



An Update from
Christopher C. Davis and Kenneth C. Feinberg
Portfolio Managers
Semi-Annual Review 2009

The table below summarizes results through June 30, 2009 for Selected American Shares compared with the S&P 500® Index, against which my co-manager Ken Charles Feinberg, our colleagues and I judge ourselves. Our objective is to outperform this Index after fees over the long term as we have done over the five, 10 and 15 year periods as well as since Davis Advisors began managing the Fund in May 1993.¹

However, implicit in our goal of beating this Index is our expectation that the S&P 500® Index should produce positive returns over the long run. This has not been the case for the last decade, during which the Index actually declined by more than 20%, or -2.2% per year, making the last 10 years some of the worst on record for stock investors. Although Selected American Shares exceeded the Index by almost 24% cumulatively, or 2.6% per year, over this time period, we do not consider an absolute return of about 4%, or 0.4% per year, satisfactory.¹

Our focus on both absolute *and* relative returns stems from the simple fact that our colleagues, families and directors are large investors in Selected American Shares. As co-investors alongside our clients, we eat our own cooking and know the truth of the old saying: “you can’t eat relative returns.” For reasons outlined below, rather than shake our conviction, this decade of poor absolute returns strengthens our firm belief that in the decades ahead the Index should produce satisfactory absolute returns.² As a result, gaining any advantage over this Index after expenses should result in decent long-term returns for our shareholders.

In the pages that follow, we will provide perspective and context for our trailing results but we will not try to excuse them. Negative absolute returns over shorter time periods and relative returns that slightly underperformed the market over the last one and three years, and slightly outperformed the market over the last five years, fall short of our goals.¹

Total Returns as of 6/30/09	YTD ³	1 Year	3 Years	5 Years	10 Years	15 Years	Inception (5/1/93) ⁴
Selected American Shares Class S	5.61%	-27.97%	-9.27%	-1.85%	0.37%	8.71%	8.31%
S&P 500® Index	3.16%	-26.21%	-8.22%	-2.24%	-2.22%	6.93%	6.70%

The performance presented represents past performance and is not a guarantee of future results. Total return assumes reinvestment of dividends and capital gain distributions. Investment return and principal value will vary so that, when redeemed, an investor’s shares may be worth more or less than their original cost. The total annual operating expense ratio for Class S shares as of the most recent prospectus was 0.92%. The total annual operating expense ratio may vary in future years. Returns and expenses for other classes of shares will vary. Current performance may be higher or lower than the performance quoted. For most recent month-end returns, visit selectedfunds.com or call 800-243-1575.

This report includes candid statements and observations regarding investment strategies, individual securities, economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. Equity markets are volatile and an investor may lose money. **Past performance is not a guarantee of future results.**

¹Class S shares. Davis began managing the Fund on May 1, 1993. **Past performance is not a guarantee of future results.** ²While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. Equity markets are volatile and an investor may lose money. ³Returns for periods less than one year are not annualized. ⁴Davis Selected Advisers, L.P., began managing Selected American Shares on May 1, 1993. Prior to that date, the Fund was managed by a different investment advisor.

We have ground to make up and will try our very best to do so.

Given the tremendous market and economic turmoil of the last year, we have received many questions from shareholders on a wide range of topics. To respond to these questions, we have chosen a somewhat different format for this midyear report, structuring it as a series of answers to the most common questions we have been asked. We have organized the questions from the general to the specific and, as always, will include a review of our mistakes as well as our successes. We hope you find this format useful and would welcome your feedback.

Q: Has the stock market made a bottom?

A: Questions about the overall market are the most common we receive. Unfortunately, the only answer we can give to such questions is, “We don’t know.” While hundreds, if not thousands, of people make a living as market and economic forecasters, there is overwhelming evidence that such short-term forecasting is impossible. As John Kenneth Galbraith observed, “The function of economic forecasting is to make astrology look respectable.” The chart

below illustrates this point by contrasting the top Wall Street economists’ forecasts of the direction of interest rates over the following six months with what actually happened. As the chart shows, there is no correlation between their predictions and the outcomes.

The same is true of stock market forecasts. The chart at the top of page 3 shows Wall Street strategists’ predictions of the following year’s stock market returns, which also appear uncorrelated with what actually happened.

Furthermore, what is true of forecasters as a group is also true of individuals. Although the media is now filled with fawning interviews with those strategists who correctly predicted the bear market, these are not the same strategists who were lionized for predicting the bull market. Reputations for astute forecasting tend to be short-lived. A dramatic example of the ephemeral nature of such reputations came in Alan Greenspan’s admission that “I’ve been in the forecasting business for 50 years, and I’m no better than I ever was, and nobody else is either.” (Now he tells us!)

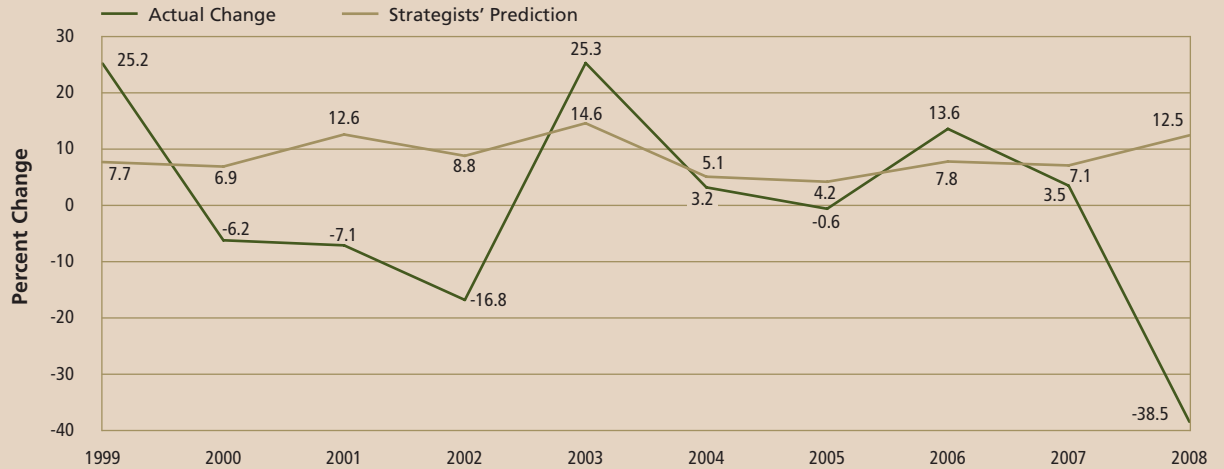
Six Month Average Forecasted Direction vs. Actual Direction of Interest Rates

The Wall Street Journal Survey of Economists (12/82–6/09)

Date	Forecast	Actual	Result	Date	Forecast	Actual	Result	Date	Forecast	Actual	Result
12/82	▼	▼	Right	12/91	▼	▼	Right	12/00	▲	▼	Wrong
6/83	▼	▲	Wrong	6/92	▼	▲	Wrong	6/01	▼	▲	Wrong
12/83	▼	▲	Wrong	12/92	▼	▼	Right	12/01	▼	▼	Right
6/84	▼	▲	Wrong	6/93	▲	▼	Wrong	6/02*	▲	▲	Right
12/84	▲	▼	Wrong	12/93	▲	▼	Wrong	12/02	▲	▼	Wrong
6/85	▲	▼	Wrong	6/94	▼	▲	Wrong	6/03	▲	▼	Wrong
12/85	▲	▼	Wrong	12/94	▼	▲	Wrong	12/03	▲	▲	Right
6/86	▲	▼	Wrong	6/95	▲	▼	Wrong	6/04	▲	▲	Right
12/86	▲	▲	Right	12/95	▼	▼	Right	12/04	▲	▼	Wrong
6/87	▼	▲	Wrong	6/96	▲	▲	Right	6/05	▲	▼	Wrong
12/87	▼	▲	Wrong	12/96	▼	▼	Right	12/05	▲	▲	Right
6/88	▼	▼	Right	6/97	▼	▲	Wrong	6/06	▲	▲	Right
12/88	▲	▲	Right	12/97	▲	▼	Wrong	12/06	▲	▼	Wrong
6/89	▲	▼	Wrong	6/98	▲	▼	Wrong	6/07	▼	▲	Wrong
12/89	▲	▼	Wrong	12/98	▲	▼	Wrong	12/07	▲	▼	Wrong
6/90	▼	▲	Wrong	6/99	▼	▲	Wrong	6/08	▲	▼	Wrong
12/90	▼	▼	Right	12/99	▼	▲	Wrong	12/08	▲	▼	Wrong
6/91	▼	▲	Wrong	6/00	▼	▼	Right	6/09	▲	▲	Right

Source: Legg Mason and *The Wall Street Journal* Survey of Economists. This is a semi-annual survey by *The Wall Street Journal* last updated June 30, 2009. *Benchmark changed from 30 Year Treasury to 10 Year Treasury. **Past performance is not a guarantee of future results.**

Strategists' Average Forecasted Market Change vs. Actual Market Change (1999 – 2008)



Source: *Barron's*. From 1999 through 2005, numbers reflect Dow Jones Industrial Average forecasts. In 2006, *Barron's* began using the S&P 500® Index exclusively. **Past performance is not a guarantee of future results.**

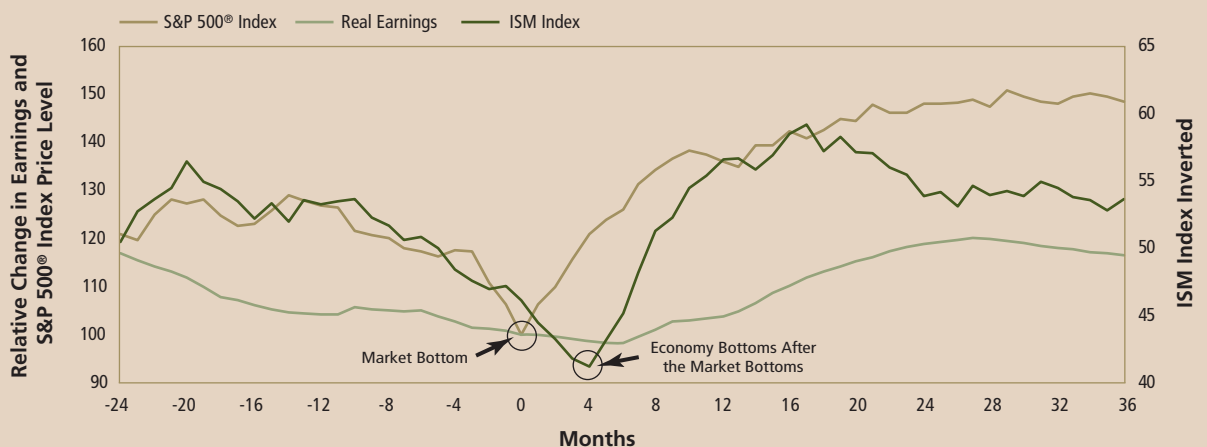
While we cannot predict the short-term direction of the market or economy, we do know that the market is likely to recover well before there are clear signs of the economy improving. As Warren Buffett wrote last fall, "I can't predict the short-term movements of the stock market. . . . What is likely . . . is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over." The same point is illustrated in the chart below,

which reviews average cyclical patterns since 1970 and shows that the market has tended to bottom months before the economy.

Q: Why should investors be in stocks at all?

A: Given the market's negative return over the last decade, some shareholders have begun to question the wisdom of owning stocks. They particularly highlight the fact that bonds have produced far higher

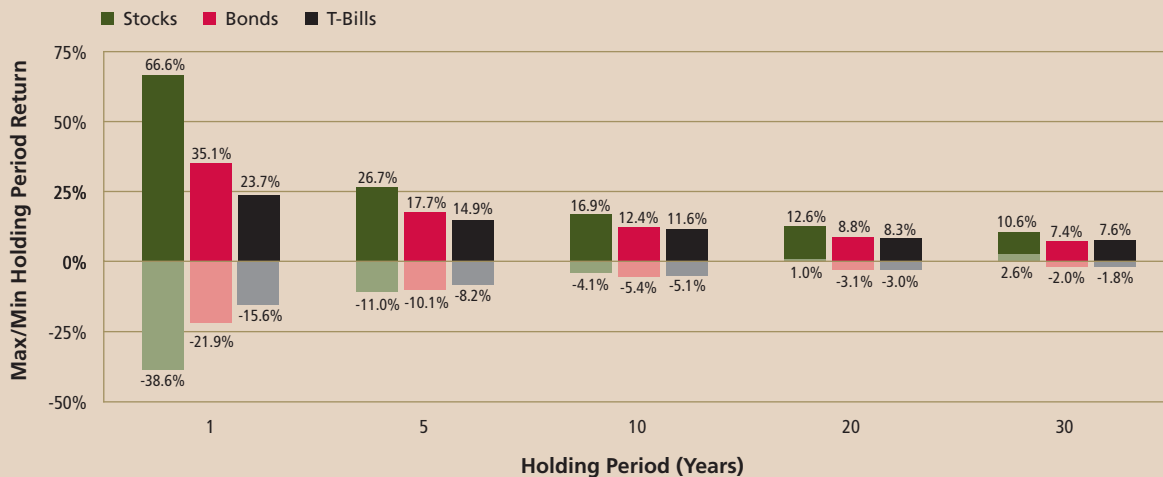
Typical Pattern Around Market Bottoms Average Cycle Since 1970



Source: UBS WMR and Datastream as of June 24, 2009. Earnings and S&P 500® Index Price Level equal 100 where Months equal zero. ISM is the Institute of Supply Management. **Past performance is not a guarantee of future results.**

Maximum and Minimum Real Holding Period Returns for Stocks, Bonds and T-Bills

(1802 – 2008)



Source: Siegel, Jeremy. *Stocks for the Long Run*. Common stocks, bonds and T-Bills represent different asset classes subject to different risks and rewards. Bonds and T-Bills are considered to have less risk than stocks. Future economic events may favor one asset class over another. **Past performance is not a guarantee of future results.**

returns over the last decade and with far less risk. However, the very fact that bond returns exceeded stock returns over the last decade is exactly why investors should now avoid bonds in favor of equities.⁵ Over very long periods of time, but especially those in which interest rates were as low as they are today, stocks have produced better real returns than bonds. As the chart above shows, there has never been a 20 year period in which stocks produced a negative real return. Please note that this chart is based on data that goes back 200 years. While some credibly argue that the data from before 1920 should not be relied upon, the data since 1920 is more reliable and supports the same conclusion.

The fact that we have just come through an anomalous long period in which bonds outperformed stocks is explained by the fact that at the beginning of this period interest rates were very high. Thus, bondholders earned not just a high coupon but also price appreciation from falling interest rates. When interest rates are very low, as they are today, bondholders stand to lose on both fronts. Their starting coupons are low and they face the prospect of price erosion

should interest rates rise. Such conditions in the past led to 20 and even 30 year periods in which bondholders suffered negative real returns. Thus, if we define risk as the possibility of having a negative real return over a long period of time, then bonds at today's interest rates are far riskier than stocks.⁵ While investors may feel safer in bonds, the toxic combination of low coupons and the likely prospect of higher future inflation means bondholders are likely to be more vulnerable to long-term wealth destruction than stockholders.

Q: Why should the next 10 years be better for investors than the last?

A: Although commentators and the public are more pessimistic than ever, it has historically been profitable to invest in the stock market after a decade of poor returns. Specifically, there previously have been 10 rolling 10 year periods since 1928 when the S&P 500® Index (and, before the inception of the S&P 500® Index in the 1950s, the Dow Jones Industrial Average) returned less than 5% per year. In every case, the 10 years that followed produced satisfactory returns averaging approximately 13% per year and

⁵Common stocks and bonds represent different asset classes subject to different risks and rewards. Bonds are considered to have less risk than stocks. Future economic events may favor one asset class over another.

ranging from a low of 7% per year to a high of 18% per year.⁶ While we cannot know for sure what the next decade holds, it is highly likely to be far better than what we have suffered through in the last 10 years.⁷ Past market performance is not a guarantee of future results.

The reason that satisfactory decades for investors tend to follow poor ones is that low prices increase future returns. In other words, because stocks represent ownership interests in underlying businesses, investors who buy at lower prices should enjoy better results than if they bought at higher prices. Consider a business that generates \$100,000 of income per year. A buyer who pays \$2 million for this business should only expect a 5% return on investment. But if a buyer could get that same business for half price, then the buyer's return on investment would double to 10%. This same math applies at the level of the stock market, which is, after all, simply a collection of businesses, the majority of which we believe should earn more money 10 years from now than they do today. Ten years ago, when the S&P 500® Index was trading at 1,372, underlying operating earnings were approximately \$47, implying a return of about 3%. With the S&P 500® Index trading at 919, underlying operating earnings should be around \$55 this year and \$74 next year, implying an earnings yield of 6% to 8%, or twice what it was a decade ago.⁸ What's more, these earnings figures are cyclically depressed by the weak economy, giving investors additional upside if the global economy recovers as we expect.

Q: What if we are in a new Great Depression?

A: More and more, we hear from shareholders who are concerned that we are not in a recession but rather a new Great Depression. While there are many substantial and structural reasons why it is unlikely that the United States economy will contract anywhere near as much as it did in the 1930s, the key question from our perspective as investors,

rather than economists, is what happened to the stock market during this bleak period. At first glance, the answer is disheartening. It took 25 years for the stock market to return to the level it reached at the peak in 1929. When we look at what was happening in the world during this period it is no surprise that the market did so badly. After all, this 25 year period included unemployment that rose as high as 25%, a 46% peak-to-trough contraction of GDP, and a world war to boot, all three of which we consider unlikely to recur. Nevertheless, rather than debate whether or not the conditions are in place for a similar terrible period, let us just suppose that they are. In other words, let's assume that the market will not reach the highs that it reached in 2000 for 25 years, or until 2025. (Although the S&P 500® Index very slightly exceeded this level in late 2007, few would dispute that the peak of the stock market bubble in terms of valuation and other factors was March of 2000.) Even in granting this horrendous possibility as a worst-case scenario, it should be noted that from 1929–1954, investors did not earn a zero return. After all, the return an investor gets comes from price appreciation plus dividends. Over long periods of time, the returns from dividends can be substantial. In fact, from 1929–1954, although the stock market itself made no headway, investors earned a compound annual return of roughly 5% per year from dividends. It should be noted that this 5% return does not mean that the dividend yield on stocks was 5% throughout this period. In fact, just as today, at the start of the period, the dividend yield was a bit more than 3%.⁹ It also does not mean that dividends never get cut. During the early 1930s, dividends were essentially cut in half. Yet from the relatively low starting yield, and even allowing for the cuts, over the entire period dividends grew along with GDP and the result of this growing stream of dividends was a 5% return over this 25 year period.

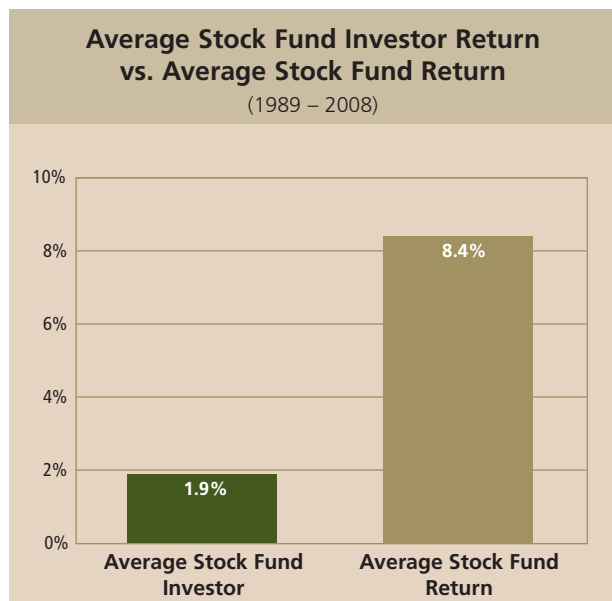
Importantly, even if we are in the same scenario today, we are not starting at the March 2000 peak but rather

⁶Source: Thompson Financial, Lipper and Bloomberg. Based on the S&P 500® Index from inception. Prior to the inception of the S&P 500® Index, returns are based on the Dow Jones Industrial Average. Returns are calculated by computing the ten year return of the rolling one year periods between 12/31/37 and 12/31/08. **Past performance is not a guarantee of future results.** ⁷While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. Equity markets are volatile and an investor may lose money. ⁸Source: Standard & Poor's Index Services and S&P Analytical Services, via standardandpoors.com. Actual results may differ materially from those we anticipate. ⁹Source: http://www.econ.yale.edu/~shiller/data/ie_data.xls. As of June 30, 2009. **Past performance is not a guarantee of future results.**

well below it. In this example, if we assume that from 2000–2025 the market will perform as badly as it did from 1929–1954, then an investor who started at the 2000 peak should only expect to earn a return of about 5% per year from dividends alone with no price appreciation. (Once again, this 5% return implies that dividends will grow from lower yields at the starting point to much higher yields by the ending point, resulting in a 5% return for the entire period.) However, because the market is currently far below its peak, we would also expect price appreciation from the market simply getting back to the level it started from. This price appreciation from 919 back to the March 2000 high of 1,552 by 2025 would add about 3% per year to the 5% dividend returns, creating a total return of about 8%. While this example is obviously hypothetical, it is interesting to note that even in a scenario in which investor returns are as miserable from March of 2000 to March of 2025 as they were from 1929–1954, the

worst period in stock market history, investors would still earn about 8% per year from here.¹⁰

We dwell on such examples in order to provide a counterbalance to the pervasive pessimism that has investors getting out of equities in record numbers at exactly the time we believe they should be getting in. As Warren Buffett notes, “The most common cause of low prices is pessimism—sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It’s optimism that is the enemy of the rational buyer.” Unfortunately, it remains true that people are pessimistic when prices are low and optimistic when prices are high. The result of having sentiment correlated with prices is that investors (aided by stock market promoters and certain financial media commentators) have incurred a significant self-inflicted penalty by getting in *after* prices are up and getting out *after* prices are down. The cost of this penalty over the last 20 years is estimated to be about 6.5% per year, a staggering figure that dwarfs any other investment expenses.



Source: *Quantitative Analysis of Investor Behavior* by Dalbar, Inc. (March 2009) and Lipper. Dalbar computed the “average stock fund investor” returns by using industry cash flow reports from the Investment Company Institute. The “average stock fund return” figures represent the average return for all funds listed in Lipper’s U.S. Diversified Equity fund classification model. Dalbar also measured the behavior of a “dollar-cost average” and “asset allocation” investor. The annualized return for these investor types was 2.7% and 1.7% respectively over the time frame measured. All Dalbar returns were computed using the S&P 500® Index. Returns assume reinvestment of dividends and capital gain distributions.

Past performance is not a guarantee of future results.

While it may run counter to human nature to suggest that people invest more in times of panic and less in times of euphoria, a simple program of disciplined dollar-cost averaging would greatly improve most investors’ results.¹¹ Looking back at the same bleak period described above provides a staggering example of the effectiveness of just such an approach. Imagine a seemingly unlucky investor started in 1929, investing \$10,000 per year each year throughout that terrible bear market until 1954 when the market finally regained its previous high. In other words, this poor investor started investing when the market was at a peak that it would not reach again for 25 years. But amazingly, if this investor had stuck with the discipline of investing \$10,000 each year during this bleak 26 year period, the \$260,000 invested would have grown to \$1.7 million by the end of 1954, a compound annual growth rate of 12% year. The combination of dividends and the return on the investments made each year at lower prices than the first year resulted in this very

¹⁰This is hypothetical and is not a prediction of the future of the stock market. ¹¹Dollar-cost averaging does not assure a profit nor protect against losses in declining markets.

good performance. But this result was only achieved with the discipline of adding to investments each year, especially when things looked their worst.

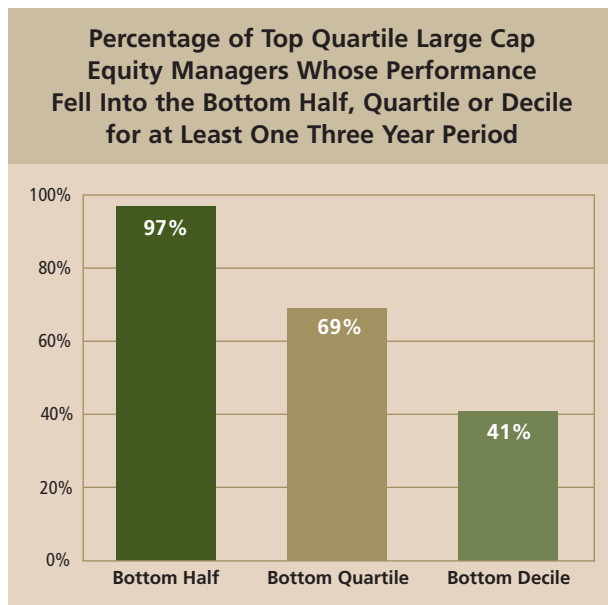
Q: If a portfolio manager underperforms for three or more years, isn't it time to switch managers?

A: Although we would far prefer to answer this question at a time when our three year results are good rather than when they are poor, we can promise you that the answer will be the same in both cases and it's one we have given in good times as well as bad. Periods of underperformance are inevitable. As the legendary chairman of Capital Guardian Trust Company Bob Kirby observed, "The basic question facing us is whether it's possible for a superior investment manager to underperform the market three years in a row. The assumption widely held is 'no.' And yet, if you look at the records, it's not only possible, it's inevitable." While we know that making such a statement during a time of underperformance may sound like we are making excuses, the data supporting it is incontrovertible. The vast majority of top-performing managers over a long period of time will experience multi-year stretches of poor performance. Specifically,

as the chart below shows, 97% of all of the managers whose results over the last 10 years placed them in the top performance quartile still underperformed for at least a three year stretch during that decade of excellent relative results. More important, in almost half of these cases (41%, to be precise), the three year stretches were bad enough to place them in the bottom decile relative to their peers. While we are clearly in such a trough at the moment, we note that such periods of underperformance are an inevitable part of successful long-term investing rather than a reason for switching.

Some portion of this underperformance can be attributed to the managers' mistaken appraisals and declines in the value of the underlying businesses they owned. In the recent bear market, this was particularly common in the financial sector. We had our share of such mistakes, which we will discuss later in this report. However, another portion of this underperformance experienced by managers with good long-term results is simply attributable to the unpredictability and vagaries of short-term results. It is the nature of markets that value and price can diverge for long periods of time. In euphoric times, such as during the Internet bubble, the stock prices of many companies exceed their value. In times of panic and dislocation, the value of many companies exceeds their prices. In such periods, poor reported results may indicate deferred returns rather than permanent losses. For example, a company purchased at \$10 per share that has an intrinsic value of \$20 is a good investment even if its price falls to \$5 for some period of time. Only time will tell what percentage of the recent weak returns were the result of temporary mispricings versus permanent mistakes.

Although inevitable, such periods of poor results can be doubly costly for clients. After all, as portfolio managers, we can focus on the value of the underlying businesses, but clients can only see the prices. As a result, clients often lose confidence and get out *after* they have already suffered through the period of bad performance but before benefiting from the recovery. In these inevitable periods of underperformance,



Source: Davis Advisors. 176 managers from eVestment Alliance's large cap universe whose 10 year average annualized performance ranked in the top quartile from July 1, 1999–June 30, 2009. **Past performance is not a guarantee of future results.**

it is often helpful to remember that poor results may not reflect a flawed investment discipline but rather the fact that prices and values can irrationally diverge for relatively long periods of time.

Before turning to the reasons that such divergences can create real opportunities, we must also recognize the cases in which falling stock prices reflect substantial declines in the value of the underlying business. In these cases, we were mistaken in our business appraisals.

Q: What were the Fund's biggest mistakes?

A: As always, we must begin a discussion of mistakes with some definitions. Most important, we do not label an investment as a mistake simply because it trades below our purchase price. In fact, given market volatility, it is probable that every company we buy will trade below our purchase price at some point, especially in a bear market. Rather, we identify an investment as a mistake when our work indicates a significant reduction in our assessment of a company's intrinsic value. In some fortunate cases, especially during bull markets, we are able to identify the mistake before the market does and sell the shares without incurring a substantial loss. However, over the last several years, our two largest mistakes have resulted in a permanent and substantial loss of capital, as we were not ahead of the market in identifying declining intrinsic value. Chief among these mistakes was our investment in American International Group (AIG), which cumulatively detracted roughly 6% from our five year returns, almost three times as much as any other mistake. In our 2008 year-end report, we provided a detailed review of this mistake, which we commend to your attention. (Please visit the Portfolio Manager Commentaries section of the Selected Funds website, www.selectedfunds.com, to read this report.) Virtually all of the shares were sold in the first half of this year. Though we believe there may be value in the shares that exceeds today's market capitalization, we are not convinced that this value will be permitted to accrue to shareholders given today's charged political environment.

Our second largest mistake, which subtracted about 2% cumulatively from our five year returns, reached its sad conclusion in our fourth quarter 2008 sale of virtually all our Merrill Lynch shares at a substantial loss. Although our first purchase was at \$48 per share, we added to our investment at lower prices giving us an average cost of \$35 for all shares acquired. On September 15th Bank of America offered \$29 per share to acquire Merrill Lynch. We sold most of the shares in the weeks following the announcement at prices ranging from \$13-\$29 per share and the few remaining shares after they were exchanged for Bank of America stock earlier this year. As we wrote in our last report, though this investment was a mistake, we remain convinced that Merrill's powerful network of financial advisors combined with decisive management reduced our downside and prevented the sort of catastrophic loss we experienced in AIG and others experienced in firms like Lehman Brothers and Bear Stearns.

From both these mistakes, we learned an important lesson about the dangers of even high-quality firms relying on short-term debt markets for financing. This insight led us to sell our position in General Electric at more than twice today's price. While we are great admirers of GE's management and businesses, we were not as comfortable with its capital structure after what we had seen happen to AIG and Merrill. The fact that the lesson learned from our mistakes helped us dodge a significant loss in another holding is the only positive outcome we can point to from our two largest mistakes.

Q: Why do you have so much in financials?

A: Although we meaningfully reduced the percentage of the Fund invested in financial companies over the past five to seven years, the Fund continues to have a large weighting in financials relative to the S&P 500® Index, representing approximately 28% for the Fund versus 14% for the Index. Given that the worst carnage of this bear market was centered in the financial sector, it would seem that this overweighting in such a poor performing sector would

have contributed to the Fund's relatively weak results. However, the companies that make up the financial category are not monolithic, but include a wide range of business models, many of which performed far better than those in the headlines. This wide range of results is understandable when we consider that an automobile insurer like Progressive has little in common with a regional bank like Wells Fargo & Company or a charge card company like American Express and so on. In fact, the financial companies that we hold that have been in the headlines over the past year, including American Express, JPMorgan Chase, Wells Fargo & Company, The Bank of New York Mellon, and Goldman Sachs, make up only about 12% of assets. Also, although we did mistakenly own AIG and Merrill, we did not hold or we sold positions in a number of other financial companies that were wiped out, including Fannie Mae and Freddie Mac, Countrywide, Bear Stearns, Lehman Brothers, and Washington Mutual. As a result, the negative of being overweight in financials was more than offset by the relatively strong performance of the specific financials we held and our avoidance of most, but not all, of the largest disasters. Thus, somewhat counterintuitively, the Fund's aggregate holdings in financials actually helped our relative results over the last one and five years and only detracted 0.21% from our relative results for the three year period.

That said, we must emphasize again that we do not structure the Portfolio on the basis of top-down sector allocations. Rather we construct it from the bottom up, company by company. Furthermore, while it is clear that the financial sector is made up of a very diverse group of companies, we should also mention that financial companies tend to share certain characteristics that we find attractive. For example, most financial business models are not prone to obsolescence. Further, given the collapse of the securitization markets and what has been called the shadow-banking system of non-bank finance companies, traditional financial institutions

now face far less competition. In short, having come through a financial hurricane, these companies now face the prospect of greater demand for their products and services with far less competition.

Q: Why don't you have more in financials?

A: We can truly say that in the depths of the March crisis, it was hard to imagine a shareholder asking this question. However, given the steep rebound in financial stocks in the last three months combined with some of the observations made above, it is now a question we are beginning to hear. While we would never rule out owning more, we have two main concerns that offset some of the positives just outlined: regulation and leverage. Interestingly, these two concerns could hurt companies in opposite ways. If the economy rebounds strongly, harmful regulation would likely have the effect of reducing the returns many financial firms would otherwise have earned. Conversely, if the economy does not get better, the leverage embedded in most financial firms increases the risk of losses or further dilutive share issuance. Although leverage is lower today, the fact that we continue to face rising credit losses and that these losses are amplified by leverage is a real concern. Put another way, while today's valuations discount a significant increase in credit costs, there is no certainty that actual losses will not exceed even these conservative estimates. The upshot of all of this is that while we may well have missed an opportunity to buy more in the depths of the March panic (Wells Fargo, for example, briefly traded under \$8 per share,) we had and have a relatively large weighting in these companies already considering the risks described above.

Q: What are the biggest changes in the Portfolio?

A: Because portfolio turnover in Selected American Share tends to be quite low, the Fund's holdings remain quite similar to what we have described in past reports and are divided very roughly into five

subjective categories: global leaders or stalwarts; beneficiaries of the crisis in the capital markets or those companies whose business model or mindset allows them to take advantage of the chaotic environment; companies that are subject to “headline risk,” most notably select financials (see above); energy, commodity and agriculture companies that benefit from the emerging middle class in China, India and Brazil; and a catch-all category of special situations including opportunistic investments.

Of these categories, we have been adding the most to the global stalwarts. In addition to holdings such as Procter & Gamble, Costco, Microsoft, Google, Schering-Plough, and Diageo, we initiated or added to our positions in Johnson & Johnson, Merck, Pfizer, Coca-Cola, and Becton, Dickinson. These companies are characterized by healthy balance sheets, strong competitive positions and durable business models. They generally have pricing power and the ability to pass through cost increases. Because such businesses produce excess cash, they are self-funding and have no need to regularly replenish capital. Beyond these factors, we place a particularly high value on the global aspects of these businesses for two reasons. First, only five percent of the world’s population now lives in the United States. Further, although we remain bullish on the long-term prospects of our country, it seems likely that a number of other large economies will grow faster in the decades ahead. We consider it the best of both worlds to invest in proven U.S.-based companies that are well positioned to capitalize on these higher growth rates overseas. Second, although not certain, the likely long-term consequence of the dramatic increase in our federal budget and trade deficits will be a weaker dollar. Such an outcome will significantly increase the value of businesses with

strong non-dollar earnings streams. It is amazing, for example, that by 2020, 90% to 95% of Coca-Cola’s earnings may be generated from overseas.

Q: How have current events affected your firm?

A: Although the turmoil of the last year was dramatic, the fact that this year marks the 40th anniversary of the founding of our firm serves as a useful reminder that tumultuous periods in the market and economy have happened before and will happen again. Not long after our founding, the market declined almost 50% and unemployment soared to double-digit rates while our country remained mired in a deeply unpopular war. We have always managed our firm, like our funds, to get through such difficult periods. We are private, employee-owned, frugal, and well capitalized. We have no debt or derivatives. In this chaotic environment, we have hired three new research analysts. We remain committed to providing clients satisfactory long-term returns after expenses. We also are among the largest investors in the funds that we manage and have not sold a share throughout this downturn.

Looking ahead, Ken and I feel strongly that our team of analysts is the best we have ever had and we are often given credit for their work. Two that deserve special mention for their long-term contribution to returns are Danton Goei and Stephen Chen. We are proud to have such talented, dedicated and honorable colleagues.

Above all, we are privileged to have patient shareholders, the vast majority of whom have chosen to stay the course with us through this difficult time. For this we are sincerely grateful. We never forget the trust you have placed in us. ■

This report is authorized for use by existing shareholders. A current Selected Funds prospectus must accompany or precede this material if it is distributed to prospective shareholders. You should carefully consider the Fund's investment objectives, risks, fees, and expenses before investing. Read the prospectus carefully before you invest or send money.

This report includes candid statements and observations regarding investment strategies, individual securities, economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact.

Selected American Shares' investment objective is capital growth and income. In the current market environment, we expect that income will be low. There can be no assurance that the Fund will achieve its objective. Selected American Shares invests primarily in equity securities issued by large companies with market capitalizations of at least \$10 billion. Some important risks of an investment in the Fund are: market risk: the market value of shares of common stock can change rapidly and unpredictably; company risk: the market value of a common stock varies with the success or failure of the company issuing the stock; financial services risk: investing a significant portion of assets in the financial services sector may cause a fund to be more volatile as securities within the financial services sector are more prone to regulatory action in the financial services industry, more sensitive to interest rate fluctuations and are the target of increased competition; and foreign country risk: companies operating, incorporated or principally traded in foreign countries may have more fluctuation as foreign economies may not be as strong or diversified, foreign political systems may not be as stable and foreign financial reporting standards may not be as rigorous as they are in the United States. As of June 30, 2009, Selected American Shares had approximately 14.2% of assets invested in foreign companies. See the prospectus for a complete listing of the principal risks.

Davis Advisors is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions regarding the investment prospects of our portfolio holdings include "forward looking statements" which may or may not be accurate over the long term. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. These opinions are current as of the date of this report but are subject to change. Market values will vary so that an investor may experience a gain or a loss. The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of June 30, 2009, Selected American Shares had invested the following percentages of its assets in the companies listed: AIG, 0.07%; American Express, 2.64%; The Bank of New York Mellon, 2.00%; Becton, Dickinson, 0.74%; Coca-Cola, 0.33%; Costco, 3.92%; Diageo, 1.57%; Goldman Sachs, 0.59%; Google, 1.43%; Johnson & Johnson, 1.57%; JPMorgan Chase, 2.69%; Merck, 0.88%; Microsoft, 1.86%; Pfizer, 0.84%; Procter & Gamble, 1.41%; Progressive, 2.08%; Schering-Plough, 1.81%; Wells Fargo, 4.13%.

Selected Funds has adopted a Portfolio Holdings Disclosure policy that governs the release of non-public portfolio holding information. This policy is described in detail in the prospectus. Visit selectedfunds.com or call 800-243-1575 for the most current public portfolio holdings information.

Davis Selected Advisers, L.P., began managing Selected American Shares on May 1, 1993. Prior to that date, the Fund was managed by a different investment advisor.

Dalbar, a Boston-based financial research firm that is independent from Davis Advisors, researched the result of actively trading mutual funds in a report entitled *Quantitative Analysis of Investor Behavior (QAIB)*. The Dalbar report covered the time periods from 1989–2008. The Lipper Equity LANA Universe includes all U.S. registered equity and mixed-equity mutual funds with data available through Lipper. Returns assume reinvestment of dividends and capital gain distributions. The fact that buy and hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future.

Broker-dealers and other financial intermediaries may charge Davis Advisors substantial fees for selling its products and providing continuing support to clients and shareholders. For example, broker-dealers and other financial intermediaries may charge: sales commissions, distribution and service fees, and record-keeping fees. In addition, payments or reimbursements may be requested for: marketing support concerning Davis Advisors' products; placement on a list of offered products; access to sales meetings, sales representatives and management representatives; and participation in conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. Financial advisors should not consider Davis Advisors' payment(s) to a financial intermediary as a basis for recommending Davis Advisors.

The net expense ratio for Selected American Shares for the fiscal period ended June 30, 2009 was 0.95% and 0.63% for Class S and D, respectively.

Effective July 1, 2009, Davis Advisors voluntarily and permanently reduced any management fee breakpoints ABOVE 0.55% to 0.55% for Selected American Shares.

Over the last five years, the high and low turnover ratio for Selected American Shares was 18% and 3%, respectively.

The **S&P 500® Index** is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. Investments cannot be made directly in an index.

After October 31, 2009, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

Shares of the Selected Funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.