ValueWorks:

Redefining wealth management through critical thinking and independent research

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What we'll tell our grandchildren . . .

Through another tumultuous quarter we were able to hold onto the bulk of last quarter's advance, showing significant gains over the past six months. This was in the face of broad market weakness in the first quarter that brought the indexes back toward their fall lows. Specifically, in the first quarter the Dow declined by 4.2%, the Nasdaq added 0.4% and the Lipper average large-cap value index pared 4.9%. As of quarter end, the S&P 500 lost 3.6% and had gained 3.5% over the past 6 months. By way of contrast, our Capital Appretiation Composite gained 0.2% in Q1—and added 13.4%‡ over the past six months.

Clearly the markets are fixated on international developments. Investors are transfixed on geopolitical events and allowing news on those fronts to impact day-to-day share price changes, regardless of overall valuation levels. While this is easy to understand, and it is hard to ward–off the emotional urge to do the same, it is also a condition that creates a large disconnect between underlying values and share prices.

ValueWorks' Top 10 holdings*:

1. **Cablevision 11.75% pfd**
2. **Pfizer**
3. **Fidelity National**
4. **Conexant Systems bonds 4% of '07**
5. **Stewart Title Company**
6. **Rowan Companies**
7. **Calpine Cap Tr III Pfd**
8. **Apple Computer**
9. **Chesapeake Energy**
10. **Washington Mutual**

—as of 3/31/03—

***see notes on p4 for additional information**

But just as the late 1990's offered a once-in-a-generation type bubble, this three-year-old bear market is offering valuation levels that, in my opinion, are just as unjustifiable and will prove just as uncommon. I know it is hard to read that statement and not reflect on the seemingly enormous challenges facing us today and reflexively become bogged down in the debate about how bad things are. But that is the constant emotional challenge of investing: when conditions are ebullient, scale back your exposure and be more careful; when times are more trying, become by degrees more confident.

Three years after the market top, it seems transparently easy to recognize the risks investors were facing. Three years after this bear market eventually runs its course, everyone will wax

‡These figures are gross of fees: for additional information on returns, including net performance, see the chart at the bottom of page 4 and the accompanying footnote

eloquent about how compelling the valuations were and how unusual an opportunity was offered. If history is a guide, we will *all* talk about the things we could have bought and the prices we could have paid, and how clearly cheap they were. But only *some* will have the satisfaction of having continued to prudently put money to work through the decline—and their portfolios will reflect that. It will make a big difference.

Three years after the high, investors are unequivocal in expounding what they could and should have done at the market top. We too can look back and recognize we could have been more defensive. But, it was exactly three years ago — within weeks of the growth stock bubble top—that we introduced the name ValueWorks. We did lean away from the growth-stock passions of the time, scaled back our most aggressively valued holdings, and stayed committed to a clear long-term strategy. It made a big difference.

"We control quality assets at compelling valuations"

Three years from now, we will most likely look back and recognize the emotionalism of this period, pinpointing a market bottom at which investors could have confidently put money to work and reaped outsized returns. With the cool heads of hindsight, we will recognize all the tell-tale signs of such a bottom, and the uncommon opportunity it represents. A case could be made that we should learn from the emotionalism and be more aggressive now, just as we arguably should have been more defensive then.

But I am satisfied with our approach through this cycle. By degrees we cut back our exposure on the way up. By degrees we have built on our exposure on the way down. We have not been waiting for an eventual bottom. It may already be behind us. Maybe not. Either way, our portfolios are chock-full of exceedingly compellingly priced investments. As opportunities arise to control quality assets at compelling prices, we are putting money to work. As securities became rich, we exited them. As they become increasingly compelling, we are adding to them. To me, that is the work of investing.

Charles Lemonides, CFA

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ValueWorks: controlling quality assets at compelling valuations

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.

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.

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.

About 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.

About 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:

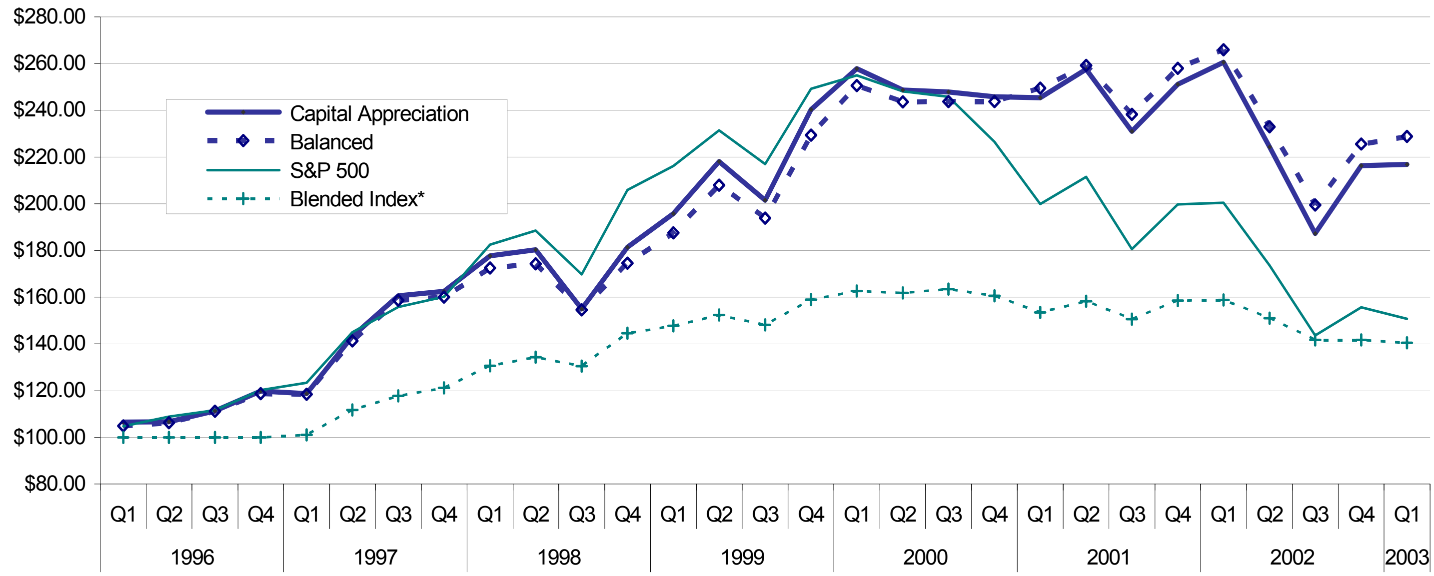
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements and investment needs
- Comprehensive quarterly performance reporting

Working within the framework of our value investment discipline, we build portfolio's that cover a wide spectrum of risk-tolerance, from aggressive to much more conservative and income oriented.

ValueWorks: Performance Review

1st Quarter—March 31, 2003

Historical Growth of $100 (gross of fees)



Performance Data

	ValueWorks' Capital Appreciation Composite			ValueWorks' Balanced Composite		
	Gross of fees	Net of fees	S&P 500	Gross of fees	Net of fees	Blended index*
Rolling 7 Year Return	**10.75%**	**8.93%**	**5.34%**	**11.78%**	**10.06%**	**7.16%**
Rolling 5 Year Return	4.05%	2.46%	-3.75%	5.81%	4.27%	2.46%
Rolling 3 Year Return	-5.62%	-6.99%	-16.05%	-2.98%	-4.12%	-3.22%
Rolling 1 Year Return	-16.80%	-17.98%	-24.74%	-13.95%	-15.43%	-7.10%

*The 'blended index' is 50% S&P 500 and 50% Merrill Lynch Domestic Master Bond index.

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 quarter under management. Exiting accounts are included through the last full quarter under management.

"Top 10 Holdings" are complied from the aggregate holdings of the ValueWorks' Capital Appreciation Composite. Neither this nor any other reference to specific securities in this publication is intended to be a recommendation to purchase or sell these or any other securities.

The Capital Appreciation Composite consisted of 56 accounts and $30,058,404 in assets as of 3/31/03: the Balanced Composite consisted of 63 accounts and $32,616,916 in assets as of 3/31/03. Combined, these represent over 99% of the accounts, and approximately 85% of the assets managed by ValueWorks LLC. These results were generated at other firms prior to the fourth quarter of 2001. Results for other composites are available upon request.

Past performance is not a guarantee of future results.