VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 21,2 SECOND QUARTER 2023

With uncanny precision, the market dynamics of 2022 reversed direction with the turning of the calendar to 2023. The tech sector that had been in melt-down reversed and torqued higher. Commodity oriented and generally lower priced stocks ceased their advance and turned markedly lower. Almost everything that was working well for investors in 2022 stopped working, and everything that was damaging investors turned positive.

Meanwhile, the economy has generally continued to hold up quite well in the face of steadily higher interest rates. Broad market measures have as well. The economy has added a bit over 300,000 jobs per month since January, and over 200,000 in June. GDP grew by 2% in the first quarter and is estimated to have advanced another 1.6% in the second quarter. The S&P, led by strong gains in technology shares, is up 16.9% through the first half, the Dow is 4.9% higher, and the Nasdaq 100 has reversed last year's implosion with a 32.3% advance this year.

We recognize that these strong data points may be due to reverse. But, on the other hand, they may not. We have been writing for the past 18 months that is not tautologically obvious to us that the economy will go into recession based on the simple fact that policy makers are raising interest rates, but also that such an outcome should not be ruled out. And, to us the more important question has been how the markets would react through that Fed tightening: whether the sell-off we experienced through 2022 would devolve into a full-blown credit crunch and liquidity crisis, or if tighter monetary conditions brought inflation under control before pushing us over that ledge in this cycle.

As far as I am concerned, that remains an open question, notwithstanding the rebound of the past six months.

I find it credible that the declining trends we are seeing in inflation may continue, allowing policy makers to reach their inflation goals without creating real economic damage. Because the inflation that happened was so much driven by an inability of companies to meet demand as a result of the supply disruptions of the pandemic, and because so many commodity prices have already meaningfully reversed -- oil is down by 30% from its peak, and nickel and aluminum are down even more from their respective peaks last year – I see a real chance that inflation could be trending towards a level under 4% before the summer is over. If that happens, interest rates may well remain roughly at current levels for a matter of years, while the positive trends we are seeing in the economy and the markets continue for a similarly extended period.

But again, we do not accept that that is a preordained outcome. Wage inflation is currently real and consequential and may well prove sticky in the context of today's nearly full employment levels. If policymakers need to seriously cut into economic output to break that cycle, they have the tools and wherewithal to do so. If that plays out, then we would expect the market rally of the past six months to be pretty close to running its course and would expect markets to give up at least the recent advances, if not hit broad new lows in the months ahead.

-Charles Lemonides, CFA

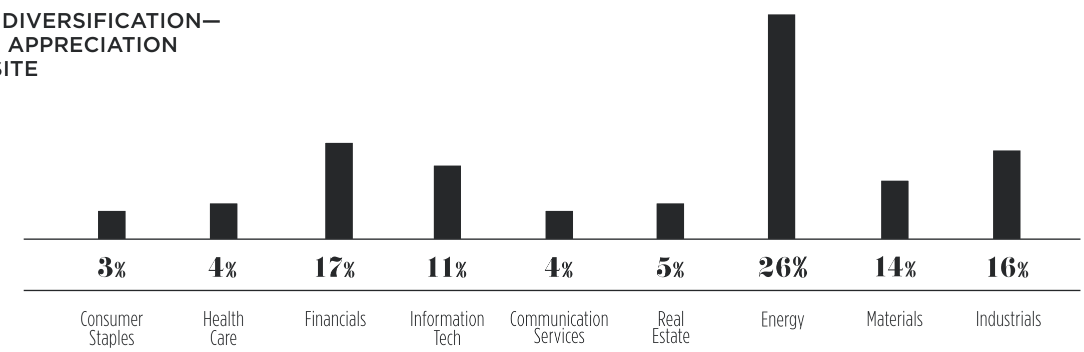
### TOP 10 HOLDINGS

1. Chord Energy Corp.
2. Cheniere Energy Inc.
3. Tidewater Inc.
4. Joby Aviation Inc.
5. Western Alliance Bancorp
6. Hyster-Yale Materials Handling Inc. Cl A
7. Micron Technology Inc.
8. Qualcomm Inc.
9. Mammoth Energy Services, Inc.
10. Apple Inc.

—As of 6/30/23—

*see notes on pg 4 for additional details

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.

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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.

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## *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.

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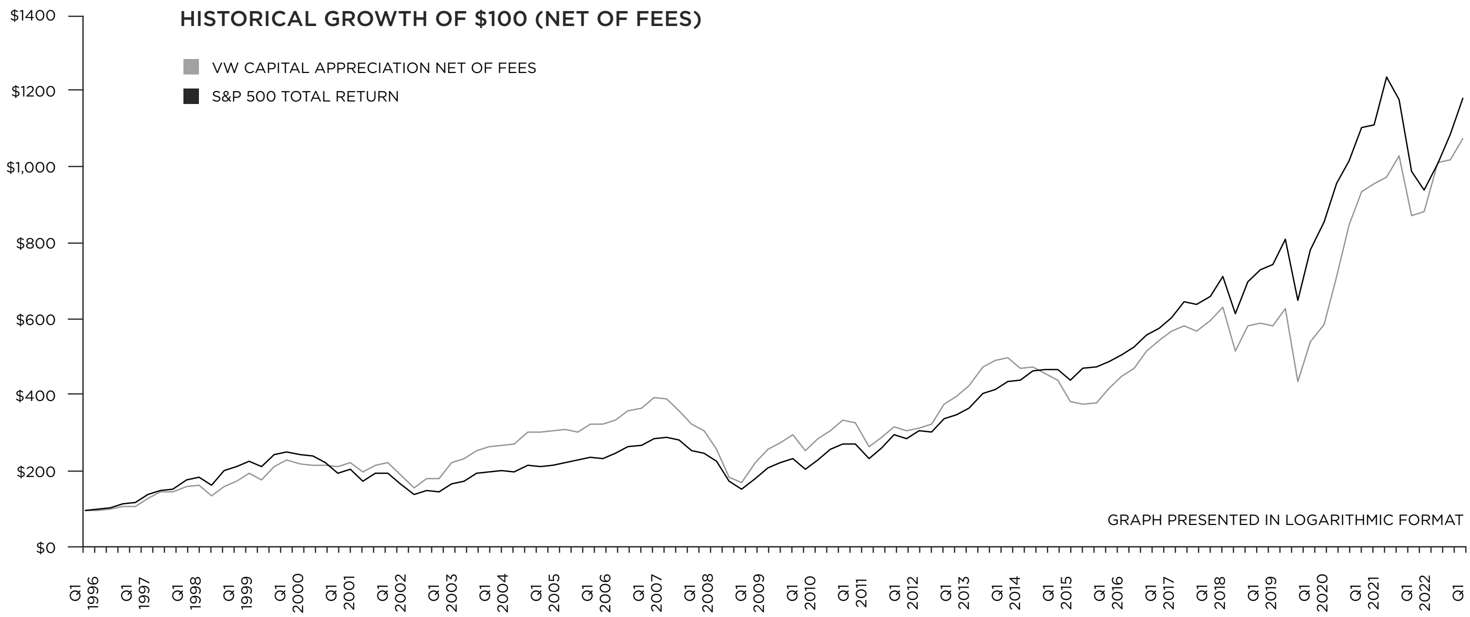
## PERFORMANCE REVIEW

**SECOND QUARTER 2023** APRIL 1, 2023 - JUNE 30, 2023




## TRAILING PERFORMANCE DATA

### VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

| | GROSS OF FEES | NET OF FEES | S&P 500 TR |
|---|---|---|---|
| **2023 Q2** | 5.66 | 5.36 | 8.74 |
| **YTD** | 6.47 | 5.87 | 16.89 |
| **1 year** | 24.04 | 22.68 | 19.59 |
| **3 years** | 26.95 | 25.49 | 14.54 |
| **5 years** | 13.62 | 12.33 | 12.24 |
| **10 years** | 11.59 | 10.29 | 12.80 |
| **Life*** | 10.59 | 9.07 | 9.45 |

*Life is 27.5 years (inception 1/1/1996)

### VALUEWORKS' BALANCED COMPOSITE

| | GROSS OF FEES | NET OF FEES | BLENDED INDEX* |
|---|---|---|---|
| **2023 Q2** | 6.32 | 6.02 | 3.95 |
| **YTD** | 6.68 | 6.05 | 9.46 |
| **1 year** | 24.47 | 22.86 | 8.97 |
| **3 years** | 26.25 | 24.69 | 5.14 |
| **5 years** | 14.50 | 13.05 | 6.91 |
| **10 years** | 11.66 | 10.20 | 7.25 |
| **Life*** | 10.95 | 9.30 | 7.22 |

**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.
**This material is approved for client use.**

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