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ValueWorks:
Redefining wealth management through critical thinking and independent research
1450 Broadway 42nd fl NY NY 10018 212 819 1818

VOLUME 3, 2 **APRIL 20, 2004**

A Case for Careful Security Selection . . .

2004 opened in much the same way as 2003. A very enthusiastic and quick advance gave way to an erosion that left the markets mixed overall for the period. Through this we continued to post reasonable gains. Specifically, for the quarter, our Capital Appreciation composite was up 4.02%* while the Dow declined by .43%, the S&P 500 added 1.69% and the Nasdaq Composite shed .35%.

The returns we earned over the past year have been very gratifying: our Capital Appreciation composite was up over 47%* while the S&P gained almost 35%. We participated fully in a very broad, powerful market rally. Quite frankly, while security selection was important to the return we earned through the advance, the broad positioning of our portfolios was at least as important. We were both fairly well invested at the market bottom and -- after three years of market erosion -- the great bulk of our principal remained intact. As a result, healthy percentage gains translated to meaningful dollar gains.

I believe those conditions have changed and security selection should become increasingly important. Looking back, the markets rallied from very depressed levels and a rising tide lifted all boats. Today's overall levels much more fairly represent underlying asset values. I expect the pace of the advance to inevitably slow, reflecting more normal valuation levels coupled with a still mixed economic and geopolitical outlook. In that context, we should see a greater divergence between investment winners and losers. If so, security selection should play a more central role through the next stage of this market cycle.

ValueWorks' Top 10 holdings*:

1. **Sony Corp. ADR**
2. **Calpine Cap Tr III pfd**
3. **Wachovia Corp.**
4. **Apple Computer**
5. **Pfizer Inc.**
6. **Freddie Mac**
7. **Conexant Systems 4% bonds due '07**
8. **Walt Disney Co.**
9. **Baxter International**
10. **Sprint Corp.**

—as of 3/31/04—

***see notes on p4 for additional information**

The beginning stages of economic expansions can give mixed signals to investors, translating to choppy equity markets. With a relief from the overall pessimism now reflected in share prices, inevitable setbacks in economic growth can translate to markets that appear trend-less overall for a period of time, with the potential for volatility along the way. Given the massive advance seen over the past year and the challenges facing the economy (juxtaposed against an economy that should be expanding) I foresee a much more modest overall upward bias to the equity markets over the near term.

That may prove a productive environment for careful value managers. In the first years of a market and business cycle expansion, it is natural to find more attractively priced opportunities among higher caliber companies. Those opportunities become scarcer after a multi-year market expansion. I

*ValueWorks figures are gross of fees. For additional information on returns, including net performance, see page 4.

believe we have filled our portfolios with such names through the downturn. I expect to see more added as the market exuberance of the past twelve months slows, providing new buying opportunities. As the economic expansion broadens and gains steam, and investor confidence builds, I expect these better quality names purchased at attractive prices to outperform the overall advance.

-Charles Lemonides CFA

fig 1. Sector Diversification (Capital Appreciation)

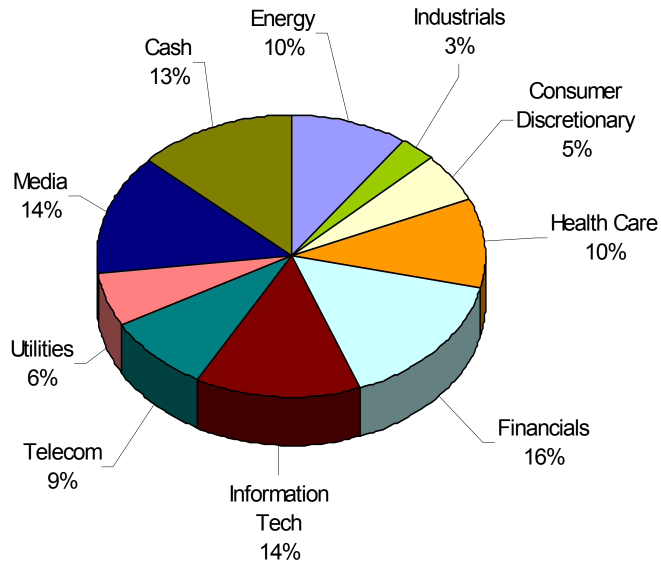


fig 2a. Asset Class Diversification– Capital Appreciation

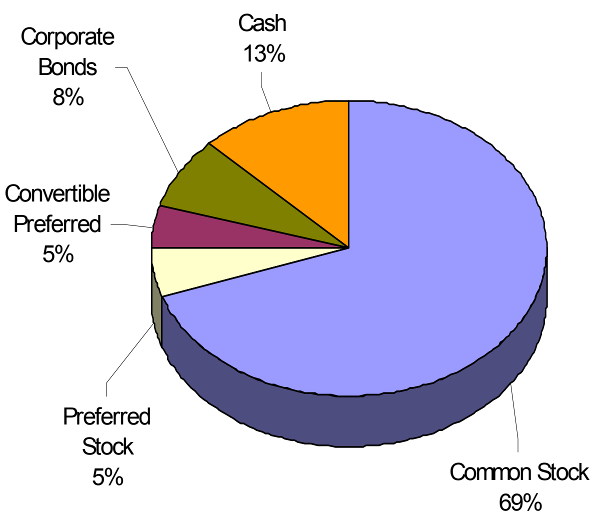
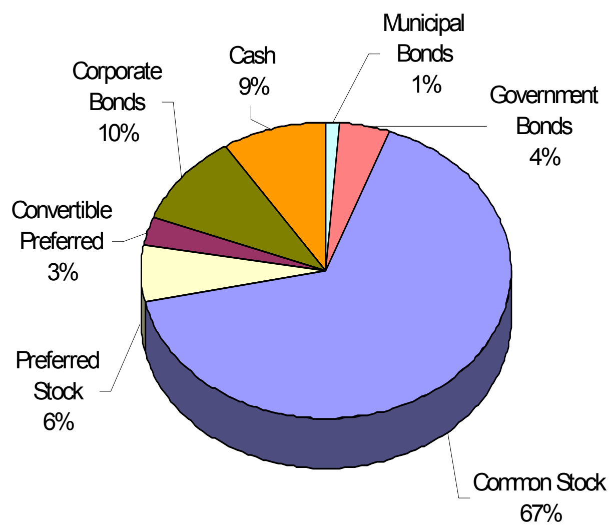


fig 2b. Asset Class Diversification– Balanced



Contact us:

ValueWorks LLC
1450 Broadway
42nd floor
New York, NY 10018

email:
info@valueworksllc.com

Call us:

866 567 4523 (toll free)
212 819 1818 (ny)
212 819 1463 (fax)

Visit us on the web:
www.valueworksllc.com

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ValueWorks:

controlling quality assets at compelling valuations

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.

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.

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.

About 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.

About 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 reporting

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

ValueWorks: Performance Review

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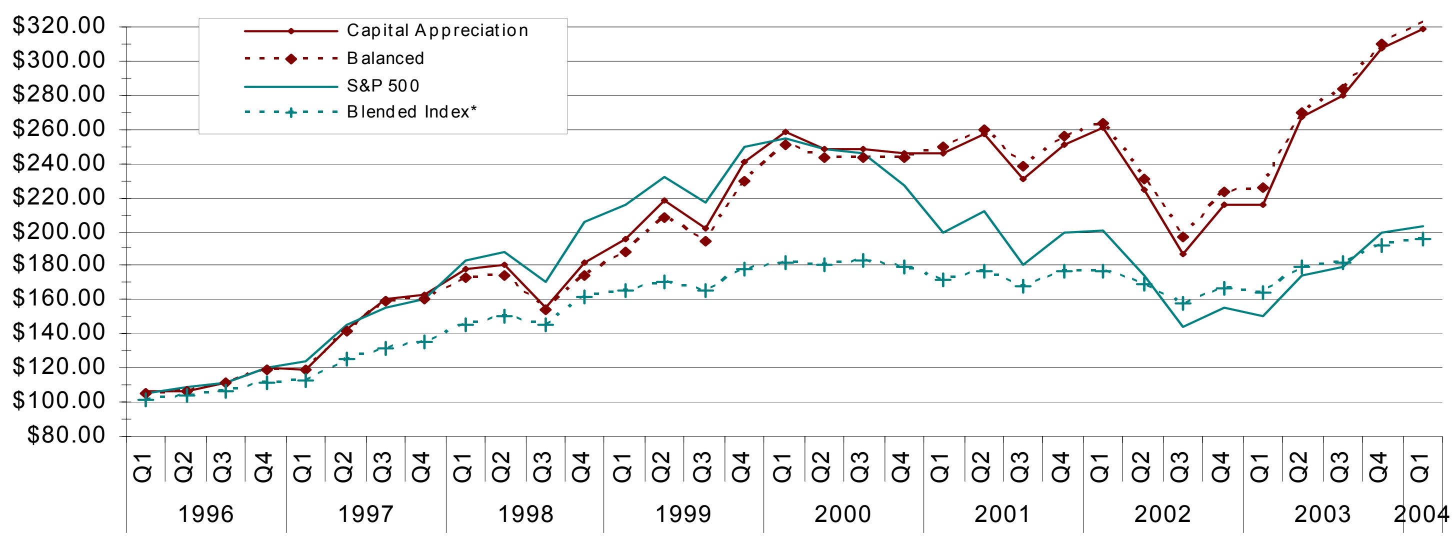
1st Quarter: January 1- March 31, 2004

Historical Growth of $100 (gross of fees)



Performance Data

	ValueWorks' Capital Appreciation Composite			ValueWorks' Balanced Composite		
	Gross of fees	Net of fees	S&P 500	Gross of fees	Net of fees	Blended index*
Return 1996 - Present	**15.11**	**13.20**	**8.96**	**15.24**	**13.23**	8.48
Rolling 5 Year Return	10.27	8.65	-1.27	11.45	9.52	3.46
Rolling 3 Year Return	9.16	7.63	0.50	8.93	7.11	4.50
Rolling 1 Year Return	47.75	45.71	34.46	42.65	40.43	18.76
Q1 Return	4.02	3.70	1.70	3.99	3.60	2.18

*The 'blended index' is 50% S&P 500 and 50% Merrill Lynch Domestic Master Bond index.

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 month under management. Exiting accounts are included through the last full month under management.

"Top 10 Holdings" are complied from the aggregate holdings of the ValueWorks' Capital Appreciation Composite. Neither this nor any other reference to specific securities in this publication is intended to be a recommendation to purchase or sell these or any other securities.

The Capital Appreciation Composite consisted of 111 accounts and $53,583,171 in assets as of 3/31/03: the Balanced Composite consisted of 89 accounts and $55,046,775 in assets as of 3/31/03. Combined, these represent over 99% of the accounts, and approximately 85% of the assets managed by ValueWorks LLC. These results were generated at other firms prior to the fourth quarter of 2001. Results for other composites are available upon request.

Past performance is not a guarantee of future results.