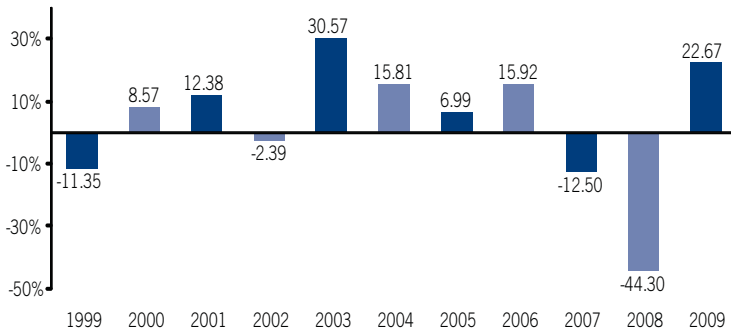




# Financial Trends Fund, Inc.

## Performance<sup>1</sup>

YEAR-BY-YEAR TOTAL RETURNS AT NAV



AVERAGE ANNUAL TOTAL RETURNS (as of 12/31/09)

|   | 1-Year       | 5-Years | 10-Years |
|---|--------------|---------|----------|
| <b>Diamond Hill Financial Trends Fund, Inc.</b> |              |         |          |
| At Net Asset Value                              | 22.67%       | -5.81%  | 2.94%    |
| At Market                                       | 29.60%       | -8.25%  | 2.30%    |
| <b>Benchmark</b>                                |              |         |          |
| S&P 1500 SuperComposite Financials Index        | 15.46%       | -10.55% | -2.04%   |
| INCEPTION DATE                                  | July 3, 1989 |         |          |

## Best/Worst Performers

| Security Name                     | 4th Quarter Contribution <sup>3</sup> | Position as of December 31 |
|-----------------------------------|---------------------------------------|----------------------------|
| <b>Best</b>                       |                                       |                            |
| Assured Guaranty Ltd.             | 0.59%                                 | 3.8%—Long                  |
| American Express Co.              | 0.30%                                 | 0.0%—Long                  |
| PNC Financial Service Group, Inc. | 0.26%                                 | 3.2%—Long                  |
| PrivateBancorp, Inc.              | 0.28%                                 | (0.0%)—Short               |
| WesBanco, Inc.                    | 0.16%                                 | (0.6%)—Short               |
| KBW, Inc.                         | 0.10%                                 | (0.6%)—Short               |
| <b>Worst</b>                      |                                       |                            |
| Old Republic International Corp.  | -0.45%                                | 3.0%—Long                  |
| Synovus Financial Corp.           | -0.44%                                | 0.5%—Long                  |
| Huntington Bancshares, Inc.       | -0.37%                                | 1.4%—Long                  |
| Prosperity Bancshares, Inc.       | -0.24%                                | (1.7%)—Short               |
| First Financial Bankshares, Inc.  | -0.13%                                | (1.3%)—Short               |
| Home BancShares, Inc.             | -0.12%                                | (1.3%)—Short               |

## New/Eliminated Positions

| Security Name                    | New (N)/ Eliminated (E) <sup>2</sup> | Position as of December 31 |
|----------------------------------|--------------------------------------|----------------------------|
| Bank of America Corp.            | N—Long                               | 2.7%                       |
| First of Long Island Corp.       | N—Long                               | 1.1%                       |
| MVC Capital, Inc.                | N—Long                               | 0.9%                       |
| First California Financial Group | N—Long                               | 0.1%                       |
| M&T Bank Corp                    | N—Short                              | (1.0%)                     |
| Hancock Holding Co.              | N—Short                              | (1.0%)                     |
| American Express Co.             | E—Long                               | —                          |
| Huntington Bancshares, Inc.      | E—Long                               | —                          |
| Principal Financial Group, Inc.  | E—Short                              | —                          |
| PrivateBancorp, Inc.             | E—Short                              | —                          |

<sup>2</sup> Only eliminated positions greater than 0.98% as of December 31 and September 30, 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.

## Commentary

Diamond Hill Financial Trends increased 0.63% in the fourth quarter, compared to the S&P 1500 SuperComposite Financials Index, which declined 2.18%.

Unlike the last two quarters, the long portfolio provided negative contribution to performance, as the rally in the financial sector did not continue into the fourth quarter. However, long positions in Assured Guaranty Ltd., American Express Co., PNC Financial Services Group, Inc., and City National Corp. (a 1.0% position as of 12/31) each provided substantial positive contributions to performance. During the fourth quarter, Assured Guaranty raised equity to solidify its financial strength ratings at Moody's. American Express' aggressive actions during the beginning of this credit cycle continued to pay off. PNC's stock reacted positively to the company's third quarter earnings and management's commentary on margins, expenses and continued progress with its integration of last year's National City Corp. acquisition. City National also appreciated during the quarter, as the company announced an FDIC assisted transaction to acquire the

assets and deposits of Imperial Capital Bancorp.

Additionally, our preferred holdings generally performed well as many banks continued to raise capital. In particular, preferred stock in both Bank of America Corp. and Wells Fargo Corp. subsidiaries reacted well to both of those companies issuing new common equity to repay their TARP obligations. The Fund also holds the common stock of Bank of America (2.7%) and Wells Fargo, which detracted from quarterly performance as the amount of the common equity capital raised was generally greater than many expected.

Old Republic International Corp. was another long position that detracted from performance. Even though Old Republic's earnings have been better than expectations, its mortgage insurance segment continues to negatively impact earnings. Also down during the quarter were regional banks, Huntington Bancshares Inc. and Synovus Financial Corp., which continue to struggle with credit issues primarily due to real estate exposure.

Due to the decline in the financial markets, the short portfolio provided positive contribution to performance. During the quarter, both PrivateBancorp, Inc. and Principal

Financial Group, Inc. struggled with fundamental challenges, which caused their stocks to decline and allowed us to cover the positions when they reached our estimate of intrinsic value. Other short positions that declined in value during the quarter included regional bank, WesBanco, Inc. and investment bank, KBW, Inc. The largest detractor in the short portfolio was Prosperity Bancshares, Inc., which continued to demonstrate strong fundamentals. We maintained the position as our estimate of intrinsic value remains well below the current market price.

During the quarter, we added several new long positions including Bank of America Corp., First of Long Island Corp., and MVC Capital Inc. Additionally, we initiated short positions in M&T Bank Corp. and Hancock Holding Co.

Overall, the Fund remained very net long as we continue to expect much higher returns on the long side given our typical long-term, normalized perspective.

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.

<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.

## 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.

## Portfolio Management



Chris  
Bingaman, CFA  
Manager



Austin  
Hawley, CFA  
Assistant Manager



John  
Loesch, CFA  
Assistant Manager

## 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 145%
- Target net market exposure (long % - short %) = Between 65%–100%

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

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

| Security              | Industry                       | % of Portfolio |
|-----------------------|--------------------------------|----------------|
| Wells Fargo & Co.     | Commercial Banks               | 6.4%           |
| JPMorgan Chase & Co.  | Diversified Financial Services | 5.8%           |
| Assured Guaranty Ltd. | Insurance-Prop/Cas             | 3.8%           |
| U.S. Bancorp          | Commercial Banks               | 3.5%           |
| Allstate Corp.        | Insurance                      | 3.5%           |

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

| Security                         | Industry         | % of Portfolio |
|----------------------------------|------------------|----------------|
| Prosperity Bancshares, Inc.      | Commercial Banks | (1.7%)         |
| Home BancShares, Inc.            | Commercial Banks | (1.3%)         |
| First Financial Bankshares, Inc. | Commercial Banks | (1.3%)         |
| M&T Bank Corp.                   | Commercial Banks | (1.0%)         |
| Hancock Holding Co.              | Commercial Banks | (1.0%)         |

## Portfolio Statistics

### FUND FACTS

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

### 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           |

### ADDITIONAL INFORMATION (as of 12/31/09)

|                                 |               |
|---------------------------------|---------------|
| NAV                             | \$9.82        |
| Market Price                    | \$7.88        |
| 52-week range                   | \$2.77-\$8.21 |
| Premium/(Discount) <sup>3</sup> | (19.76%)      |
| Net Assets                      | \$39.2M       |
| No. of Long/(Short) Holdings    | 48/(7)        |
| Undistributed Net Investment    |               |
| Income (per share) <sup>4</sup> | \$0.3038      |

## Industry Allocation (Overweight in bold)

|                               | Banking Services | Insurance    | Financial Services | REITs and Real Estate Mgmt. | Capital Markets | Other       | Asset Management | Specialty Finance | Cash & Equiv. |
|-------------------------------|------------------|--------------|--------------------|-----------------------------|-----------------|-------------|------------------|-------------------|---------------|
| Long Portfolio                | <b>38.1%</b>     | <b>29.1%</b> | 11.2%              | 5.1%                        | 4.8%            | <b>0.9%</b> | <b>0.5%</b>      | —                 | <b>10.3%</b>  |
| S&P Composite 1500 Financials | 21.0%            | 17.2%        | 26.1%              | 12.7%                       | 18.0%           | —           | —                | 5.0%              | —             |
| Short Portfolio               | (6.9%)           | —            | —                  | —                           | (0.5%)          | —           | —                | —                 | —             |



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Columbus, Ohio 43215

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

<sup>1</sup> Listed holdings do not represent all of the holding 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 June 30, 2009, Semi-Annual report.

The performance data contained within this material represents past performance, which does not guarantee future results. Performance, especially for short time periods, should not be the sole factor in making your investment decision. Due to market volatility, the Fund's performance may be subject to substantial changes.

**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