

# ValueWorks

quality assets. compelling valuations.

## Preliminary Results--Capital Appreciation Composite

Q2 2009

### Historical Performance: 1996—Present

	Q2 2009	YTD	1 year	5 year	10 year	Life of Comp (annualized)	Life of Comp (cumulative)
<b>Capital Appreciation (gross)</b>	<b>28.57</b>	<b>20.12</b>	<b>-26.59</b>	<b>-2.44</b>	<b>2.72</b>	<b>7.97</b>	<b>185.15</b>
<b>S&amp;P 500</b>	<b>15.92</b>	<b>3.19</b>	<b>-26.26</b>	<b>-2.24</b>	<b>-2.21</b>	<b>4.78</b>	<b>89.21</b>
<b>Russell 1000 Value</b>	<b>16.32</b>	<b>-3.19</b>	<b>-29.26</b>	<b>-2.19</b>	<b>-0.18</b>	<b>5.61</b>	<b>110.74</b>

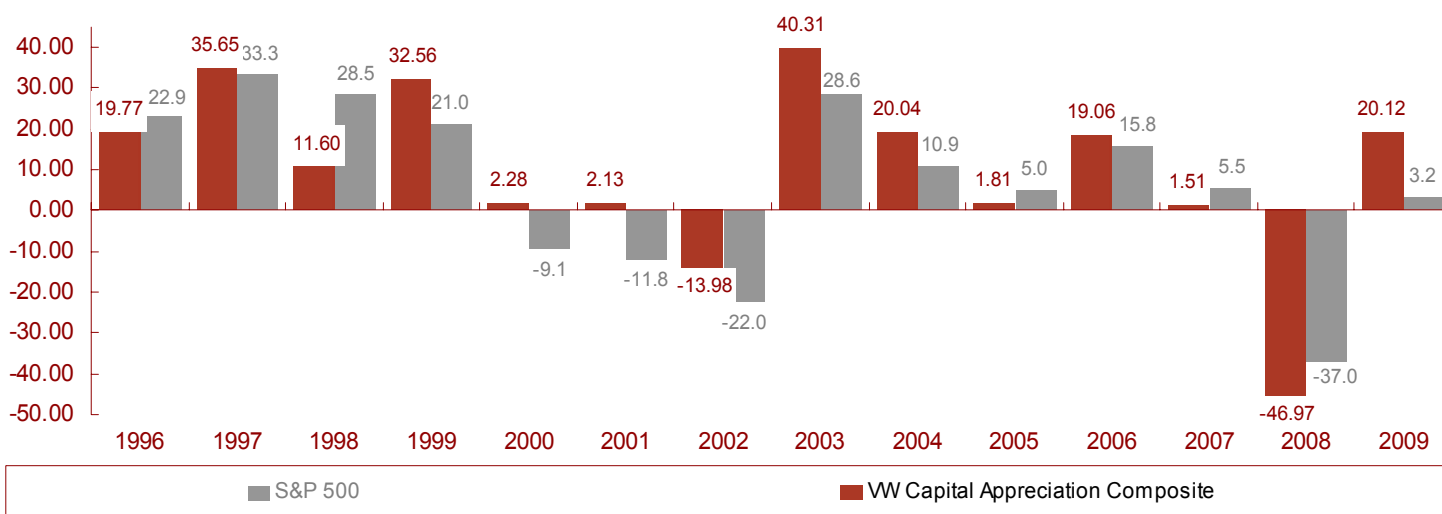
The recent market advance confirms the basic paradox of investing: the best investment opportunities are created by the worst economic collapses. The worse the economic times, the bigger the opportunity that is created.

Given how dismal the economy remains, and how close the markets are to their recent lows, I consider the recent gains – important though they are — to offer just a glimmer of the upside that has been created by the collapse. Make no mistake; the decline has been of an historic order of magnitude. Feel free to compare it to the 1970's or 1930's. But if history is a guide, the opportunities will similarly be of an historic order of magnitude. And they will be realized – in unpredictable fits and starts – over a multi-year period. The investment opportunity created by such a major downturn will not be limited to a one-quarter 15% flash in the pan.

Such sharp gains are rarely achievable in calmer economic periods. The economic contraction has been very sharp, and the market downturn up to this point has been very extreme. These are the very conditions that create the largest upside opportunities. The key, in my mind, is to keep managing the portfolio to realize the opportunity that has been created by this financial maelstrom.

—Charles Lemonides, CFA

### Yearly Performance vs S&P 500: 1996—Present



These results were generated at other firms prior to 9/30/2001. Results for other composites available on request.

**Past performance is not a guarantee of future results.**

## 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