VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 18,4 FOURTH QUARTER 2020

2020 presented investors with a slew of unexpected challenges. It was a year of unforeseen events. Through that turmoil, our portfolios delivered solid returns as we stayed disciplined in our approach. The Capital Appreciation strategy added 21.2% for the quarter (gross of fees – see p. 4 for additional performance information). The S&P500 was up 11.9% for this same period.

We think we can expect just as many surprises from 2021. We are simply not living in a status-quo world. If so, it will be yet another period where investment skill and discipline will matter.

I wrote a fairly comprehensive quarterly letter a couple of weeks ago. It speaks to how fast things are changing that the significant concerns on our minds at that time were the resolution of the election and the riots at the Capitol. Now, it is all GameStop and "Reddit investments". Our focus is moving very quickly. That will slow down, but we don't know when.

Our investment approach is well suited to these conditions. Because the strategy of owning a wide array of attractively priced assets can weather many different types of storms and -- as 2020 and the first six weeks of 2021 demonstrated -- earn solid returns throughout those storms.

A year ago, I wrote that we could be entering another "roaring twenties" period with dynamic technological advances and impressive economic growth unfolding over an extended number of years and culminating in a distant, excessive market crescendo. The argument was based on where I see us relative to long economic and market cycles, not simply the repetition of a decade. In this context, the turmoil of the past year, and the policy response to that turmoil, is quite consistent with such a long-term setup. (And while history may not repeat itself, queuing each decade with a global pandemic does seem like a quirky rhyme.)

The stock market excitement seen over the past several weeks looks to us like a microcosm of what we may expect on an exponentially larger scale over the next five to ten years. It was the first time in quite a while that we saw individual investors and the news media transfixed on the performance of individual stocks. GameStop, with a fairly modest $25 billion market cap, was repeatedly on the front page of the New York Times. We saw a similar burst of excitement several years ago with the run-up in cryptocurrencies and marijuana stocks. But these were small versions, maybe preambles to major periods of exuberance.

The scale is everything in judging where we are in this cycle and how far it may go. The current scale of these exuberances is tiny. It became much larger at the peak of the bull markets ending in the early 1970's and the late 1990's (two market peaks that were roughly 30 years apart). For just a bit of perspective, Apple has 17 billion shares outstanding. Each $2.00 per share move translates to $34 billion in market value change. GameStop peaked at roughly a $35 billion market value. Excitement over $35 billion is insignificant compared to where we will likely be at a major market top.

Managing portfolios in this environment presents several different and difficult challenges. The clearest is that the path to a market top will be bumpy and uncertain. We could be in for either a very positive or very challenging year or two, depending upon policy decisions that haven't yet been made. I expect that we will respond with a very accommodative fiscal and monetary policy, not with heavy-handed government regulation and an anti-business framework. If that plays out, we'd expect a couple of years of mid-double-digit equity market returns. But there are also plenty of scenarios that could prove much more challenging for investors.

However, the more nuanced challenge is what to do as we enter real periods of market exuberance. After all, we all know it ends badly. But merely standing on the sidelines waiting for the ultimate collapse is not a rewarding investment strategy. Nor is owning a portfolio of names that are destined not to participate in the excitement. We are convinced that the right thing to do when exuberance dictates the market, is to use it to scale back exposure and reallocate to other areas. In order to do that, you need to have created that exposure before the exuberance started.

That is the place where skill, patience, and judgment matter. Our approach is to fill the portfolio with securities that stand to attract that type of investor excitement. Since knowing exactly where that excitement will develop is, in practice, not realistic, you need a wide array of different investments, each one of which could at any given moment attract that investor excitement. Our portfolio is full of 25 to 30 of these investments.

That was why we were able to benefit from the GameStop excitement. We never invested in GameStop, but we did buy Bed Bath and Beyond well before that exuberance struck. When that group of stocks elevated to excited levels, we used that excitement to exit the name. It is an obvious and coherent strategy; fill your portfolio with a diversified group of quality names trading at discounted prices and patiently and confidently wait for other investors to discover the exciting part of the story. When they do, exit the investment and move on to the next unloved, underappreciated investment and repeat.

Hoping you and yours stay healthy and safe during these very particular times. We very much look forward to the end of the damage that Covid has been wreaking and hope we can build on the positive adjustments we made in reaction to this unexpected challenge this pandemic has brought, and looking forward to more positive surprises in 2021 and beyond.

-Charles Lemonides, CFA

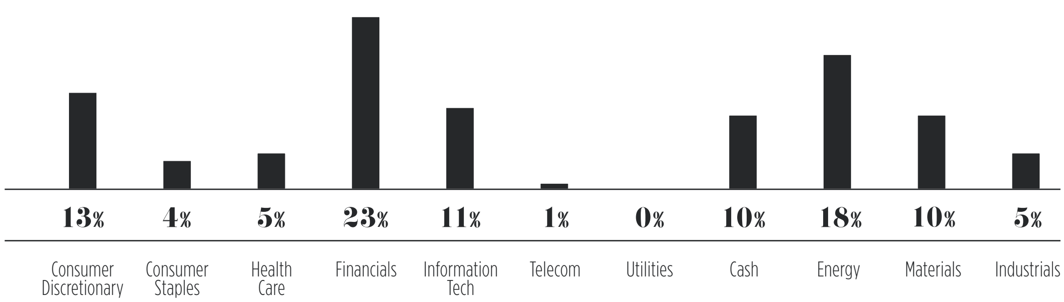
TOP 10 HOLDINGS

1. Whiting Petroleum
2. Qualcomm
3. Mammoth Energy
4. Goldman Sachs
5. Comcast
6. United Natural Foods
7. New York Times
8. Apple
9. Corning
10. Amgen

—As of 12/31/20—

*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.

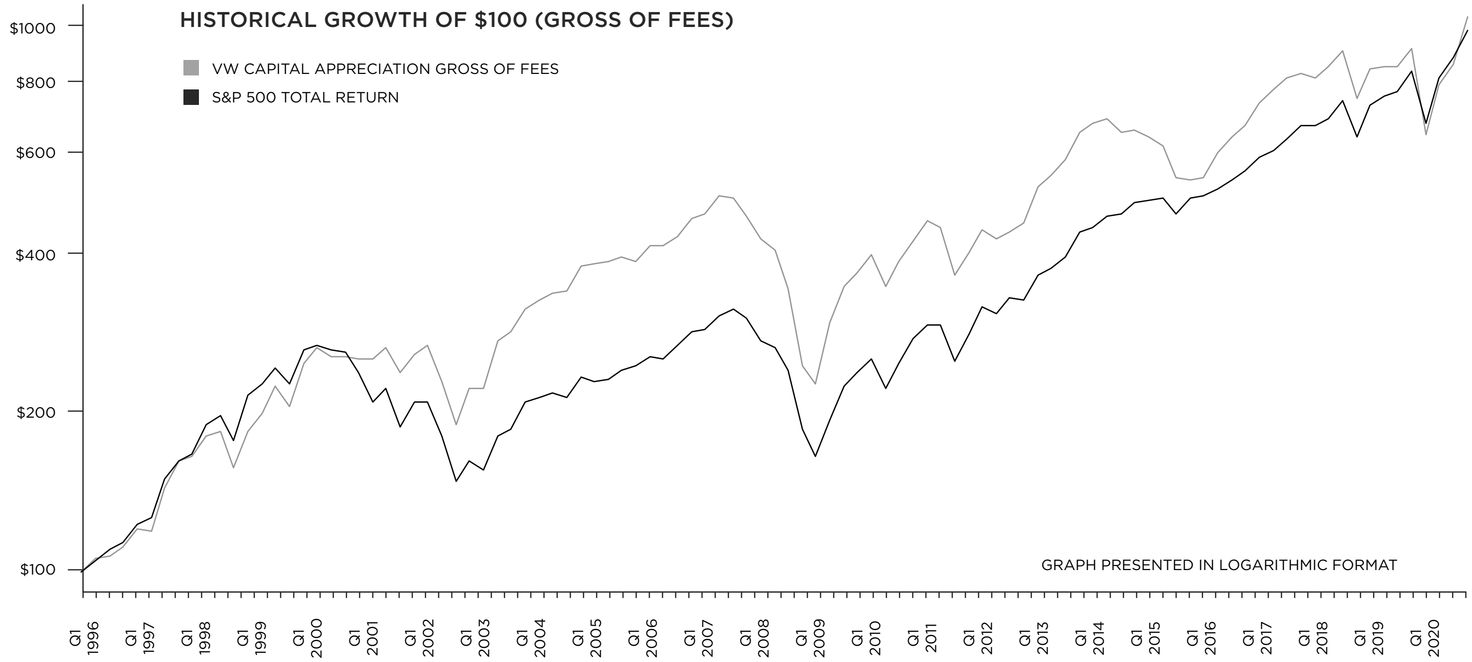
Objective

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 2020 SEPTEMBER 30, 2020 - DECEMBER 31, 2020



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2020 Q4	21.16	20.81	11.94
2020 YTD	14.28	12.99	18.01
1 year	14.28	12.99	18.01
3 years	8.11	6.90	13.96
5 years	14.72	13.41	15.09
10 years	9.87	8.56	13.79
Life*	9.78	8.25	9.52

*Life is 25.00 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2020 Q4	21.61	21.19	6.26
2020 YTD	18.94	17.62	14.21
1 year	18.94	17.62	14.21
3 years	10.12	8.70	10.34
5 years	14.52	13.03	10.14
10 years	9.90	8.42	9.06
Life*	10.28	8.61	7.78

*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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