



July 2010

### Dear Fellow Shareholder:

Pessimism reclaimed the spotlight during the middle of the second quarter. Just when many felt that the economy and stock market were gaining momentum and turning the corner, the proverbial apple cart was upset. In May, fears generated from sovereign debt crises in Europe and the related impact on global economic growth caused feelings of anxiety and scared many investors out of the stock market. As a result, the S&P 500 Index declined -11.4% in the second quarter and was down -6.7% year-to-date.

Many are extending this negative worldview to their investment outlook. We understand that it is difficult to escape the immense negativity felt from slow growth in most global economies, the chance of a double-dip U.S. recession, federal and state budget deficit spending, and the BP oil spill. Many people tend to focus on the negatives and are often led astray from the positive developments until they are literally right in front of their faces as news headlines.

Ultimately, it is the profitability of businesses that drives the stock market higher. What may come as a surprise then, despite the litany of gloom and doom, is that corporate America is strong and continues to gain strength as evidenced by earnings growth. At the time of this writing, second quarter corporate earnings have not been released, but we observed good results for those off-calendar quarter companies that did report.

In their most recent quarterly releases Federal Express and 3M – which are not owned in the Funds but are global bellwether companies – projected strong results for the near future. Federal Express reported a solid quarter and is projecting in excess of 20% earnings growth for their fiscal year ending May 2011. 3M told investors that their revenue for the second quarter will exceed expectations. FAM Funds' holdings Bed Bath & Beyond, CarMax, and Donaldson, among others, each reported strong results with growing sales, cash flows, and improving balance sheets.

While some feel the stock market may never rise, interestingly, today's valuations are at levels that could yield reasonable future returns (currently the S&P 500 Index P/E ratio is 15 times). Still, some investors ignore valuation levels and want nothing to do with equities because they are paralyzed by fear and focused on variables they cannot control – the unknown outcomes of world issues. We are concentrating on the variables we *can* control – outstanding businesses



and the appropriate valuation levels to invest in stocks for future growth. We continue to do this despite these short-term occurrences because they will likely have very little influence on the long-term viability of the underlying businesses.

Again, we call your attention to the financial staying power of the companies we invest in on your behalf. Should the economy relapse into a state of malaise, their financial strength will help them endure as we observed in the 2008-2009 decline. We are looking deeper than short-term stock prices. We are examining the fundamentals of the business - its competitive advantages, unique product/service offering, cash generation, management's track record, and future growth prospects. We hope this helps quell any anxiety you might have and keep you focused on the reason you invest in the U.S. stock market – long-term growth.

In these challenging times we appreciate your confidence in us more than ever. We always welcome your calls at 800-932-3271.

Sincerely,

Thomas O. Putnam  
Chairman  
Fenimore Asset Management, Inc.

### Research Team

Andrew F. Boord  
Eric C. Elbell, CFA  
John D. Fox, CFA  
Kevin Gioia  
Paul C. Hogan, CFA  
Marc Roberts