VOLUME 15,2 SECOND QUARTER 2017

While broad economic conditions have remained quite stable over the recent past, equity markets have seen material changes. Our Capital Appreciation group performed well in this environment; up 6.1% for the quarter and 16.5% year to date (gross of fees; see table on page 4 for more complete information). We see the recent pause in the equity advance, coupled with a solidly growing economy, as creating the conditions for further gains in our portfolios.

The S&P 500 advanced 3.1% in the quarter and 9.3% for the first half. The NASDAQ led the advance with 3.9% and 14.7% respective advances, while the Dow added 3.3% in the quarter and 9.3% for the half. The Russell 2000 Value Index on the other hand is up a scant 0.5% for the quarter and 0.7% for the year to date. But segmenting the period into those quarterly intervals masks some important broad trends. Examining activity from the November lows to the March highs, and from the March highs to the present, provides a much more telling picture.

Specifically, the post election relief rally from early November to early March was broad and indiscriminate; from early March to June 30th, the equity markets have been processing and digesting that rally. To put some numbers on this, the S&P 500, the Dow Industrials, the Nasdaq 100, the Nasdaq Composite, the Russell 1000 Value, the Russell 1000 Growth, the Russell 2000 Value and the Russell 2000 Growth gained the following amounts in the period from the November low to the March high: 15.1%, 18.6%, 15.6%, 16.6%, 15.8%, 14.6%, 21.8% and 19.0%. That is a tight range and a solid advance. From that date to June 30th, the respective numbers are: 2.4%, 2.3%, 5.6%, 5.2%, -0.4%, 5.1%, -0.6%, and 4.6%; over this period the overall advance has stalled, with some groups consolidating and others continuing to advance.

That type of group rotation and consolidation is important in order to lay the foundation for further market advances. Markets do not go broadly in straight lines. In a good case, advances in some groups or sectors provide stability as other groups and sectors consolidate. That seems like a fair characterization of the activity over the past four months. To the extent the economy continues to perform well, such market periods can be expected to transition to a period of overall advance rather than overall decline.

Key to this outlook is that the economy continues to perform well. That has been the case, and I see little reason to expect a near term change. We have been in an extended period of very stable macro-economic conditions. We have been adding very close to two hundred thousand jobs per month for five years. Economic growth -- as measured by GDP change -- has hovered within a very tight range of 2.3% for just as long. Energy and commodity prices have been range-bound for fifteen months after the wild ride from mid-2014 to the first quarter of last year. And interest rates, monetary conditions and inflation have been incredibly stable for even longer. It has been a pleasant bore. This growth is happening because conditions are well established for it to happen. We are on a sound macro-economic footing. Whatever you may think about the current administration, the incremental changes that seem most likely in the near term are not impactful enough to change that economic positioning. Yes, we may get a tinkering with the tax code, resulting in modestly lower (or higher) taxes; or a slight increase (or decrease) in government spending; or a tweaking of our healthcare system; or a half point change in short term interest rates. But none of these potential adjustments appear meaningful enough to upset the positive trajectory we are on. If such adjustments provide a boost to economic growth, our positive outlook for equities would be relatively unchanged.

We have structured the portfolio to benefit from economic growth in a number of areas. We have well valued exposure in healthcare names like Amgen, Boston Scientific, Gilead and Eli Lilly -- and energy names like Williams Partners, Chesapeake Energy, National Oilwell and Rowan Companies. We are further exposed to the revolution in natural gas with Calpine Corp. and Cheniere Energy Partners Holdings.

TOP 10 HOLDINGS

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

—As of 6/30/17—

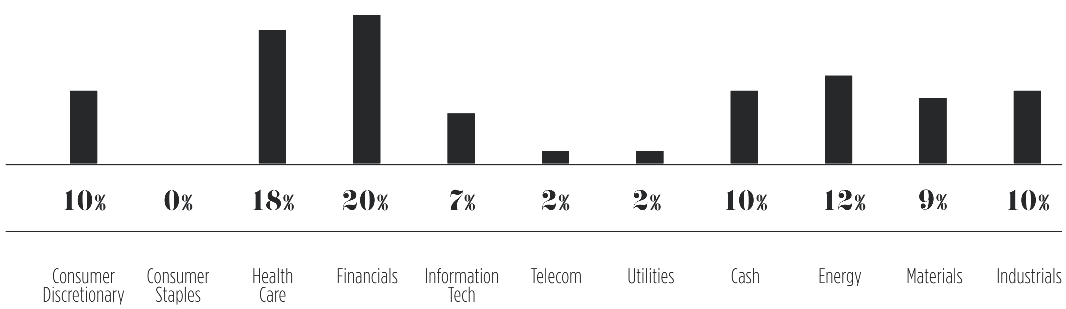
*see notes on pg 4 for additional details

American Express, Legg Mason, Genworth and MBI Corp represent particularly well valued and well positioned financial exposure. Comcast, the NY Times and Live Nation deliver entertainment and news content to consumers in compelling and dynamic ways that have solid growth prospects and that remain underappreciated by investors.

Trying to predict which of these sectors or shares will move in the next several months is a fool's errand. As an example, look at our experience with Maui Land and Pineapple. After years and years of uninspiring performance, the shares -- with very little underlying change -- have more than tripled in under a year. It was clear to us for quite some time that these shares represented a compelling investment. The timing of when we would realize those gains was less clear. The point is that we are not trying to guess what group or sector will lead the next leg of a market advance, but have positioned the portfolio to benefit from a wide array of different outcomes. We believe that current conditions provide the opportunity for different parts of the market to stair-step higher from these levels: and whichever part moves next, it is our goal to have carefully considered exposure to it.

-Charles Lemonides, CFA

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*

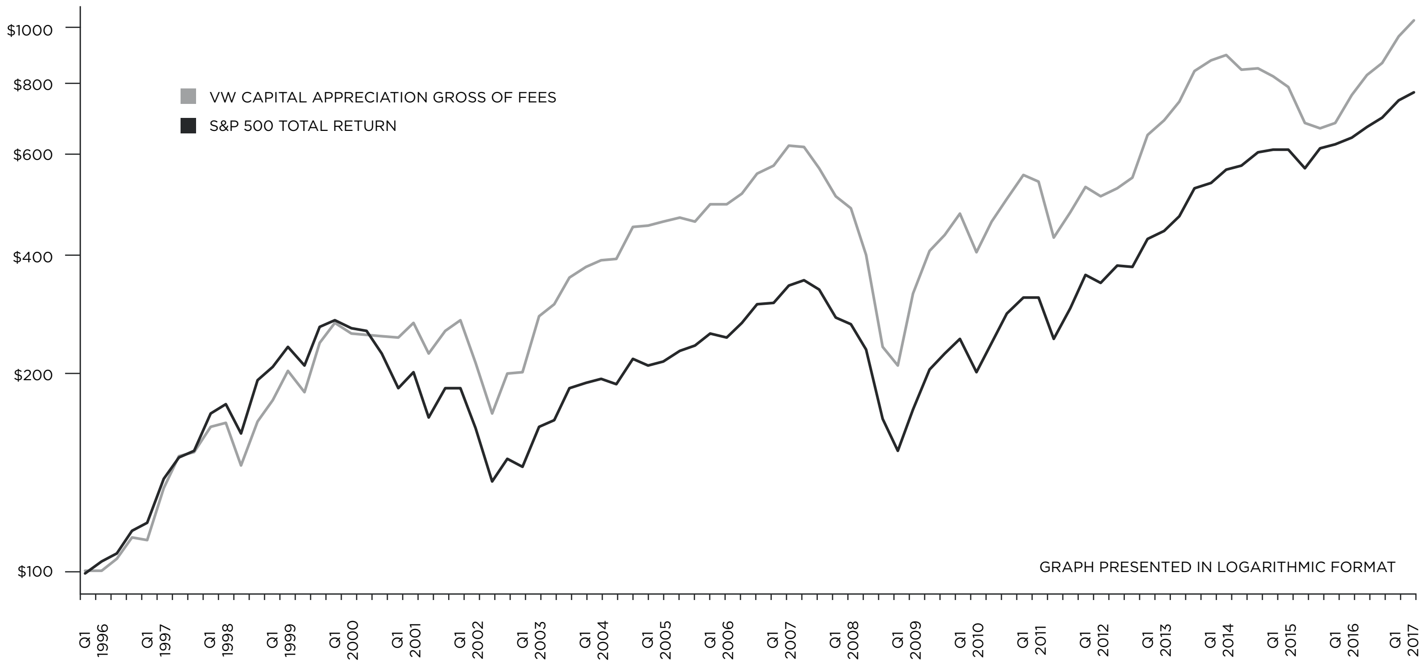
We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

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 SECOND QUARTER 2017 March 31, 2017 - June 30, 2017



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2017 Q2	6.07	5.76	3.09
2017 YTD	16.45	15.77	9.35
1 year	30.80	29.28	17.91
3 years	4.14	2.88	9.63
5 years	13.40	12.02	14.64
10 years	4.58	3.25	7.15
Life*	9.90	8.32	8.60

*Life is 21.50 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2017 Q2	5.43	5.18	3.77
2017 YTD	13.75	13.01	7.38
1 year	24.75	23.10	10.06
3 years	4.04	2.61	6.63
5 years	12.36	10.82	8.52
10 years	5.34	3.85	6.37
Life*	10.27	8.56	7.39

*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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