



# FAM Funds

MANAGED BY FENIMORE ASSET MANAGEMENT, INC.

## FAM VALUE FUND LETTER TO SHAREHOLDERS – ANNUAL REPORT 2009

December 31, 2009

### Dear Fellow Value Fund Shareholder:

On December 31, 2009 the net asset value of the Investor Class of the FAM Value Fund was \$39.32. This represents an increase of +22.18% from the beginning of the year. For comparison, the S&P 500 Index increased +26.46% and the Russell 2000 Index increased +27.17%.

### 2009 in Review

The old saying about March weather, “in like a lion, out like a lamb” is a fitting description for the stock market in 2009. The first nine weeks of calendar 2009 were dreadful for stock investors. As an example, the Dow Jones Industrial Average lost more than 2,000 points, or -25%, from the beginning of the year to March 6, 2009. The Dow Index hit levels that we hadn’t seen since January 1997 — over 12 years ago. However, since the low on March 9, 2009, the stock market has dramatically increased more than +64%. The catalyst for this strong advance was some “not bad” economic news released in the second week of March and preliminary reports from some of the large New York City banks that they had been profitable in the months of January and February. These positive signs helped to start the rally. A continued drumbeat of better economic news throughout the year and a noteworthy amount of Federal Government liquidity pumped into the economy have sustained the advance in stock prices.

### Portfolio Activity

During the year we purchased additional shares in ten existing holdings and bought six new securities. The majority of these purchases occurred in the early part of the year during the market decline. The six new securities purchased were Cognex, EOG Resources, Micros Systems, Patterson Companies, SCBT Financial, and Stryker. We also sold some stocks including our entire position in Vulcan Materials and Pool Corporation. Vulcan was sold at a good price after the stock went up on stimulus bill enthusiasm which we believe was overdone. We also had concerns about Vulcan’s debt level. All the shares in Pool were sold due to our concerns about the American consumer’s ability to buy and finance large ticket items like swimming pools. Additionally, we sold some of our shares in Bed Bath & Beyond and Ross Stores because we felt the valuations of both stocks were a little high. The remaining sales occurred in the second half of the year and were executed to realize capital losses which reduced the Fund’s capital gains to zero.

### Performance Detail

Given the overall strength of the stock market in 2009, most of our holdings were up for the year. We owned only six stocks that declined in price during the year and only one fell more than -10%. Our performance versus the market was a mirror image of last year when we outperformed the market in a year that experienced a notable decline. This year the Fund was up less than the market in a strong positive year. Over the two-year period, including both the ups and downs, the Fund has outperformed the broad market as measured by the S&P 500 Index. The reason for this is that it is more important to “lose less” in a down market.

### Best Performers

The best performing stock was Mednax, formerly known as Pediatrix Medical Group. Mednax was up +90% for 2009 generating an annualized gain for the Fund of more than \$15 million. The company’s primary business is providing services in neonatal intensive care units at hospitals. One of every 11 babies born in this country requires some specialized treatment at the time of birth. The Mednax doctors are at the hospitals 24 hours a day and can provide the needed care. These doctors are highly trained in treating babies in emergency situations. In addition to the pediatric care business, the company is using its large free cash flow to invest in other medical service businesses.

The second best performer for 2009 was CarMax (\$10 million gain) up +208%. CarMax is a used car superstore with 100 locations around the country. The company sells used cars at a fixed price. All cars can be previewed on the company's website Carmax.com. A transparent sales process and great customer experience has made CarMax a car shopper's destination. Used cars sell at a great discount to new cars so CarMax may have an advantage over new car dealers as the American consumer continues to look for good deals. In addition, the improvement of the credit markets was a positive event for the company's automobile finance unit.

Our third best performing stock was Meredith Corporation (\$9 million gain) — up +85.5% in 2009. Meredith is a magazine publisher and owner of broadcast television stations. While you may not know the name Meredith, you will certainly recognize their magazine titles like *Better Homes & Gardens*, *Ladies Home Journal*, and *MORE Magazine*. Meredith depends on American business advertising expenditures for revenue. It is typical for advertisers to reduce ad spending in a recession and as a result Meredith has experienced a decline in sales and profits. Recently, however, the company is seeing improvement in the advertising markets and investors bid up the price of the stock in anticipation of higher profits in the future.

### Worst Performers

The only meaningful negative performer was the Fund's largest holding Brown & Brown with a loss of almost \$5 million. The stock was down -12.6% for the year. Brown & Brown is an insurance broker that sells insurance to middle market companies. A soft insurance market and the general economic decline impacted the company's sales and earnings. We believe both of these headwinds are temporary. As insurance premium rates increase and the economy improves we believe Brown & Brown will have a major increase in earnings. In the meantime we can afford to wait as the company generates considerable amounts of free cash flow and has a terrific balance sheet. We feel Brown & Brown has upside potential.

### Our Investment Strategy

The value of any business is created by the cash that the business generates and what management does with that cash. These are the two main sources of value we focus our research on, and we look for companies that have the following characteristics:

- High profit margins for their industry
- Significant free cash flow
- Low capital reinvestment requirements
- High returns on invested capital
- Low levels of debt or other types of leverage
- Management with a track record of using capital wisely

Companies that exhibit these characteristics are typically of high quality and have the financial resources to perform well in different environments. This was evident in 2008 when the prices of many companies that we owned went down less than the market indices. However, in very strong Bull Markets higher quality companies tend to underperform the overall markets. A recent article on *Bloomberg News* reported that the 25 companies in the S&P 500 with the worst financial results posted a +95% gain during the rally that started in March through December 24, 2009. By comparison the top 25 companies with the best financial performance gained only +51% during the same time period. The obvious underperformance of high quality companies was due to investors speculating on lower priced, lower quality stocks and bidding up their price.

### Moving Forward

We invest in companies that are financially strong and although those types of stocks underperformed the financially weak ones this past year, we feel we're in a good position moving forward. Financial strength is analogous to fire insurance. You really don't pay attention to it until you have a fire — then it's the only thing that matters. This was certainly true during the financial panic of 2008-09. That is why our key investment



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guidelines include that a company must have little or no debt and significant free cash flow.

Cash is king. Companies that generate large free cash flow have the ability to control their own destiny. The cash profits allow a company to expand their business through capital investment or acquisitions. Cash that is not used for these purposes can be returned to the shareholders in the form of a stock buyback or dividends. All of these activities can increase the value of a company even in a slower growth environment.

Excellent management is also imperative. Since management is responsible for generating the cash flow and allocating it for the benefit of the owners, it is critical that we have good managers. We look for executives that exhibit honesty, integrity, and have a track record of allocating capital wisely. In order to help us evaluate management we travel extensively to meet with the executives at the companies we own.

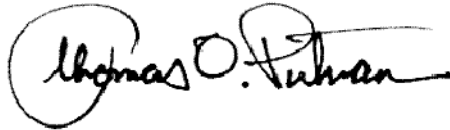
2009 was a favorable year and we are optimistic about the future. As the "irrational exuberance" of investing in financially weak businesses wanes, investors should again look at sound enterprises and recognize their true economic value in the marketplace. The Value Fund is in a good position to benefit when this happens because we have invested in companies with promising long-term growth potential. We are also enthused because there are currently several new investment opportunities that meet our stringent criteria and we can invest in them if they hit our buy prices.

Thank you for investing with us in the FAM Value Fund.

Sincerely,



John D. Fox, CFA  
Co-Manager



Thomas O. Putnam  
Co-Manager

**For the FAM Value Fund's Top Ten Holdings, Performance History and Disclosure,  
please see the next page.**



**FAM Funds**

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**FAM VALUE FUND TOP TEN HOLDINGS**

<b>Name</b>	<b>% of Total Inv.</b>
White Mountains Insurance Group	5.1%
Brown & Brown	5.1%
Mednax	4.9%
Berkshire Hathaway	4.4%
John Wiley & Sons	4.2%
IDEX Corporation	3.6%
Yum! Brands	3.5%
Markel Corporation	3.3%
EOG Resources	3.2%
Meredith Corporation	3.1%
<b>TOTAL INVESTMENTS</b>	<b>\$664,122,238</b>

*The portfolios are actively managed and current holdings may be different.*

**AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2009**

*The performance data quoted represents past performance.*

<b>FAM VALUE FUND</b>	<b>SINCE INCEPTION</b>	<b>10 YEAR</b>	<b>5 YEAR</b>	<b>1 YEAR</b>	<b>TOTAL ANNUAL FUND OPERATING EXPENSES*</b>
Investor Shares	9.96% (1/2/87)	6.53%	-0.16%	22.18%	1.40*

**\*Disclosure:** The actual total annual FAM Value Fund operating expense is **1.24%**, after reimbursements, as reported in the Fund's 12/31/08 audited financial statement. The "Total Annual Fund Operating Expenses" includes Acquired Fund Fees and Expenses which are those expenses incurred indirectly by the Funds as a result of investments in shares of one or more investment companies or pooled investment vehicles (referred to as "Acquired Funds"). The costs associated with investments in the acquired funds are not direct costs paid by Fund shareholders.

*Past performance is not indicative of future results, current performance may be lower or higher than the performance date quoted. Investment returns may fluctuate; the value of your investment upon redemption may be more or less than the initial amount invested. Please consider a fund's investment objectives, risks, charges and expenses carefully before investing. The FAM Funds prospectus contains this and other important information about the FAM Value Fund and FAM Equity-Income Fund and should be read carefully before you invest or send money. The principal risks of investing in the Funds are: stock market risk (stocks fluctuate in response to the activities of individual companies and to general stock market and economic conditions), stock selection risk (Fenimore utilizes a value approach to stock selection and there is risk that the stocks selected may not realize their intrinsic value, or their price may go down over time), and small-cap risk (prices of small-cap companies can fluctuate more than the stocks of larger companies and may not correspond to changes in the stock market in general). 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 [www.famfunds.com](http://www.famfunds.com) or call (800) 932-3271.*

*The recent growth rate in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future. Because of ongoing market volatility, fund performance may be subject to substantial short-term changes.*