ValueWorks
quality assets. compelling valuations.

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Both the overall market and our portfolios ended the quarter at levels close to where they started (the S&P: 0.1%; the Dow: 0.5%; our Cap App portfolios: -2.3%). But that overall stasis hides significant developments below the surface. It also misses the more important point that the markets and our portfolios have both have had material advances over the past twelve months. In the past year the S&P has advanced 30.7%, the Dow is up 22.4% and our Capital Appreciation portfolios are up an average of 28.4% (ValueWorks results are quoted gross of fees).

Fundamentally, there was a degree of measured economic improvement within the quarter. Also, the market gyration through the quarter likely completed a healthy correction/pause in what had been a very strong upward move. And within our portfolios, I see better opportunity as a result of the meaningful divergence in performance of individual issues.

The economy likely added 400 thousand jobs in the three months ended June 30th. That is after adding 497 thousand jobs in the first quarter and 416 thousand in the fourth quarter of 2010. Those gains do not make up for the devastation on the way down, but they do represent a move in the right direction. For the quarter, they are consistent with GDP growth of close to 2%. These gains are occurring even though the cyclical sectors of the economy that are typically most impacted by low interest rates (housing and autos) were not positioned to add to growth in the period. Auto results were temporarily restrained by the Japanese earthquake, while it will still be quite some time before new residential construction adds to economic activity.

Top 10 holdings*:

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

—as of 06/30/11—

*see notes on p4 for additional Information

This expansion is being driven by very low interest rates and monetary expansion. The end of one part of this program, specifically Quantitative easing, has surely been a concern facing the markets. But that program – in which the Federal Reserve Bank purchased longer maturity bonds in order to force longer term interest rates lower – may have slowed the pace of recovery. The program was designed to lower the cost of borrowing, which can have a positive impact. But the tradeoff is that what is good for borrowers may be less good for lenders. Quantitative easing was designed to lower the spread borrowers pay – and therefore lower the spread lenders make. One consequence is that it can take longer for banks to make back the money they lost on earlier bad loans, and therefore takes longer for the system to heal and return to full-blown expansion. That said, the process seems to be gradually running its course, and a modest widening of credit spreads in the near term should result in healthier banks, and easier credit and lower spreads in six months and a year from now. In other words, it should just get the business cycle started all over again.

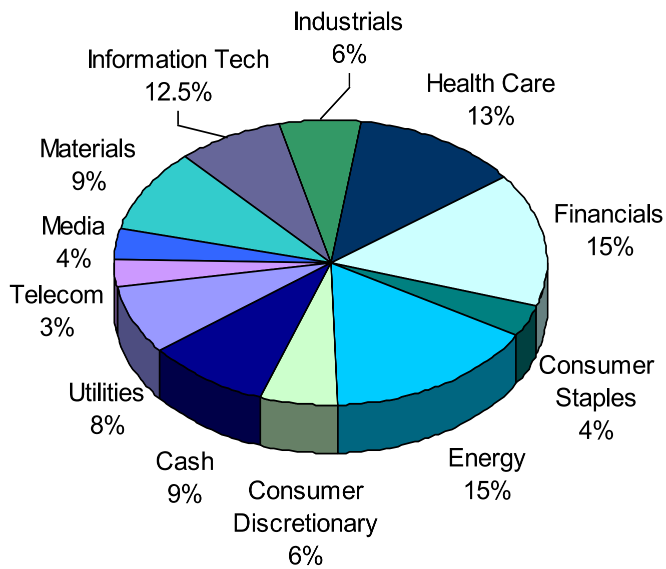
As for the performance of the broad market, the decline from the high at the end of April to the bottom in the middle of June amounted to 7 -9% depending upon the index, and left most indexes down for the year at that point. That sort of pull back is quite consistent with a market that had advanced over 30% over the previous nine months, and nearly 100% from the lows of two years earlier. No question the pullback occurred with the backdrop of real economic concerns – default in Greece, budget concerns in the US, etc. But there are always real risks, and one could certainly argue that the market advanced in the face of these concerns in the first quarter, and was simply due for correction, and that such a correction may now be behind us. Surely, the rally of the past two weeks could hardly be explained by the positive resolution of all those concerns.

Turning to the outlook for our portfolio, I see positive developments as a result of the mixed performance during the period. Specifically, our technology holdings generally contributed quite negatively over the period. This was for the most part counterbalanced by a gradual improvement in the rest of the portfolio. However, because I consider those technology names to now be almost unsustainably underpriced, I have greater confidence in an upward move in those positions. That is especially true because their operating performance remained quite reasonable while share prices have declined sharply. On the other hand, I do not expect a reversal in those names that have been performing well given my positive read on where the economy and markets seem to be headed. We have surely seen this type of divergence before, and it has more often ended with a sharp lift than an overall decline.

Looking out longer term, it will likely be a matter of several years before all of today's economic challenges are fully addressed. Economically, today's environment remains quite tough. It is likely to be several years before we can really call it a healthy economic climate. However, once we get there – and unemployment is at 5% with an expanding economy -- the biggest investment gains will be behind us. At that point markets are likely to be at much higher levels. The previous market peak usually represents a base level for the next cycle, not a top. While it is always prudent to maintain a healthy skepticism, the stronger argument is that this is a classic business cycle and as such is offering disciplined investors very significant opportunity.

—Charles Lemonides CFA

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:

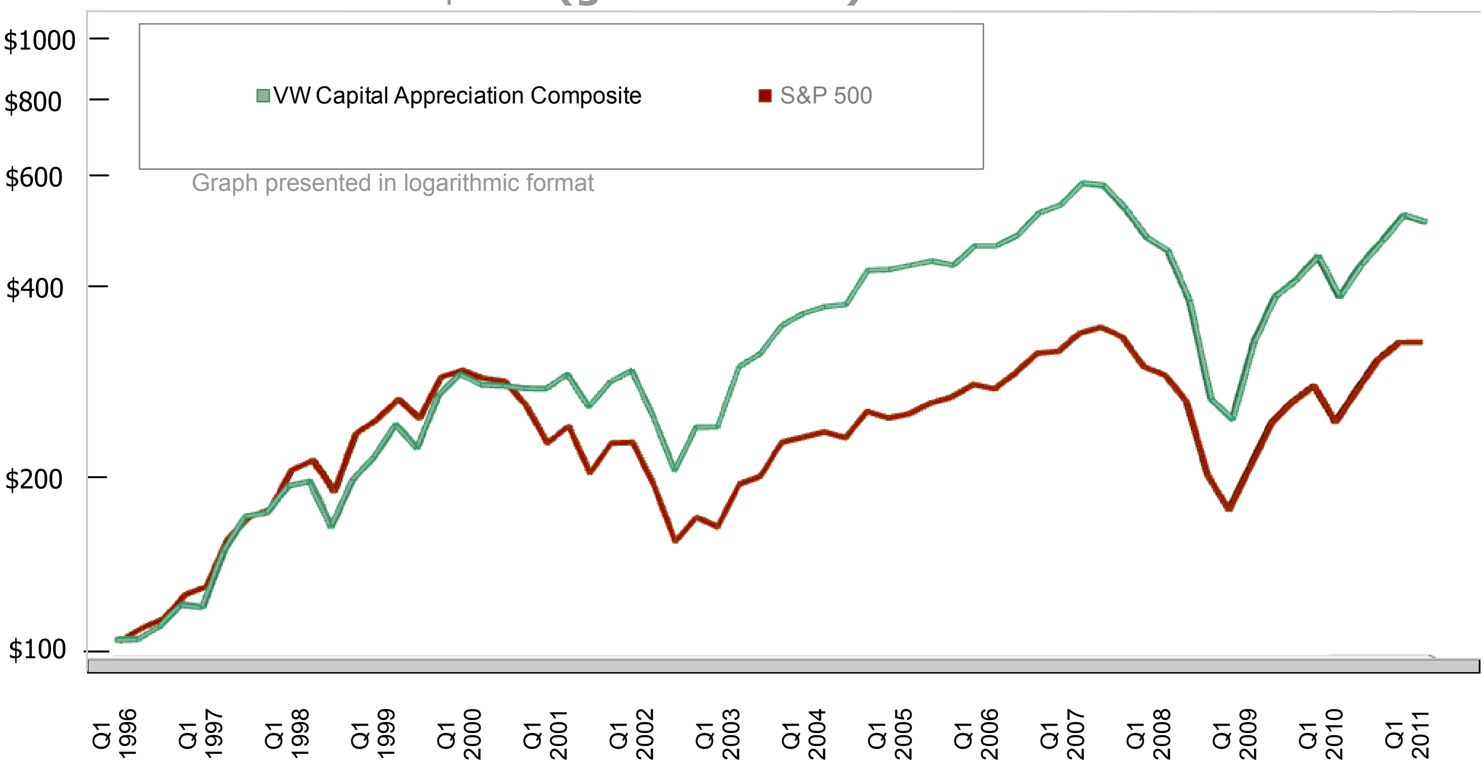
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements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

2nd Quarter: March 31st, 2011 -- June 30th, 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	6.45	5.78	6.03	5.93	5.19	4.79
1 year	28.40	26.74	30.69	24.74	23.00	17.27
5 year	1.59	0.23	3.18	3.53	2.01	5.54
7 year	4.10	2.70	4.68	5.63	4.08	5.37
10 year	5.20	3.74	2.85	6.26	4.63	4.90
LIFE*	9.83	8.16	7.02	10.59	8.80	7.08

* Life is 15.50 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 6/30/2011 the Capital Appreciation Composite consisted of 209 accounts and $83,692,607 in assets; while the Balanced Composite consisted of 74 accounts and $38,707,355 in assets. Together this represents 98.26% of total accounts and 64.26% 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.