VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 20,4 FOURTH QUARTER 2022

While 2022 was clearly very challenging for most investors, our portfolios performed quite solidly.

I would attribute our outperformance over the past couple of years to a clear shift in market dynamics. As policy makers have moved to rein in the massive liquidity they pumped into the economy over the past 15 years (and especially through the early pandemic days) the most enthusiastically priced parts of the market have corrected, while those investments trading at more modest values relative to cash generation and tangible book value have held up much better.

Specifically, the Nasdaq Composite lost 0.8% for the fourth quarter and 32.5% for the year. The S&P 500 bounced by 7.5% in the quarter but still ended the year with a loss of 18.1%. The Dow performed better, with a 15% bounce in the fourth quarter and a 6.8% loss for the year. The Russell Large Value index landed squarely between the Dow and the S&P with a 12.4% advance in the quarter and a 7.6% loss for the year. Bond investors suffered similarly, with the total return loss on holding a 20-treasury bond landing at 27% for 2022.

We can debate elements of why this is happening, but to me the big picture is clearly that Fed Policy makers have rightly come to the conclusion that there has been too much money/liquidity in the system, and they are diligently taking steps to remove that excess. With less dollars circulating, and the cost of money going up, asset prices have been going down. Given that this process does not seem to yet have run its course, it seems reasonable to expect current conditions to continue.

Our primary focus is on what this process means for stock and bond prices in the near-term and in the intermediate term, and to a lesser degree on whether further tightening leads to a recession. The US economy has continued to add over 250,000 jobs per month for the second half of last year. That is not what a recession looks like. And inflation at current levels remains unacceptably high. So I expect tight monetary policy to continue to drain liquidity for more than another couple of months. Whether that culminates in economic contraction or just slower growth is to my mind a very open question that does not in itself lead to investment conclusions.

Either way, I would expect tighter policy will weigh on equity prices for at least the first half of 2023. That said, it still seems reasonable to me that there are several ways this may play out. In a good case, the bulk of the broad sell-off could be behind us, with investors focusing on which companies are best positioned to build upon their positions as inflation cools in the second half of the year. On the other extreme, policy makers can continue to tighten to the point we trip into a full-blown credit crunch. I would argue we saw something like this in the late 1990's around the crash of Long Term Capital, and again in the summer of 2002. In those brief moments, valuations stop mattering, babies get thrown out with bathwater, and extreme investment opportunities are presented to those with the skill set to discern them and the confidence to execute upon them.

Our approach is to be prudently prepared for either outcome. Our portfolio today is stocked with names trading at very low multiples to the cash they are generating and to tangible book values. If policy makers are able to tame inflation without causing a credit crunch along the way, I expect to see these holdings generally 50% higher than today's levels over the next two to three years. On the other hand, if we do hit an air pocket, and all prices trade down dramatically, we will be ready to manage through that period, upgrade our holdings, and hopefully come out the other side in an even stronger position. If that negative scenario plays out, I fully expect the pricing of our holdings to be impactfully lower for very brief moments at the worst of that sell-off, but for those with the discipline and confidence to work through it, the payoff will initially be sharp, and then extend over several years.

-Charles Lemonides, CFA

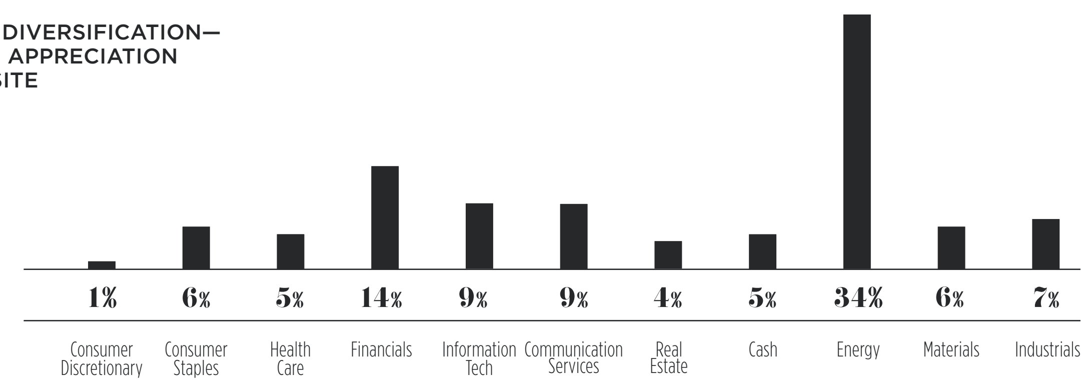
TOP 10 HOLDINGS

1. Chord Energy Corp.
2. Mammoth Energy Services
3. Cheniere Energy Inc.
4. United Natural Foods
5. Netflix, Inc.
6. Cash
7. Tidewater
8. Goldman Sachs Group
9. Qualcomm
10. MBIA

—As of 12/31/22—

*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.

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*

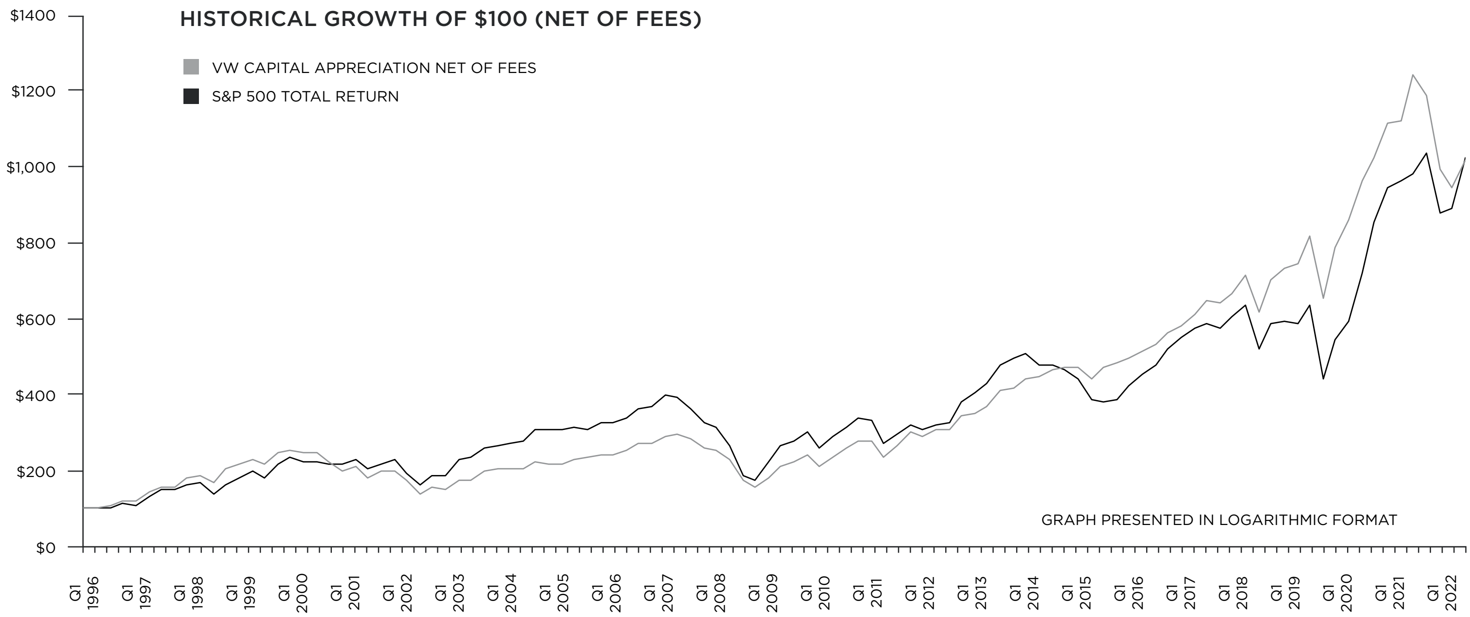
We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

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 **FOURTH QUARTER 2022** OCTOBER 1, 2022 - DECEMBER 31, 2022



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2022 Q4	14.87	14.56	7.57
1 year	5.19	3.99	-18.10
3 years	18.40	17.04	7.55
5 years	12.91	11.63	9.30
10 years	13.20	11.87	12.51
Life*	10.54	9.02	9.00

*Life is 27 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2022 Q4	14.98	14.64	4.69
1 year	5.45	3.98	-15.53
3 years	18.95	17.50	2.88
5 years	13.57	12.12	5.08
10 years	12.89	11.40	6.85
Life*	10.90	9.24	7.00

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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