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ValueWorks

quality assets. compelling valuations.

Volume 7,4 **Q4 2009**

Healthy and happy new year and new decade.

At this time last year, my message was of market and economic implosion creating uncommon investment opportunity. Our portfolios were invested to capture that upside. They did.

Specifically, our capital appreciation composite advanced 48.8% for the year (before fees). This compares to an S&P 500 gain of 28.1% for the year and an advance of 18.8% for the Dow Industrials.

Over the recent past, while many investors were shaken from their long-term plans, we stayed true to our discipline and bought quality assets at significantly discounted prices. The results we achieved in 2009 reflect that confidence.

Top 10 holdings*:

1. Micron Technology Inc
2. 3M Company
3. Bank of America CNV PFD L
4. WellsFargo Pfd Series L
5. Hewlett-Packard Co
6. Calpine Corp.
7. Dow Chemical Company
8. Zimmer Holdings Inc
9. McGraw-Hill Companies
10. Boeing Company

—as of 12/31/09—

*see notes on p4 for additional Information

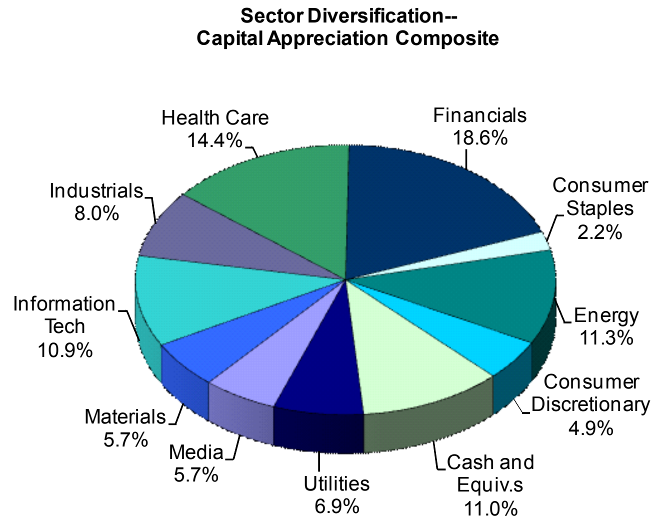
While last year's move was dramatic, the opportunity from here remains just as compelling. Clearly, the fallout from the economic meltdown and market implosion is not behind us. By the same token, neither is the investment opportunity.

The room for improvement in both the economy and the markets remains outsized. Getting back to a healthy, normal, growing economy is a process that plays out gradually over quarters and years. Conditions are not "all better" after a nine month bounce. That is true for the equity markets and the economy.

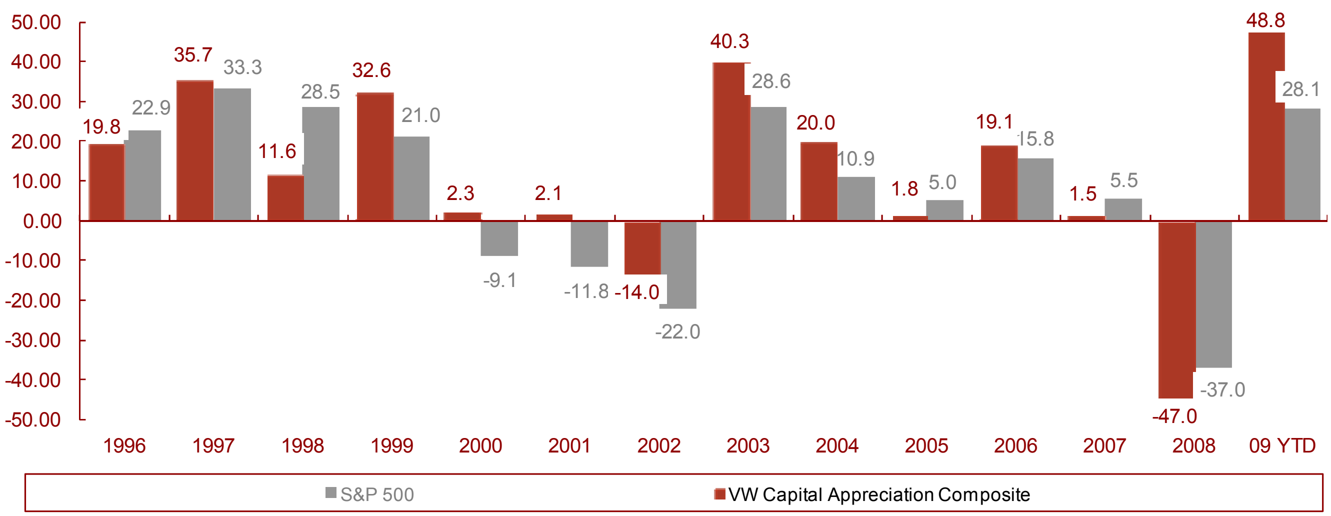
Yes, the economic environment is radically improved compared to the massive meltdown that was occurring nine months ago. And the markets have rebounded from levels consistent with "doomsday" fears. (Perhaps because – as we've been asserting in letter after letter – monetary policy works?) But neither the economy nor the markets are anywhere near back to normal and healthy. Repairing the damage caused by a financial panic will be a multi-year process. As that damage is repaired, investors can expect to continue earning outsized returns.

Our portfolios remain chock-full of high quality, attractively priced securities. After a ten year stretch where the equity markets are flat to down, one should expect plenty of well priced investment choices. I expect those who are uninclined to own them – because of some overconfident sense of where "the market" will or will not go over the next several months -- will continue to miss an uncommon opportunity.

—Charles Lemonides, CFA



ValueWorks' Year by Year Performance Compared to the S&P 500



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ValueWorks
critical thinking. independent research.

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 overdiversification. 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:

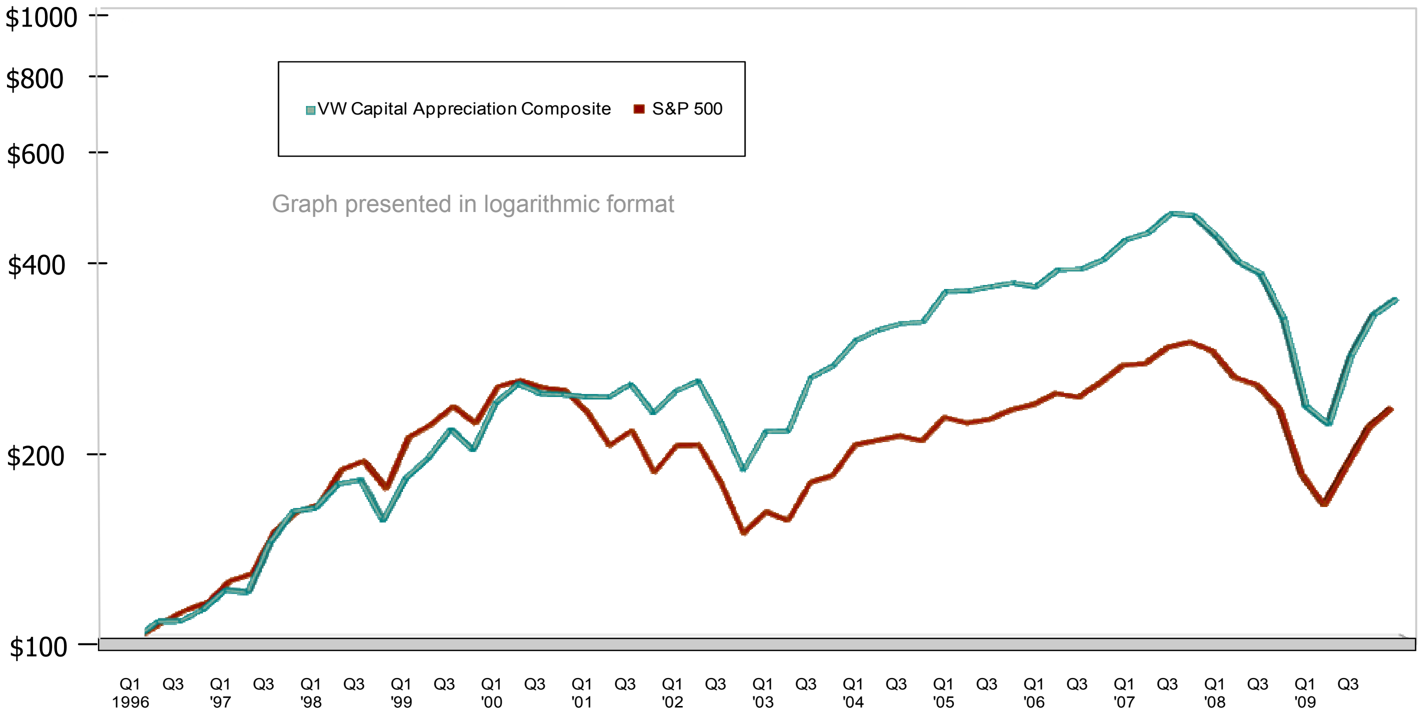
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements and investment needs
- Comprehensive quarterly performance 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.

ValueWorks Performance Review

4th Quarter: September 30th, 2009—December 31st, 2009

Historical Growth of $100 (gross of fees)



Trailing 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*
Q4 2009	5.95	5.61	7.39	5.58	5.20	3.71
YTD	48.83	46.92	28.06	45.64	43.53	16.80
1 year	48.83	46.92	28.06	45.64	43.53	16.80
5 year	-0.58	-1.94	0.67	1.67	0.15	3.31
7 year	7.28	5.81	5.70	8.84	7.21	5.68
10 year	3.93	2.47	-0.82	5.70	4.04	3.26

*The "Blended Index" is a calculation comprised of 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 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 avail-

As of 12/31/2009 the Capital Appreciation Composite consisted of 241 accounts and $77,630,148 in assets; while the Balanced Composite consisted of 79 accounts and $38,052,528 in assets. Together this represents 99.07% of total accounts and 76.33% of total assets.

Past performance is not a guarantee of future results.