

# Financial Trends Fund, Inc.

## Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than and shorting companies selling for more than our appraisal of intrinsic value.
- ◆ Seek positive total returns on both long and short positions.
- ◆ Suitable for investors with a 5+ year investment horizon.

## Investment Strategy

**BUY LONG / SELL SHORT STRATEGY** The Fund seeks to buy long or sell short securities of companies at prices below or above our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

**SELL LONG / COVER SHORT STRATEGY** Investments are sold or shorts covered when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the market price is no longer at a discount to intrinsic value. In

cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

### FUND STRUCTURE

- A long-biased fund with typically 30–50 long positions and 5–20 short positions.
- Total long positions are between 80–115% of net assets, with total short positions comprising 5–25% of net assets.

### EXPOSURE

- Maximum gross market exposure (long % + short %) = Up to 140%
- Target net market exposure (long % - short %) = Between 60%–100%

*The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses.*

## Portfolio Management



Chris Bingham, CFA  
Manager



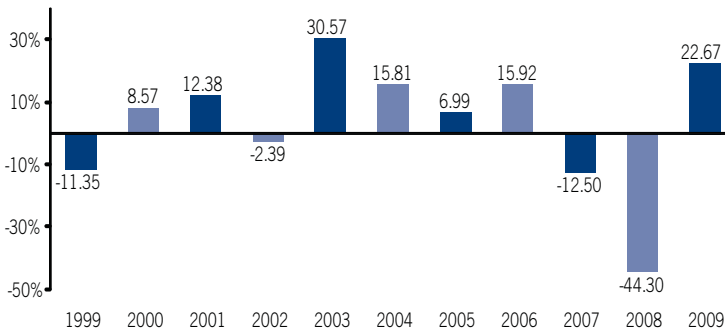
Austin Hawley, CFA  
Assistant Manager



John Loesch, CFA  
Assistant Manager

## Performance<sup>1</sup>

YEAR-BY-YEAR TOTAL RETURNS AT NAV



AVERAGE ANNUAL TOTAL RETURNS (as of 6/30/10)

	1-Year	5-Years	10-Years
<b>Diamond Hill Financial Trends Fund, Inc.</b>			
At Net Asset Value	28.18%	-5.14%	4.66%
At Market	39.08%	-5.59%	4.62%
<b>Benchmark</b>			
S&P 1500 SuperComposite Financials Index	18.57%	-10.74%	-2.13%
INCEPTION DATE	July 3, 1989		

## Best/Worst Performers

Security Name	2nd Quarter Contribution <sup>3</sup>	Position as of June 30
<b>Best</b>		
Horance Mann Educators Corp.	0.1%	1.6%–Long
First of Long Island Corp.	0.1%	1.6%–Long
Comerica, Inc.	0.1%	0.0%–Long
Prosperity BancShares, Inc.	0.2%	(0.0%)–Short
KBW, Inc.	0.1%	(0.4%)–Short
First Financial Bankshares, Inc.	0.1%	(1.4%)–Short
<b>Worst</b>		
Assured Guaranty Ltd.	-1.7%	3.5%–Long
Wells Fargo & Co.	-1.2%	6.2%–Long
JPMorgan Chase & Co.	-1.1%	6.6%–Long
M&T Bank Corp.	-0.1%	(1.8%)–Short
Hancock Holding Co.	0.0%	(0.0%)–Short
Westamerica Bancorp	0.0%	(0.5%)–Short

## New/Eliminated Positions<sup>2</sup>

Security Name	New (N)/ Eliminated (E)	Position as of June 30
XL Capital Ltd.	N–Long	2.2%
Popular, Inc.	N–Long	1.7%
First American Financial Corp.	N–Long	0.3%
City National Corp.	E–Long	—
Comerica, Inc.	E–Long	—
First Tennessee Bank Asset Mgmt. 4.5% 5/15/13	E–Long	—
Regions Financing Trust III 8.875% Tr. Pfd.	E–Long	—
Hancock Holding Co.	E–Short	—
Prosperity Bancshares, Inc.	E–Short	—

<sup>2</sup> Only eliminated long positions greater than 0.5% position as of June 30 and March 31, respectively, are shown.

<sup>3</sup> Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. First, a daily contribution for each position is calculated by multiplying the position's daily ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

<sup>1</sup> Diamond Hill Capital Management, Inc. began managing the Fund on December 1, 2007; performance prior to this date was not achieved by Diamond Hill Capital Management, Inc.

## Top Five Long Holdings<sup>1</sup>

Security	Industry	% of Portfolio
JPMorgan Chase & Co.	Financial Services	6.6%
Wells Fargo & Co.	Banking Services	6.2%
Travelers Cos., Inc.	Insurance	5.1%
U.S. Bancorp	Banking Services	3.9%
Assurant, Inc.	Insurance	3.9%

## Top Five Short Holdings<sup>1</sup>

Security	Industry	% of Portfolio
M&T Bank Corp.	Banking Services	(1.8%)
First Financial Bankshares, Inc.	Banking Services	(1.4%)
Home BancShares, Inc.	Banking Services	(1.2%)
Westamerica Bancorp	Banking Services	(0.5%)
KBW, Inc.	Capital Markets	(0.4%)

## Industry Allocation *(Overweight in bold)*

	Insurance	Banking Services	Financial Services	REITs and Real Estate Mgmt.	Consumer Financial Services	Asset Managers	Capital Markets	Other	Cash & Equiv.
Long Portfolio	<b>32.8%</b>	<b>32.4%</b>	19.3%	4.5%	4.3%	<b>0.8%</b>	—	<b>0.4</b>	<b>5.5%</b>
S&P 1500 SuperComposite Financials Index	23.7%	19.5%	25.2%	4.7%	13.0%	—	13.9%	—	—
Short Portfolio	—	(4.8%)	—	—	—	—	(0.4%)	—	—

## Commentary

Diamond Hill Financial Trends declined 10.04% in the second quarter, compared with a 12.64% decline in the S&P 1500 SuperComposite Financials Index.

The second quarter was a difficult period for the financial sector as concerns over the European debt crises as well as financial regulatory reform weighed heavily on the equity markets. First quarter results were generally better than expected but not enough to offset myriad macro concerns as the sector underperformed the broader indices.

During the quarter, long positions in Horace Mann Educators Corp., First of Long Island Corp., and Comerica, Inc. were the largest positive contributors. Horace Mann continues to make progress in raising prices on its homeowners' product and is successfully implementing its new distribution strategy, which has led to improved growth prospects. Comerica's shares benefited from reports of improving credit quality.

Bottom performers in the long portfolio included Assured Guaranty Ltd., Wells Fargo & Co., and JPMorgan Chase & Co. Assured Guaranty reported weaker than anticipated earnings in May, reflecting the addition of reserves to cover insured residential mortgage backed securities (RMBS) underwritten between

2005 and 2008. While disappointed by the lower than expected first quarter earnings, we do not believe the first quarter results necessarily imply diminished normalized earnings. We expect reserving for RMBS will continue to be uneven. Additionally, JPMorgan Chase & Co. and Wells Fargo & Co. suffered from concerns over European sovereign risks and pending regulatory reform in the United States causing the positions to depreciate during the quarter.

In the short portfolio, many of these same concerns aided our positions in KBW, Inc. and Prosperity Bancshares, Inc., whose shares depreciated during the quarter. There were no material detractors from performance in the short portfolio.

During the quarter, we initiated meaningful long positions in XL Capital Ltd., and Popular, Inc. We have owned XL Capital in the past and have been closely monitoring the company. As the earnings steadily improved and the company made meaningful progress in lowering risk in its investment portfolio, the recent decline in its stock price allowed us to re-establish a long position at an attractive discount to our estimate of intrinsic value. Popular, Inc., a bank in Puerto Rico, was added during the quarter as its price decline provided an attractive discount to our estimate of intrinsic value. We also acquired a position in First

American Financial Corp. through a spin-off from an existing holding, CoreLogic, Inc.

We eliminated long positions in City National Corp. and Comerica, Inc. during the first few weeks of April as they appreciated to our estimate of intrinsic value after both companies reported improving credit quality during the first quarter. In addition to the eliminations of Comerica and City National, we divested a bond holding in First Tennessee Bank, as well as a trust preferred position in Regions Financing Trust III. Both securities were trading very close to par value.

In the short portfolio, no meaningful short positions were added during the quarter. However, the weakness in the financial sector allowed us to cover our position in Prosperity Bancshares. Hancock Holding Co. suffered from concerns over the oil spill in the Gulf of Mexico and its impact on the economy in the gulf coast markets, which allowed us to cover the position as it reached our estimate of intrinsic value.

Performance figures assume that all distributions are reinvested. For performance data current to the most recent month-end, contact your financial professional or call 614.255.4080. The performance data contained within this material represents past performance, which does not guarantee future results. Due to market volatility, the Fund's current performance may be higher or lower and is subject to substantial changes.

## Portfolio Statistics

### FUND FACTS

Ticker	DHFT
CUSIP	25264C101
Inception Date	7/3/89
IPO Price	\$6.00 <sup>2</sup>
Listed Exchange	Nasdaq

### ADDITIONAL INFORMATION *(as of 6/30/10)*

NAV	\$10.04
Market Price	\$8.35
52-week range	\$5.78-\$9.90
Premium/(Discount) <sup>3</sup>	(16.83%)
Net Assets	\$39.8M
No. of Long/(Short) Holdings	50/(5)
Undistributed Net Investment Income (per share) <sup>4</sup>	\$0.058

### DISTRIBUTION HISTORY

Frequency	Annual
Declaration Date	Dividend per share
12/10/09	\$0.1200
08/12/09	\$0.2100
12/08/08	\$0.1000
08/20/08	\$0.3253



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NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

<sup>1</sup> Listed holdings do not represent all of the holdings in the Fund. Holdings are subject to change at any time and are not recommendations to buy or sell any security. Characteristics are expressed as a percentage of net assets.

<sup>2</sup> Adjusted to reflect 2-for-1 stock split in November, 1995.

<sup>3</sup> Closed-end fund shares are not redeemable, but instead are traded in the secondary market and frequently trade at a discount to net asset value. Specialized funds may carry additional risks.

<sup>4</sup> As of December 31, 2009, Annual report.

**FOR MORE INFORMATION** If you are interested in investing in the Financial Trends Fund, Inc., please contact your financial professional. For current fund information or to request closed-end fund literature, call 614.255.4080 or visit our web site at [www.diamond-hill.com](http://www.diamond-hill.com).

### ACCOUNT INFORMATION

Important Phone Number  
877.254.8583 9 AM-7 PM EST