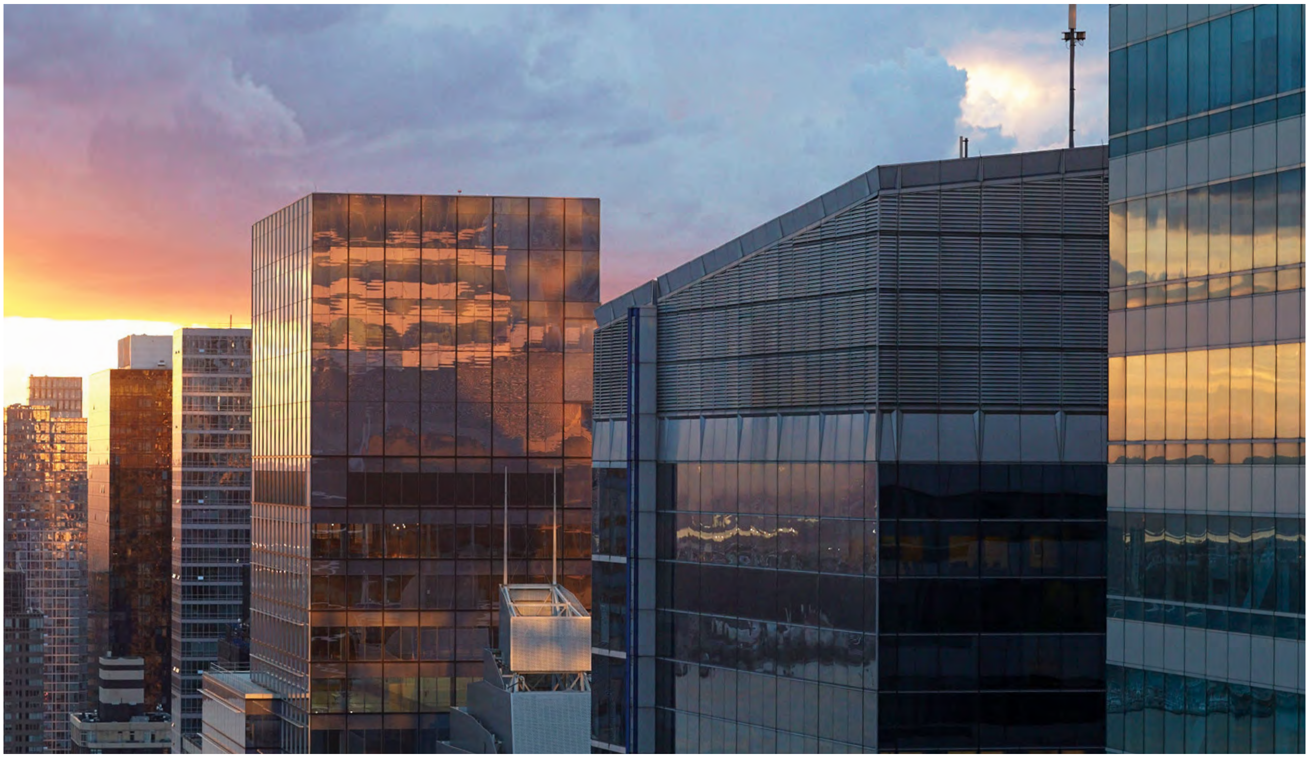
VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 12,3 THIRD QUARTER 2014



This quarter I expect to read commentary describing the equity markets as ebullient. I also expect to see commentary focusing on losses and erosion in the period. There will be those that describe it as a particularly volatile and risky period, while a case could also be made for a period of relative quiescence. My read is that these polar extremes reflect the interplay of a stronger and growing economy with a market pulling back as it consolidates the chunky advances of the recent past.

Those pointing to market ebullience can cite the seven new highs on the Dow Jones and the S&P 500 ending the quarter within 2% of its all-time high. On the other side of the argument, the smaller companies of the Russell 2000 declined by -7.6% in the recent quarter and gave back -10.0% from its July peak to the recent October 2nd trough; this year to date it is down -4.1%. That the Dow added 1.8% for the quarter, and is up 4.6% for the year and the S&P 500 added 1.1% and the Nasdaq Composite added 2.2% for the quarter represent the middle ground. More data on the positive side: the Nasdaq 100 added 5.5% for the quarter, and is up 13.8% for the year; which is juxtaposed against the S&P 400 (their midcap index) which declined by -4.3% for the quarter. The huge contrast between the Nasdaq 100 and Russell 2000 (up 14% vs down -4% ytd) highlights how the performance of a handful of the largest shares masks the significant correction that has occurred in most of the equity market.

As for the case for a fairly steady market: in the period from August 19th to September 24th the Dow Jones closed within 1% of the previous day's close and the intraday range never exceeded 1%. We have seen such tightness for so many consecutive days only a handful of times since the late 1960's. To put that in perspective, the average intraday range within that window was 0.6%, which is less than half of the average range of 1.28% over the previous ten years. On the other hand, there was a jarring 700 point or 4% decline over four trading days from the intraday high on July 29th, and then a similar sized, and almost as compact, rally that started a handful of days later. The first few days of the current quarter have also seen some fairly vibrant moves.

This action is occurring against the backdrop of an economy that expanded at a better than expected 4.6% in the second quarter and added an average of approximately 220,000 jobs per month in the third quarter. That level of job creation, coupled with data on average weekly hours and productivity are consistent with an economy that grew close to 4% again in the third quarter. Currently the consensus is for growth closer to 3%, however, I would note that at this time last quarter, estimates called for growth of 2.2%, and the final number came in at more than twice that. Earnings for the S&P 500 are expected to grow by a healthy clip of 5%. The unemployment rate has declined to 5.9% and there are no real signs of inflation. The rare indicator of economic weakness is in commodity prices, which are by and large in quite a funk. Iron ore is at a multi year low, Copper prices are down 10% for the year, and oil prices as measured by Brent crude are down from $113 in June to $92 currently. However, this seems to be more a function of dollar strength and non-US economic weakness than a reflection on our economy here. And these lower commodity prices likely give the Fed more room to remain accommodative as they will help keep consumer inflation in check (as will a stronger dollar), and also help profit margins for most businesses.

So while some of the recent market action can be attributed to geopolitical concerns and some to concern over the course of Federal Reserve Bank actions, I would interpret this recent mixed action as a healthy pause after a very vibrant run-up. Markets do not move in one direction. During the period from 1981 to 2000 there were a number of "rolling corrections" where sectors or groups pulled back, even as the overall indexes remained comparatively stable. Because I see the bulk of the evidence on the side that the economy is growing and should continue to grow for the foreseeable future, and because equity prices do not by and large seem extended, and because we have just been through a real pause in this advance, and because I think it is likely that the broader equity market rises to closes the gap created recently by the biggest companies, I see more room for positive than negative surprises in the quarters ahead.

-Charles Lemonides, CFA

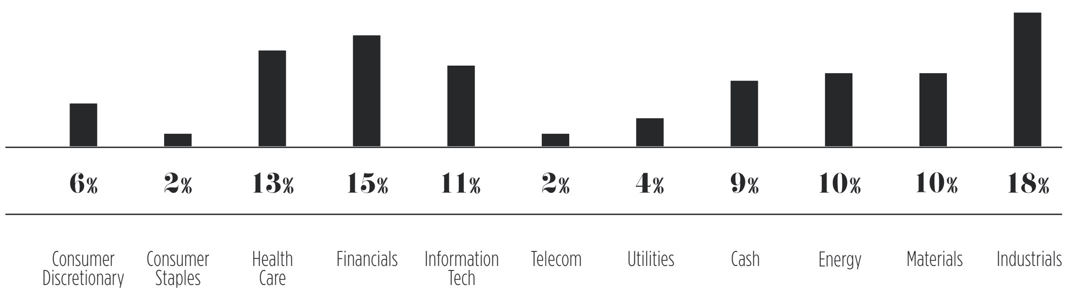
TOP 10 HOLDINGS

1. Xerox Corporation
2. American Express Co.
3. Boeing Company
4. National Oilwell Varco Inc.
5. Calpine Corp.
6. Dow Chemical Company.
7. Eli Lilly & Co.
8. Bombardier, Inc. cl B
9. Williams Partners LP
10. Paccar Inc.

—As of 9/30/14—

*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*

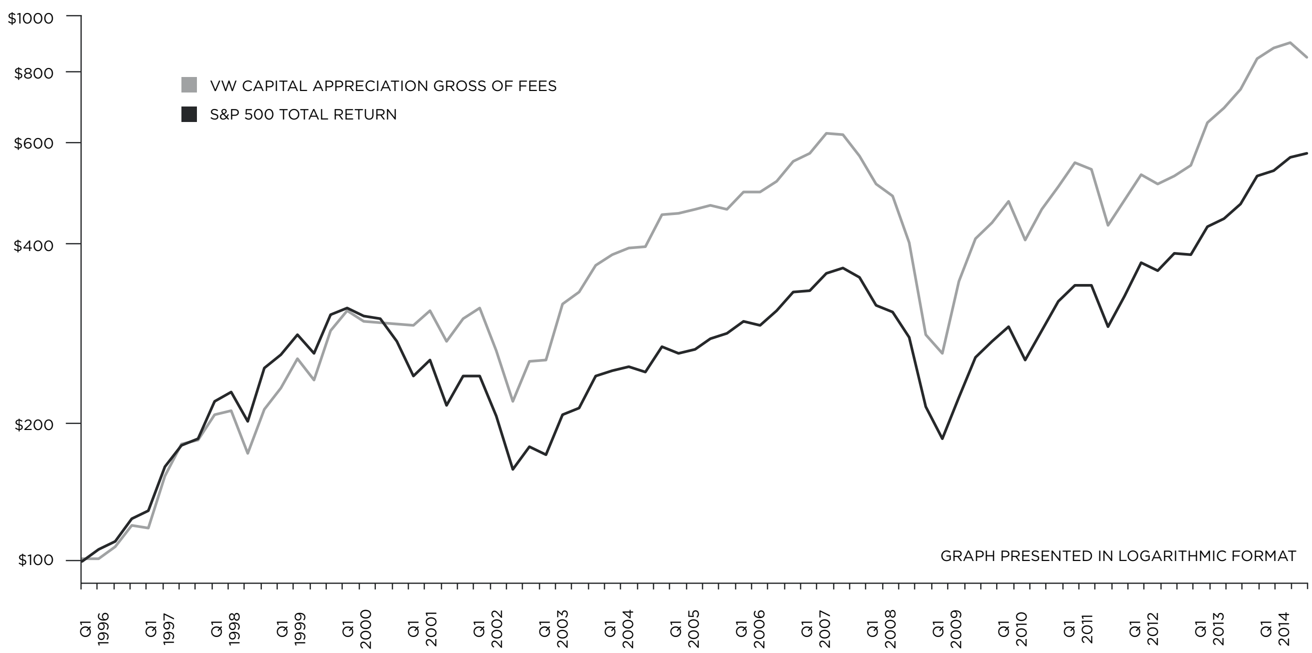
We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

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.

PERFORMANCE REVIEW

THIRD QUARTER JUNE 30 - SEPTEMBER 30, 2014



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2014 Q3	-5.52	-5.81	1.12
1 year	11.75	10.38	19.72
3 years	22.00	20.48	22.93
5 years	13.81	12.36	15.63
10 years	6.96	5.56	8.08
Life*	10.38	8.75	8.38

*Life is 18.75 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2014 Q2	-4.33	-4.68	0.68
1 year	13.38	11.83	10.67
3 years	20.17	18.51	12.16
5 years	12.94	11.37	10.00
10 years	7.87	6.32	6.74
Life*	10.89	9.15	7.44

*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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