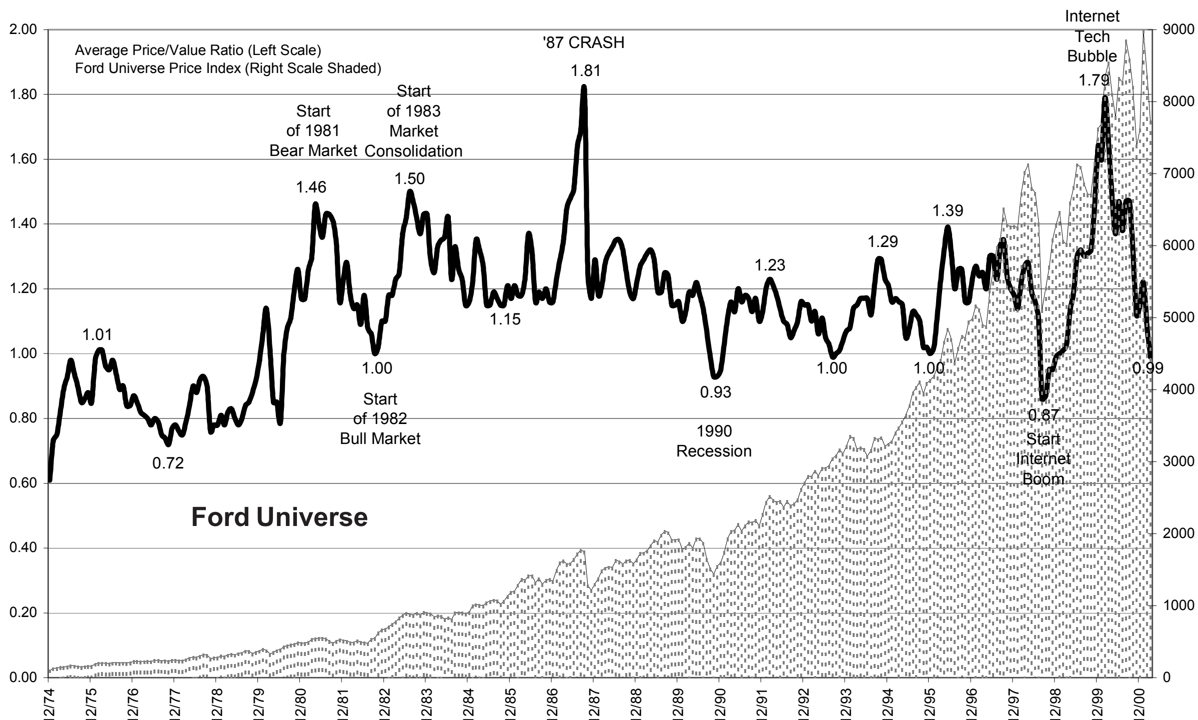
Ford Equity Research

Special Study

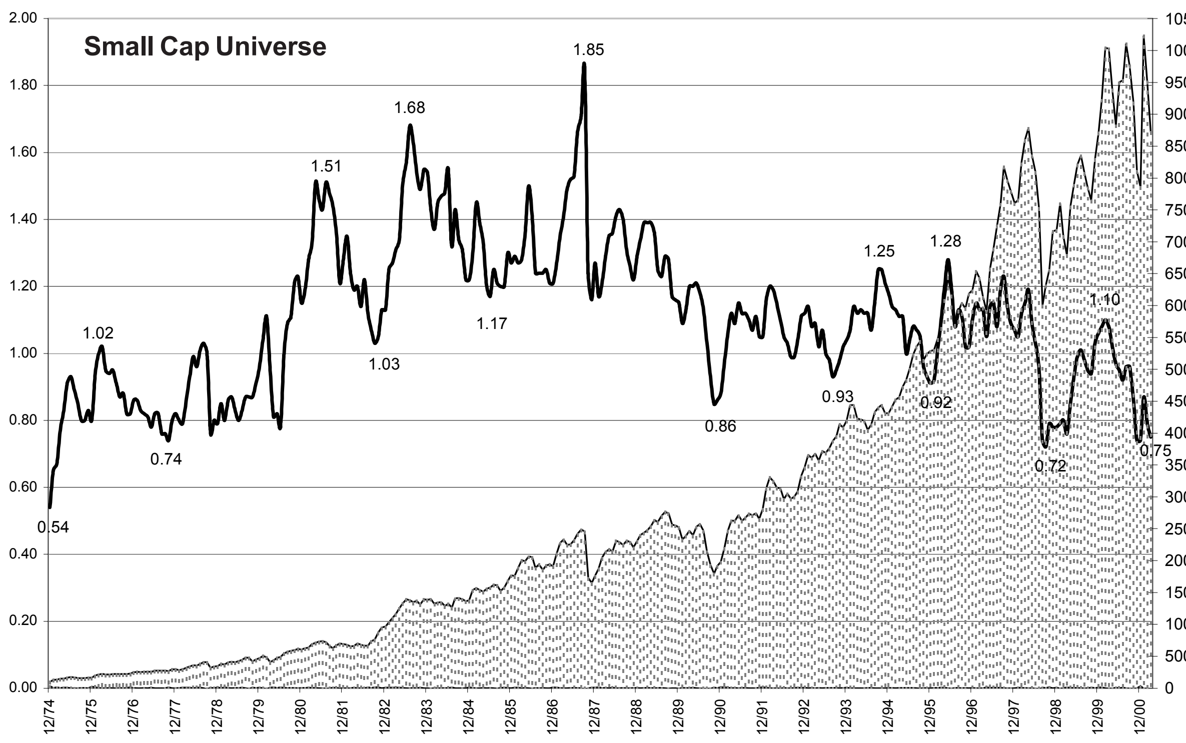
Historical Price/Value Relationships - March 30, 2001

Ford's price to value ratio (PVA) is computed by dividing the price of a company's stock by the value derived from a proprietary intrinsic value model. A price to value greater than 1.00 indicates that a company is overpriced while a price value of less than 1.00 implies that a stock is trading below the level justified by its earnings, quality rating, dividends, projected growth rate, and prevailing interest rates.

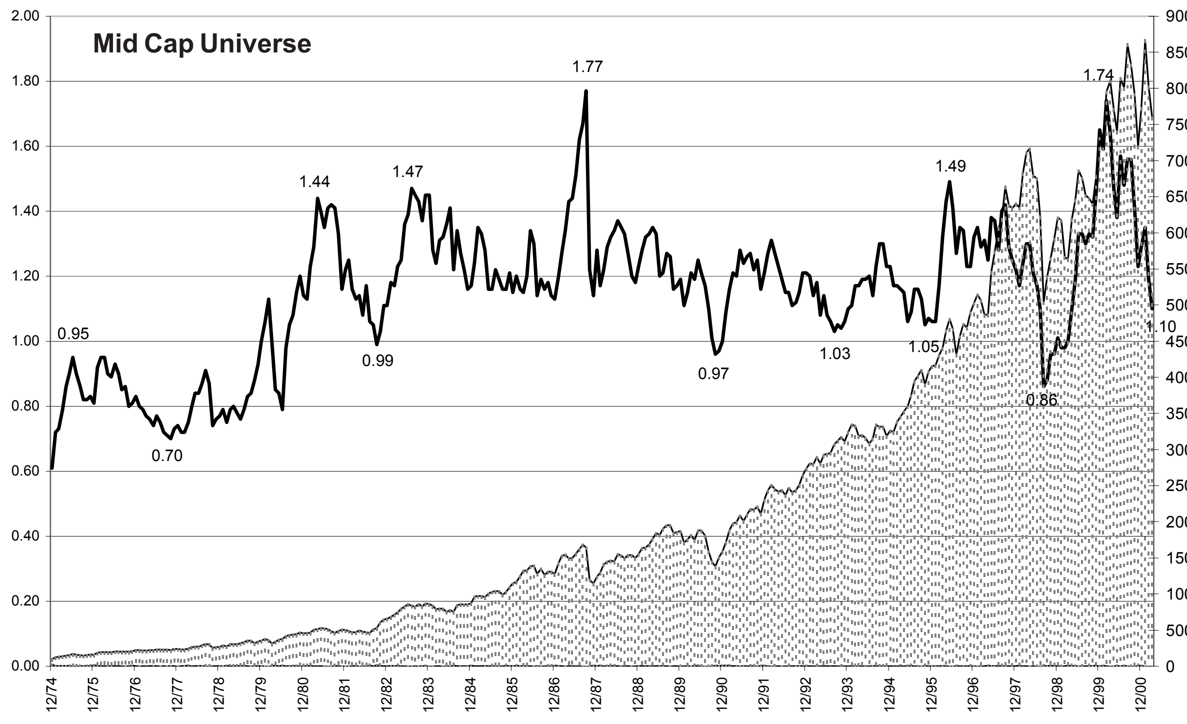
While looking at the PVA for an individual company can give a good indication of its value, the average PVA for the market as a whole or individual sectors can also be useful. Examining the historical level of the aggregate PVA can provide insight into current valuation levels. This study examines the average PVA for the entire Ford universe of stocks as well as for large, mid and small capitalization sectors. We also look at the average PVA for the S&P 500 stocks.



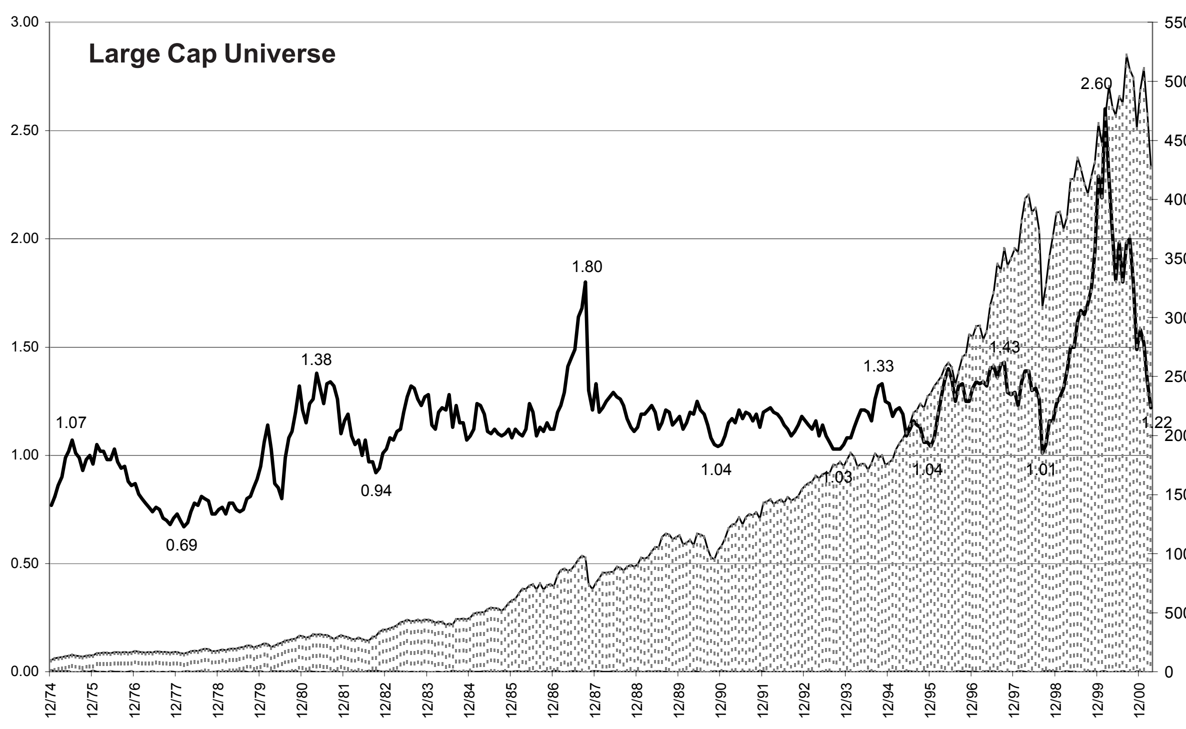
The graph on the prior page shows the average PVA and the price index for the Ford universe of stocks from 1974 to March 23, 2001. The lower graph shows the basic discount rate (AAA corporate bond rate) over the same time frame. Upon initial inspection, one notices that over the past 26 years, the price to value for the Ford universe has tended to range between 1.00 and 1.40, with relatively few instances of moving dramatically outside this range. Periods when average PVA peaked above 1.40 were subsequently followed by the 1981-82 bear market, a mid 1983 to 1985 market consolidation, the crash of 1987 and the recent burst of the dot com/tech bubble. Conversely, times when the PVA declined to 1.00 or below were often followed by strong market advances as evidenced by the start of the 1982 bull market, the end of the 1990 decline and the internet boom of the late 90's. The 1.0 readings in September of 1993 and December of 1995 coincided with lows in the Basic discount rate of 6.7%. The Asian crisis marked a new low in the basic discount rate of 6.2% which was lower than the current 7.0%.



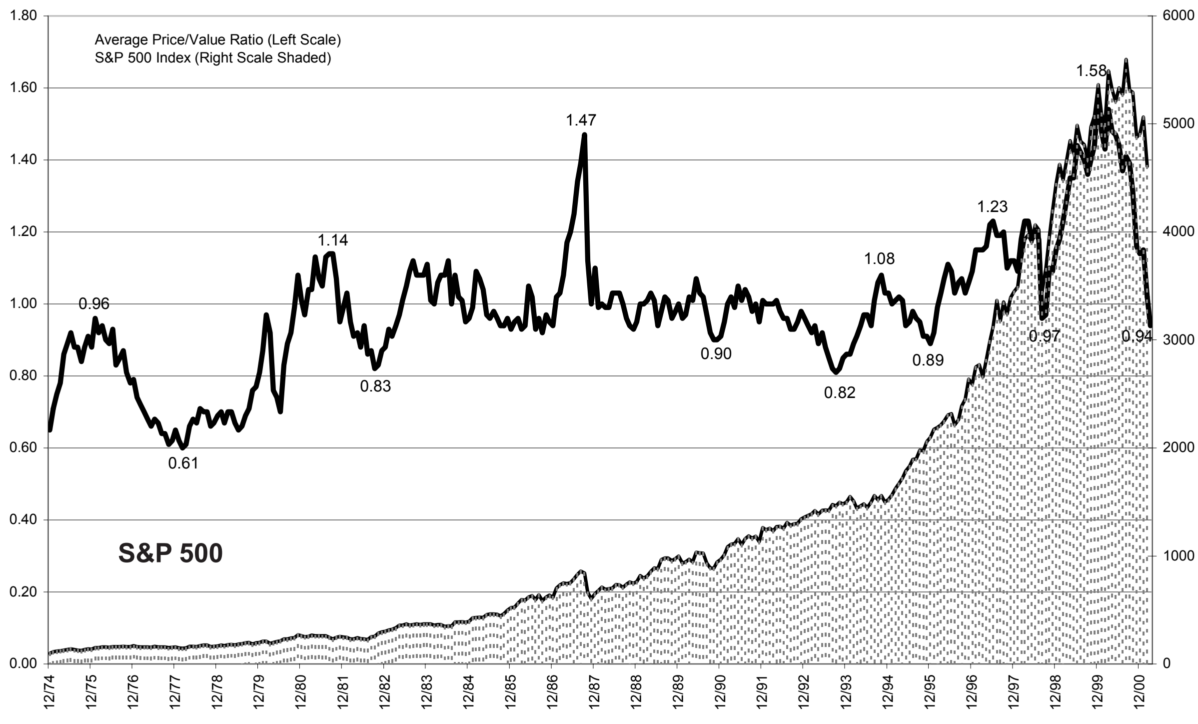
The small cap universe consists of the lowest third of companies sorted by market capitalization in the Ford universe (after excluding those with a market cap under $25 million). Price to value for small caps has seen dramatic swings. However, in the most recent 10 years, the average has usually ranged between .90 and 1.30. It is interesting to note that valuations for the small caps did not reach the dizzying heights of those of the mid and large cap universes in the past 2 years and are currently near the low level seen in 1998. The period end market capitalization range for this sector was $26 million to $209 million.



The mid cap valuations (middle one-third of market cap sort) almost reached the extremes of 1987 and have declined sharply, but still remain a bit higher than the levels of 1998. The price index of the mid cap group has held up the best, declining 4.5% since February, 2000 versus a 13.0% decline for large cap and a 9.0% decline for small cap. The period-end market capitalization range for this group was $210 million to $1.01 billion.



The average PVA for the large cap sector reached a gargantuan level before the recent market decline. This high level is even more noteworthy because during the same period that PVA levels were reaching all-time highs, average long term growth expectations were also increasing, which has a dampening effect on PVA.



The above table shows the cap-weighted average PVA and return for the S&P 500 index. After reaching its highest PVA level ever, the index has dropped to a currently undervalued level. It is interesting to note that the S&P index is the only group shown whose average PVA declined below the August 1998 level. This can be explained in part by the large cap stocks showing the worst performance in the recent market decline.

Conclusion

While aggregate PVA for the market or sectors may not be a perfect timing device, when viewed relative to historical values it can be a very useful measure in identifying extreme price levels. The averages on the entire market (the Ford universe in our case) or on a stable cap-weighted universe such as the S&P 500, seem to be better suited as this type of overall market indicator.