<b>5.1%</b>
<b>PG&amp;E CORP</b>	<b>PCG</b>	<b>\$4,882</b>	<b>20.7%</b>	<b>12.6</b>	<b>(7.67)</b>	<b>4.2</b>	<b>30.3</b>	<b>1.1</b>	<b>63.2%</b>	<b>2.89</b>	<b>9.5%</b>
<b>PINNACLE WEST CAPITAL</b>	<b>PNW</b>	<b>\$3,484</b>	<b>79.7%</b>	<b>41.1</b>	<b>59.23</b>	<b>23.9</b>	<b>13.2</b>	<b>1.8</b>	<b>38.1%</b>	<b>8.30</b>	<b>3.6%</b>
PPL CORP	PPL	\$5,379	5.2%	37.2	41.47	18.7	12.9	4.0	49.8%	8.08	2.9%
PROGRESS ENERGY INC	PGN	\$6,803	5.8%	42.6	49.77	25.3	13.3	2.3	29.6%	10.24	4.8%
<b>PUBLIC SERVICE ENTRP</b>	<b>PEG</b>	<b>\$8,670</b>	<b>-5.0%</b>	<b>40.4</b>	<b>80.89</b>	<b>28.3</b>	<b>15.2</b>	<b>2.6</b>	<b>47.8%</b>	<b>10.10</b>	<b>5.3%</b>
RELIANT ENERGY INC	REI	\$10,792	92.5%	36.6	31.28	8.4	14.6	2.4	52.7%	6.14	4.1%
SEMPRA ENERGY	SRE	\$4,001	48.2%	19.6	27.09	13.8	11.5	1.8	47.0%	6.84	5.1%
SOUTHERN CO	SO	\$18,541	100.2%	28.5	33.02	24.6	16.3	2.4	45.7%	8.21	4.7%
<b>TXU CORP</b>	<b>TXU</b>	<b>\$9,712</b>	<b>31.5%</b>	<b>37.6</b>	<b>65.54</b>	<b>15.9</b>	<b>10.9</b>	<b>1.5</b>	<b>62.4%</b>	<b>7.58</b>	<b>6.4%</b>
WILLIAMS COS INC	WMB	\$16,313	29.5%	36.8	(0.20)	14.9	27.2	3.2	48.2%	6.00	1.6%
XCEL ENERGY INC	XEL	\$8,664	41.1%	25.4	18.80	18.8	18.4	1.8	35.9%	6.69	5.9%

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