ValueWorks:

Redefining wealth management through critical thinking and independent research

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More monotony than drama . . .

The first quarter of 2005 offered challenges for investors. The S&P 500 declined by 2.15%, the Dow Industrials shed 2.06% and the Nasdaq Composite lost 7.95%. In contrast, our Capital Appreciation Composite was relatively stable through the quarter and effectively broke even with a gain of 0.31%.*

Looking back, the first quarter represented the five-year anniversary of the market peak. Over those five years, the S&P 500 fell from a high of over 1500 to 1180 at March 31st of this year. That represents an overall decline of almost 15% (adding dividends). On the other hand, our capital appreciation composite, before fees, is 41.5% *higher than it was* on March 31st, 2000.

ValueWorks' Top 10 holdings:**

1. **Wachovia Corp**
2. **Pfizer Inc.**
3. **Rowan Companies**
4. **Sony Corp. ADR**
5. **Calpine bonds: 8 ½ of 2011**
6. **Sprint Corp**
7. **Delphi Pfd**
8. **MCI Corp**
9. **Sun Microsystems**
10. **Freddie Mac**

—as of 3/31/05—

**see notes on p4 for additional information

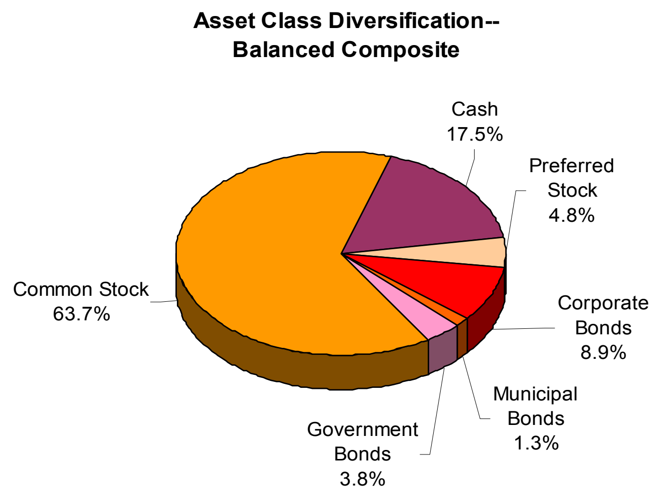
Each phase of the market cycle presents its distinct investing challenges. Currently, the mixed and uninspired market action appears to be fairly mirroring a mixed economic picture. Despite several sharp rallies and declines over the past eighteen months, the markets are generally flat for the period. I do not expect this to change dramatically in the near term.

These are mixed economic times. I expect them to be paired with little direction in the financial markets. I expect the current trend to continue; market monotony broken only by occasional short and sharp rallies and corrections—each fizzling into little overall direction.

If so, the key to generating returns should lie in security selection—identifying securities that will perform well without the benefit of an overall market rally. If done well, we can earn fair if modest returns through the quiescent market periods, participate well in the short and sharp rallies and retain the majority of our gains through the sharp and perhaps shorter sell-offs.

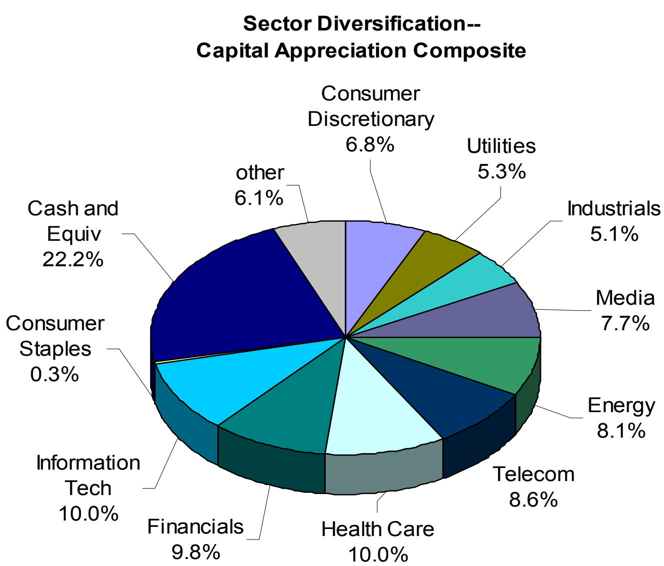
*All ValueWorks' figures are Gross of Fees. For additional information on returns, including net performance, see page 4.

This is a period in which I see more monotony than drama. As a result, we may need to be a degree more active in our portfolio management. With less overall market direction, we may need to be quicker to take gains and more willing to step into undervalued issues in order to exploit smaller changes in valuation. These are modest adjustments on the margin that I consider appropriate for present market conditions.



That said, our portfolios are built around some individual investments that represent some of the best opportunities I have seen through the market environments of the past decade. They are in my opinion well-positioned companies that are well managed and trading at valuation levels that I did not expect them to reach. And they are in plain sight. As always, I expect us to look back in two or three years and exclaim our surprise that such opportunities were offered.

-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 overdiversification. 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 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.

ValueWorks: Performance Review

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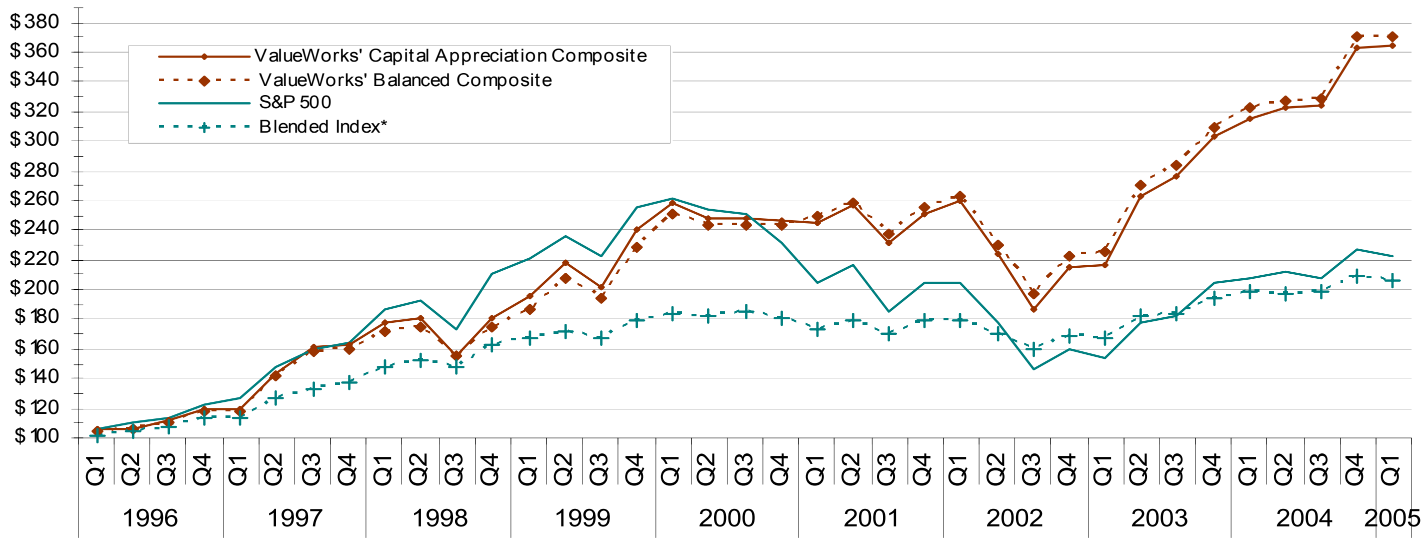
1st Quarter: December 31st, 2004—March 31st, 2005

Historical Growth of $100 (gross of fees)



Trailing 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*
1996-Present	15.02	13.16	9.02	15.21	13.25	8.15
7 year	10.82	9.19	2.52	11.54	9.66	4.91
5 year	7.19	5.68	-3.14	8.14	6.40	2.35
3 year	11.88	10.35	2.76	12.06	10.35	4.80
1 year	15.85	14.37	6.68	14.91	13.49	4.04
2005 Q1	0.31	-0.06	-2.15	-0.12	-0.44	-1.29

*The "Blended Index" is a calculation comprised of 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 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.

As of 3/31/2005 the Capital Appreciation Composite consisted of 206 accounts and $89,897,966 in assets; while the Balanced Composite consisted of 113 accounts and $71,361,227 in assets. Together this represents 99.38% of total accounts and 90.30% of total assets.

Past performance is not a guarantee of future results.