VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 13,4 FOURTH QUARTER 2015

The market turmoil of the past several weeks puts a spotlight on the major rotation and dislocation that has been occurring within the equity indexes over the past 16 months. Over that period large segments of the markets have experienced significant turmoil and undergone a major revaluation. I would characterize this as a major rolling-bear market that has resulted in significant swaths of the market offering the types of mis-valuations that come along with those dislocations.

I view the combination of equity price resets and anticipation of improved economic results, to offer some of the better risk-return parameters we have seen in quite some time. The benefit from low commodity prices will ripple through the US economy for several years to come. The negative impact on economic growth from scaling back employment in that sector is already reflected in the economic results of the past year. The impact on security prices in that sector is now also more than fairly reflected in today's prices.

We are in an interesting moment where investors seem befuddled by the notion that low commodity prices (especially energy) have not yet resulted in either improved economic results or broadly higher share prices. As a result, their proclivity has been to shun most equities and focus investment dollars only in that narrowest handful of equities that are super large, considered uniquely well positioned to grow, and are increasingly richly priced. However, if the combination of low energy prices, low interest rates, a healthy government deficit and improved employment prospects does produce the classic result of a vibrant economic climate, that may prove to be exactly the wrong strategy. Others are moving to cash as a result of the uncertainty of recent market action. If the economic wheel turns as it has before, this too may end up creating missed opportunities.

By contrast, we are being increasingly active in this environment. It is during periods like this that we lay the foundation for outperformance over an extended timeframe. The key to navigating these financial market storms is the ability to keep an eye on the distant horizon and a steady hand on the tiller. Investor experience through the financial collapse of the last decade is a good reminder. Those who kept their financial strategy generally came through the period quite well. Those who changed to a new course or headed towards the "safety" of land/cash ended up causing their portfolios serious damage. They have generally still not recovered.

This recent period has of course not been nearly as challenging overall as that earlier meltdown. However, it has been extreme in certain sectors. Commodities and the companies that are involved with them have continued their brutal sell-off. The Bloomberg Commodity Index declined by -37% after a -22% decline in the preceding 6 months.

The Bloomberg Pipeline Index -- an area many investors had flocked to for the perceived safety of its dividend yield, declined by -48% for the year. And we have been putting money to work in these areas into this meaningful downturn. That portion of our strategy has negatively impacted returns over the past eighteen months. That said, I still expect our investment experience from our original cost to be quite good. If this turns out to be true, our experience from today's massively discounted levels should prove to be extraordinary.

Maintaining this perspective is difficult for most investors, but looking at the broader portfolio can help achieve that perspective. Clearly, we have exposure to some of the areas of the markets that are doing well. Our strategy has been to reduce exposure to these "loved" names as valuations on them have reached increasingly elevated levels. In December we exited Dow Chemical as investor enthusiasm for their proposed combination with DuPont brought the shares to quite fully priced levels. We originally purchased those shares into the teeth of the market meltdown of 2008/09. When we bought them the shares were down dramatically from the mid-fifties to the mid-thirties. Our assessment at the time was that the company was a long term survivor trading at a compelling valuation, and that with an ability to see past the financial storm, investors would do quite well. But we were early. Within a matter of months, the shares bottomed at $7 per share. Those who sought the safety of land/cash realized huge losses on that investment, but those who kept a steady hand saw a 9 fold increase from that distressed level. While we might be critiqued in hindsight for stepping in too soon, we nevertheless achieved a near double over the period for those who stayed the course and sold recently at $56.

We believe that in time, this unusual market will run its course like all the other unusual markets before it. As it does we will keep doing the same work we always have: selling assets that have become fully priced and buying assets where prices have become compelling. As in the case of Dow, we recognize that this can sometimes be a bumpy ride, but we believe that the benefits of the strategy work over time for those with the fortitude to stay the course. Handled well this environment may well create outsized opportunities.

-Charles Lemonides, CFA

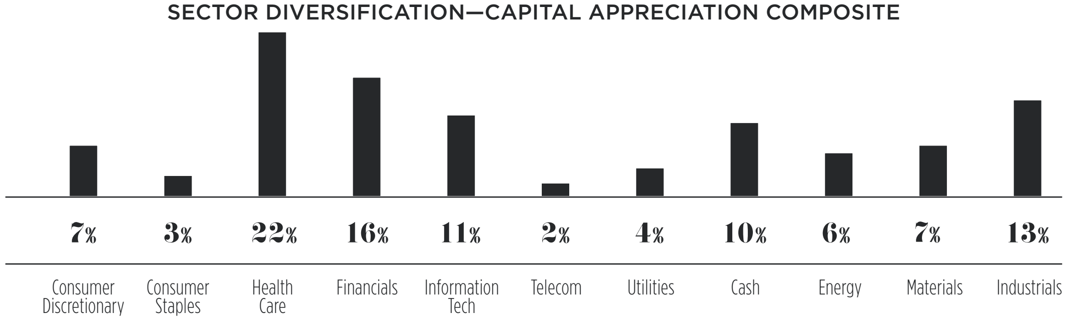
TOP 10 HOLDINGS*

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

—As of 12/31/15—

*see notes on pg 4 for additional details

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*

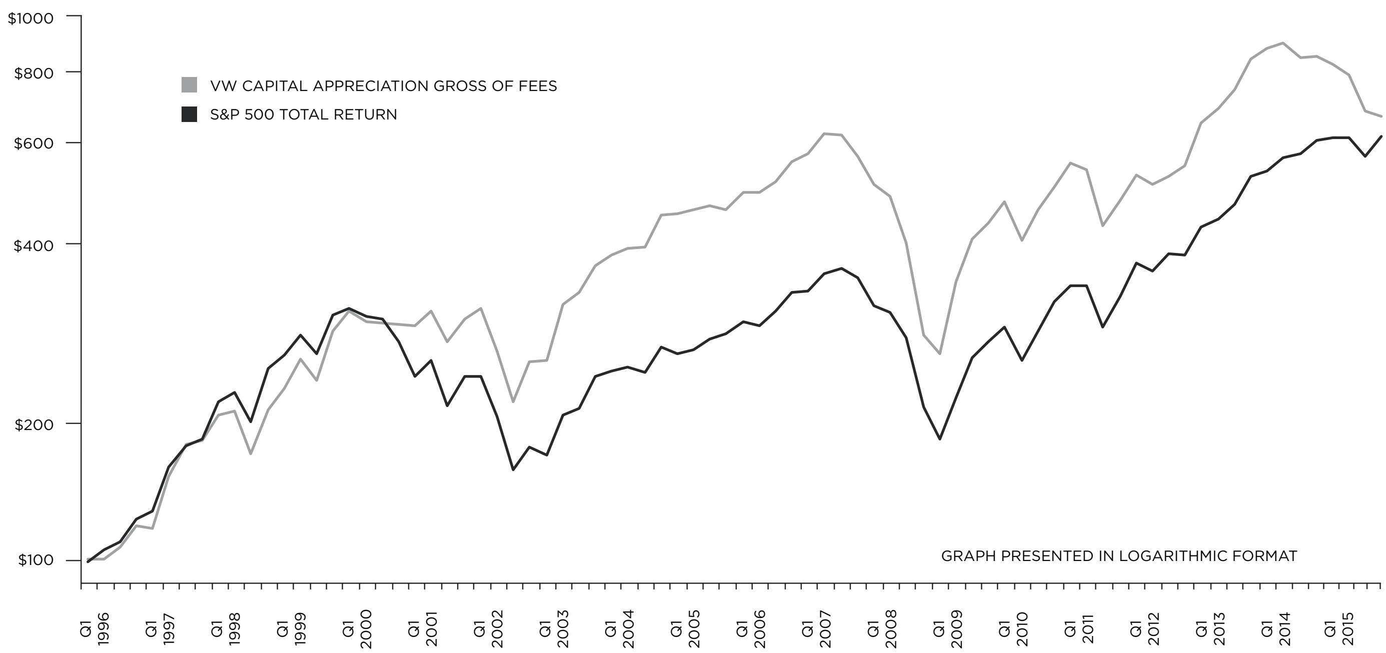
We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

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.

VALUEWORKS

PERFORMANCE REVIEW **FOURTH QUARTER** SEPTEMBER 30, 2015 - DECEMBER 31, 2015



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500
2015 Q4	-1.67	-1.97	7.05
1 year	-19.29	-20.30	1.41
3 years	6.18	4.87	15.14
5 years	5.22	3.91	12.51
10 years	3.42	2.07	7.27
Life*	8.57	6.99	8.17

*Life is 20 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2015 Q4	-1.61	-1.94	3.24
1 year	-17.08	-18.24	1.11
3 years	6.45	4.98	7.88
5 years	5.46	3.99	7.98
10 years	4.53	3.04	6.29
Life*	9.24	7.53	7.20

*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.

ONE WORLD TRADE CENTER, SUITE 8500 NEW YORK, NY 10007 T: 212.819.1818 F: 212.819.1463 VALUEWORKSLLC.COM info@VALUEWORKSLLC.COM