VOLUME 19,2 SECOND QUARTER 2021

Through the 18th month of a global pandemic, equity markets continued to grind higher. For the first half of 2021, the major averages performed similarly, with an S&P 500 advance of 15.2%, a Dow advance of 13.8%, and a 12.9% advance for the Nasdaq Composite. After five years of quite poor performance, small value stocks – as measured by the Russell 2000 Value index – performed best with a 26.6% gain over six months.

Our Capital Appreciation fund gained 10.32% in Q2 versus 8.53% for the S&P in the same period. Year to date the fund has advanced 31.02% vastly outperforming our main reference index, the S&P, which gained 15.25%.

We are investing through fast-changing and dynamic times. The status quo is being challenged not just by the usual forces of change, but by the upheaval caused by this global disruption. It is a major “reset”. So many have been forced to rethink not just how they are doing things, but why. With that re-examination, what was working less well has been discarded, and what works better is being improved upon. We are fast-changing how we shop, how we cook and eat, where we want to live, how and where we travel, how and where we work as well as what we work on and so many other parts of our lives.

We may be at the beginning of a period of very exciting economic growth accompanied by meaningful technological change. Cars are becoming electric. Medical advances are happening fast and furious. The electric grid is being supplemented by offshore wind and who knows what else. While “the blockchain” is surely confusing, with the crypto-currency ecosystem now valued at well over a trillion dollars, it must mean something today and perhaps so much more in the years ahead. I was at my daughter Zoe’s graduation last month and noticed the whole event was filmed by a drone. How soon will they be delivering groceries or transporting people? At least three billionaires are trying to make space travel a commercial reality, with two of them on the way to space this month.

In this fast-changing moment, there will be a few constants that I am willing to base investments on. One of them is that owning quality assets at compelling prices will deliver fair returns over time. The tricky part is of course discerning what qualifies as a quality asset and what is a compelling price. But that is a process we have been working on at ValueWorks for too long a time to brag about.

The other bedrock constant that I am willing to rely on is that we are at a specific moment in an economic and business cycle. As trends go in a direction for long enough, you can be lulled into forgetting that these are cycles that do reverse. I sense that we are on the path to a long- term, exuberant top, but that such a top remains more than three or four years away, and more likely to be closer to 6-9 years out. We are focused on investing to benefit from that move up but remain disciplined to avoid the worst damage once that exuberant peak has passed.

The present economic expansion has very significant underlying momentum. The refresh of the past 18 months only adds to the long-term potential. We have massive “pump-priming” fiscal stimulus, very low cost of capital in 1.25% ten-year treasury yields and negative rates across much of the world, and policymakers that are telling us they are willing to let the economy and inflation run hot for an extended period. These are solid conditions for capital to be invested, economic growth to accelerate, and equity owners to earn handsome returns. (If you are afraid of inflation, I hope you are not running to the "safety" of cash or bonds)! With interest rates at current levels, pandemic-inspired demand for more housing, and ten years of underinvestment in residential real estate, that sector is poised to contribute to meaningful economic growth for quite some time. When oil prices went negative a year ago, investment in the energy sector stopped. Today's $70 price of oil creates a very different opportunity set. The next several years are cued up to be very profitable ones for that very large economic sector.

Remote working and an increasingly connected (and monitored) world will create huge demand for technology investments. And we are entering this period of enhanced demand with healthy individual and corporate balance sheets, and an ample supply of labor that was put on the sidelines over the past 18 months.

I fully expect there will be sharp corrections along the way, but these are the right conditions for a major economic expansion and for those invested to earn solid returns. Near term, I see the biggest risk is in being underinvested. Longer-term, the biggest risk is likely to come from being over-invested in the most dynamic and speculative areas as we work our way to an exuberant market top.

We have earned handsome returns through the volatility of the past two years. Looking forward, the investment exposure we built during this turmoil now positions us for compounded advances in the years ahead. For example, two years ago we expected Spirit AeroSystems to earn $7-9 per share in 2022-2023 and trade at 16-20 times earnings for a price target of $100- 150 per share. We think the company's prospects for 2023 are better now than they were two years ago and maintain the same price target. But today the shares are trading at $45. Unit Corp has an asset base that we have been valuing at roughly $1.0 billion. The company's $650 million in debt has been exchanged for equity, and the equity today trades for $200 million. We have at least five investments in the energy space that have similar valuation discounts. We have two holdings in the retail mall space that also trade at 35% or less than what we would have estimated their intrinsic value two years ago, and we think that intrinsic value could be higher 12-18 months from now. The prospects for our large-cap anchor holdings (including such names as Qualcomm, Comcast, Amgen, Gilead, and Goldman Sachs) lead me to expect overall returns for the portfolio in the 15-25% annual range for the next several years.

If you have any questions, please contact me, or Mario del Pozzo at mario@valueworksllc.com or call 212-819-1818.

-Charles Lemonides, CFA

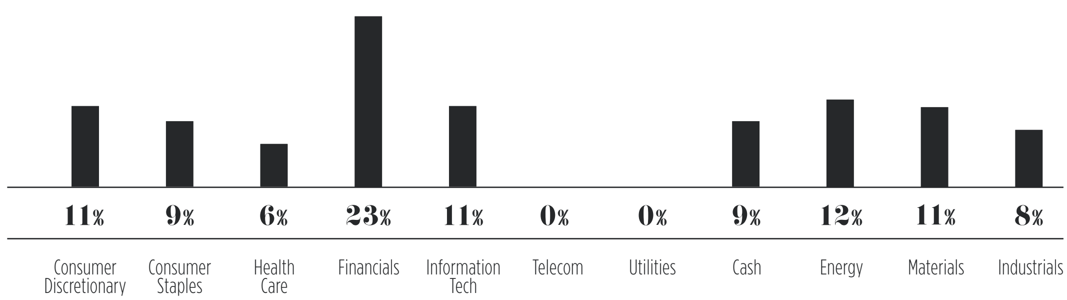
TOP 10 HOLDINGS

1. Whiting Petroleum
2. United Natural Foods Inc.
3. Qualcomm Inc.
4. Goldman Sachs Group Inc.
5. Cheniere Energy Inc.
6. Mammoth Energy Services, Inc.
7. Comcast Cl A
8. Star Bulk Carriers Crop
9. Invesco Ltd.
10. Corning Inc.

—As of 6/30/21—

*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.

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

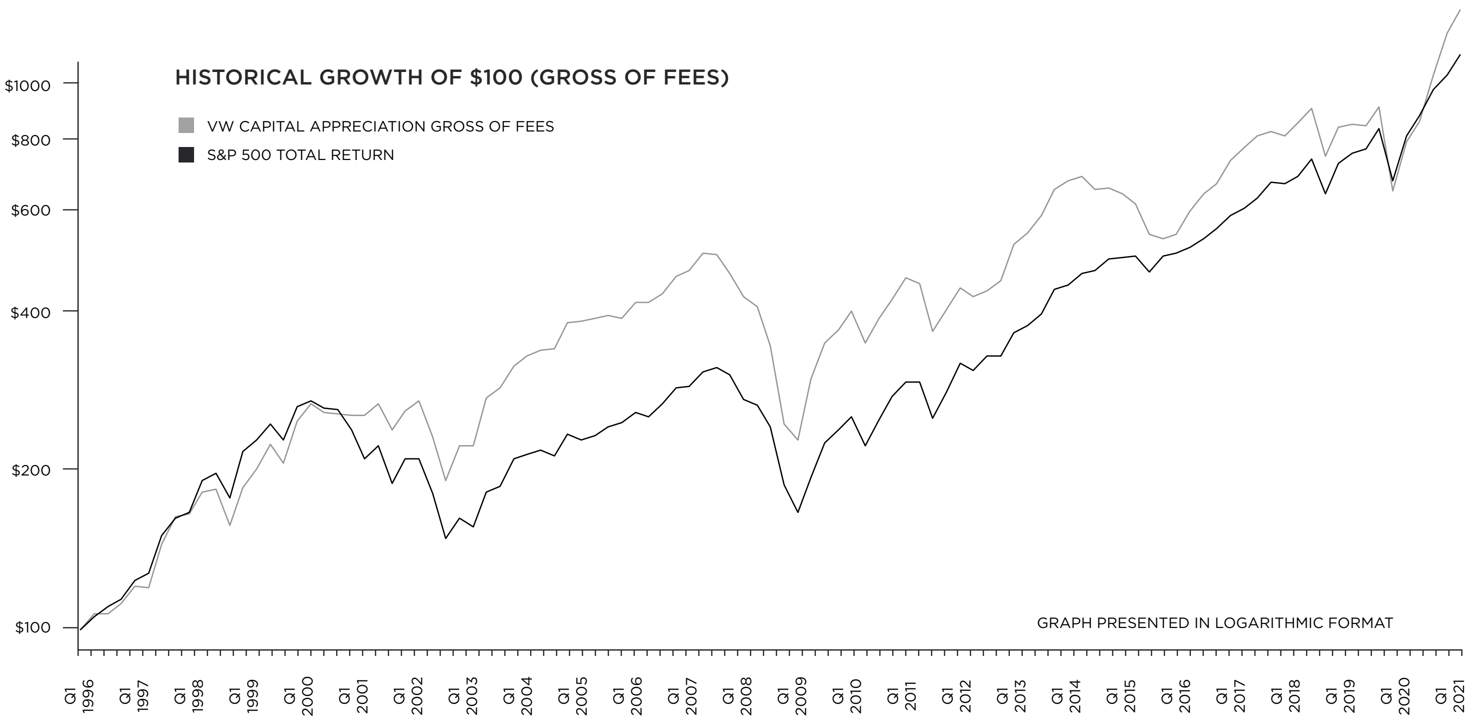
Our objective is uncomplicated, but achieving it requires a high level of research, expertise, discipline and independent judgment. By applying this framework consistently we remove emotion from the investment decision making process, enabling us to capitalize on inefficiencies built into the market.

VALUEWORKS

PERFORMANCE REVIEW

SECOND QUARTER 2021 MARCH 31, 2021 - JUNE 30, 2021

HISTORICAL GROWTH OF $100 (GROSS OF FEES)



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2021 Q2	10.63	10.32	8.55
2021 YTD	31.78	31.02	15.25
1 year	74.36	72.35	40.55
3 years	17.29	15.97	18.55
5 years	18.45	17.11	17.52
10 years	12.24	10.91	14.75
Life*	10.77	9.23	9.94

*Life is 25.5 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES
2021 Q2	29.14	10.38
2021 YTD	29.14	28.31
1 year	72.15	70.02
3 years	18.96	17.44
5 years	17.84	16.31
10 years	12.09	10.59
Life*	11.17	9.50

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.

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