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ValueWorks

quality assets. compelling valuations.

Volume 8,1 **Q1 2010**

Our portfolios continued to perform well as this nascent recovery takes hold. Our Capital-Appreciation portfolios advanced 8.0% over the first quarter while the S&P added 5.4%; more dramatically, these same accounts were up 72.1% from last March as the S&P advanced 51.6%.

We are participating in this advance because we were steadfast in putting money to work in individual investment opportunities as they became available. We were not unhinged by violent market gyrations. As a consequence our portfolios are now benefiting from the opportunity that was created by the melt-down. Just as important, our bottoms-up process continues to suggest quite significant opportunity. We see this as the very early stages of a significant and extended period of investment gains. This conclusion is based on the tremendous opportunity we see in the individual investments in our portfolios.

While economic conditions have clearly improved over the past year, the macro environment remains quite troubled. That said, those looking for guidance based upon overall macro conditions are faced with the conundrum presented in the following data set:

March 2000	
Unemployment rate	3.8%
Monthly Job gains/losses	+472,000
GDP Growth	+1.1%
Consumer Confidence	138
S&P change ensuing 12 months:	-22.6%
S&P change ensuing 10 years:	-22.0%
March 2009	
Unemployment rate	8.9%
Monthly Job gains/losses	-528,000
GDP Growth	-6.4%
Consumer Confidence	67
S&P change ensuing 12 months:	+46.5%

Top 10 holdings*:

1. Micron Technology Inc
2. Cisco Systems Inc
3. Boeing Company
4. 3M Company
5. Williams Companies
6. Bank of America CNV PFD L
7. WellsFargo PFD Series L
8. Calpine Corporation
9. Rowan Companies Inc
10. Hewlett-Packard Co

—as of 3/31/10—

*see notes on p4 for additional Information

Those are some stark data points – and in a sense quite discordant. Very negative economic conditions preceded big gains, and very positive economic conditions preceded big losses.

How does one reconcile such seemingly discordant data? And what road map or planning tool is left for investors?

Clearly, correlating a strong economy with a positive market direction can be risky. A year ago, the economy was falling apart. Since then investors earned some of the best gains of the past hundred years. Exactly ten years ago unemployment was 3.8% (its lowest level in generations), consumer confidence was at a 30 year high -- the economy was growing and overall economic conditions were quite positive. That month marked the beginning of a one year melt-down and a ten year market funk.

It is hard to argue with the conclusion that increasing one's investments when economic conditions are good and decreasing them when economic times are bad can be a counterproductive strategy. The choice is: either ignoring the erratic and nonsensical market gyrations -- investing in equities through good periods and bad -- or foregoing the attractive returns equities have historically provided. Taking one's cues from the current state of the economy or recent market moves leaves one just too vulnerable to exiting stocks before March of 2009, and thereby missing a huge move up, or increasing exposure in March of 2000, right in front of a huge and quite prolonged move down.

Alternatively, one can accept a contrary approach and conclude that bad economic periods (like March 2009) afford good investment opportunities, while good economic periods (like March 2000) offer the greatest risks. That conclusion is easier to reconcile with the above data. But pursuing such a strategy can get an investor just as hopelessly lost. Following that logic, one puts more money to work as conditions get increasingly perilous.

The challenge comes in discerning just how far conditions will go before they reverse (even if one is comfortable with the emotional challenge presented). In hindsight one knows where the tops and bottoms were. But even with that benefit, it is hard to say why the Nasdaq actually peaked in March 2000 at 5000, rather than 4000 some months earlier, or any random higher level some months later. The same can be said for the trough in March 2009. Those that concluded conditions were bad enough in January 2008 participated in a continued pelting decline. Those that waited for a low of 6,600 on the Dow never quite got there and so missed a massive rally from last March. Many of them remain on the sidelines wondering whether conditions are good or bad enough to get invested now.

That said, those are challenges for others to navigate. We will continue to look at individual securities based upon their underlying merits (because we think we can) and make our investment decisions accordingly. As an example, in the last quarter we added Cisco to the portfolio. The shares are well outside any range we would consider fairly valued, and can easily argue for expected gains of 50-75% over the next year or two.

On the other side, we exited our remaining exposure to GM. In the midst of the melt-down, we sold our GM common shares and bought GM bonds with the proceeds. Those bonds have since nearly tripled, allowing us to offset some of the loss on the common. Because of the way GM was reorganized, we expect those bondholders to end up owning 10% of GM's auto business. There are roughly $30 billion in bonds outstanding and they are priced at close to 35% of par, suggesting a price of $10 billion for 10% of the car company, or $100 billion for all of it. That is on the higher side of where we expected that business to eventually be valued. Because of the damage created by the meltdown, and because of the way the value was apportioned, earlier common shareholders will not participate in that value.

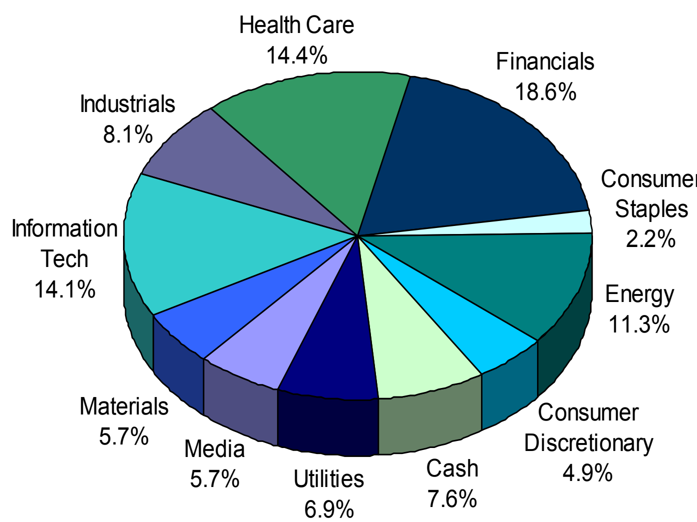
This is the very core of how we build portfolios: we put money to work when we find well valued securities, and take money off the table when we see them as priced fairly. We will continue doing that regardless of our sense of near-term market direction.

It will mean that our portfolios will be priced lower in moments of complete market dislocation. But we use those moments to judiciously and methodically increase our exposure, positioning ourselves to benefit as conditions stabilize. And it may mean we scale back our exposure as it becomes harder to find well priced issues – sometimes leaving more money on the table.

But regardless of those swings and excesses, over the past ten years – when the markets have been flat-to-down -- we have earned investors healthy rates of return. The key has been applying a steadfast discipline throughout volatile market environments.

— Charles Lemonides, CFA

Sector Diversification--
Capital Appreciation Composite



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ValueWorks

critical thinking. independent research.

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:

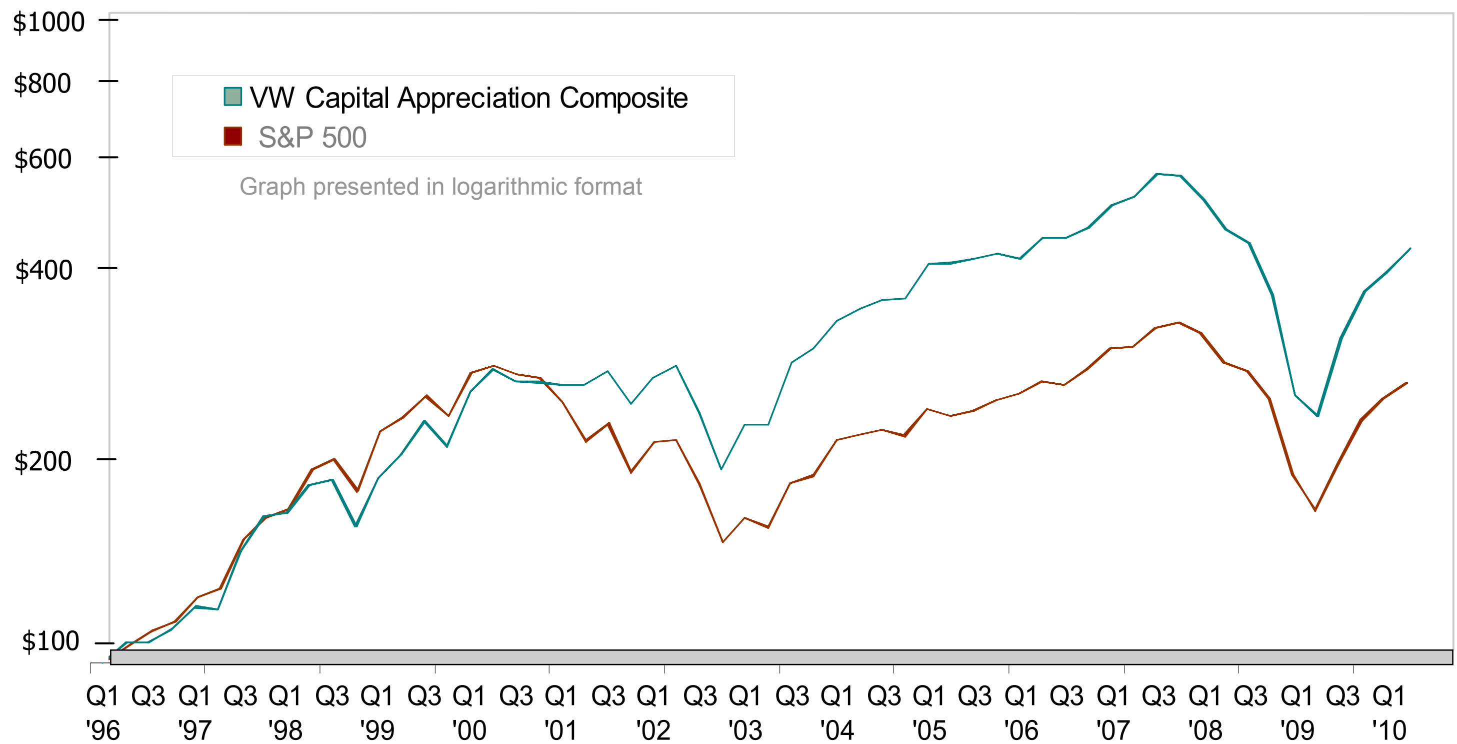
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements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

1st Quarter: December 31st, 2009 --March 31st, 2010

Historical Growth of $100 (gross of fees)



Trailing Performance Data

	Gross of fees	Net of Fees	S&P 500	Gross of fees	Net of Fees	Blended index*
YTD	8.01	7.59	5.38	6.42	6.02	3.57
1 year	72.06	69.76	51.60	66.81	64.41	27.93
5 year	0.91	-0.47	2.17	2.96	1.42	4.31
7 year	8.46	6.96	6.99	9.61	7.97	6.34
10 year	4.00	2.54	-0.52	5.43	3.77	3.38

ValueWorks' Capital Appreciation Composite   ValueWorks' Balanced Composite

*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 avail-

Past performance is not a guarantee of future results.

	Total Firm	Composite Assets		Annual Performance Results			
Year End	Assets (in Millions)	USD (in Millions)	Number of Accounts	Composite: Gross	Composite: Net	S&P 500	Composite Dispersion
2009	152	78	241	48.83%	46.92%	28.06%	7.86%
2008	112	58	311	-47.02%	-47.74%	-36.96%	8.58%
2007	295	178	515	1.50%	0.15%	5.49%	5.93%
2006	267	159	411	19.08%	17.44%	15.79%	4.22%
2005	209	119	340	1.81%	0.31%	4.91%	3.73%
2004	165	78	158	20.03%	18.42%	10.88%	4.20%
2003	121	49	93	40.27%	38.25%	28.69%	4.71%
2002	75	33	58	-14.06%	-15.23%	-22.10%	3.53%
2001	85	36	51	2.05%	0.64%	-11.88%	8.31%
2000	80	35	69	2.28%	0.68%	-9.11%	6.64%
1999	81	36	79	32.56%	30.46%	21.04%	15.60%
1998	66	26	78	11.60%	9.68%	28.58%	6.03%
1997	39	9	30	35.65%	32.96%	33.36%	3.84%
1996	26	6	20	19.77%	17.13%	22.96%	4.06%

	Total Firm	Composite Assets		Annual Performance Results			
Year End	Assets (in Millions)	USD (in Millions)	Number of Accounts	Composite: Gross	Composite: Net	Blended Index	Composite Dispersion
2009	152	38	79	45.64	43.53	16.78%	5.15%
2008	112	33	91	-40.29%	-41.20%	-18.18%	4.82%
2007	295	76	128	4.06%	2.51%	6.45%	3.78%
2006	267	74	113	17.37%	15.61%	9.98%	3.26%
2005	209	65	120	2.29%	0.73%	3.80%	3.29%
2004	165	65	104	19.71%	18.04%	7.70%	4.01%
2003	121	52	84	39.07%	36.86%	16.16%	5.68%
2002	75	33	63	-13.69%	-15.24%	-6.15%	3.52%
2001	85	37	62	4.87%	3.10%	-1.29%	7.36%
2000	80	34	72	6.28%	4.35%	1.02%	5.50%
1999	81	36	73	31.32%	28.89%	9.95%	11.30%
1998	66	37	93	9.13%	7.15%	19.33%	7.63%
1997	39	24	54	34.81%	32.51%	21.18%	4.33%
1996	26	15	29	18.66%	16.54%	12.96%	3.60%

DISCLOSURES

Past performance is not indicative of future results.

Balanced Composite *contains all accounts with a balanced mandate. For comparison purposes the composite is measured against a 50/50 blend of S&P 500 and Merrill Lynch Master Bond Indices. The blended benchmark is calculated on a quarterly basis.*

ValueWorks has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

ValueWorks is a separate registered investment adviser. Prior to September 30th, 2001, ValueWorks was a subdivision of M&R Capital. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Gross returns are shown as supplemental information and are stated gross of all fees and transaction costs; net returns are reduced by all fees and transaction costs incurred. Wrap accounts pay a fee based on a percentage of assets under management. Other than brokerage commissions this fee includes investment management, portfolio monitoring, consulting services, and in some cases, custodial services. Wrap accounts make up 100% of the composite for all periods shown. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year beginning December 31, 2001. From January 1, 1996 to December 31, 2001 dispersion reflected an equal weighted dispersion. Additional information regarding the policies for calculating and reporting returns is available upon request.

The investment fee schedule for the composite is as follows: Low and high rate for wrap sponsors: 1.25% and 2.75%, respectively. Fee schedules from individual wrap sponsors are available upon request. Actual investment advisory fees incurred by clients may vary.

The Balanced Composite was created December 31, 1995. Performance presented prior to October 1, 2001 occurred while the Portfolio Manager was affiliated with two prior firms and he was the only individual responsible for selecting the securities to buy and sell. ValueWorks' is in compliance with the GIPS standards for the period October 1, 2001 through December 31, 2007. In addition, a performance examination was conducted on the Balanced Composite beginning October 1, 2001.