

# ValueWorks

quality assets. compelling valuations.

Monthly Update--Capital Appreciation Composite

Sep-09

## ValueWorks' Results through August 2009

	August	Q3 TD	YTD	1 year	5 year (cumulative)	Life of Comp* (annualized)	Life of Comp* (cumulative)
<b>Capital Appreciation (gross)</b>	<b>4.56</b>	<b>11.68</b>	<b>34.73</b>	<b>-16.70</b>	<b>1.09</b>	<b>8.71</b>	<b>219.84</b>
<b>S&amp;P 500</b>	<b>3.43</b>	<b>10.42</b>	<b>13.94</b>	<b>-22.08</b>	<b>-7.87</b>	<b>5.44</b>	<b>108.93</b>
<b>Russell 1000 Value</b>	<b>5.62</b>	<b>12.17</b>	<b>8.59</b>	<b>-25.52</b>	<b>-10.27</b>	<b>6.38</b>	<b>136.38</b>

\* Composite inception: Jan 1, 1996

As the markets and economy have begun to stabilize, our portfolios have advanced sharply. Given the changed investor landscape, and an economic environment poised for gradual improvement over several years, we consider this advance to be in its very early stages. The recent gains have been impressive. I envision a continued – though undoubtedly herky-jerky – advance through year-end. But more important, I view this as only the beginning of a multi-year economic and market improvement. We will continue working to position our portfolios accordingly.

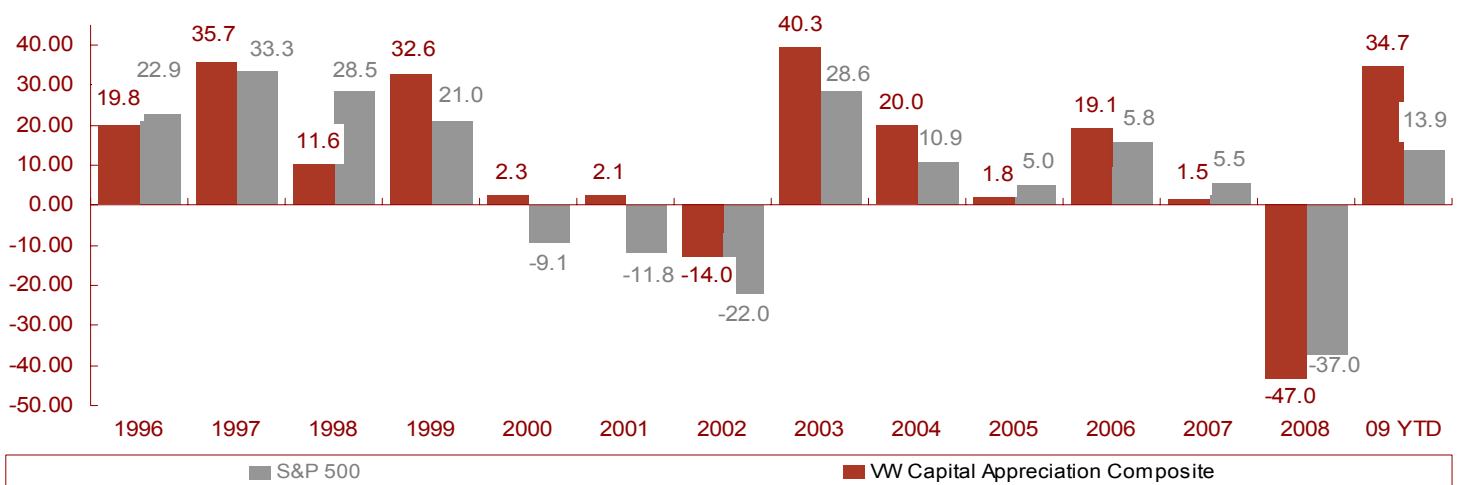
From my perspective, the rally from the March lows was driven more by a lack of remaining sellers than from the strong conviction of a large cadre of buyers. For the most part, current equity holders have been through a vicious maelstrom and maintained their composure. They are, as a group, unlikely to be spooked by near term market blips or a setback in the economic recovery. I foresee few of them willing to sell their shares at current levels. But I expect those investors that were shaken from their investment discipline and who moved to the sidelines through the sell-off will begin re-thinking their caution. As they do, I expect them to reluctantly and begrudgingly fuel a long term market advance. That should be a process that plays out over quarters and years, not weeks and months. In the near term, as summer winds down and investors re-focus on their portfolios, I expect the process of re-deploying cash to become a clear theme and market driver in the weeks and months ahead.

Over the market sell-off investors tended to reduce their exposure to levels that were consistent with high degrees of uncertainty and financial panic. As that financial uncertainty and panic recede into the past, those investors will seek to rebalance their portfolios to be more consistent with the present, more stable environment.

Many have had a hard time reconciling the strength of the rally with the modest level of economic improvement. To us that line of inquiry places too much import on the price levels during the worst of the emotional sell-off, and underestimates the importance of a changed investor landscape. We expect many investors will continue to struggle with that point of view as they hesitantly and unwillingly put money to work—even as they see the markets continuing to move higher over time.

—Charles Lemonides CFA

## Calendar Year Results through August 2009: VW v SPX



Past performance is not a guarantee of future results.

The document is approved for client use. Please see page 2 for full disclosure information.

## 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.

Year End	Total Firm	Composite Assets		Annual Performance Results			
	Assets (in Millions)	USD (in Millions)	Number of Accounts	Composite: Gross	Composite: Net	S&P 500	Composite Dispersion
2008	112	58	311	-47.02%	-47.74%	-36.96%	8.72%
2007	295	178	515	1.50%	0.15%	5.49%	5.93%
2006	267	159	411	19.08%	17.44%	15.79%	4.22%
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	40.27%	38.25%	28.69%	4.71%
2002	75	33	58	-14.06%	-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%

## **DISCLOSURES**

**Past performance is not indicative of future results.**

**Capital Appreciation Composite** contains all accounts with a Capital Appreciation mandate. For comparison purposes the composite is measured against the S&P 500 Index.

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 management fee schedule 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 Capital Appreciation 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 Capital Appreciation Composite beginning October 1, 2001.

For more information about ValueWorks Capital Appreciation Composite and our other composites please visit [valueworksllc.com](http://valueworksllc.com) or call 212.819.1818