VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 13,3 THIRD QUARTER 2015

The third quarter was difficult for investors. Generally the markets corrected sharply, with sectors that had served as havens and sectors that were already struggling both hit with sharp pullbacks. Unfortunately, these types of corrections seem an inextricable part of equity investing, and I would read little more into this one than that it is the type of cleansing action needed before markets can resume their upward trajectory.

The Dow and the S&P 500 each declined for the quarter by -7.58% and -6.94%, respectively; this year they are down -8.63% and -6.74%. Sectors that really took it on the chin included the energy sector MLPs that were designed to give investors income and stability and declined by -26.18% in the quarter, and the Biotech sector that had been powering higher for years and eroded by -18.20% from the high within the quarter to the end of the quarter. For comparison our Capital Appreciation portfolios declined by -12.22% for the quarter putting us at -17.92% for the year to date (Gross of fees—see additional detail on p4).

The biggest mistake investors make at moments like this is letting short term volatility undermine long term strategy. If there is anything to learn from the turmoil of the past fifteen years it is how quickly markets recover from even the sharpest and deepest selloffs. The upside impact of those recoveries on our portfolios has been quite robust over a matter of quarters. This time may well be even more positive.

Fundamentally the positive outlook for the US economy remains intact. Job creation is centrally important, and the US continues to add 150 to 225 thousand jobs per month. This is being driven by the consumer-cyclical parts of the economy that are finally getting into gear. Auto sales are running in the range of 18 million vehicles per year, a level not seen in 12 years. Similarly, housing starts are no longer running at the anemic paces that dominated the post-crisis era. These areas of strength have offset the depressing effect of layoffs and slowdowns in the energy and mining sectors. The collapse in energy prices may have a stimulative effect on consumers and it may benefit margins for airlines and trucking companies. But it also has caused a big cutback in oil patch jobs and an implosion in earnings for energy companies. The fact that the economy is not growing faster is obviously partially reflecting the retrenchment in virtually any business that involves pulling resources out of the ground. The process of scaling back activity in those industries has to be nearly complete given the percentage cutback that has already occurred. Meanwhile, the benefit of low commodity prices should be with us for quite some time. And the room to run in areas like autos and housing is quite significant – we are still under-producing replacement real estate and the age of the average car age is still near records.

Our portfolio may be rigged to expand dramatically as market conditions stabilize and then resume an uptrend. As always, our focus has been to use market turmoil to reconfigure the portfolio, scaling back more fully priced issues and increasing exposure to those at larger discounts to underlying value. Each quarter these adjustments have been modest and on the margins, but cumulatively they have been meaningful and the portfolio is quite differently positioned than it was 18 months ago when this period of challenged performance began. As a result the portfolio once again has quite a few names where we could see a multifold advance. The exposure we have created over this period may well reap us rewards well beyond the next quarter or two.

Investors may look back at the recent highs on the S&P 500 of 2,100 and nervously reflect on its having touched a level 40% higher than its 1,500 peak in 2000. Perhaps the big move is behind us? On the other hand, the index had a similar percentage advance from the low 100s in 1968 to 140 in 1981. In both periods investors weathered significant volatility to earn modest returns. But of course looking at returns in those periods misses the point. The big move—from 140 to 1,500—was in the period from 1981 to 2000. That was when the real investment payoff was collected.

TOP 10 HOLDINGS*

1. Boeing Company
2. Eli Lilly & Co.
3. American Express Co.
4. Xerox Corporation.
5. Gilead Sciences Inc.
6. Boston Scientific Corp.
7. Dow Chemical Company
8. Pfizer Inc.
9. Cisco Systems Inc.
10. Paccar inc.

—As of 9/30/15—

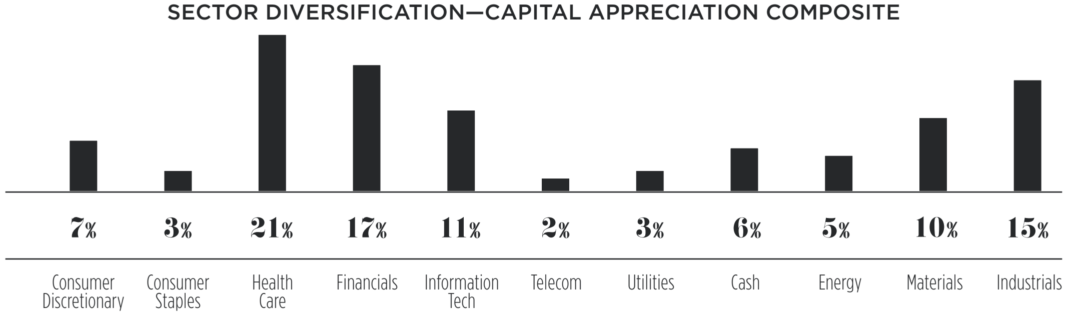
*see notes on pg 4 for additional details

That is why I say the biggest risk created by short-term volatility is that it sways one from their long term plan. The end of 2015 will mark 20 years from the start of my track record as a manager. Through this period there have been quite a few difficult quarters. But they have not shaken us from the conviction that owning quality assets at compelling prices generates fair rates of return over time. We believe we have realized that goal for investors over the past twenty years, and expect to do the same for quite some time to come.

On that note, ValueWorks just signed a ten year lease at One World Trade Center. Our space on the 84th floor is being built out and should be ready in the first quarter of 2016. Until then we are in staffed office space on the 85th floor. The building is quite impressive and I find it a really inspiring place to be. Please come visit when you can.

-Charles Lemonides, CFA

SECTOR DIVERSIFICATION—CAPITAL APPRECIATION COMPOSITE



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.

OUR PORTFOLIO STRUCTURE

We believe risk can be better contained through educated security selection than through over-diversification. 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.

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.

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*

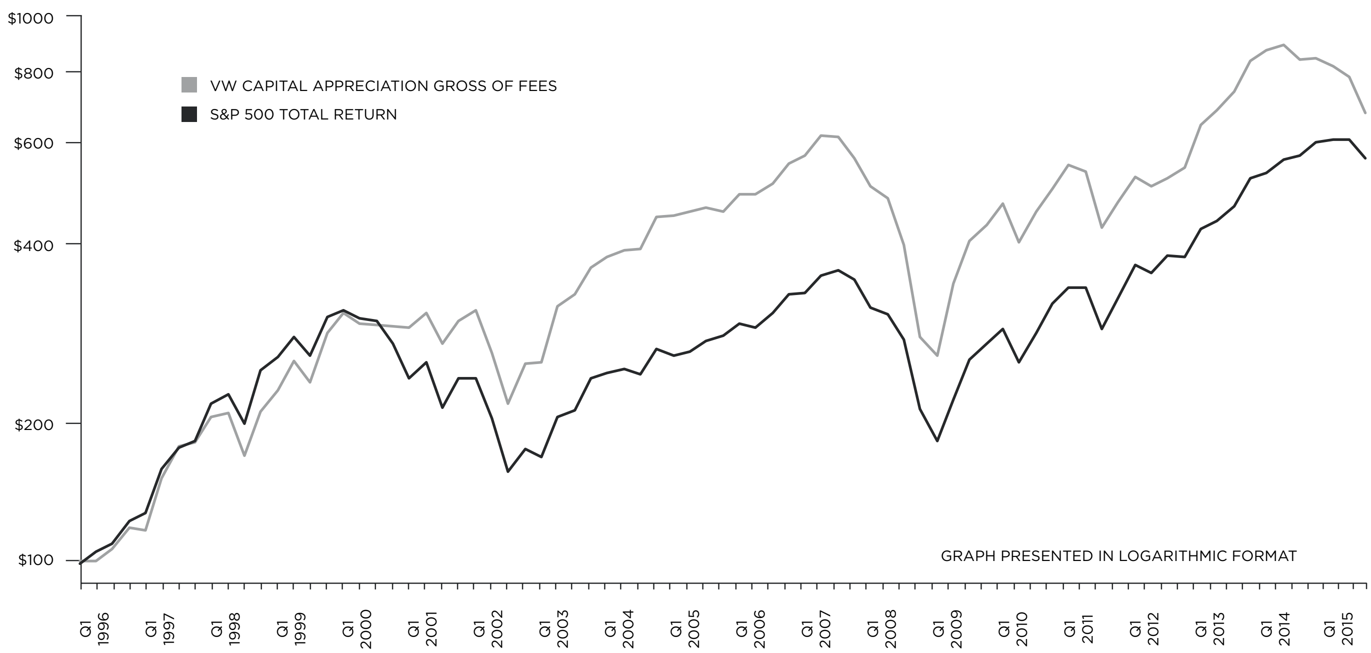
We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

Objective

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.

PERFORMANCE REVIEW

THIRD QUARTER JUNE 30, 2015 - SEPTEMBER 30, 2015



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500
2015 Q3	-12.22	-12.50	-6.43
1 year	-17.23	-18.27	-0.60
3 years	8.14	6.80	12.41
5 years	7.29	5.94	13.28
10 years	3.45	2.10	6.76
Life*	8.78	7.19	7.91

*Life is 19.75 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2015 Q3	-10.20	-10.50	-2.59
1 year	-14.34	-15.56	1.27
3 years	8.35	6.85	6.71
5 years	7.14	5.65	8.28
10 years	4.62	3.12	6.09
Life*	9.45	7.74	7.12

*The "Blended Index" is a calculation comprised of 50% S&P 500 and 50% Merrill Lynch Domestic Master Bond Index.

PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

This Newsletter is intended to be presented with the Capital Appreciation Fact Sheet which contains additional disclosure information.

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 available on request. Investments in this strategy may lose value.
This material is approved for client use.

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