

Mutual Advice



FAM FUNDS • Managed By Fenimore Asset Management, Inc. • 384 North Grand Street • Cobleskill, NY 12043 • (800) 932-3271

WINTER 2012

A MESSAGE FROM OUR CHAIRMAN

In Pursuit of Excellence



It was at my first job when I fell in love with investing. Each day I carefully read *The Wall Street Journal* cover-to-cover in order to soak in economic, business, and investment news. Initially, much of the information was above my head, but eventually it started to fit together and ideas began to germinate in my young mind. You see, I was a thirteen-year-old shoe shiner discovering the grown-up world. As I look back on those



days it was at this intersection where an exciting dream was percolating and a worthy craft and strong work ethic were being learned, when my foundation for investing was laid.


Today, as we celebrate the 25th Anniversary of the FAM Value Fund, everyone at FAM Funds and Fenimore Asset Management (the investment advisor to FAM Funds) continues to do detailed work with caring hands as we endeavor to create things of lasting value and be good stewards of your assets. The cornerstone of these services is our Research Team. Our seven Research Analysts have 126 years of investment industry experience and an average Fenimore tenure of 13 years – we are a strong and deep unit.

The Research Team employs a rigorous and time-tested stock selection process which seeks to preserve your assets and maximize total return on capital. In addition to visiting with every company in the Funds in 2011, we also met with or talked to the management teams of almost 70 new ideas. These are corporations that we have never looked at before from a wide-range of industries, including: chemicals, utilities, food and soft drinks, real estate, computer chips, auto parts, timber, gold mining, banking, and pest control.

FAM proactively and vigilantly analyzes a stock and its underlying business before and after we purchase it to make sure it continually meets our criteria. As long as it does, there is no reason to sell it unless we have a better prospect. In recent months, we had good opportunities to invest in some better prospects. We believe the current Fund portfolio holdings should provide a positive contribution over the next few years and even more so over a longer-term horizon of five to 10 years.



We are always pursuing excellence for you – our shareholders. The information I gleaned from my reading of “The

Journal” and the work ethic and commitment to quality I learned as a young teenager, permeate our organization. Rest assured, we are working diligently on your behalf. 



MARKET *Commentary*

By Andrew P. Wilson, CFA, Research Analyst

OPPORTUNITY FAVORS THE PREPARED MIND

On November 9th, LCH.Clearnet.SA raised the initial margin requirements on Italian bonds, erasing \$3.7 billion—nearly 2.5%—of Coca Cola’s market value (not held in FAM Funds). What? Who is LCH.Clearnet? And, what do their Italian debt policies have to do with the world’s desire for a cool, refreshing Coke? Truth is, not much. Coca Cola shareholders were left understandably dazed and confused. Overall, 2011 left many equity investors dazed and confused. Similar to Coca Cola, most of the extreme declines in stock prices had little to do with the underlying economic value of the businesses they represent. FAM’s focus on the values of individual companies provides us with opportunities when these irrational negative swings occur due to news outside the stock market.

The S&P 500 Index was certainly not immune to volatility. Those who owned securities tied to the S&P experienced a wild ride to nowhere. The number of days the S&P moved up or down by more than 2% in 2011 was among the highest in the last two decades—yet the index finished nearly exactly where it started. Several things contributed to the fluctuations including a downgrade of U.S. credit ratings and acute political dysfunction in Washington; but more often than not, equity markets reacted to European headlines.

The euro zone faces serious issues that impact the global economy, so it’s rational that prices of some financial assets respond to the events unfolding there. However, the indiscriminate buying and selling of entire asset classes—such as U.S. stocks—is clearly irrational. This herd-like movement in-and-out of the market has been so prevalent that pundits have labeled each trading day as “Risk On” (market moves up) or “Risk Off” (market moves down). It’s possible that this volatility will continue in 2012 as euro zone struggles and global economic uncertainty continue, and as we cycle through our presidential election.

For value investors like FAM, price drops present opportunity. Equity markets tend to be efficient, meaning businesses sell for what they’re worth and bargains are scarce. But on days when the headlines spook investors and they sell stocks, the high-quality, well-managed companies that we seek get “thrown out with the bath water.” We are equipped for these opportunities in two key ways. First, we hold cash in the Funds so that we are able take advantage of indiscriminate selling. Second, we continue to work diligently to build our portfolio of ideas so that we are ready whenever and wherever bargains surface. In 2011 alone, we spoke to and/or visited nearly 70 new companies covering almost every sector. So when the market declines because the crowd “runs for the hills,” remember we are prepared to scoop up the bargains they leave behind. ❄️

FUND UPDATES

FAM Value Fund – *Money’s* January 2012 issue named the FAM Value Fund to the “Money 70” as one of the mutual funds an investor should consider when assembling “a high-quality, long-term portfolio using low-cost investments.”

The Value Fund has been on *Money’s* list of recommended mutual funds for seven consecutive years. “Some of the other funds on this list are from great companies. It’s an honor to be on the Money 70,” said Fund Co-Manager John Fox.

The Money 70 criteria includes: fees lower than their category average, a strong record for putting shareholders first, a consistent strategy, experienced and trustworthy managers, and admirable long-term performance. It focuses on funds with characteristics of “lasting value.”

FAM Equity-Income Fund – The FAM Equity-Income Fund was one of three mutual funds featured in a *SmartMoney* article, “Funds That Fought Volatility – and Won.” Also, the *Wall Street Transcript* published a comprehensive interview with Fund Co-Manager Paul Hogan.

During 2011, when many equity mutual funds saw net outflows, the Equity-Income Fund saw considerable positive net inflows. “With the Fund’s 2011 total return of +6.79%, which was well-above the broad market, dividends gave our shareholders a head start on their investment returns for the year,” said Paul Hogan.



RePete

By PETER SWEETSER, Retirement Plans Specialist

Here is a FAM Funds shareholder retirement question and Peter's answer.

Q: CAN I CONSOLIDATE DIFFERENT IRAS INTO ONE FAM IRA?

A: Yes, but there are considerations. There are two types of IRAs – Traditional and Roth. For example, Traditional includes Rollover and Spousal IRAs which can be consolidated (rolled over), even from different companies, into one FAM Traditional IRA. Roth IRAs may also be combined including Roth 401(k)s.

Rolling over separate retirement accounts of the same type into one at FAM is an option you should consider. Some of the benefits include: tax-free consolidation of the accounts, fewer statements, time savings, and less potential for confusion. For example, miscalculating a Required Minimum Distribution (RMD) may lead to a 50% IRS penalty tax. Also, FAM does not charge annual maintenance fees (No-Fee) on its IRA accounts – thus reducing out-of-pocket costs.

However, there are circumstances when it may not be wise to consolidate retirement accounts. For instance, to avoid a mandatory federal income tax withholding, investors with a qualified retirement plan such as a 401(k) should make sure that a “direct” rollover option is available before consolidating. This way the account owner does not receive the assets and they usually retain their tax-deferred status because the distribution check is payable to the IRA's custodian or trustee.

We make it easy to roll over your retirement accounts into a FAM Funds No-Fee IRA. There are more details to consider and IRA consolidation is not right for everyone, so please call me at 800-453-4392, **option 2** or e-mail sweetser@famfunds.com to discuss your situation. As always, I recommend including your accountant or tax preparer in the final decision. ❄️

Retirement & Education Savings Accounts at FAM Funds

Here is a summary of FAM Funds' retirement and education accounts.

For descriptions, eligibility and yearly updates for each, please visit www.famfunds.com and click on the appropriate link under “In The Spotlight” on the home page.



RETIREMENT ACCOUNTS

It is never too early to begin saving for retirement. Whether you're just getting started, changing jobs, looking to do a 401(k) rollover, or running a business, FAM Funds can help.

- Traditional IRA
(Individual Retirement Account)
- Roth IRA
- SEP Account
(Simplified Employee Pension)
- SIMPLE IRA
(Savings Incentive Match Plan for Employees)
- 403(b)(7)
- Individual(k)

We offer No-Fee retirement accounts.

EDUCATION SAVINGS ACCOUNTS

While most parents expect their children to attend college, research shows that only one-third expect to be prepared to pay for their education. FAM Funds can help you prepare for those tuition bills with an education savings account.

- Coverdell Education Savings Account (ESA)
- Uniform Gifts to Minors Act (UGMA) Account & Uniform Transfers to Minors Act (UTMA) Account ❄️

This letter is intended for FAM Shareholders and is authorized for distribution only when preceded or accompanied by a prospectus or summary prospectus for the FAM Value Fund or FAM Equity-Income Fund. Performance data quoted in this newsletter is historical. Past performance is not indicative of future results. Investment returns will fluctuate: the value of your investment upon redemption may be more or less than the initial amount invested. Please read the prospectus or summary prospectus for more complete details, including investment objectives, risk considerations and expenses, before you invest. FAM Funds are distributed by Fenimore Securities, Inc. Cobleskill, NY 12043.

To obtain a prospectus or summary prospectus and for performance data that is current to the most recent month-end for each fund as well as other information on the FAM Value Fund and FAM Equity-Income Fund, please go to famfunds.com or call (800) 932-3271. Because of ongoing market volatility, fund performance may be subject to substantial short-term changes.



FAM Funds

MANAGED BY FENIMORE ASSET MANAGEMENT, INC.

Trusted for Generations

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FAM Focus

IRA BENEFICIARIES

We recommend that you review both your primary and contingent FAM IRA beneficiaries annually. As the IRA distribution process occurs upon your death, if the primary beneficiary is alive, your account will go to them. If your primary beneficiary predeceases you, the IRA is distributed to the contingent beneficiary. If you have not assigned a contingent beneficiary, then it goes to your estate. If your situation has changed, there may be unintended consequences from your beneficiary designations. For example, your IRA could be paid to your ex-spouse or current spouse instead of your children. Also, a later born child may not be named as a beneficiary. Additionally, there can be negative tax consequences if your IRA goes to your estate instead of your spouse or other beneficiaries.

NEW IRS COST BASIS GOVERNMENT REGULATIONS

Effective 1/1/12, the IRS is requiring all mutual fund companies to follow new “cost basis” reporting procedures for mutual fund shares. Please call us with any questions at 800-932-3271 or visit famfunds.com and from the home page click on “**New Cost Basis Regulations**” within “**In the Spotlight**” for a description and definitions. Cost basis is used to determine gains/losses on any shares you sell in a taxable (non-retirement) account. This information is essential for preparing your income tax return.

WEB TAX CENTER

Check out FAM Funds’ Tax Center at famfunds.com. It includes 2012 and 2011 **IRA Limits** and **Tax Bracket Information**, **Year-End Distribution data**, and a link to **IRS Publication 550** (Investment Income and Expenses). The Tax Center can be found within “Shareholder Services.”