

ValueWorks:

Redefining wealth management through critical thinking and independent research

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Downs and Ups

The second quarter again proved challenging for investors generally. After robust gains though early May, the indexes reversed sharply. Moreover, the investments that were performing best up to that point suffered the biggest declines.

In this recent environment the ValueWorks accounts performed quite respectably: year-to-date our Capital Appreciation Composite gained 6.75%, inclusive of a 0.2% return in the second quarter.*

By comparison, the S&P 500 declined 1.4% for the quarter, netting 2.7% since year-end; The Dow Industrials gained 1.2% in the quarter and 5.5% for the year. The Nasdaq shed an eye-catching 7.0% for the quarter and posted a decline of 1.1% through June 30th.

ValueWorks' Top 10 holdings**:

1. **Bausch and Lomb**
2. **Boeing Company**
3. **Rowan Companies Inc**
4. **Wachovia Corp**
5. **Walt Disney Co**
6. **Sony Corp**
7. **Chesapeake Energy Corp**
8. **Washington Mutual**
9. **Pfizer Inc**
10. **3m Company**

—as of 6/30/06—

**see notes on p4 for additional information

Our strong recent performance contrasts with weaker relative results in the second half of last year. To a significant degree, the issues that constrained our results late last year turned around and contributed positively this year. As a result, our one year trailing number now registers 6.8% against 8.6% for the S&P 500.

Our focus is of course on longer-term results. Over the past five years our capital appreciation composite posted returns of 8.95% per year, while the S&P 500 has basically treaded water with a 2.52% annual return.

Over the recent period the markets attempted to respond to two themes; the background cacophony of geopolitical crisis and the central leitmotif struck by the Federal Reserve's effort to orchestrate an economic soft landing. Concern regarding the pace of economic weakening – coupled with the tangible tightening effects of 5% Fed Funds – sucked capital out of the more economically sensitive areas of the market.

As a result, the bull market in "hard asset" type investments hit a wall in the second quarter. The impact of high Fed Funds rates drained liquidity from emerging markets and highly cyclical, "hard asset" investment vehicles. That is perfectly

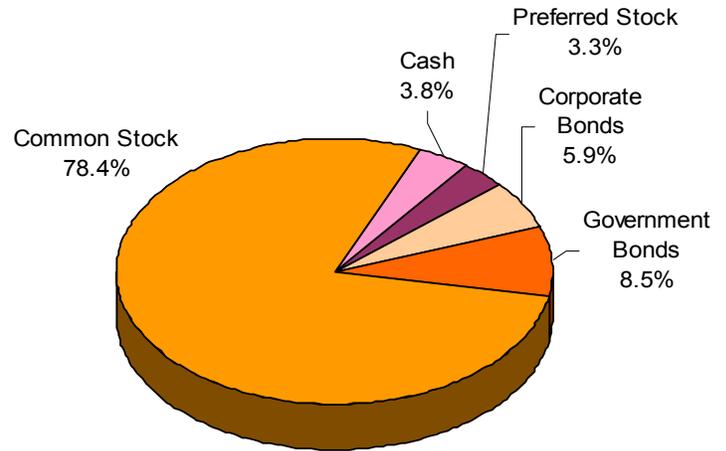
consistent with a healthy, functioning economy. The question now is whether (a) those sectors resume their leadership, (b) another group assumes market leadership, or (c) the decline in the second quarter represents the beginning of a longer malaise. I do not consider the conditions ripe for either (a) or (c); I do not anticipate that the commodity

*All ValueWorks' figures are Gross of Fees. For additional information on returns, including net performance, see page 4.

companies, energy companies emerging markets and real estate plays will broadly erase their recent declines because I consider investor concerns regarding their valuations and prospects well placed. Alternatively, the argument for an extended decline is not supported by the hard reality that the economy is growing at a healthy pace, equity valuations are modest, and monetary policy is hardly draconian.

Plainly put, I consider the Fed well positioned to slow the economy without tripping it into a recession. If so, I expect the recent market pullback to represent a classic correction in an early stage bull market.

**Asset Class Diversification--
Balanced Composite**

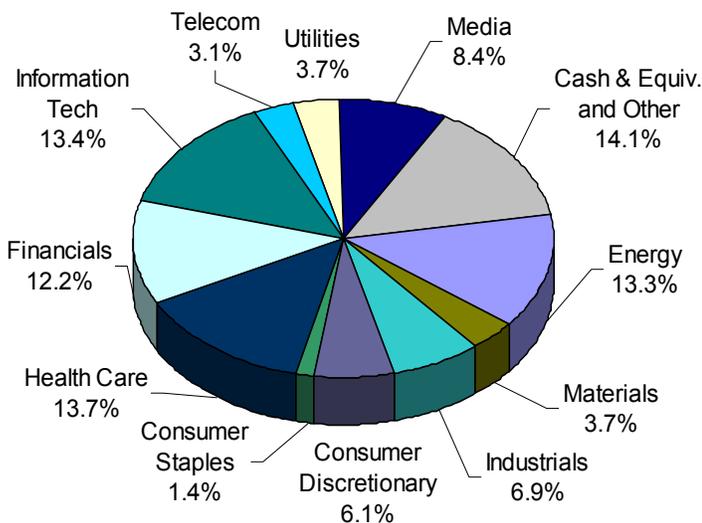


These pullbacks generally are associated with changes in market leadership, as the gains in one sector moderate and investment attention and emphasis shifts to areas offering more upside. In more mature, healthier environments these transitions will tend to be smoother than in more volatile, less mature economies. But the level of downside offered thus far is very much in line with what we have come to expect from the markets over the past twenty-five years.

We have used this pullback to incrementally put money to work. As a result, I consider our portfolios to be well positioned to participate as a market advance resumes through the second half of the year.

—Charles Lemonides, CFA

**Sector Diversification--
Capital Appreciation Composite**



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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 overdiversifica-

tion. 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:

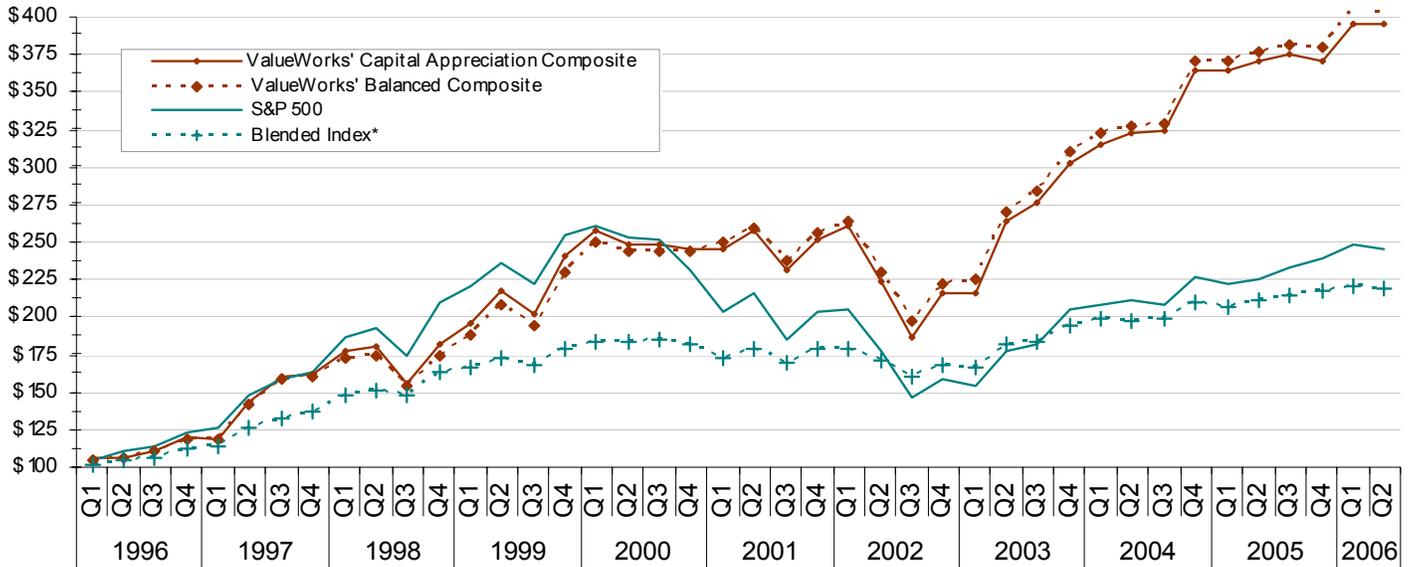
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements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

2nd Quarter: March 31st, 2006— June 30th, 2006

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*
10 year	14.00	12.23	8.33	14.27	12.37	7.70
7 year	8.88	7.34	0.49	9.93	8.16	3.52
5 year	8.95	7.43	2.52	9.25	7.55	4.15
3 year	14.47	12.93	11.24	14.27	12.65	6.48
1 year	6.78	5.33	8.72	7.04	5.46	3.86
2006 YTD	6.75	6.07	2.71	6.39	5.60	0.98

*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 available on request.

As of 6/30/2006 the Capital Appreciation Composite consisted of 386 accounts and \$136,515,451 in assets; while the Balanced Composite consisted of 109 accounts and \$66,022,999 in assets. Together this represents 99.40% of total accounts and 88.25% of total assets.

Past performance is not a guarantee of future results.