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ValueWorks

quality assets. compelling valuations.

Volume 9,2 **Q1 2011**

For the quarter the S&P 500 advanced 5.9%, the Dow 6.4% and the Russell Value 6.5%. Our portfolios participated quite fully in this move with our Capital Appreciation and Balanced groups gaining 8.9% and 7.9% respectively (gross of fees). The rally that has occurred over the past two years has been historic.

In the last quarter the advance continued in the face of: a massive earthquake, tsunami, and near-nuclear meltdown; startling unrest in the middle-east with the US involved in a third war; and continued fiscal turmoil in Europe.

Such market strength makes sense only in context of the extraordinary opportunity that was created in the meltdown. That opportunity is, in my estimation, far from over. It is founded both on the market opportunities that were created (i.e., very low valuations) and in the creation of a very solid base upon which to build long-term economic growth. It is the latter which I consider under-sung and deserving of more attention.

Market and economic upheavals such as we have been through over the past four -- and twelve -- years create serious economic pain. But they also serve as a pruning mechanism that can create a more fertile environment in which the economy can grow. Such an environment can serve us well for an extended period of time.

I have been a vocal critic of the policies and decisions that caused the depth of the correction. That said, the lasting benefits that come out of that kind of turmoil represent a real silver lining. Weaker business models, bloated cost-structures, imprudent leverage and risk-taking, lackadaisical regulators, and outright frauds have all been "stress-tested." Those that could not withstand the challenge have been removed from the economic landscape.

More important, economic "busts" accelerate change. They not only clear away dead wood, but in doing so they create room for growth. Companies, industries and institutions are forced to weed out their least competitive, least productive practices. Less efficient plants are closed, less productive employees are let go, and less promising businesses are revamped. As the economic cycle re-starts (which appears to be happening right now), those employees that are hired and those businesses that are expanded are designed for the opportunities that are in front of us, not behind us.

The specific examples are myriad. The New York Times has accelerated its transformation to a more digitally centered business model. Calpine Corp bought a fleet of older-technology electric-generating plants and is in the process of converting them to a model that will make sense for the next twenty years. Natural gas is displacing other fuels as the technology for accessing shale gas has fundamentally altered the cost of US based energy.

Top 10 holdings*:

1. Williams Company
2. Calpine Corp.
3. Rowan Companies Inc.
4. American Express Co.
5. Corning Inc.
6. Dow Chemical Company
7. Boeing Company
8. Micron Technology Inc.
9. McGraw-Hill Companies
10. Chesapeake Energy Corp

—as of 03/31/11—

*see notes on p4 for additional Information

Chesapeake, Questar, Williams Companies and Rowan are all expanding dramatically as the industry is reshaped. The auto business has been redesigned. The financial services industry has cut tens of thousands of jobs in mortgage origination and packaging, as well as other previously over-invested areas.

Across America ten million jobs were cut. As those ten million people re-enter the work force, they will fill new jobs that did not exist before the downturn. Some of the growth opportunities are apparent. Google, Facebook, Twitter and are obvious companies that are creating new opportunities. But those already visible on the landscape are just Spring's initial green shoots. The other opportunities are not yet apparent because they are still nascent. If history is a guide there will be new industries and new ways of doing things that again drive economic growth. New companies and industries have been born from each downturn before. Those that argue that "it is different this time" may turn out to be correct – but they usually are not.

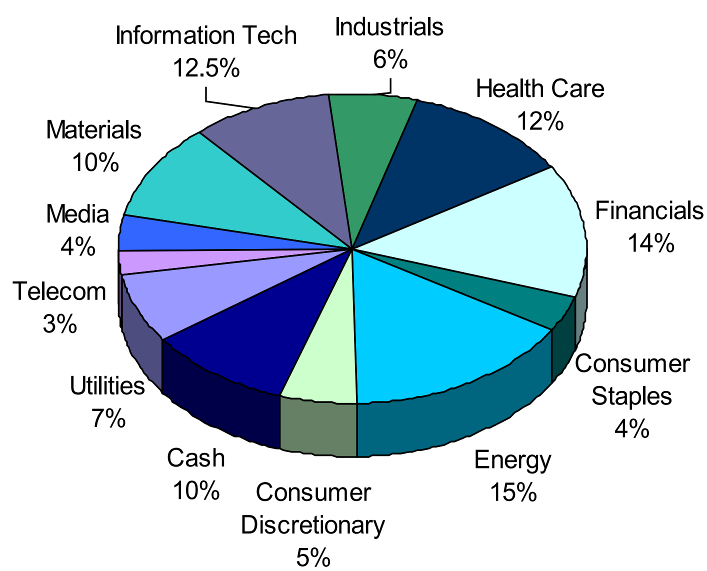
Like a forest fire, the downturn clears the landscape and creates an environment for new growth. Two years from the worst of the crisis we have already seen significant improvement. There is real growth taking place. But if the above assessment is correct, this represents just the budding beginning, not the end.

Along those lines, ValueWorks added a new member to our team. Jeff Beary joined us last month to help build relationships in the Southeast. Jeff has roughly 20 years of financial markets experience, most of it spent building managed account programs, evaluating managers and building relationships with the advisors who use managers like ValueWorks. We are sure he will be a great addition.

Finally it is worth noting that SEC requirements regarding the ADV part II have recently changed. It is now called the ADV Part 2A and written in a much more narrative format. The information it contains is substantively the same to what has appeared in the past; however the new format and the changes in the document might make it interesting. You can always find a copy on our website or feel free to let us know if you would like a copy.

—Charles Lemonides

Sector Diversification--
Capital Appreciation Composite



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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:

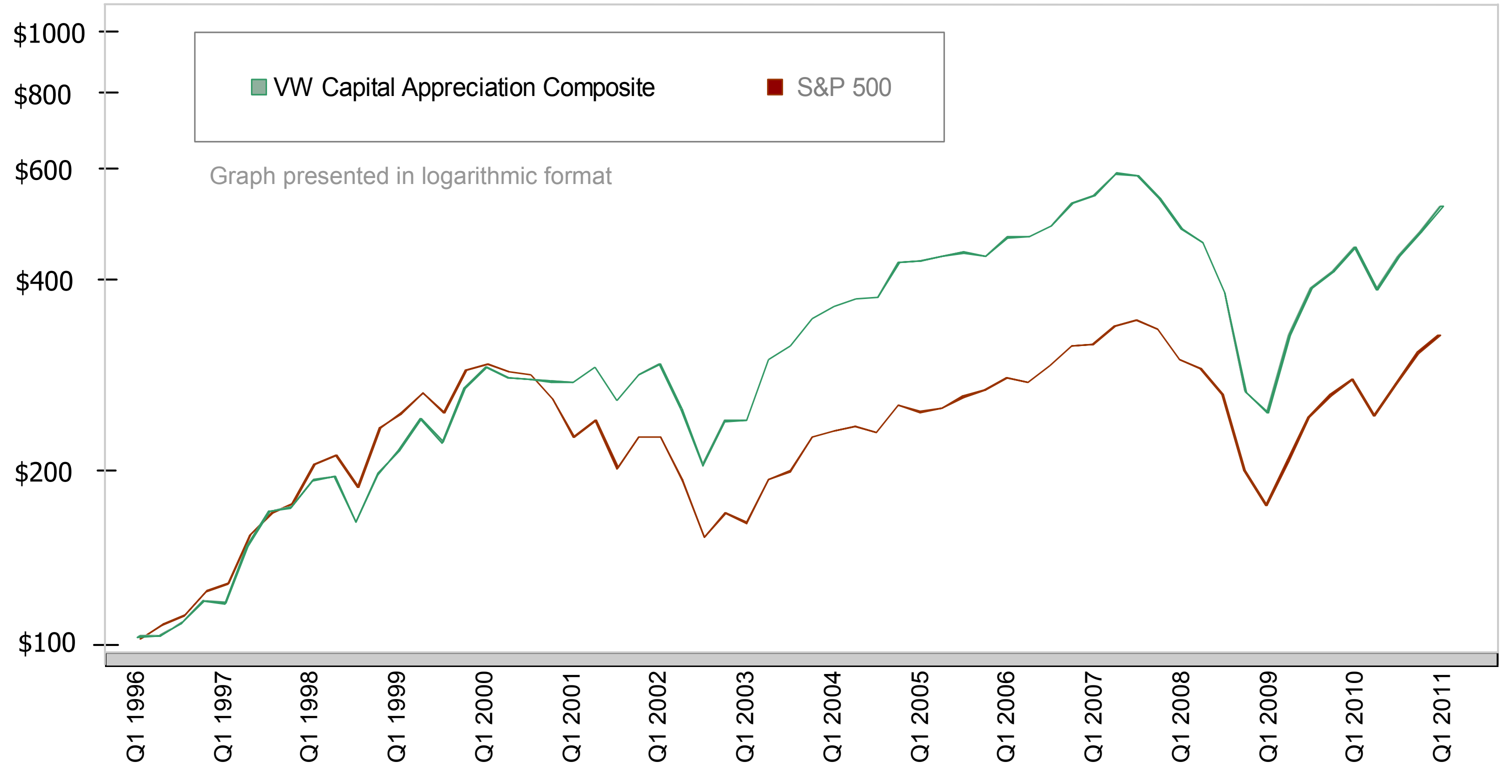
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements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

1st Quarter: December 31st, 2010 -- March 31st, 2011

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*
YTD	8.94	8.59	5.92	7.90	7.53	3.53
1 year	14.68	13.19	15.63	14.04	12.43	11.27
5 year	2.08	0.71	2.86	3.86	2.33	5.12
7 year	4.80	3.37	4.38	6.13	4.57	5.29
10 year	5.95	4.50	3.43	6.87	5.23	5.10
LIFE*	10.16	8.49	7.14	10.90	9.10	7.11

* Life is 15.25 years (inception, 1/1/1996)

*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 3/31/2011 the Capital Appreciation Composite consisted of 213 accounts and $86,333,084 in assets; while the Balanced Composite consisted of 74 accounts and $40,225,141 in assets. Together this represents 98.63% of total accounts and 69.52% of total assets.

Past performance is not a guarantee of future results. This material is approved for client use.

Capital Appreciation

	Total Firm	Composite Assets		Annual Performance Results			
Year End	Assets (in Millions)	USD (in Millions)	Number of Accounts	Composite: Gross	Composite: Net	S&P 500	Composite Dispersion
2010	165	81	221	13.71%	12.15%	15.04%	8.00%
2009	152	78	241	48.83%	46.92%	28.06%	7.86%
2008	112	58	311	-46.97%	-47.68%	-36.96%	8.58%
2007	295	178	515	1.50%	0.14%	5.49%	5.93%
2006	267	159	411	19.08%	17.44%	15.79%	7.25%
2005	209	119	340	1.81%	0.31%	4.91%	3.73%
2004	165	78	158	20.03%	18.42%	10.88%	4.20%
2003	121	49	93	40.31%	38.23%	28.69%	4.71%
2002	75	33	58	-13.97%	-15.23%	-22.10%	3.53%
2001	85	36	51	2.05%	0.64%	-11.88%	8.31%
2000	80	35	69	2.28%	0.68%	-9.11%	6.64%
1999	81	36	79	32.56%	30.46%	21.04%	15.60%
1998	66	26	78	11.60%	9.68%	28.58%	6.03%
1997	39	9	30	35.65%	32.96%	33.36%	3.84%
1996	26	6	20	19.77%	17.13%	22.96%	4.06%

Balanced

	Total Firm	Composite Assets		Annual Performance Results			
Year End	Assets (in Millions)	USD (in Millions)	Number of Accounts	Composite: Gross	Composite: Net	Blended Index	Composite Dispersion
2010	165	38	74	12.48%	10.86%	11.30%	6.50%
2009	152	38	79	45.64	43.53%	16.78%	5.15%
2008	112	33	91	-40.29%	-41.20%	-18.18%	4.82%
2007	295	76	128	4.06%	2.51%	6.45%	3.78%
2006	267	74	113	17.37%	15.61%	9.98%	3.26%
2005	209	65	120	2.29%	0.73%	3.80%	3.29%
2004	165	65	104	19.71%	18.04%	7.70%	4.01%
2003	121	52	84	39.07%	36.86%	16.16%	5.68%
2002	75	33	63	-13.69%	-15.24%	-6.15%	3.52%
2001	85	37	62	4.87%	3.10%	-1.29%	7.36%
2000	80	34	72	6.28%	4.35%	1.02%	5.50%
1999	81	36	73	31.32%	28.89%	9.95%	11.30%
1998	66	37	93	9.13%	7.15%	19.33%	7.63%
1997	39	24	54	34.81%	32.51%	21.18%	4.33%
1996	26	15	29	18.66%	16.54%	12.96%	3.60%

DISCLOSURES

Past performance is not indicative of future results.

Balanced Composite *contains all accounts with a balanced mandate. For comparison purposes the composite is measured against a 50/50 blend of S&P 500 and Merrill Lynch Master Bond Indices. The blended benchmark is calculated on a quarterly basis.*

ValueWorks has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

ValueWorks is a separate registered investment adviser. Prior to September 30th, 2001, ValueWorks was a subdivision of M&R Capital. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Gross returns are shown as supplemental information and are stated gross of all fees and transaction costs; net returns are reduced by all fees and transaction costs incurred. Wrap accounts pay a fee based on a percentage of assets under management. Other than brokerage commissions this fee includes investment management, portfolio monitoring, consulting services, and in some cases, custodial services. Wrap accounts make up 100% of the composite for all periods shown. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year beginning December 31, 2001. From January 1, 1996 to December 31, 2001 dispersion reflected an equal weighted dispersion. Additional information regarding the policies for calculating and reporting returns is available upon request.

The investment fee schedule for the composite is as follows: Low and high rate for wrap sponsors: 1.25% and 2.75%, respectively. Fee schedules from individual wrap sponsors are available upon request. Actual investment advisory fees incurred by clients may vary.

The Balanced Composite was created December 31, 1995. Performance presented prior to October 1, 2001 occurred while the Portfolio Manager was affiliated with two prior firms and he was the only individual responsible for selecting the securities to buy and sell. ValueWorks' is in compliance with the GIPS standards for the period October 1, 2001 through December 31, 2007. In addition, a performance examination was conducted on the Balanced Composite beginning October 1, 2001.