VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 17,4 FOURTH QUARTER 2019

Healthy and Happy New Year and New Decade! The opening of a new decade invites a step back and reflection on the decade past and the excitement and challenges offered as the nascent 2020s unfold.

I'll keep the look back short; 2010 opened with the financial system in tatters. But the salient economic feature of the 2010s was that very low interest rates allowed for a prolonged, gradual global economic expansion.

Clearly, we have come a long way from the decade's dark moments. For 10 years, we have added, give or take, 200,000 jobs per month to the US economy, stock markets have climbed higher and employment is at all-time highs by multiple measures. It has been a solid 10 years. Both consumer and corporate balance sheets are healthy.

Will a Roaring '20s unfold, or are we close to the end of the line? Comparisons to the Roaring 1920s are showing up all over the press and the similarities between the start of that aptly named decade and this one is more than just 100 years.

We have been moving from bust to boom for 10 years now. That momentum is hard to reverse: Increased employment leads to increased confidence, to increased spending, to increased investment.

These are trends that feed on themselves. They take a long time to play out. The period from 1978 to 2000 can be broken down in all sorts of ways, but if you step back, the global economy went from deep malaise to feverish top over 20-plus years. Similarly, from the middle of World War II to 1968 we went from pretty miserable to quite exuberant. You can get bogged down in the idiosyncratic nuances, but then you miss the big picture.

While we have been in an economic expansion, current conditions are not those of an exuberant bubble. Amazon, Google and Facebook may be a bit cheap or a bit expensive, but they are not similar to the valuations we saw in 1999. There is no wave of IPOs minting billionaires by the dozen. There may be a handful of college grads that want to go into finance, but it is not a wave. The shoeshine person is not giving out stock tips. In fact, few of us are feeling flashy enough to want to sit and get our shoes shined. That headiness will likely return, but it is not here yet.

Exuberant economic times come with exciting, transformative new technologies. For the Roaring 1920s, the car was a big deal. What is happening now? Well, maybe a lot. Biotech companies like Gilead and Amgen are doing incredible things. They cured Hep C, and what they are doing with cancer treatments—pulling cells from your body, reprogramming them, putting them back, and then the cancer is gone—is rapidly moving from the realm of science fiction to real science (Yes, it only works on some cancers some of the time, but these are early days).

TOP 10 HOLDINGS

1. Qualcomm
2. Apple
3. Goldman Sachs Group
4. Amgen
5. Comcast cl A
6. Cheniere Energy
7. Cliffs Natural Res 6.25% Due 10-01-40
8. Brunswick Corporation
9. Kulicke & Soffa Industries
10. Corning

—As of 12/31/19—

You walk into an Amazon Now store without any money, browse, select what you want, walk out the door and they charge you automatically. No cashier, no waiting in lines, just machines watching you. How long before that type of store becomes ubiquitous? You know how many Micron chips that uses? I suspect it is a whole lot.

The smart phone is barely 10 years old. This year they roll out 5G. A lot of TV ads about it are hype, but that simply reflects how few understand the innovations it will unleash. Block chain and AI are still in their infancy, just like IP Protocol was in 1992 … right before it created the internet. The automobile was new in the 1920s. Will that whole industry be revolutionized with electric motors and driverless cars? What will that mean for slowing climate

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change? They are building fleets of wind farms off Ireland, New Jersey and Long Island. Of course, these are just the developments happening as the decade opens.

There could be plenty of new and exciting developments over the next 10 years, in part because we are starting from a pretty solid place economically.

But, as history shows, the Roaring '20s were complicated. It was an exciting time but also a treacherous period and we all know it ended badly. If this decade gets to an exuberant market top, it too will be followed by a crash because that is the way cycles work.

One of my recurring themes is that it is harder and riskier investing in prosperous times than in tough economic times. At the market top, the highest returns are being realized by foolhardy investors. They may be lemmings approaching a cliff, but until they go over, they have results on their side. For those not participating, the temptation to get invested late in the cycle is a tough siren song to resist. That is how damage is done.

Our strategy is to be well invested all along the way, paying particular attention to building diversified exposure to a wide array of groups and industries that may each get a measure of investor adoration along the way. We do not endeavor to have the highest returns in any single period. That standing will always go to someone myopically focused on the investments loved in that particular moment. Our objective is to generate solid returns over multiple periods. If the 2020s do roar, we stand to participate because we are invested broadly and we invested early.

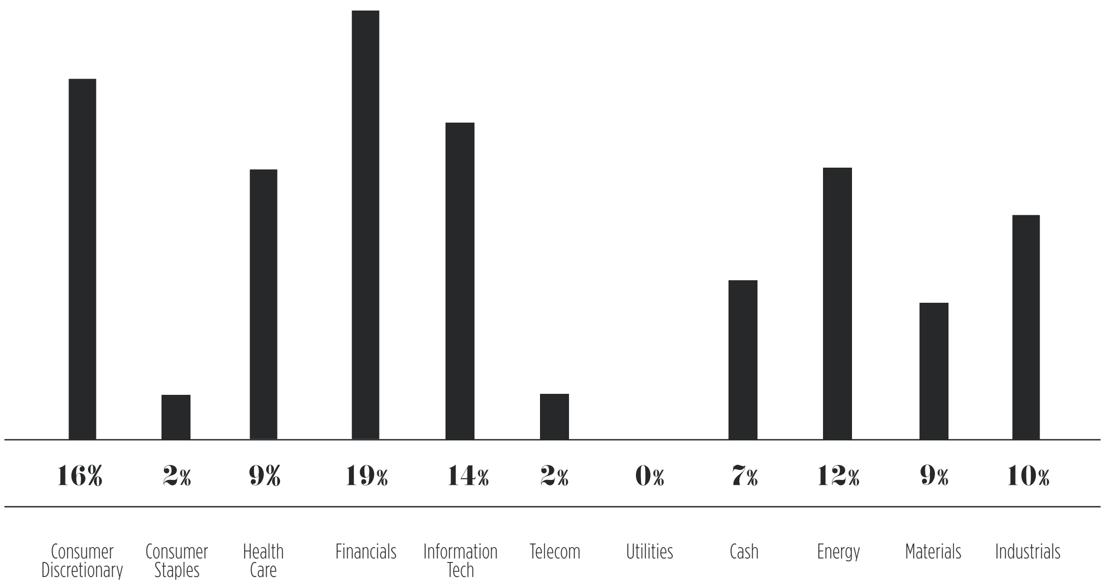
That is not to say I do not expect chunky bumps along the way. Those focused on avoiding such bumps end up being underinvested as the excitement builds. Those moved to the sidelines by 2018's sell-off did not participate in 2019's rally. For the past 10 years there have been investors waiting for either the all-clear signal or the next shoe to drop so they could get invested. They will find it very hard to manage through an exuberant market top as disciplined investors scale back exposure to those overheating sectors, leaving a little something on the table for the last converts.

Looking back on the year that was, we believe our results for 2019 certainly qualify as solid. This year our Capital Appreciation composite added 23% (gross of fees – see p. 6 for additional performance information); the Dow Industrials posted a 22.3% gain, the S&P 500 added 28.9% and the Russell 2000 Value posted 19.7%. The Nasdaq composite topped the list with an increase of 35.2%. Interestingly, that strong showing finally brings that index to an annual return of 5% per year from 1999—which compares to 9.5% for the Russell 2000V and 7.4% for the Dow from that long ago peak.

Here's to an exciting New Year and New Decade.

-Charles Lemonides, CFA

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.

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.

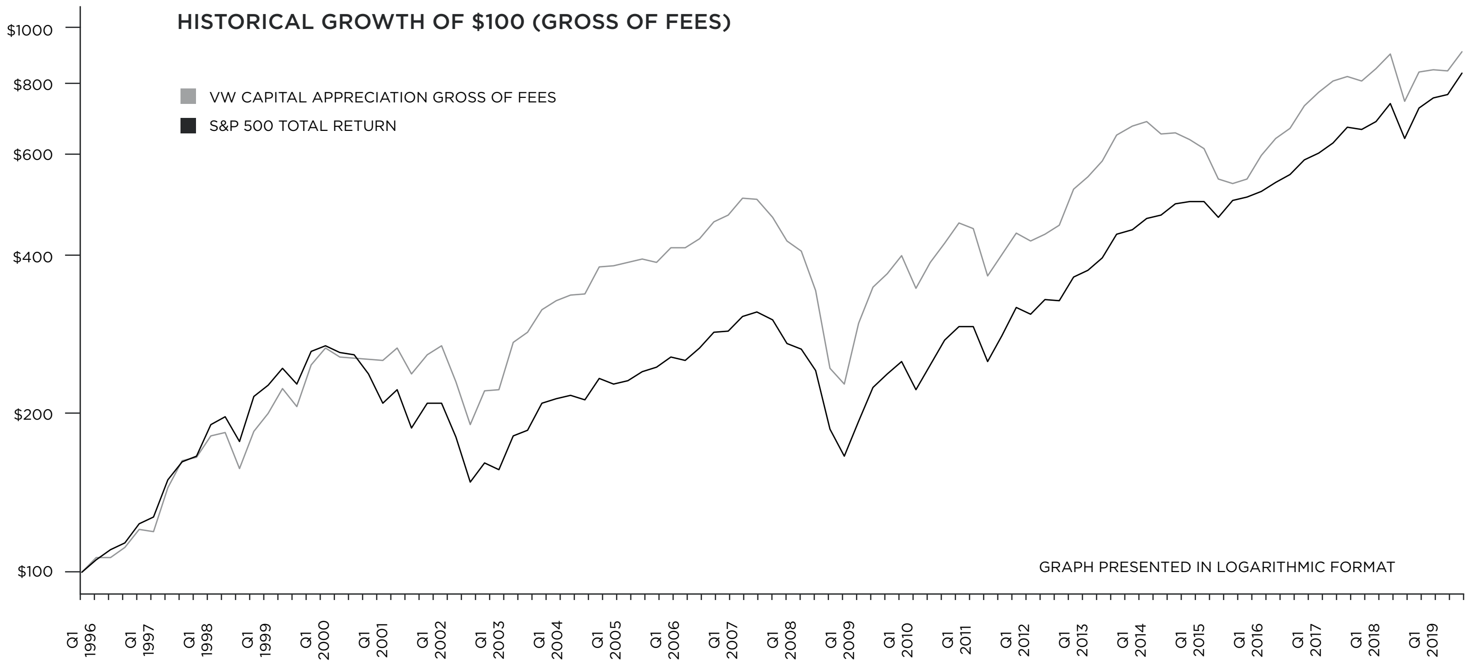
5 *Exit*

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

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.

PERFORMANCE REVIEW FOURTH QUARTER 2019 SEPTEMBER 30, 2019–DECEMBER 31, 2019



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2019 Q4	8.03	7.72	9.08
2019 YTD	23.02	21.65	31.50
1 year	23.02	21.65	31.50
3 years	11.30	10.04	15.18
5 years	7.01	5.77	11.65
10 years	9.81	8.48	13.51
Life*	9.59	8.05	9.18

*Life is 24.00 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2019 Q4	8.87	8.54	4.60
2019 YTD	24.66	22.84	19.96
1 year	24.66	22.84	19.96
3 years	10.49	9.00	9.78
5 years	6.55	5.10	7.49
10 years	9.28	7.78	8.78
Life*	9.93	8.25	7.52

*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.

ONE WORLD TRADE CENTER, SUITE 84-G NEW YORK, NY 10007 T: 212.819.1818 F: 212.819.1463 VALUEWORKSLLC.COM info@VALUEWORKSLLC.COM