Letter to Shareholders

January 15, 2009

Dear Fellow Shareholders,

We are deeply disappointed to report that The Torray Fund depreciated 37.4% last year, about the same as the Standard and Poor's 500 Index (-37.0%). This is the first time in our Firm's 36-year history we have lost anywhere near as much as the market during a severe downturn. The tangled web of toxic financial products, bursting of the housing bubble, hedge fund implosions and margin calls combined to destroy values across the board. In addition, mutual funds, ours included, which had been large net buyers of stocks for many decades, faced massive redemptions, suddenly becoming forced sellers just when buyers became scarce. There was simply nowhere to hide.

While the performance of the S&P 500 and Dow was bad enough, broader measures of the market paint an even grimmer picture: the Value Line 1600 and Wilshire 5000 stock indexes lost 49% and 39%, respectively. Overseas exchanges also experienced big setbacks. The Dow Jones Global Index, excluding the U.S., sank 46%. China, India and Russia were off 65%, 52% and 72%. Some European markets registered similar declines; commodity prices also buckled, most notably oil, which dropped 70% from its high. These numbing results mark the close of a miserable decade for investors - the S&P 500, including dividends, lost 1.4% annually over the period, and we only broke even. While the media continues to draw parallels to the 1930s, the last ten years were worse. Between 1929 and 1938, the market lost 0.89% per year, and from 1930-1939, it slipped only 0.05% annually.

Compounding the pain from these losses is a market environment characterized by low volumes and high volatility which has attracted speculators but scared off long-term investors. Sources at the New York Stock Exchange have told us there are an estimated several million day-traders gambling with their 401(k) plans - some, unfortunately, unemployed. These trading accounts can be leveraged four-to-one ($100,000 of equity supports a $400,000 portfolio) provided the positions are liquidated by the end of each day. You may have noticed the market's recent gyrations and heavy volume between 3:40 and its 4:00 close. It is during this period that many large blocks of stock and most of the outstanding day-trading margin debt are cleared, a phenomenon that occasionally has caused volume to as much as double in 20 minutes. (The orders are entered into the Exchange's electronic system, nicknamed "the dark hole," where they are matched by computers.) This activity has triggered wild swings in the Dow Jones and S&P 500 indices, heightening investors' anxiety and adding to suspicions the market is being manipulated. The failure of banks and prominent Wall Street firms, the collapse of AIG, Fannie Mae, Freddie Mac and more, not to mention shocking revelations of at least five new Ponzi schemes, have played an even greater role in compromising the public's trust in our financial system and the integrity of corporate managements.

But, we will not dwell on this further. The damage is done and, in our opinion, largely reflected in stock prices, particularly those of quality companies of the type held in our portfolio. While they may go lower, from a long-term perspective, valuations are attractive. Earnings returns and, in many cases, dividend yields, are well above rates on money market funds and U.S. government bonds of all maturities. (Short-term Treasuries yield zero, and the 30-year bond paying 4½% trades at 131% of par for a current return of 3.4% and a yield if held to maturity of only 2.9%.)

Also worth noting is the Federal Reserve's measure of assets available for immediate spending – i.e. cash or equivalents - jumped 86% to $8.9 trillion in the first 11 months of last year. That is enough to buy 75% of all domestic stocks. By contrast, at the market's peak in early 2000, the same Fed measure totaled $5 trillion, or 20% of the market's total value, suggesting that investors are more fearful of losses at today's low prices than they were when the market was twice as high. If history is a guide, when the current financial distress passes and the economy recovers, investors will quickly change their minds and pile back into stocks, causing them to rally sharply. This classic "buy high--sell low--buy high" syndrome has afflicted investors since the earliest days of exchanges.

Another thing to keep in mind is that most of the cash on hand yields virtually nothing after inflation, and less than nothing after taxes. It seems highly unlikely investors will pursue this no-return option indefinitely. That is especially true if inflation heats up in the years ahead. Today's all-time-low yields reflect the Federal Reserve's concerns about deflation. Yet, at the height of the energy and materials mania around the middle of last year, its focus was just the opposite, which shows how fast things can change in such an unsettled environment.

While the Fed's posture seems appropriate at this point, looking further down the road one has to wonder about the impact projected massive budget deficits will have on the bond market. Eventually, the current crisis will pass and all of the new money our government is pumping into the economy will surely make itself felt. We well remember the inflationary surge of the late 1970s and early '80s (peaking at 13.5% in 1980) which prompted the Federal Reserve under Chairman Paul Volcker to sharply raise rates. (The prime rate soared above 21% and the yield on the 30-year Treasury bond hit 15.2%.) Although it's hard to conceive of such a move today, should history someday repeat, the U.S. government 4½'s of 2038 would plunge from 1310 to 300 – a loss of 77%. Even if the current yield rose from 3.4% to 5.7% - its average since 1926 - its price would fall 520 points to 790. The intermediate and long-term Treasury market strikes us as a bond version of the housing and dot.com bubbles.

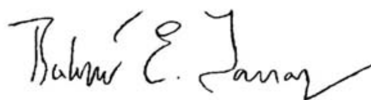
Having said all of this, as students of history, we remain eternally optimistic about America's future. Over time, it has never paid to bet against it. Counting this year's decline, stocks across the board are probably down 50%, with many having lost far more. Leaving aside the housing downturn, $10 trillion has disappeared, and few have been spared. We are all in the same boat. The question is what to do now? Our answer is to stay the course. Values, as earlier noted, are compelling, and the government's massive rescue program should kick in relatively soon. While opinions differ widely on the likely impact, it seems improbable the package could produce a worse outcome than doing nothing.

Finally, we draw your attention to investor sentiment. It's the most negative we've ever encountered. This stands in stark contrast to the unbridled optimism and high stock prices of the late 1990s and the euphoria over energy and materials between 2003 and 2007. Each of these episodes ended badly. The simple fact is that when investors have already departed and prices are low, risk is low as well, and vice-versa. After four down years between 1929 and 1932, the market rallied 54% in '33, eased 1.4% in '34, advanced 48% in '35 and another 34% in '36. This record is at odds with the common perception that stocks were obliterated during the 1930s. As we pointed out before, they lost ground, but slightly less than our market did during the last decade.

In closing, we want to express again our profound disappointment over the loss you have suffered. As so many have observed, this has been a once-in-a-lifetime setback. We believe it is not an exaggeration to say once-in-a-century. Despite the present gloom, a few years from now we think the U.S. and world economies will have recovered, and stocks will be higher by enough to make the wait worthwhile.

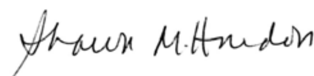
We thank you for your investment and assure you we are devoted, as ever, to your best interests.

Sincerely,



Robert E. Torray

Fred M. Fialco



Shawn M. Hendon

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	1 Year	5 Years	10 Years	Since Inception (12/31/90)
The Torray Fund	-37.4%	-5.1%	0.0%	8.8%
S&P 500 Index	-37.0%	-2.2%	-1.4%	7.9%

The returns quoted represent past performance and do not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher. Returns current to the most recent month-end are available at www.torray.com. The returns shown do not reflect the deduction of taxes a shareholder would pay on the redemption of fund shares and distributions. The Fund's gross annual operating expense ratio, as stated in the current prospectus, is 1.09%. Returns on both The Torray Fund and the S&P 500 Index assume reinvestment of all dividends and distributions. The S&P 500 Index is an unmanaged index consisting of 500 U.S. large-cap stocks.

You should consider the fund's investment objectives, risks and charges and expenses carefully before investing. The prospectus contains this and other information about the fund. For more information about The Torray Fund, including fees and expenses, or to receive a prospectus, please call us at 1-800-443-3036.

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