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## Philosophy:

At ValueWorks we define value investing as buying the bestquality 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.

## Process:

1. Identification We monitor the financial markets to identify securities that match our investment criteriafocusing 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.


Historical Quarterly Results vs. Index

|  | ValueWorks (gross) |  |  |  | Blended Index* |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q |
| 2006 | 6.66 | -0.25 | 2.54 | 7.55 | 1.78 | -0.79 | 4.76 | 3.96 |
| 2005 | -0.12 | 1.74 | 1.42 | -0.80 | -1.29 | 2.24 | 1.50 | 1.3 |
| 2004 | 3.99 | 1.51 | 0.48 | 12.79 | 2.17 | -0.37 | 0.67 | 5.0 |
| 2003 | 1.39 | 19.62 | 4.89 | 9.32 | -0.88 | 8.95 | 1.27 | 5.61 |
| 2002 | 3.02 | -12.50 | -14.55 | 13.24 | 0.12 | -4.85 | -6.20 | 5.0 |
| 2001 | 2.36 | 3.90 | -8.07 | 7.26 | -4.42 | 3.13 | -4.92 | 5.3 |
| 2000 | 9.24 | -2.75 | 0.04 | 0.00 | 2.32 | -0.52 | 1.01 | -1.75 |
| 1999 | 7.37 | 10.91 | -6.75 | 18.26 | 2.20 | 3.06 | -2.76 | 7.36 |
| 1998 | 7.81 | 1.00 | -11.27 | 12.95 | 7.77 | 2.83 | -2.86 | 10.8 |
| 1997 | -0.14 | 19.26 | 12.29 | 0.81 | 1.07 | 10.54 | 5.41 | 2. |
| 1996 | 4.94 | 1.28 | 4.57 | 6.77 | 1.80 | 2.48 | 2.45 | 5. |

* the Blended Index is $50 \%$ S\&P Total Return and $50 \%$ Merril Lynch Master Bond Index.

The above benchmark indices are unmanaged indices. Beta was calculated using the S\&P 500 as the market proxy. 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.

As of $12 / 31 / 2006$ the Balanced Composite consisted 113 accounts and $\$ 73,705,995$ in assets; this represents $21.52 \%$ of total accounts and $27.99 \%$ of the total assets of the firm. These results were generated at other firms prior to 9/30/01. Information on other composites is available on request.

