

# ValueWorks

quality assets. compelling valuations.

## Preliminary Update--Capital Appreciation Composite

Q4 2009

### Historical Performance: 1996—Present

|                                     | Q4 '09      | 1 year       | 5 year<br>(annualized) | 10 year<br>(annualized) | Life of Comp*<br>(annualized) | Life of Comp*<br>(cumulative) |
|-------------------------------------|-------------|--------------|------------------------|-------------------------|-------------------------------|-------------------------------|
| <b>Capital Appreciation (gross)</b> | <b>5.93</b> | <b>48.80</b> | <b>-0.59</b>           | <b>3.92</b>             | <b>9.43</b>                   | <b>253.23</b>                 |
| <b>S&amp;P 500</b>                  | <b>7.39</b> | <b>28.06</b> | <b>0.67</b>            | <b>0.67</b>             | <b>6.29</b>                   | <b>134.82</b>                 |
| <b>Russell 1000 Value</b>           | <b>4.22</b> | <b>19.69</b> | <b>-0.26</b>           | <b>-0.26</b>            | <b>7.08</b>                   | <b>160.52</b>                 |

\* Composite inception: Jan 1, 1996

For the past year our portfolios have been invested to capture the upside created by recent economic upheavals. They did.

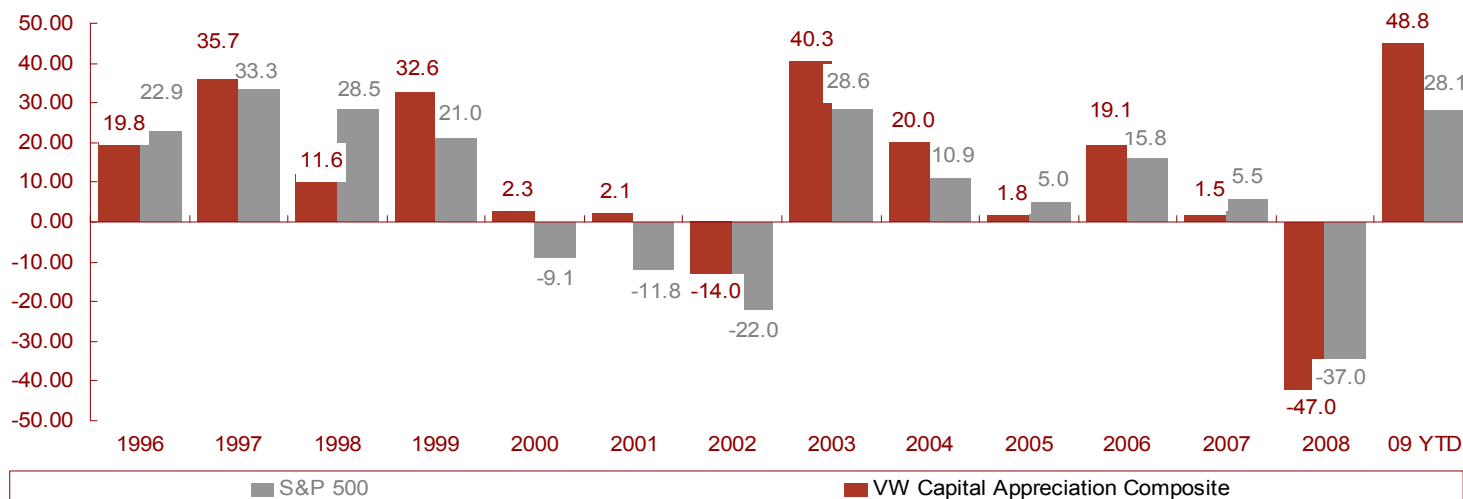
While some investors were shaken from their long-term plans, we stayed true to our discipline and bought quality assets at significantly discounted prices. The results we achieved in 2009 reflect that confidence. The opportunity from here remains just as compelling. Clearly, the fallout from the economic meltdown and market implosion is not behind us. By the same token, neither is the investment opportunity. The room for improvement in both the economy and the markets remains outsized. Getting back to a healthy, normal, growing economy is a process that plays out gradually over quarters and years. That is true for the equity markets and the economy.

Yes, the economic environment is radically improved compared to the massive meltdown that was occurring nine months ago. And the markets have rebounded from levels consistent with the “doomsday” fears that dominated those weeks. But neither the economy nor the markets are anywhere near back to normal or healthy. Repairing the damage caused by a financial panic will be a multi-year process. As that damage is repaired, investors can expect to continue earning outsized returns.

Many investors are focused on the significant move from the recent market bottom to current levels. A longer-term view reveals a more relevant perspective: after a ten year stretch where the equity markets are flat to down, one should expect plenty of well priced investment choices. Our portfolios remain chock-full of these high quality, attractively priced securities. I expect that investors not inclined to own them — because of some overconfident sense of where “the market” will or will not go over the next several months — will continue to miss an uncommon opportunity.

—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 |
| 2009     | 152                  | 78                | 241                | 48.80%                     | 48.80%         | 28.06%  | 8.72%                |
| 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, 2008. 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. This information is approved for client use.