



2017 is shaping up to be another solid year for equity investors. Our Capital Appreciation composite is up 21.8% (gross) for the year to date; 4.3% for the quarter (see more detail on page 4). The Dow and the S&P 500 have generated total returns of 13.4% and 12.5% for the year to date, of which 4.9% and 3.9% were added in the third quarter. But the range of index returns has been on the wide side, with the Nasdaq 100 adding almost 22.9% while the Russell 2000 mid cap value index added a much more modest 4.2%. The contrast with fixed income returns remained stark, with the total return on the Bank of America Merrill Lynch Bond Index coming in at 3.2%, or a bit better than its average annual rate over the past 5 years.

Overall, it has been a good environment in which to ply our particular investment craft. The relatively stable market and economic environment we have been noting remained in place through the quarter. I do not see markers that suggest it is changing in the near term. Job growth again averaged within rounding error of 200,000 per month. GDP growth is estimated at 2.25% for the quarter, also within rounding error of the average since 2010. Similarly, the yield on the ten year Treasury bond is 2.25%, which is within .5% of

where it has been for almost all of the past eight years. Despite all the recent events ranging from devastating hurricanes to political whirlwinds, stable economic conditions have created an environment in which equity owners are earning attractive returns. Beyond the general positive climate for equity investors, our portfolios are again performing particularly well. I see this as being driven by individual security performance rather than broad sector performance, asset class outperformance, or investment style outperformance. It is happening simply because the cheap securities we owned at the beginning of the period have become more fairly priced; at the same time, other securities have drifted down to the range of very cheap, and we have redeployed capital into those names.

If you look at some of the biggest contributors to our positive numbers this year, you see very little in common about them other than that they entered the year attractively priced. For example, Boeing, Live Nation, and Maui Land & Pineapple are among our holdings that performed best. Boeing is a mega-cap global industrial company whose products are very large ticket items with long order cycles and whose customers are giant corporations and national governments. Live Nation is a mid-cap US centric company dependent

on consumer spending for completely intangible concert tickets and music experiences. Maui Land and Pineapple is a very small capitalization company that primarily owns sparsely developed real estate in Hawaii. These companies have almost nothing in common: there is no overall theme playing out in the markets that drove them higher. Value is surely not outperforming growth; hard asset plays are not outperforming technology stocks; cyclical stocks are not outperforming defensive names. No, it is that individually attractively priced equities have come back to a more fair price, while specific concerns have driven other names down to lower levels.

I write and think about these issues because ultimately, long term investment success requires understanding the risks and opportunities offered by varied investment climates, while plying a consistent approach that can be productive through each. The unremarkable, stable investing climate we are in may last for several years. I hope it does; we can earn healthy returns during stable periods. And I do not miss the inane market dramas that we weathered periodically from 1999

– 2014. Still we know current conditions will change. It could happen overnight with a dramatic geopolitical event. It could happen slowly and gradually in all sorts of different ways (with either much higher or lower share prices).

We have managed portfolios in very varied economic climates. The recent period where it is clear our strategy is working is a more pleasant one in which to operate, but we know there will be more challenging periods ahead. Ultimately the key to long term success will be working through those challenging periods to reap the same kinds of benefits we are getting in this period.

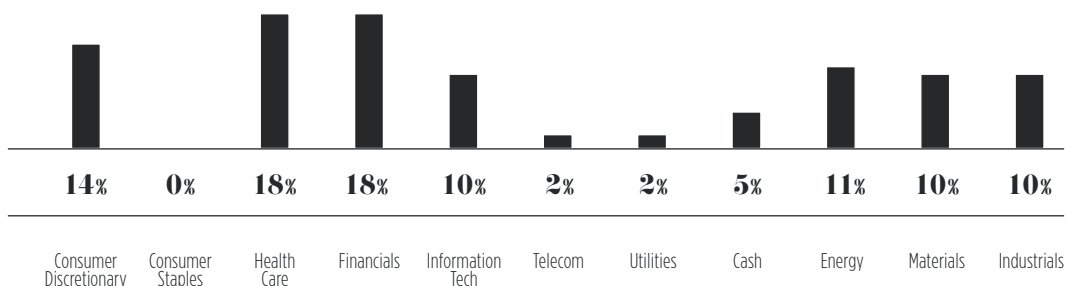
-Charles Lemonides, CFA

### TOP 10 HOLDINGS

1. Boeing Company
2. Cliffs Natural Res. 6.25% Due 10-01-40
3. American Express Co.
4. Live Nation Entertainment
5. Corning Inc.
6. Boston Scientific Corp.
7. Qualcomm Inc.
8. Amgen Inc.
9. Comcast cl A
10. Maui Land & Pineapple

—As of 9/30/17—  
\*see notes on pg 4 for additional details

### SECTOR DIVERSIFICATION— CAPITAL APPRECIATION COMPOSITE



### DEFINING OUR PHILOSOPHY

At ValueWorks we define value investing as buying the best-quality assets at the best possible prices. We like to think of ourselves as bargain hunters: it is our goal to pay only \$0.50 to \$0.75 for \$1.00 worth of assets. We evaluate the component parts of a company, assigning each of its assets a dollar value that, when added together, comprises the underlying value of the company; if this is higher than the company's stock price, we consider it an investment opportunity.

### OUR PORTFOLIO STRUCTURE

We believe risk can be better contained through educated security selection than through over-diversification. Consequently, our position sizes range between 3 – 5 % of the overall portfolio value. Fully invested portfolios tend to hold 25 – 35 individual investments.

We enter investments that we view as 25 – 50% undervalued and sell them when we see them as fairly priced. Our anticipated holding period tends to be one to two years which results in only

modest portfolio turnover.

Because our decisions are based on research and sound fundamentals we view depressed price action on our securities as buying opportunities rather than sell signals.

We use senior debt and preferred instruments—offerings that can be easily misunderstood by traditional equity or fixed income investors—to gain equity type returns on safer vehicles.

## OUR CLIENT SERVICES

ValueWorks provides independent investment management on an individual account basis. Our clients receive the benefits of owning securities directly, coupled with the advantages of having a dedicated portfolio manager.

Working directly with your financial consultant, we evaluate your investment profile and build a plan designed to meet your specific goals. As a high-end investment alternative, you receive:

- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance

- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements and investment needs
- Comprehensive quarterly performance reports.

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Working within the framework of our value investment discipline, we build portfolios that cover a wide spectrum of risk-tolerance, from aggressive to much more conservative and income oriented.

## DEFINING OUR PROCESS



### 1 *Identification*

We monitor the financial markets to identify securities that match our investment criteria—focusing on opportunities that appear misunderstood by the general market.

### 2 *Appraisal*

First we identify the assets; then we appraise them. This allows us to determine the company's underlying value. We then decide whether the assets are of high quality and therefore likely to appreciate over time.

### 3 *Assessment*

Here we assess any claims against a company's assets; we then compare the market price of the claims to the company's underlying value. If a particular security trades at a discount, we identify factors that could eliminate the valuation gap and increase its price. We then make a decision on the purchase of the security.

### 4 *Re-Evaluation*

We continuously monitor our positions to determine if our original investment thesis still applies, taking necessary action to optimize our portfolio.

### 5 *Exit*

We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

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### *Objective*

Our objective is uncomplicated, but achieving it requires a high level of research, expertise, discipline and independent judgment. By applying this framework consistently we remove emotion from the investment decision making process, enabling us to capitalize on inefficiencies built into the market.

# VALUEWORKS

## PERFORMANCE REVIEW

THIRD QUARTER 2017 June 30, 2017 - September 30, 2017



## TRAILING PERFORMANCE DATA

### VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

|                 | GROSS OF FEES | NET OF FEES | S&P 500 TR |
|-----------------|---------------|-------------|------------|
| <b>2017 Q3</b>  | 4.62          | 4.34        | 4.49       |
| <b>2017 YTD</b> | 21.83         | 20.80       | 14.25      |
| <b>1 year</b>   | 27.33         | 25.87       | 18.63      |
| <b>3 years</b>  | 7.74          | 6.45        | 10.83      |
| <b>5 years</b>  | 13.82         | 12.44       | 14.24      |
| <b>10 years</b> | 5.12          | 3.80        | 7.40       |
| <b>Life*</b>    | 21.75         | 8.43        | 8.71       |

\*Life is 21.50 years (inception 1/1/1996)

### VALUEWORKS' BALANCED COMPOSITE

|                 | GROSS OF FEES | NET OF FEES | BLENDED INDEX* |
|-----------------|---------------|-------------|----------------|
| <b>2017 Q2</b>  | 3.46          | 3.13        | 2.66           |
| <b>2017 YTD</b> | 17.69         | 16.55       | 8.65           |
| <b>1 year</b>   | 20.40         | 18.81       | 9.03           |
| <b>3 years</b>  | 6.79          | 5.34        | 6.81           |
| <b>5 years</b>  | 12.58         | 11.05       | 7.90           |
| <b>10 years</b> | 5.68          | 4.20        | 6.23           |
| <b>Life*</b>    | 10.32         | 8.61        | 7.36           |

\*The "Blended Index" is a calculation comprised of 50% S&P 500 and 50% Merrill Lynch Domestic Master Bond Index.

### PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

This Newsletter is intended to be presented with the Capital Appreciation Fact Sheet which contains additional disclosure information.

The above benchmark indices are unmanaged indices. The benchmark performance numbers reflect the reinvestment of dividends and interest but do not reflect the deduction of any fees or expenses. ValueWorks' value investing style is not limited to the securities in any of the above indices and utilizes specific investment techniques which are not utilized in the above indices and which may or may not increase volatility. Returns include all dividends, interest, accrued interest and other cash flows received as they may result from the implementation of a particular investment strategy. Trade date accounting has been used. Results for the full period are time weighted. Accounts are included in composite at the start of the first full period under management. From 1996—Q1 1998 exiting accounts are included through the period in which they left. Starting in Q2 1998 exiting accounts are included through the last full period under management. Results were generated at other firms prior to 9/30/01. Information on other composites is available on request. Investments in this strategy may lose value.

**This material is approved for client use.**