

Intrinsic Value Weekly

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"Now the Air is Getting Bumpy, too"

Delta Airlines (DAL - NYSE) will release its earnings results for the December, 2000, quarter this week on January 18th. The company announced a non-cash charge last Thursday to reflect marking fuel cost hedges to market and the early retirement of debt. The hedging charge is good news in the sense that the operating cost of fuel is now down well below its peak. What is more ominous is the ever-looming fight with pilots that recently broke out into widespread delays and flight cancellations. The one big weakness in **DAL** is its relationship with its pilots. Shareholders cannot benefit from the excellent operation of this airline without the affirmative cooperation and enthusiasm of its employees. The results of a vote by pilots scheduled for last week won't be released until February 12th. An actual strike could come as soon as April 1st. Over the next month, the pressure on **DAL** to settle with its pilots will be intense. And now **American Airlines (AMR Corp. AMR - NYSE)** is buying **Trans World Airlines, Inc. (TWA - AMEX)** and some assets of merging **United Airlines (UAL - NYSE)** and **US Airways Group, Inc. (U - NYSE)**. This consolidation wave is coming at a time when the economy is slowing and cash flow is likely to be under some near-term pressure. In fact, credit rating agencies Moody's and Standard & Poors lowered their outlook for **DAL** to negative to reflect the increased competitive pressure. While current ratings were reaffirmed by both, they explain some of the current stock price weakness. And there will be pressure on **DAL** to find a merger partner to offset its competitors' moves. So, the near-term stock price action could be a bumpy ride for shareholders. The current **DAL** discount to its intrinsic value more than offsets such short-term concerns, but if the company's management is unwilling or unable to find a means of getting its pilots on the **DAL** bandwagon, the company's ability to build shareholder wealth will probably be seriously impaired. We will watch this situation carefully.

This week is a big one for the release of earnings numbers with **Microsoft (MSFT - NASDAQ)**, **Sun Microsystems (SUNW - NASDAQ)** among many others. Our thesis about economic deferral would suggest that many of these reports may be disappointing, though the accompanying comments may be more upbeat than many analysts expect. The volatility of the past few months may increase this week with all that new information. Our assessment of the valuation of Technology stocks ought to comfort investors who now worry that the sector may have lost its growth trend. The assumptions we have used include an intermediate-term revenue growth of about 12% for Large Cap Technology stocks. This week should inform that estimate.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	1/12/2001	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
BGP	Borders Group, Inc.	9/22/2000	\$ 11.938	\$29.31	(59.3%)	1.0	(0.5%)
BGG	Briggs & Stratton	9/22/2000	\$ 47.438	\$98.87	(52.0%)	1.5	6.6%
CTL	CenturyTel, Inc.	9/22/2000	\$ 38.875	\$40.74	(4.6%)	1.7	3.7%
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 46.125	\$66.30	(30.4%)	0.9	(12.6%)
LOW	Lowes Companies	9/22/2000	\$ 50.375	\$56.04	(10.1%)	2.4	(2.8%)
MLHR	Herman Miller, Inc.	3/6/2000	\$ 26.813	\$46.28	(42.1%)	2.7	(3.4%)
NYT	New York Times Co.	9/22/2000	\$ 41.938	\$46.26	(9.3%)	2.6	(1.0%)
NUE	Nucor Corporation	9/22/2000	\$ 39.500	\$60.65	(34.9%)	1.1	(0.6%)
WEN	Wendy's International	9/22/2000	\$ 25.000	\$28.69	(12.9%)	1.8	0.2%
Average:					(28.4%)	Average:	(1.2%)
						S&P 500	1.5%

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%)	2.6%	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	3.1	5.5
DAL	0.6	11.0%	11.6%	11.9%	13.5%	0.2%	5.1	1.3	0.3	5.7
LOW	2.2	17.9%	7.4%	11.1%	15.2%	0.3%	20.8	3.6	1.1	19.3
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	2.1	6.9
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&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	(9.3%)	(31.7%)	(13.2%)
CONSUMER CYCLICALS	(25.9%)	(13.0%)	(10.8%)
CONSUMER STAPLES	(7.5%)	(11.0%)	1.1%
HEALTH	(24.5%)	5.7%	2.4%
ENERGY	14.7%	116.4%	71.3%
FINANCIAL	(11.0%)	(19.1%)	(26.5%)
CAPITAL GOODS	(18.5%)	(4.9%)	(6.3%)
TECHNOLOGY	(35.7%)	(14.7%)	(5.9%)
COMMUNICATIONS	(29.9%)	32.2%	(31.7%) *
UTILITY	(2.7%)	(23.7%)	(17.4%)
TRANSPORTATION	(29.5%)	(10.9%)	(11.7%)
Weighted Total:	(19.7%)	(2.8%)	(3.6%)

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 1/12/2001	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.2%	(6.1%)	3.8%	(1.6%)	3.9%	0.1%
CONSUMER CYCLICALS	8.1%	0.2%	14.6%	2.2%	18.7%	2.7%
CONSUMER STAPLES	10.9%	0.9%	8.2%	1.2%	9.7%	2.4%
HEALTH	12.7%	(0.4%)	11.1%	3.6%	10.2%	6.4%
ENERGY	6.3%	(0.2%)	7.2%	5.8%	6.8%	1.6%
FINANCIAL	16.3%	(3.5%)	14.5%	(1.9%)	12.2%	0.8%
CAPITAL GOODS	8.7%	(1.4%)	7.1%	5.0%	13.1%	6.1%
TECHNOLOGY	24.4%	7.7%	22.6%	11.0%	18.4%	14.3%
COMMUNICATIONS	6.5%	7.9%	1.8%	7.1%	0.2%	(12.3%) *
UTILITY	3.2%	(2.4%)	7.2%	1.2%	4.0%	(1.4%)
TRANSPORTATION	0.7%	(5.6%)	2.0%	(2.5%)	2.9%	(0.8%)
Index Total:		1.5%		3.8%		4.9%

* Sector contains only 3 companies

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

Sector Comments: Among Large Cap stocks, only two of eleven sectors rose more than the market last week as the focus finally turned to the sharp recovery of the under-priced Technology and Communications stocks. However, a much different pattern emerged among Mid Cap and Small Cap stocks. In those markets the Technology stocks also rebounded but few sectors actually declined for the week. Small Cap stocks have actually risen this year and are up on average 5.8% since 12/22, compared to virtually no increase for Large and Mid Cap stocks. As for the rebound in Technology stocks, the huge price changes are testament mostly to the sharp drops since March, 2000. As you'll recall, it takes a 100% gain to exactly offset a 50% drop and many Technology stocks have dropped far more than that from their peak prices.

You should also notice that the consensus we analyzed last week descended with a vengeance on the Basic Industry stocks. The widely held view is that if inflation is no longer a problem, then obviously these stocks can't get the price increases they need to restore their profits. Fortunately for investors in those stocks, that view is fallacious in that it equates individual prices with inflation. A rise in the relative price of basic commodities is exactly what we would expect in a rebound in the overall economy. We would also expect that a drop in the relative price of energy would not mean a reduction in inflation, just a change in relative prices, though one which might accompany an offsetting rise in the relative prices of mostly everything else.

On Page 3 this week we display the value drivers for Large Cap Basic Industry stocks.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
	\$ 11,574,880	90.5%	\$870,660
			6.8%
			\$ 348,010
			2.7%

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The Year 2000 has been rough for Basic Industry stocks.

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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								
AIR PRODUCTS & CHEMICALS	APD	\$8,020	15.5%	37.4	47.56	17.4	70.7	3.1	31.3%	12.38	2.0%
ALCAN ALUMINIUM LTD	AL	\$7,129	8.7%	34.3	26.51	7.9	10.7	1.4	23.0%	6.17	1.7%
ALCOA INC	AA	\$27,517	54.2%	31.8	36.36	12.5	18.4	3.9	31.3%	11.94	1.6%
ALLEGHENY TECHNOLOGIES II	ATI	\$1,064	8.8%	13.2	16.28	7.3	9.6	1.2	54.4%	6.06	6.1%
ARCHER-DANIELS-MIDLAND CO	ADM	\$9,063	0.5%	14.3	10.62	5.6	25.5	1.6	35.8%	5.99	1.4%
BARRICK GOLD CORPORATION	ABX	\$6,221	-4.3%	15.7	14.93	31.0	20.7	1.6	9.2%	9.25	1.4%
BEMIS CO	BMS	\$1,594	7.5%	30.0	22.20	6.3	13.6	2.4	25.3%	8.46	3.2%
BOISE CASCADE CORP	BCC	\$1,784	7.4%	31.1	45.26	5.3	8.8	1.3	55.8%	7.65	1.9%
DOW CHEMICAL	DOW	\$21,159	17.5%	31.2	15.84	8.7	16.0	2.9	39.0%	7.03	3.7%
DU PONT (E I) DE NEMOURS	DD	\$44,848	-0.2%	43.2	28.18	11.8	83.3	4.0	32.5%	9.01	3.2%
EASTMAN CHEMICAL CO	EMN	\$3,468	16.6%	45.3	6.47	5.9	18.8	2.2	49.0%	4.19	3.9%
ECOLAB INC	ECL	\$5,321	8.3%	41.9	21.62	10.3	28.6	7.3	10.3%	13.87	1.2%
ENGELHARD CORP	EC	\$2,540	35.2%	19.9	24.74	6.0	11.7	3.4	35.3%	12.04	2.0%
FMC CORP	FMC	\$2,258	-11.1%	74.1	101.40	8.5	12.1	2.9	53.5%	8.39	0.0%
FREERT MCMOR COP&GLD	FCX	\$1,327	0.0%	8.9	11.23	19.1	77.8	4.2	45.6%	9.57	2.2%
GEORGIA-PACIFIC GROUP	GP	\$4,995	-3.2%	29.3	32.86	5.3	7.6	1.4	61.3%	7.22	1.7%
GREAT LAKES CHEMICAL CORP	GLK	\$1,751	7.7%	34.8	20.01	10.8	14.9	2.0	42.2%	7.32	0.9%
HERCULES INC	HPC	\$1,914	-1.6%	17.8	16.22	11.5	14.0	2.3	66.8%	6.26	0.0%
HOMESTAKE MINING	HM	\$1,234	-0.6%	4.7	(3.14)	(0.4)	(12.3)	1.4	28.7%	(0.18)	0.5%
INCO LTD	N	\$2,733	18.2%	15.1	(6.48)	6.8	9.4	0.9	33.5%	1.97	0.7%
INTL FLAVORS & FRAGRANCES	IFF	\$2,148	-6.9%	21.8	40.27	19.8	13.2	2.5	9.7%	24.97	2.8%
INTL PAPER CO	IP	\$17,782	24.8%	36.9	1.97	5.0	23.2	1.6	40.1%	4.35	2.7%
LOUISIANA-PACIFIC CORP	LPX	\$1,068	-18.2%	10.3	44.59	14.1	14.5	0.8	45.8%	17.97	5.5%
MEAD CORP	MEA	\$2,943	17.1%	29.3	12.63	6.8	13.6	1.3	39.7%	5.32	2.3%
NEWMONT MINING CORP	NEM	\$2,838	10.4%	16.9	2.52	9.6	155.1	2.0	34.6%	5.36	0.7%
NUCOR CORP	NUE	\$3,076	13.3%	39.5	64.20	10.6	10.2	1.5	15.1%	14.36	1.5%
PACTIV CORP	PTV	\$1,858	-3.2%	11.8	17.31	12.6	(35.4)	1.5	55.9%	8.40	0.0%
PHELPS DODGE CORP	PD	\$3,783	60.7%	48.1	(33.63)	2.4	(21.1)	1.3	48.4%	1.19	4.2%
PLACER DOME INC	PDG	\$2,887	14.5%	8.8	5.77	17.9	481.3	1.9	31.9%	7.82	1.1%
POTLATCH CORP	PCH	\$901	-6.7%	31.7	20.82	6.8	(104.9)	1.0	46.6%	5.03	5.5%
PPG INDUSTRIES INC	PPG	\$7,573	6.3%	44.9	38.52	9.2	12.3	2.6	36.4%	9.05	3.6%
PRAXAIR INC	PX	\$6,721	9.1%	42.4	30.85	13.7	15.0	3.1	40.3%	7.66	1.5%
ROHM & HAAS CO	ROH	\$7,304	6.3%	33.3	12.82	10.6	21.4	2.3	39.8%	7.93	2.4%
SIGMA-ALDRICH	SIAL	\$2,985	2.4%	38.6	19.53	14.2	24.7	3.1	11.2%	8.99	0.9%
TEMPLE-INLAND INC	TIN	\$2,453	9.8%	49.9	(108.36)	12.0	13.0	1.5	84.6%	5.59	2.6%
UNION CARBIDE CORP	UK	\$6,298	9.3%	46.6	19.36	8.0	20.7	2.8	42.0%	6.04	1.9%
USX-U S STEEL GROUP	X	\$1,442	7.0%	16.3	(23.22)	4.4	10.9	0.8	74.8%	2.57	6.2%
VULCAN MATERIALS CO	VMC	\$4,544	3.8%	45.0	44.40	15.4	19.3	3.6	17.1%	17.72	1.9%
WESTVACO CORP	W	\$2,680	33.6%	26.6	13.33	9.0	11.5	1.3	34.1%	4.86	3.3%
WEYERHAEUSER CO	WY	\$10,682	18.3%	48.8	46.93	10.8	14.0	1.7	42.0%	9.42	3.3%
WILLAMETTE INDUSTRIES	WLL	\$5,174	2.7%	47.4	57.76	13.7	15.1	2.4	23.5%	12.53	1.8%
WORTHINGTON INDUSTRIES	WOR	\$761	-3.4%	8.9	28.71	10.0	10.9	1.0	38.3%	13.86	7.2%

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