ValueWorks
quality assets. compelling valuations.

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Volume 9,4 **Q4 2011**

Healthy and Happy New Year.

2011 offered investors a slug of volatility but little overall direction. While both the first half and last quarter of the year presented meaningful advances, they were offset by a sharp drop-off in twenty days from late July to early August that created a very compressed third quarter.

Specifically, through Q1 and Q2 both the S&P 500 and the Russell 1000 Value indices were up approximately 6% for the year. Then in Q3 both experienced double - digit retreats (-14.0% for the S&P, -16.2% for the Russell), before adding 11.7% and 13.1%, respectively in Q4's big advance. With all of that volatility the S&P ended the year up 1.9%, with the Russell up 0.4%. Our portfolios moved similarly: up approximately 6.5% for the first two quarters, down -18.0% in Q3, up 9.3% in Q4 to finish the year -4.6%.

Top 10 holdings*:

1 Williams Companies
2 Calpine Corp.
3 American Express Co.
4 Boeing Company
5 Paccar Inc.
6 Pfizer Inc.
7 Teco Energy Inc.
8 Eli Lilly & Co.
9 Dow Chemical Company
10 Rowan Companies Inc.

—as of 12/31/11—

*see notes on p4 for additional Information

That market activity contrasted with relatively steady improvement in the broad economy. For the year the U.S. economy added almost two million private sector jobs and expanded at a fair rate. Corporate profits grew by almost ten percent. Consumer confidence ended the year in a healthy place, and retail sales in the fourth quarter reflected that confidence. We expect that improvement to continue and provide support for equity prices to resume their upward trend.

The fear that Europe would trigger a global meltdown was the primary driver of the sell-off. The concerns had been brewing for a year and a half, but really began to dominate investor attention over the past four months. Those concerns continue to legitimately weigh on equity valuations.

If this knot of concern were to be unraveled, it seems reasonable that markets would refocus on the underlying improvement that is taking place, and resume what would then appear to be a briefly interrupted market advance.

Recent reversal of tight monetary policy in Europe suggests that actions to unravel that knot are starting to be implemented.

In Europe today, like in the U.S. three years ago, there are serious underlying problems that will impede economic development for quite some time. These problems – like too much government debt in some periphery countries and too little capital in many banks – do not lend themselves to quick and easy solutions. But the same was surely true of the US challenges through our credit crisis. The problems of underwater mortgages, over-levered and undercapitalized banks, etc, etc, were (and remain) significant challenges that have not all been "solved."

But in the US, the provision of adequate liquidity (which in our case was an awful lot) did reverse the implosion and led to better economic conditions. Such better economic conditions provide more options for addressing the specific challenges.

The inability of multiple systemically important institutions to access credit on normal terms is a symptom of overly tight monetary policy. The US faced that symptom in early 2008 as we have in many other moments in the past. (In this particular instance policy makers failed to provide adequate liquidity fast enough, and ended up with a financial panic).

Europe is currently wrestling with a very similar challenge. By December the credit-restricting effects of tight monetary policy had reached beyond the weaker credits of Greece and Ireland, and were threatening systemically important actors like the Government of Italy and Deutshe bank. It appears policy makers choose to maintain that tightness until they could extract control provisions that were designed to enforce previously agreed to -- but generally ignored – fiscal constraints. Those provisions have now been reached and policy makers have opened up the monetary spigots.

Just in time perhaps, European policy makers seem to have decided to shift course to provide needed liquidity. Authorities may no longer be pressing for monetary tightness following extracted agreements to borrow less and to spend more prudently. Also, the sense of crisis precipitated leadership changes in Greece and Italy that are perceived to foreshadow more prudent fiscal policies. Having achieved these outcomes and change of course, European policy makers are now focused on providing adequate liquidity.

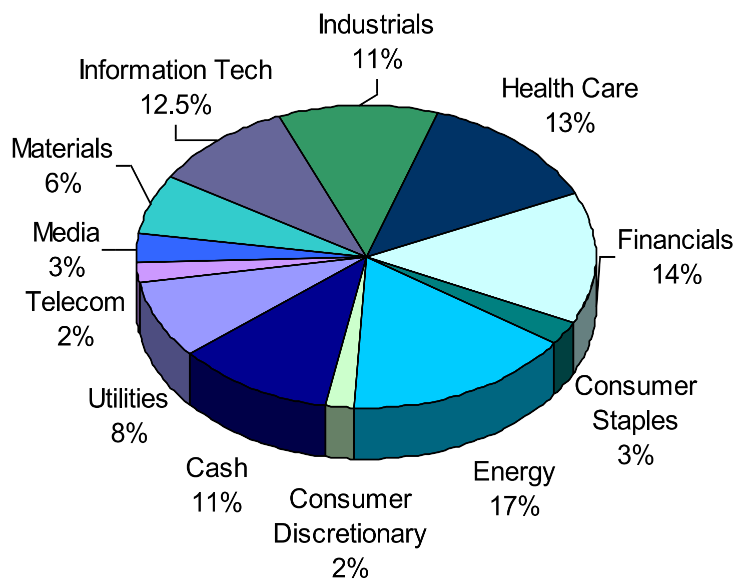
This analysis and conclusion leaves us largely optimistic for the year and years ahead, and we have positioned our portfolios accordingly. We are currently invested in a diversified portfolio of high-quality industrial, technology, energy and healthcare companies, with touches of non-bank financial, commodity and distressed real estate exposure.

We are avoiding banks and limiting exposure to companies dependent on discretionary consumer spending for now as these could be the areas most affected in the event of crisis.

The very good news is that while the U.S. equity market has been largely flat for both past year and past decade plus, the economy and companies in our portfolio have been growing. Across the board key metrics of value are exceedingly low, and in our view, investment opportunities are correspondingly high.

— 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:

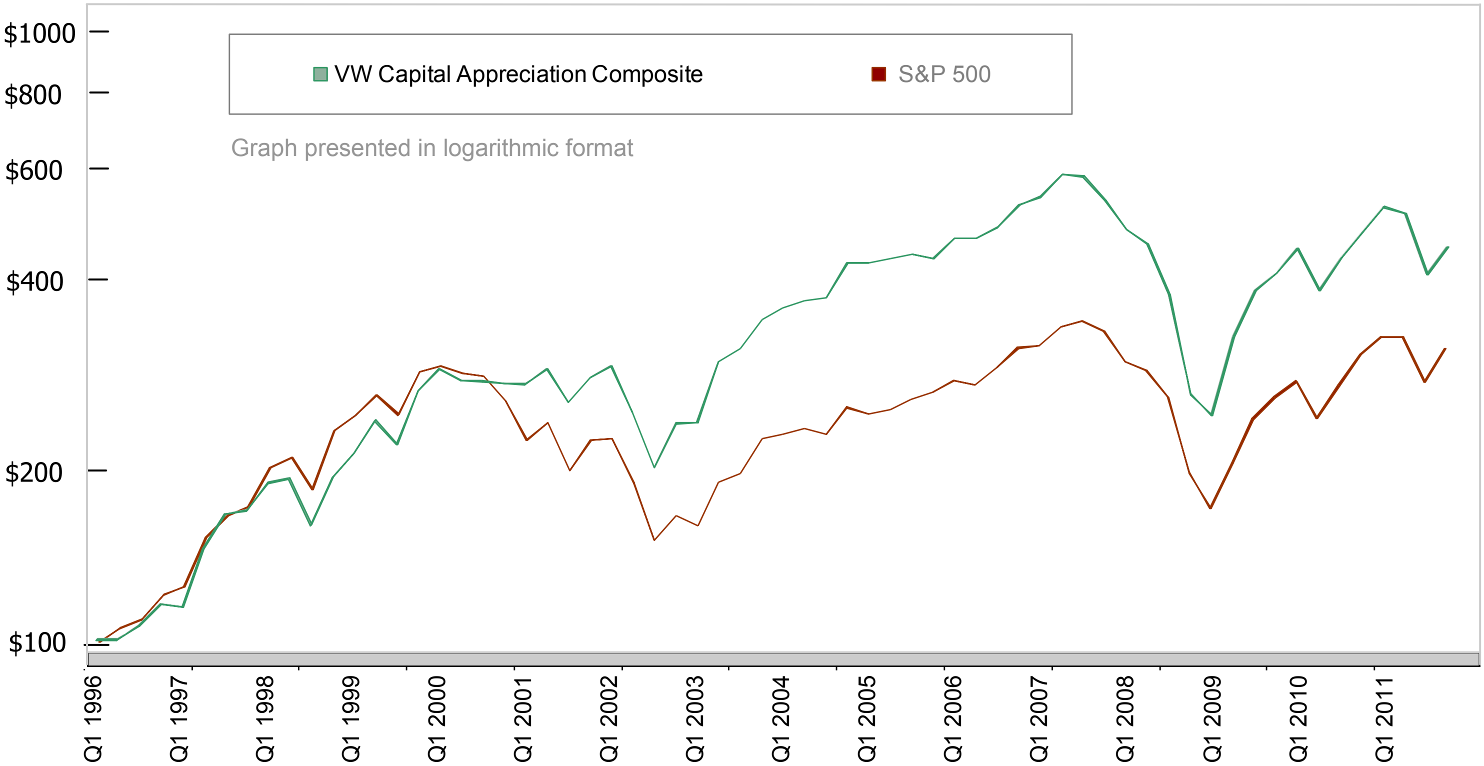
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements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

4th Quarter: September 30th, 2011 -- December 31st, 2011

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*
2011 Q4	9.32	8.98	11.65	7.97	7.60	6.36
1 year	-4.58	-5.80	1.85	-3.70	-5.03	5.85
5 year	-2.76	-4.05	-0.06	-0.40	-1.85	3.97
7 year	0.75	-0.61	3.10	2.35	0.85	4.98
10 year	4.32	2.89	3.03	5.39	3.80	4.99
LIFE*	8.76	7.12	6.53	9.58	7.82	6.92

* Life is 16.00 years (inception, 1/1/1996)

*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-
As of 12/31/2011 the Capital Appreciation Composite consisted of 193 accounts and $73,410,300 in assets; while the Balanced Composite consisted of 71 accounts and $33,293,945 in assets. Together this represents 98.88% of total accounts and 67.21% of total assets.

Past performance is not a guarantee of future results. This material is approved for client use.

PROCESS:

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	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
2011	160	75	193	-4.58%	-5.80%	1.85%	8.00%
2010	165	81	221	13.71%	12.15%	15.04%	8.00%
2009	152	78	241	48.83%	46.92%	28.06%	7.86%
2008	112	58	311	-46.97%	-47.68%	-36.96%	8.58%
2007	295	178	515	1.50%	0.14%	5.49%	5.93%
2006	267	159	411	19.08%	17.44%	15.79%	7.25%
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	40.31%	38.23%	28.69%	4.71%
2002	75	33	58	-13.97%	-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%

DISCLOSURES

Past performance is not indicative of future results.

Capital Appreciation Composite *contains all accounts with a Capital Appreciation mandate. For comparison purposes the composite is measured against the S&P 500 Index.*

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 management fee schedule 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 Capital Appreciation 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, 2008. In addition, a performance examination was conducted on the Capital Appreciation Composite beginning October 1, 2001.

For more information about ValueWorks Capital Appreciation Composite and our other composites please visit valueworksllc.com or call 212.819.1818
This information is approved for client use.

DISCLOSURES