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ValueWorks
quality assets. compelling valuations.

Volume 9,3 **Q3 2011**

The year has so far offered investors both moments of solid satisfaction accompanied by market advances, and moments of confusion and nervousness attached to market declines. The shift in sentiment and investment performance has been stark and rapid.

At the market top in April, investors were able to look back at a truly remarkable 110% advance from the bottom roughly two years earlier and a 9% gain for the year. There was a confidence that economic conditions were on the mend. That is not to say that the economic challenges had been addressed and solved, but rather that there seemed a general acceptance that incremental progress was being made.

A short five months later, the investment performance represents a near-polar opposite. While the advance from the market bottom is still significant, the decline – both for the year, and even more from the recent peak -- is impactful. Moreover, the length over which investors have failed to earn real returns is now at a record for this cycle. Specifically, with the S&P 500 at 1,090 at this writing, the index is now back to the level it first touched in March 1998 – 13 ½ years ago. This poor experience has been matched with a sharp change in investor mood – especially as reflected in the media.

Examining the statistics on economic activity and corporate results, the change between early spring and early fall is neither all good nor all bad. Last week the auto companies reported sales for the month of September that were generally up 18% over last year.

Top 10 holdings*:

1. American Express Co.
2. Calpine Corp.
3. Williams Companies
4. Boeing Company
5. Paccar Inc.
6. Rowan Companies Inc.
7. Teco Energy Inc.
8. Zimmer Holdings Inc.
9. Pfizer Inc.
10. Eli Lilly & Co.

—as of 09/30/11—

*see notes on p4 for additional Information

We are up to an annual rate of 13 million new cars for the year, a solid advance from last year. Recent job numbers showed new unemployment claims of under four hundred thousand – which is heading back to a range that is generally considered healthy. Railroad loadings have also remained robust and FedEx just announced earnings up 22% over last year on strong ground shipments. Paccar (which makes the largest trucks) has been having a hard time keeping up with demand. As measured by GDP, the economy continues to expand, albeit at a modest pace.

The biggest remaining weakness is in real estate. In that area, the problem is that it will take time for population growth to fill all the homes that were built during the last building boom. For several years the country built homes at a rate that approached two million per year. That was more than we needed. Policymakers can attempt to fix the problem with lending, foreclosures, etc. But that will not create an instant need to build new homes – there will still be just too many of them out there. That reality goes a long way to explaining why this recovery has been modest by historical standards. It also goes a long way towards explaining why job growth has been weak—construction jobs are inherently domestic jobs.

The change in market conditions has nevertheless been stark. A 20% market decline speaks loudly. The market is surely reflecting the concern that economic conditions will deteriorate from here.

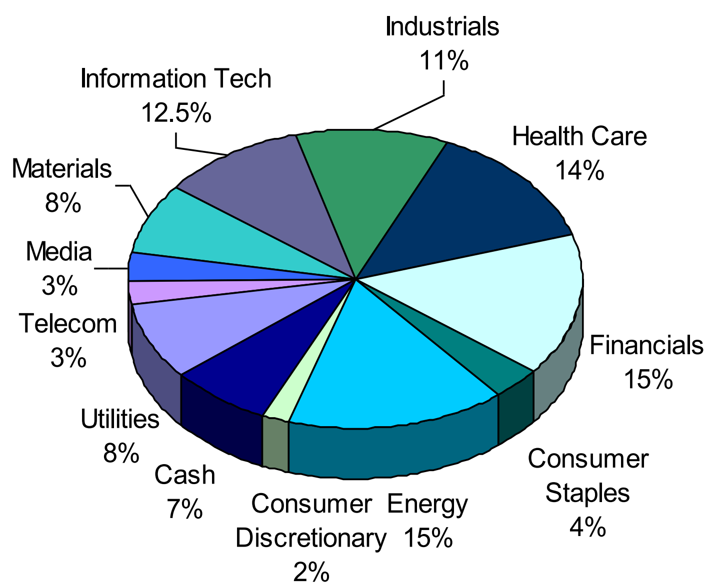
The biggest concern seems to be that challenges in Europe will spread around the world. The problem with assessing this risk is that the numbers don't seem to be large enough to represent real systemic risk. To put it in perspective, Greece this week is struggling with implementing a property tax to help close its fiscal deficit. The total deficit is now estimated to be 8.5% of GDP, or in the order of magnitude or $30 billion compared to a target level of 7% of GDP – a difference of something like $6 billion per year. The property tax is designed to raise $4 billion. There is no reasonable connection with these modest dollar amounts and global systemic risk. The concern is not with these dollar amounts, but rather that a loss of confidence will simply flow from one creditor to the next, without a lender of last resort stepping in to restore confidence.

We would note that financial panics can be self fulfilling – that malaise or panic can cause economic weakness. However, more often than not such emotional gyrations simply run their course without causing harm – and those confident enough to put money to work earn very healthy returns. Because policy makers have been flooding the system with liquidity for almost three years, it does not seem to me that conditions are ripe for a general panic, or even an economic contraction. I think of the old Wall Street wisecrack that the market has predicted seven of the last three recessions. Yes, the market could be telling us something. Alternatively, we may simply be in a classic pull-back that is emotionally and technically driven, and that will run its course leaving as little damage as a summer-squall.

Regardless of near-term market direction, the holdings in our portfolios are solid, well positioned companies that are attractively priced almost regardless of economic climate. We have also used recent gyrations to make modest adjustments in the portfolio – adding some exposure in names that have become much better priced as a result of this market turmoil. Having managed through over thirteen years in which equity prices have traded back and forth, I expect that we continue to approach a period of sustained advance. It sure seemed likely five months ago, and it may well seem even more clear three or six months from now.

— 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:

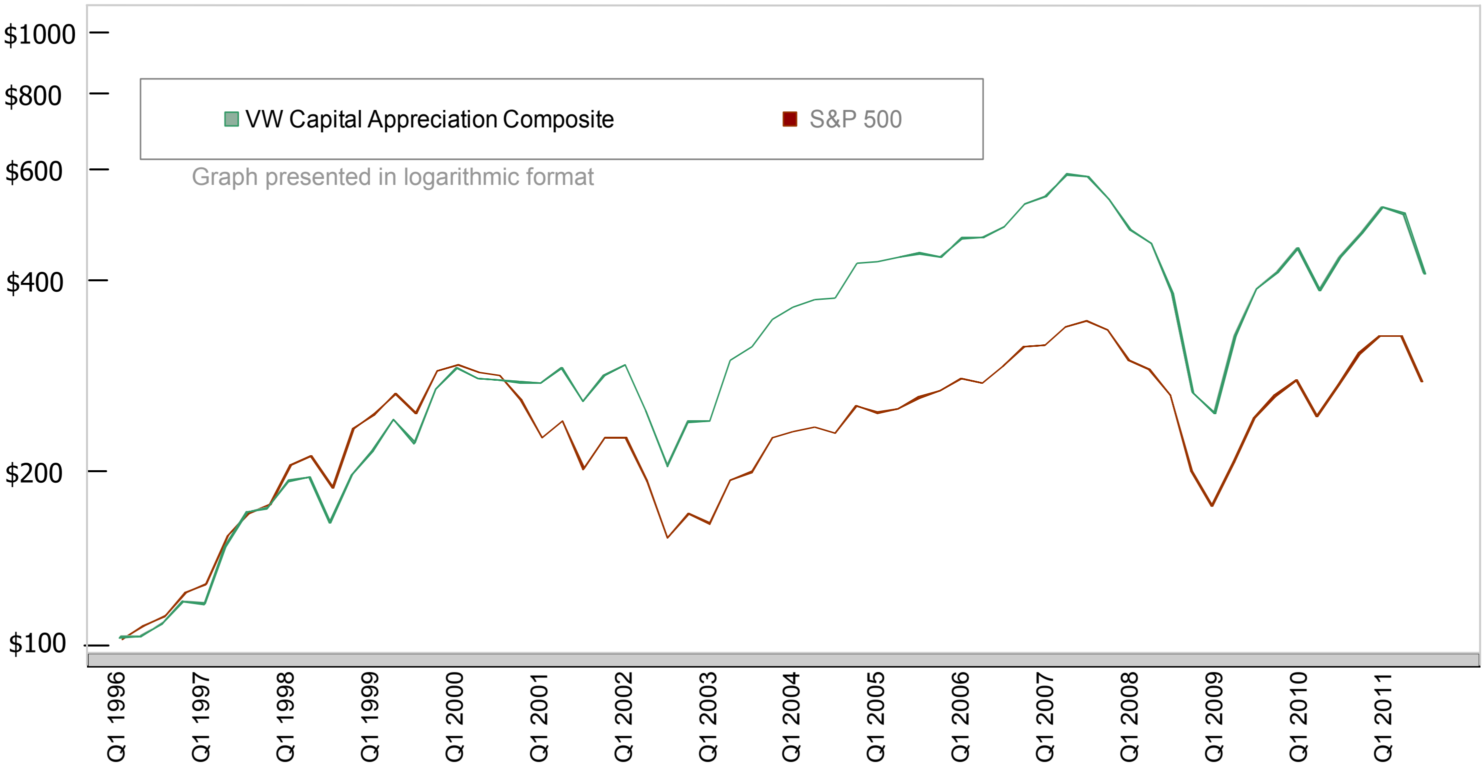
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements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

3rd Quarter: June 30th, 2011 -- September 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	-12.72	-13.56	-8.78	-10.81	-11.74	-0.48
1 year	-5.40	-6.64	1.02	-5.01	-6.32	4.16
5 year	-3.05	-4.34	-0.98	-0.47	-1.92	3.49
7 year	1.09	-0.26	1.17	2.99	1.49	3.86
10 year	4.26	2.82	2.93	5.33	3.73	4.89
LIFE*	8.29	6.65	5.89	9.21	7.45	6.61

* Life is 15.75 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 9/30/2011 the Capital Appreciation Composite consisted of 200 accounts and $69,160,752 in assets; while the Balanced Composite consisted of 73 accounts and $31,598,202 in assets. Together this represents 98.91% of total accounts and 67.79% 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.