



After a very sharp advance in the first quarter our portfolios generally moved sideways through the ensuing three months, generating a solid overall return for the first half of 2019. Our Capital Appreciation composite added 13.2% in Q1, 1.1% in Q2 and is up 14.5% year to date (gross of fees – see p.4 for additional performance information).

The divergence in performance between exciting names and more staid names is becoming increasingly pronounced. The Russell 2000 index of mid-sized value stocks is up 13% for the first half while the Nasdaq 100 is up 21%. The Dow performed closer to the Russell Value at 15% while the S&P 500 trended closer to the Nasdaq at 18%. The divergence in the last quarter was even more pronounced until the last days of the quarter, when a spurt in the Russell 2000 Value index offset a previous decline and resulted in a 1% gain while the Nasdaq 100 added 4%.

As we have commented over the past several quarters, it is a pattern that makes sense at this stage in the market and economic cycle. While there will undoubtedly be brief moments of respite, the persistence of this pattern will create an ever-greater challenge for most investors.

Our solid performance in this pernicious environment was driven by a couple of holdings that show signs of transitioning from the

unexciting to the exciting camp. The clearest example was Qualcomm, which has traded within 20 points of \$60 since 2004; we suspect some of its investor base may have perished of boredom over those 15 years. During the quarter the company resolved a long running litigation with Qualcomm's once (and perhaps future) largest customer (Apple). The shares lurched 30%+ higher, briefly breaking out to an all-time high. If we are right this will be just the first leg of a major long-term advance. Even up 50% year-to-date the shares are very compellingly priced and the company will benefit dramatically from the rollout of 5G cellular technology for at least the next three to five years. Our approach is to fill the portfolio with names that can make that same transition from laggards to leaders and generate 50-250% upside moves.

The challenge in this environment is that expensive shares are going higher and cheaper shares are going lower. Proctor & Gamble came into the year trading at 23 times trailing earnings and advanced by 20% and now trades at 26.6 times trailing earnings. Kraft Heinz came into the year trading at 12 times earnings at \$43, disappointed operationally, and now trades at 8 times earnings at \$30 per share. Boston Scientific traded at \$5 per share in 2012, came into the year at \$35 per share and 24 times 2018 earnings and now trades at \$42 per share and 27 times 2019 earnings. Amgen came into the year at \$180 per share and 13 times earnings and now trades at 185 and 12 times earnings. Transdigm came into the quarter at \$450 per share

and 24 times current earnings and now trades at \$485 and 26 times the same measure. Spirit AeroSystems came into the quarter at \$91 per share and exited the quarter at \$80 per share with a P/E of 11. Beyond Meat is an exciting company with an exciting product. The shares were offered to the public at \$25, which represented a market value of \$1.5 billion compared to sales of \$40 million in its latest quarter. Those shares then exploded to the upside and now trade at \$150 for a nearly \$10 billion market value. The best performing stock in the Dow index was Microsoft which advanced by 32% and now trades at 27 times earnings. The worst was Walgreen Boots Alliance which declined by 21% and trades at 9 times earnings.

We have been making the case for several quarters that our investment approach is particularly well suited for this environment. Those putting capital into the high flyers are generating exciting returns; but we all know that they are getting closer and closer to the precipice. We

know how it will end, but being uninvested is costly too. On the other side, those putting money into inexpensive names that typically trade in the lower half of the valuation continuum are underperforming as their holdings become ever cheaper.

TOP 10 HOLDINGS

1. Qualcomm Inc.
2. Cliffs Natural Res 6.25% Due 10-01-40
3. Comcast cl A
4. Goldman Sachs Group Inc.
5. Corning Inc.
6. American Express Co.
7. Apple Inc.
8. Investco Ltd.
9. Amgen Inc.
10. Kulicke & Soffa Industries, Inc.

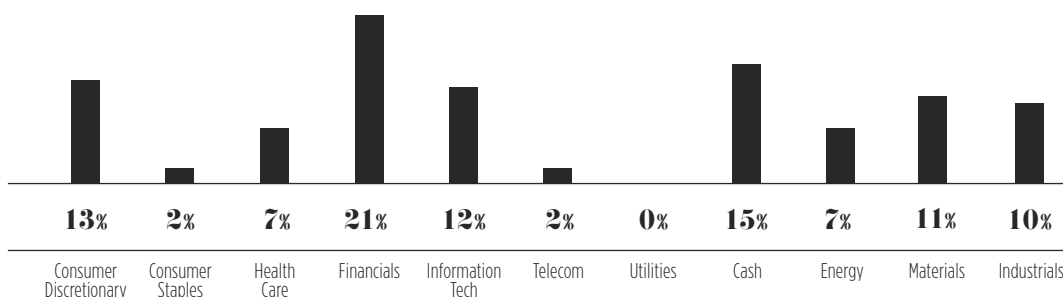
—As of 6/30/19—

*see notes on pg 4 for additional details

Our goal is to invest in true diamonds in the rough. In these moments there are plenty of discarded investments to sift through, and they are very cheap. We have done that work and filled the portfolio with a wide range of very different investments that are at the moment trading at very discounted prices. As individual names get revealed as the true gems they are the upside from just a few of them can carry the overall portfolio much higher without the risk inherent in a portfolio full of high flyers getting ever closer to the sun.

—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.

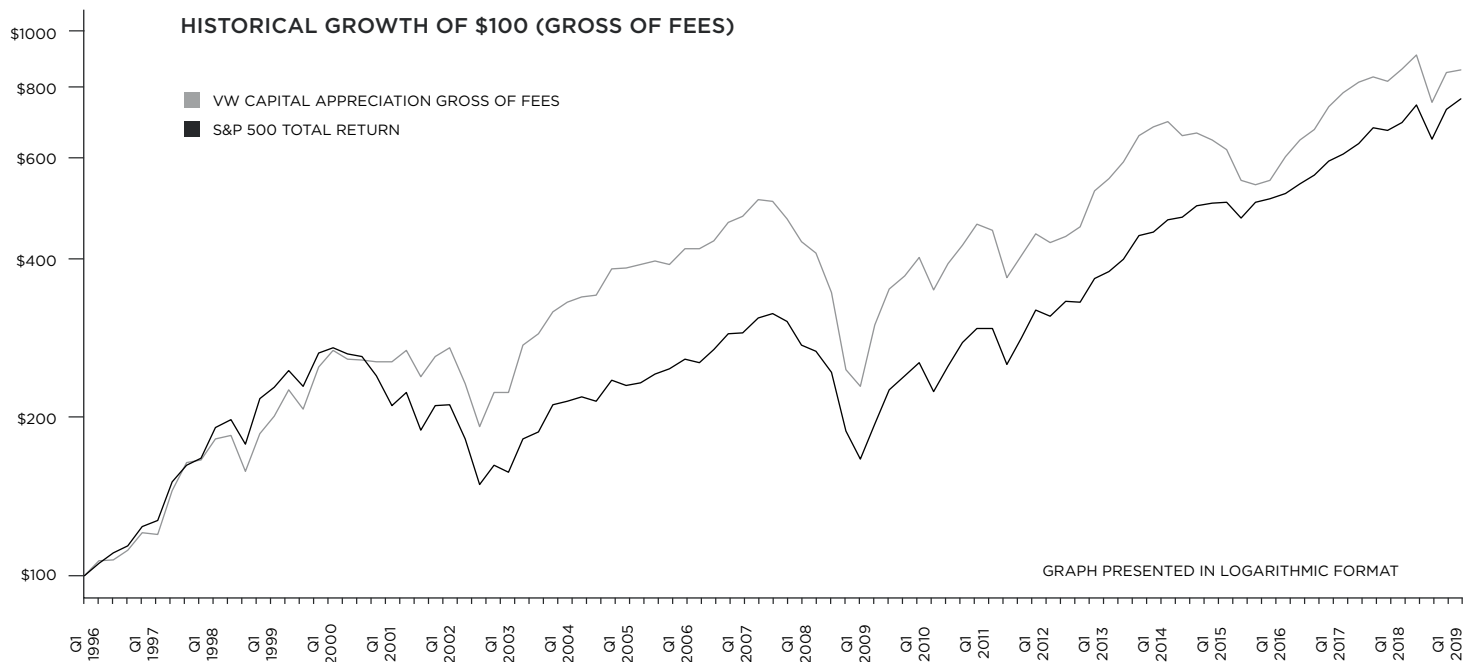
Objective

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 2019 MARCH 31, 2019—JUNE 30, 2019



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2019 Q2	1.14	0.86	4.31
2019 YTD	14.49	13.85	18.54
1 year	-0.28	-1.41	10.42
3 years	12.96	11.67	14.10
5 years	4.47	3.24	10.67
10 years	11.34	9.97	14.64
Life*	9.47	7.92	8.90

*Life is 23.5 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2019 Q2	1.47	1.02	3.74
2019 YTD	13.05	12.05	12.38
1 year	-0.59	-2.10	9.79
3 years	10.29	8.77	8.31
5 years	3.90	2.46	6.96
10 years	10.46	8.92	9.39
Life*	9.69	8.01	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.
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