VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 15,1 FIRST QUARTER 2017

Our portfolios continued to post solid advances in the first quarter, solidly outpacing the 5.53% gain in the S&P. While that gain was bookended by a -0.59% decline in the Russell 2000 Value Index and an 11.77% gain in the Nasdaq 100 index, the overall advance over the past several months has been quite broad based. Our Capital Appreciation group gained 9.79% for the quarter (gross of fees; see table on page 4 for more complete information).

Such an advance makes sense in the context of an economy that is right in the middle of an upswing in the business cycle. In the day-to-day dissection of economic, political and market events, it is easy to forget that business cycles have their own momentum. That momentum is in part a reflection that improvement begets further improvement; as confidence gradually grows economic actors become increasingly assertive. Consumers become more willing to buy a new car or home and business owners become more willing to hire a new employee or build a new plant. With month after month of 200,000 jobs being added to the economy, it is hard to argue that we are anyplace other than that in the business cycle. As that pattern unfolds, it is quite natural for equity markets to make their way to new highs and then to build on those advances.

There are no obvious warning signs that this advance is near an end. Given where we are in the political cycle, much attention is being put on new policy directions from Washington. It is a tough discussion to take on given how politically divided we are. Eight years ago this month I might actually have been heckled during a presentation to a Republican-dominated room for concluding that the policies the Obama administration was putting in place could be quite positive for the economy and for investors. Those investors who let their antipathy to the Obama administration taint their views of his policies and keep them underinvested missed a massive market advance. Similarly, a dose of infrastructure spending, a relaxation of the regulatory environment, and a decrease in the trade deficit, are all sound policies that could provide further lift to the economy. That said, the economy and markets are well positioned for growth even if very little, or nothing, comes of those policies. Those who are underinvested due to a lack of faith in either those policies or the administration more broadly might miss an equally important move.

I put more import on what has happened in the energy and commodity space over the past several years than a tweak in the corporate tax code. The pause in economic growth that happened this time last year was a result of the implosion in energy and commodity prices. With those prices now stabilized, the energy sector will be adding jobs over the next twelve months rather than shedding them. We are already seeing the change in business conditions for the companies in our portfolio. The drillers are adding crews and putting equipment back to work. The pipeline companies are building out their networks to get the new sources of oil and natural gas to market, and we are exporting increasing amounts of natural gas each month. This activity could well add to economic growth for the foreseeable future. Just as internet companies did not lead the market advance from 2003 to 2008, but did transform the economy through that period and beyond, energy companies will likely not lead the market advance for the next market leg higher, but they will likely provide transformative economic growth for an even longer period. On a superficial level, normalization of energy company earnings will result in sharply higher earnings for the S&P 500, lowering the multiple on the overall market.

That last point brings us to the question of stock valuations and market leadership. Any time the markets are at all time highs the question will be whether or not we can go higher from here. With the S&P at 17.5 times 2017 projected earnings, important further market advances will depend upon further economic growth. We are not valued the way we were five or seven years ago; US equities are no longer stunningly cheap. But that was very much the argument when I was starting my career in the mid-1980's. At the time the Dow was at an all time high and the PE at 13 times was at the higher end of anything seen in the previous fifteen years. It turned out those levels were a base upon which all the major indexes advanced multi-fold over the next fifteen years.

-Charles Lemonides, CFA

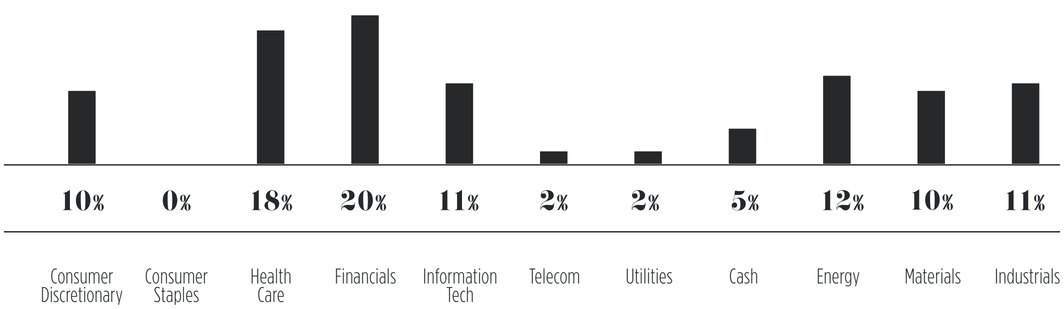
TOP 10 HOLDINGS

1. Maui Land & Pineapple Co.
2. Boeing Company
3. Cliffs Natural Res. 6.25% Due 10-01-40
4. Comcast cl A
5. Corning Inc.
6. American Express Co.
7. Eli Lilly & Co.
8. Boston Scientific Corp.
9. Cisco Systems Inc.
10. Amgen Inc.

—As of 3/31/17—

*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

FIRST QUARTER 2017 DECEMBER 31, 2016 - MARCH 31, 2017

TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2017 Q1	9.79	9.47	6.07
1 year	35.90	34.33	17.20
3 years	2.88	1.63	10.39
5 years	11.29	9.93	13.31
10 years	4.72	3.39	7.48
Life*	9.72	8.13	8.55

*Life is 21.25 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2017 Q1	7.45	7.45	3.47
1 year	29.42	27.71	8.58
3 years	3.17	1.75	6.24
5 years	10.39	8.87	7.66
10 years	5.47	3.98	6.28
Life*	10.12	8.41	7.29

*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.
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