

The Torray Fund

Letter to Shareholders

February 3, 2010

Dear Fellow Shareholders,

We are pleased to report The Torray Fund gained 24.8% during 2009. Although the Standard & Poor's 500 Index was up 1.7 percentage points more, over the last eighteen months, our Fund holds a 1.5 percentage point cumulative advantage. The spread is widening as we write. (This appears to reflect an increasing interest in large, high quality companies of the type we own.) Last year's difference in results, and then some, is attributable to our 13.4% cash position which generated little or no return due to record low interest rates on short-term balances. It is important for you to know that this reserve is held for investment in stocks that meet our criteria, not as a hedge against the market going down.

When we wrote to you a year ago, stocks had taken a terrible beating and our country was in the midst of the most severe economic turmoil since the 1930s. Despite the gloomy backdrop, our January letter expressed optimism about America's future, saying, "The damage is done and, in our opinion, largely reflected in stock prices." Highlighting the risks of expressing such views publicly, the market promptly fell another 25% in about two months, bringing its loss since October 2007 to 57%. (By coincidence, *The Wall Street Transcript* interviewed Bob on March 9, the day stocks bottomed. That article, published in the March 23 issue, appears on our website, www.torray.com.)

Even though the news was worse by mid-year, shares had rallied to a small gain, and our July letter expressed "room for more optimism than at any time since the financial crisis began." We emphasized this was a long-term view, not a forecast of where stocks were headed over the next few months or quarters. As it turned out, we would have looked a lot smarter claiming a turnaround was imminent - between March 9 and year's end, stocks advanced 65%. While this came as a tremendous relief, it was, unfortunately, too late for countless investors that fled the market during the downturn, pouring billions of dollars into Treasury bills, money market funds, CDs, U.S. government bonds and bond funds. By the end of the year, domestic equity funds alone had experienced net withdrawals of \$38 billion, while bond funds took in \$375 billion - a 10-to-1 ratio. Treasury bills, yielding nothing, have been in such great demand, their prices, on several occasions, have risen above par, meaning holders were *paying* to ensure they got their money back. Huge sums have also been put into one, two, and five-year government bonds, despite the fact they yield only 0.3%, 0.9% and 2.4%, respectively.

Leaving taxes aside, we believe none of these rates will compensate for inflation, which has averaged 4% for more than 75 years, or the possible negative consequences of our country's massive deficit and debt issuance. More importantly, they will never produce enough money to retire on. Had the Pilgrims, landing at Plymouth Rock in 1620, bought money market funds at today's rates, it would have taken until now - nearly four centuries - to double their investment. Better, but still not good, a quality bond portfolio diversified across today's yield spectrum would probably generate an income in the neighborhood of 3% a year, doubling money in 24 years. By comparison, our Fund, in spite of the last decade, has multiplied in value 5.7 times in 19 years. Over the last 70 years, bonds, net of inflation, turned \$1 into \$2.70, while \$1 in stocks grew to

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\$103.00. Despite this record, untold numbers of investors are positioned today as though they expect the opposite result going forward.

Meanwhile, top-quality stocks, many paying dividends exceeding current short-to-intermediate-term interest rates, are now rejected at prices more than 25% below their levels of 2007, a time when investors were loaded with them, often on margin. (They are also 24% lower than they were at the close of 1999.) When the market collapsed last year, those that sold and moved to cash and bonds not only sustained big losses, but also missed the rebound. Victims of the worst timing ended up with 65% less money than if they'd simply stayed put - admittedly a very hard thing to have done under the circumstances. They are now faced with having to nearly triple their money to get even with where they were last March. Assuming a 10% annual return going forward - the stock market's long-term average - it will take about 12 years to do it. Even this understates the challenge. Investors have come nowhere near matching the market over the long haul, mainly because they persist in jumping in and out of stocks at the wrong time. Having observed this behavior for almost 50 years sustains our conviction that the buy-and-hold approach - declared dead by the pundits at last year's lows - is the only one that works.

At this point, we feel the average investor is too heavily committed to bonds and cash equivalents - a no-win situation from our perspective. In the early 1980s, investors wouldn't touch depressed 30-year U.S. governments yielding 15½%. Today, they're buying them at yields around 4.6%. If history is a guide, when the economy recovers and stocks go up, the money in bonds is certain to shift into equities at prices far higher than they were sold. This illustrates, once again, the problem people have differentiating risk from opportunity. They invariably think risk is low when prices are high, and vice-versa. This applies to stocks, houses, commercial real estate, commodities, and anything else that trades. At critical junctures, investors bet heavily they're right, and no amount of reasoning can change their minds.

In the present case, we doubt fixed income investors are convinced they're right; it's just they're afraid to do anything else. Recognizing this, we nevertheless believe investors with low stock positions should consider gradually moving back into high quality shares or funds that own them. There's no need to hurry. The best strategy is to invest amounts one's comfortable with on a regular basis - monthly or quarterly, for example. When prices fall, (which they did during nine of the 37 years we've been in business), each new investment will buy more shares and earn a higher dividend return. Ironically, while this is a big advantage for the long-term investor, the average person tends to associate falling share prices not with opportunity, but with losing money. Some losses, of course, are inevitable, but a well-diversified portfolio should provide a cushion against them.

Stocks, as we all know, can deliver unpleasant surprises. The market has been very volatile in recent weeks, making people that were already nervous even more so. Some may fear a collapse with no recovery. While there are obviously no guarantees, they should keep in mind that it's never happened before. We remain confident about America's future based on its record of prosperity and resilience in the face of adversity. Beyond that, we are reassured by the solid,

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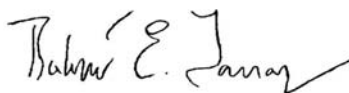
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economic fundamentals of companies in The Torray Fund. As we've often said, "If the business performs, the stock will take care of itself." Everything else is guesswork, and we don't know anyone that's guessed right for long.

These are tough times, the worst any of us have seen. Experts are everywhere. You can't turn on the television or pick up a newspaper without being inundated with predictions on the market's direction and what to do about it. They should be ignored. Investors will do far better sticking to the fundamentals, secure in the knowledge that, over time, sound, growing businesses have produced higher returns than any of the alternatives widely available to the general public. Despite the many challenges our country has faced, things have always worked out, and we believe this case will prove no different.

In closing, we want you to know that all of us at The Torray Companies appreciate your investment in our Fund.

Sincerely,



Robert E. Torray



Fred M. Fialco



Shawn M. Hendon

<i>As of December 31, 2009</i>	<u>1 Year</u>	<u>5 Years</u>	<u>10 Years</u>	<u>Since Inception (12/31/90)</u>
The Torray Fund	24.8%	-2.1%	0.1%	9.6%
S&P 500 Index	26.5%	0.4%	-0.9%	8.8%

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 1.13%. 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, 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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