VALUEWORKS

QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 20,2 SECOND QUARTER 2022

This slow-rolling market decline is now reaching dramatic levels with few areas that are immune. After the torrid advance that erupted from the Covid-lows of March 2020, the market was clearly due for a pause. This correction has let an enormous amount of excess enthusiasm out of the market in a positive and healthy way that may well set the stage for further extended advances.

But whether this downturn ends up a short 'pause that refreshes' and is largely over or broadens out into a major bear market accompanied by a meaningful credit crunch, will depend on factors that have simply not played out yet. We see the most likely outcome to be that the bulk of the damage is behind us, and that meaningful opportunity has been created by this correction. But it would be foolhardy to rule out the possibility of a very challenging investment climate in the quarters ahead.

Also important, we see it as far-fetched that the sectors that led the market to its highs in 2021 and were massively extended, will regain their market leadership in the quarters ahead. Rather, once equity prices stabilize and begin to move higher, we expect the advance that develops to be led by very different groups than those that brought us to previous highs.

The current downturn has already been severe. For the first half the S&P 500 is off by an even 20.0%, the Dow by 14.4%, the Nasdaq by 29.2%, and the Russell Large Value by 12.9%. The respective decline for the last quarter are 16.1%, 10.8%, 22.3%, and 12.2%. Very few sectors or investment approaches have been immune. The decline in the previously high-flying names has been even more severe, with many measures of decline in the 40-65% range.

This decline is happening because policy makers have made the choice to take on inflation by tightening monetary conditions. We could not agree more with the wisdom of that strategy. The economy was running too hot with suppliers of all sorts of products simply unable to meet demand. Products in tight supply have ranged from oil and iron ore, to computers and cell phones, to cars and boats, to houses, home renovations and airline tickets.

But this is clearly a quirky moment, because the economy began to cool well before the Fed started raising interest rates. It is true that the market anticipated this Fed action, and the cost of money moved importantly higher well before the 'target rates' were changed. As a result, the economy is probably already almost through a mild recession. GDP contracted in the first quarter and estimates for the just ended second quarter are pretty close to zero.

The salient questions now are: (1) will this degree of economic pause result in inflation trending back down, or whether much more tightening will be warranted, and (2) will policy makers over-react even if more tightening is not warranted. I am cautiously optimistic on both points, but clearly see the downside risk.

My optimism that price levels could stabilize is based on the fact that profit margins in many sectors where prices have been rising are now at historically very high levels. As a result, businesses are in a position to lower prices as rising supply alleviates shortages while remaining highly profitable and therefore still incented to invest in more capacity. For example, it is fairly typical for home builders to be generating better than 20% operating margins and 25% returns on equity. At sustained current oil prices, I would expect operating margins for exploration and production companies to be well over 50%. Car dealerships are seeing margins that are well over anything they have seen before. The point is that there is plenty of room for prices to not only stabilize (not for every industry, but for many) but to come down over the quarters ahead.

If that plays out, the Fed will not need to push the system towards a market destabilizing 2002 or 2008 credit crunch. The question then will be whether policy makers recognize this in time to tighten enough without creating a crisis, or unwarrantedly push the system to crisis. We have managed through several of such tightening cycles -- the first in the late 1980's, and the most 'recent' the 2007-2009 financial crisis -- and will be watchful as conditions develop, a bit more prepared to protect on the downside should conditions call for it.

-Charles Lemonides, CFA

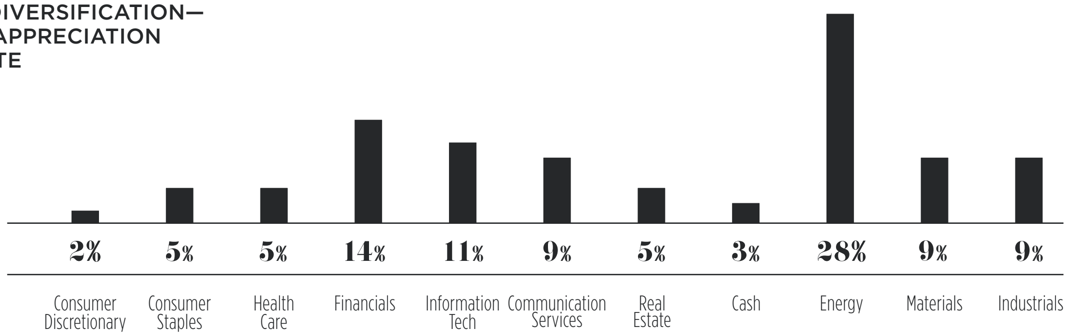
TOP 10 HOLDINGS

1. Whiting Petroleum
2. United Natural Foods Inc.
3. Cheniere Energy Inc.
4. Qualcomm Inc.
5. Star Bulk Carriers Corp.
6. Mesabi Trust
7. Netflix Inc.
8. Goldman Sachs Group Inc.
9. MBIA Inc.
10. Air Lease Corporation

—As of 6/30/22—

*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.

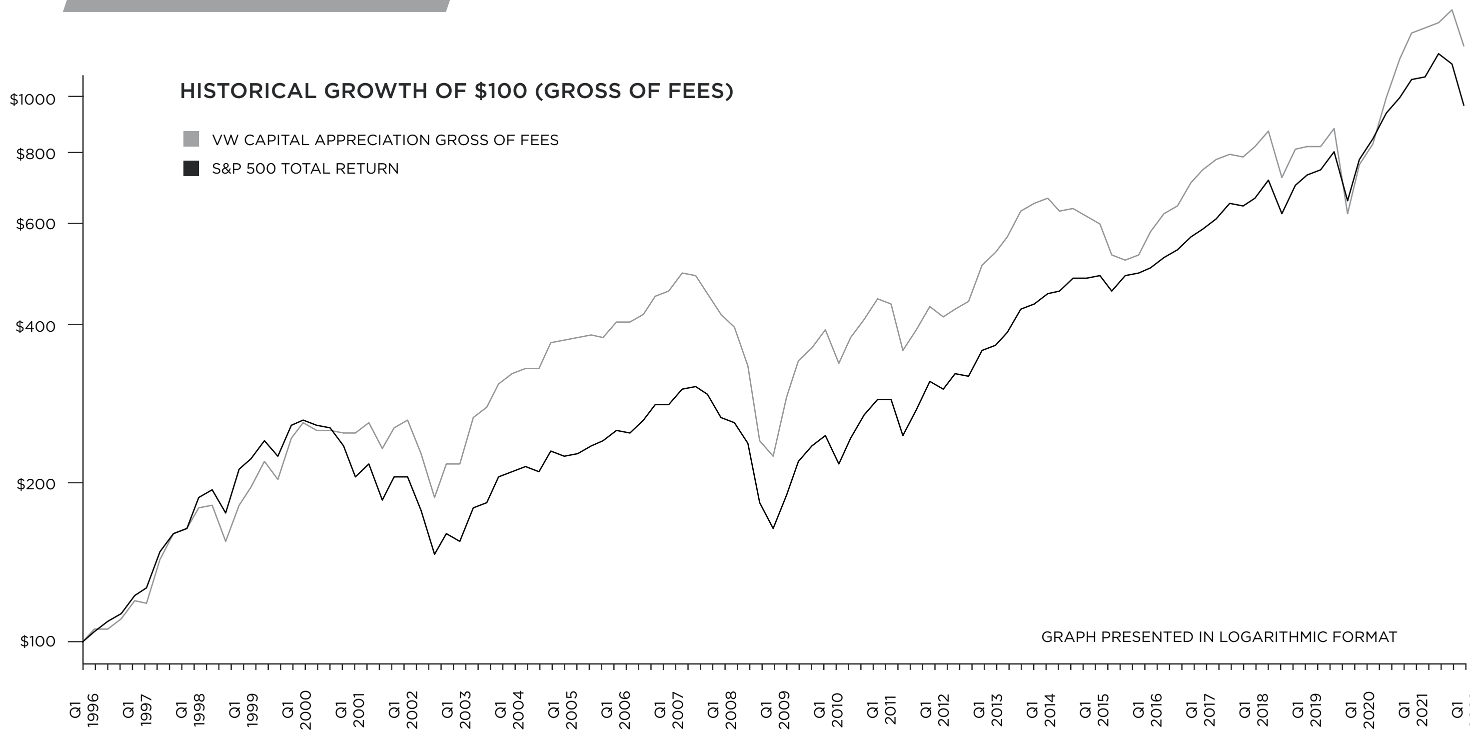
Objective

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.

PERFORMANCE REVIEW

SECOND QUARTER 2021 APRIL 1, 2022 - JUNE 30, 2022

HISTORICAL GROWTH OF $100 (GROSS OF FEES)



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2022 Q2	-14.68	-14.95	-16.10
2022 YTD	-9.71	-10.26	-19.95
1 year	-5.40	-6.54	-10.60
3 years	15.25	13.92	10.49
5 years	11.02	9.75	11.19
10 years	12.20	10.88	12.90
Life*	10.11	8.59	9.08

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2022 Q1	-14.48	-14.78	-10.36
2022 YTD	-9.62	-10.24	-15.15
1 year	-6.09	-7.20	-10.18
3 years	16.73	15.36	5.30
5 years	11.33	9.92	6.46
10 years	11.85	10.37	7.33
Life*	10.47	8.82	7.15

*Life is 26.5 years (inception 1/1/1996)

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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