



An Update from
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Portfolio Managers
Annual Review 2009

The Davis Financial Fund’s Class A Shares provided a total return on net asset value of 46.02% for the one year period ended December 31, 2009 while the S&P 500® Index returned 26.46%.¹ Since inception on May 1, 1991, the Fund has delivered an average annual total return of 12.04% versus a return of 8.13% for the S&P 500® Index.¹

According to Morningstar, “Davis Financial Fund is for those who can be greedy when others are fearful. Legendary investors Ben Graham and David Dodd weren’t big fans of financial stocks, but this financial fund’s long time manager is a fan of some of their general principles. Ken Feinberg is a buy-and-hold investor in firms he thinks have strong management and competitive advantages, which give them high returns on equity over time. Because of Feinberg’s deep-value bent, his holdings may not seem to fulfill these criteria initially, but in the long run, most

holdings have ended up doing so to the great benefit of fundholders. . . . We expect his proven ability to spot the sector’s long-term winners overall will continue to lead to category-beating, long-term returns.”²

Performance

As Portfolio Managers and investors in our Fund, Charles and I believe our performance should be evaluated in two ways, both measured over a holding period of five years or does the Fund compare with its peer group of financial sector funds? The Fund delivered an average annual total return on net asset value of -0.72% for the five year period and 3.71% for the 10 year period ended December 31, 2009.¹ Over these same time periods, the S&P 500® Index returned 0.42% and -0.95%, respectively, and the financial component of the S&P 500® Index returned -11.55% and -2.55%, respectively.³

Total Returns as of 12/31/09	1 Year	5 Years	10 Years	Inception (5/1/91)
Davis Financial Fund Class A Shares <i>with a maximum 4.75% sales charge</i>	39.11%	-1.68%	3.21%	11.75%

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 A shares as of the most recent prospectus was 1.06%. 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 data quoted. For most recent month-end performance, visit davisfunds.com or call 800-279-0279. The Fund received a favorable class action settlement from a company that it no longer owns. This settlement had a material impact on the investment performance of the Fund in 2009. This was a one time event that is unlikely to be repeated.

¹Class A shares, not including a sales charge. **Past performance is not a guarantee of future results.** ²Morningstar Mutual Funds, July 30, 2009. ³Figures are generated using holdings-based attribution analysis for the S&P 500® Financial Index and do not take into consideration any impact of fees or expenses. Source: Wilshire Atlas and Davis Advisors.

The Davis Financial Fund differs from many other sector funds in that we prefer to be long-term shareholders of attractively priced, well-run companies. This is reflected in the Fund's low turnover over the years. In 2009 our turnover was just 9% compared with turnover above 200% for many of our peers.⁴ Low turnover also helps the Fund's shareholders compound wealth on a tax-deferred basis.

We encourage shareholders to compare the returns they achieve on an after-tax basis, which capture the turnover in a fund's holdings. The SEC requires all funds to disclose this information in their prospectuses. The Fund's after-tax returns for the latest one, five and 10 year periods are shown in the table below. We are especially pleased that the Fund's after-tax return on distributions for the past 10 years has averaged 2.62%, or 82% of the reported pre-tax return.⁵

Market Perspective⁶

After a very difficult start of the year with the market off approximately 25% at its March lows, the S&P 500[®] Index rallied by more than 67% and ended 2009 up 26.46%. Selected financial stocks performed somewhat better than the

overall market, although the recovery from the steep declines of early 2009 was not broad-based. The financial component of the S&P 500[®] Index rose more than 17% during 2009 after falling more than 55% in 2008. Given this comparison, we are pleased with the Fund's recovery from the decline experienced last year.

We try to do our best to protect the capital that you have entrusted to us and minimize losses to your investment. Since January 1, 2000, we have been successful in this effort as the Davis Financial Fund has achieved a positive cumulative return on net asset value of 43.98% versus -9.10% for the S&P 500[®] Index.⁷

Currently, the news remains considerably more positive than just one year ago both in the United States as well as around the world. As the media reported throughout 2008 and into 2009, many critically important events conspired to shake confidence in the global financial system. The bankruptcy filing of Lehman Brothers just 16 months ago in mid-September 2008, immediately followed by the near bankruptcy filing of AIG in the same week, threw the financial markets into a serious tailspin. Investor

Total Returns as of 12/31/09	1 Year	5 Years	10 Years
Davis Financial Fund Class A Shares			
Return Before Taxes	39.11%	-1.68%	3.21%
Return After Taxes on Distributions	39.08	-2.58	2.62
Returns After Taxes on Distributions and Sale of Fund Shares	25.45	-1.40	2.75

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. See endnotes for additional disclosure.

⁴Source: Lipper. Lipper category: Financial Services. ⁵Class A shares, not including a sales charge. **Past performance is not a guarantee of future results.** ⁶This 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.** ⁷As of December 31, 2009. Class A shares, not including a sales charge. **Past performance is not a guarantee of future results.**

confidence plummeted along with the markets during the final months of 2008 and the first few months of 2009.

There was a not insignificant chance the financial system could fail without some intelligent and aggressive government responses, especially in the United States but globally as well. These fears led to massive investor redemptions at hedge funds and mutual funds, which often necessitated forced selling of many securities at fire sale prices. Leverage had risen to record levels at many financial firms, including investment banks, commercial banks and some hedge funds. On the way up, this leverage helped fuel the speculative rise in asset prices such as the residential housing and commercial real estate bubbles in the United States. On the way down, the pain was widespread. Assets had to be sold, sometimes at any price, to avoid margin calls and rating agency downgrades and to cover investor redemptions and hedge fund liquidations. This put downward price pressure on homes, commercial real estate, stocks, bonds, art, and almost every other asset with few exceptions.

The economic recovery that began in 2009 has been slow but conditions are improving. Economies around the world are clearly stabilizing and the United States is experiencing a modest recovery from the "Great Recession" that started in December 2007.

Importantly, confidence in the global financial system is vastly improved. Two important drivers of this growing investor confidence have been greater stability in the global financial markets and a meaningful easing of the global credit crisis. Many emerging stock markets, led by China, India and Brazil, rose 30% to 100% in 2009, far

outpacing the more modest returns of established markets in Europe and North America.

The credit market freeze that began in 2008 has greatly eased, especially for strongly rated companies. Most investment grade companies have been able to access the fixed income markets or use their banking relationships to issue new debt or refinance debt coming due soon. It is critically important that companies can finance their day-to-day cash flow needs to conduct business operations as well as tap the financial markets to avoid any near-term or medium-term liquidity issues. The fear that companies might be unable to refinance their maturing short- and medium-term debt was one of the biggest causes of the massive declines in stock markets around the world in 2008 and early in 2009. Fortunately most companies avoided this devastating outcome.

At the same time, it is possible that the economic news may remain fairly mixed in the near term. The United States has lost 10 million jobs since the severe recession officially began in December 2007. Unemployment has continued to soar, with the unemployment rate rising to 10.0% in December. Since unemployment is a lagging indicator, the rate has remained high despite strong 5.7% real GDP growth in the fourth quarter of 2009.

The decline in global stock markets during 2008 wiped out \$20 to \$30 trillion in household wealth worldwide, including \$5 trillion in the United States. In addition, the approximately 30% decline in the value of U.S. homes has wiped out another \$6 trillion in U.S. household wealth. These record declines in household wealth, combined with rapidly rising unemployment during

the global recession, have dramatically reduced consumers' willingness to spend on big ticket purchases such as cars, homes, furniture, and expensive jewelry.

For those reasons, we do not expect a dramatic recovery in consumer spending back to the levels of 2007. Americans are beginning to save at levels not seen in many years. While this higher level of saving does not stimulate the economy as much as spending, it is clearly a long-term positive that Americans are saving more and paying down their high debt levels.

The U.S. government, and to some degree many foreign governments, acted forcefully and creatively to stabilize the financial markets. The U.S. government's efforts include the Troubled Asset Relief Program (with more than \$700 billion invested by the U.S. government), guarantees on bank debt, providing liquidity by buying the commercial paper of highly rated companies, lowering the federal funds rate close to zero, raising deposit protection from \$100,000 to \$250,000, President Barack Obama's economic stimulus programs, incentives to help stabilize housing values, and direct government loans to restructure the auto industry. These massive and creative responses in both monetary and fiscal policies have successfully stabilized economic conditions. However, we are mindful all this government involvement may bring some unintended consequences.

While significant challenges remain, in a world where 10 year U.S. Treasuries yield a paltry 3.8%, we believe there will be considerable opportunities to make compelling investments in financial stocks. One positive today is that

despite robust recoveries in stock markets around the world, the overwhelming consensus of opinion remains fairly negative. Although certainly somewhat justified, fear has not been so prevalent in many decades. As Warren Buffett advises, "Be fearful when others are greedy. Be greedy when others are fearful."

There will be companies that survive this storm, gain profitable market share, grow revenues and earnings, and reach the shore in better competitive positions. Our job is to try to find these winners for our shareholders. Moreover, while the headlines may remain mixed for a while, the market is a discounting mechanism. Considerable bad news and lower earnings in the near term may already be fully reflected in current share prices. At the same time, given the strong market gains experienced in 2009, we expect 2010 could be more of a stock picker's market, rather than a market where all stocks are lifted by a rising tide.

To sum up, U.S. consumers have reined in spending as falling home prices (their most important asset), generally lower stock prices and rising unemployment have taken a toll on their confidence, balance sheets and discretionary spending. Not surprisingly, as the housing bubble burst, home values fell the most in areas where they rose the most over the past five years, often driven by enormous speculation. Consumer spending has also fallen the most in these often large states, and credit losses are rising fast as well. Consumers are now being forced to save and rebuild their balance sheets. In fact, the household savings rate recently exceeded 8%, the highest savings rate since the early 1980s. While this higher savings rate will

have a dampening effect on economic growth, it is far from being a bad thing over the long term. Furthermore, the current credit crunch, despite having improved since late 2008, has still reduced the ease with which many consumers can borrow at favorable terms, and this will further reduce consumer spending.

On the positive side, America continues to be an adaptable and dynamic economic powerhouse, with a GDP approaching \$14 trillion, or almost 25% of global GDP. While unemployment has risen to 10.0%, there are still approximately 140 million Americans working today and almost 68% of Americans own their homes. Per capita GDP (GDP divided by 300 million, the approximate population of the United States) remains by far the highest in the world at \$46,000. This is more than 10 times the per capita GDP of China, for instance. Also, U.S. household net worth, while lower than two years ago, is now approximately \$54 trillion, up from \$25 trillion some 15 years ago. These are just a few of many enormously important factors supporting the long-term robustness of the American economy.

While no one knows how robustly the American economy will recover from the stresses of the past few years, we will do our best to stay focused on the dynamic changes that may be occurring.

Important Contributors to Fund Performance

On the positive side, the biggest contributors to performance during 2009 were American Express, Wells Fargo & Company, Goldman Sachs, State Bank of India, and Canadian Natural Resources.

On the negative side, our performance was modestly hurt by our positions in The Bank of New York Mellon and FPIC Insurance Group.

During 2009 we significantly increased our position in Wells Fargo & Company at very depressed prices. At roughly 6% of assets, the company is now one of the Fund's largest holdings. Wells Fargo, led by the team of CEO John Stumpf and Chairman Dick Kovacevich, remains one of the best-managed large financial services companies in the United States. Wells Fargo has pre-tax, pre-provision earnings power of \$35 to \$40 billion a year in the current environment. This large earnings stream should be sufficient to absorb the rising loan losses that will occur over the next year or so. Wells Fargo continues to raise deposits at a very competitive rate, which helps produce one of the highest net interest margins in the industry. The company also continues to gain profitable market share from its weaker competitors. We are quite pleased to once again own a meaningful position in such a well-managed company at what we believe to be a bargain price.

We also increased our positions in Julius Baer, Brookfield Asset Management, Ace Limited, Oaktree Capital Group, and First Marblehead. In addition, we received shares of GAM when Julius Baer and GAM split into two companies in 2009. We decreased our positions in Dun & Bradstreet, JPMorgan Chase, Transatlantic Holdings, Sealed Air, Canadian Natural Resources, The Bank of New York Mellon, China Life Insurance, and FPIC Insurance Group. We eliminated our position in H&R Block during 2009.

Outlook for Financial Stocks

We remain optimistic about the long-term outlook for financial stocks both within the United States and overseas. Yet we remain ever realistic and are conscious of the potential concerns: the impact of declining home values and the negative wealth effect on consumer spending; the high debt burden on many consumers, companies and governments; rising credit losses and weakened capital positions at banks and other lenders; the trade and budget deficits; government intervention and increasing regulation in financial companies; potentially rising long-term commodity prices and rising inflation down the road; and the enormous use of derivatives at large financial institutions whose financial health is important to the U.S. and global economy.

We are also concerned about the damaging impact on the U.S. economy if the credit crisis reappears and banks do not become more willing to lend. However, we expect over time this issue will be resolved.

We believe carefully selected companies with competitive advantages, strong balance sheets, solid free cash flows and earnings growth

potential, and proven outstanding management that are purchased at attractive prices should perform well for investors over time.

An Important Thank You

One of the challenges managing a mutual fund is that when stocks are down and markets are uncertain, the average mutual fund investor tends to lose confidence and withdraw money from the fund to invest in instruments perceived to be safer. Fund managers are often forced to liquidate positions at depressed prices to meet these redemptions, which can be disruptive to long-term returns. We are happy to report that investors in the Davis Financial Fund must not be "average." During 2008, investors actually added a net \$112 million to the Davis Financial Fund. This occurred at a time when the industry experienced an all-time record level of net redemptions. *Thank you.* The Fund's ability to buy stocks when others may be forced to sell is a powerful advantage that we work hard to use to create value for all shareholders in the Fund. Importantly, when the Fund appreciated 46% during 2009 there were more shareholders invested to experience the recovery.⁸

Thank you for your interest and continued support. ■

This report is authorized for use by existing shareholders. A current Davis Series, Inc. prospectus must accompany or precede this material if it is distributed to prospective shareholders. You should carefully consider the Fund's investment objectives, risks, charges, 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.

Davis Financial Fund's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. Under normal circumstances the Fund invests at least 80% of its net assets, plus any borrowing for investment purposes, in securities issued by companies principally engaged in the financial services sector. 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; concentrated financial services portfolio 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 December 31, 2009, Davis Financial Fund had approximately 25.3% 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 piece 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 December 31, 2009, Davis Financial Fund had invested the following percentages of its assets in the companies listed: American Express, 11.47%; Bank of New York Mellon, 4.64%; Brookfield Asset Management, 2.55%; Canadian Natural Resources, 5.64%; China Life Insurance, 3.25%; Dun & Bradstreet, 2.97%; First Marblehead, 0.46%; FPIC Insurance Group, 1.03%; GAM, 1.37%; Goldman Sachs, 3.86%; JPMorgan Chase, 0.93%; Julius Baer, 3.97%; Oaktree Capital Group, 5.36%; Sealed Air, 1.53%; State Bank of India, 6.57%; Transatlantic Holdings, 8.57%; Well Fargo & Company, 5.82%.

Davis 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 davisfunds.com or call 800-279-0279 for the most current public portfolio holdings information.

The net expense ratio for Davis Financial Fund Class A for the fiscal period ended December 31, 2009 was 1.05%.

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

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.

After-tax returns show the fund's annualized after-tax total return for the time period specified. After-tax returns with shares sold show the fund's annualized after-tax total return for the time period specified plus the tax effect of selling your shares at the end of the period. To determine these figures, distributions are treated as taxed at the maximum tax rate in effect at the time they were paid with the balance reinvested. The maximum rates are currently 35% for non-qualified dividend income and short-term capital gains distributions. Long-term capital gains and qualified dividends currently are taxed at a maximum 15% rate. The tax rate is applied to distributions prior to reinvestment and the after-tax portion is reinvested in the fund. State and local taxes are ignored.

Over the last five years, the high and low turnover ratio for Davis Financial Fund was 15% and 0%, respectively.

We gather our index data from a combination of reputable sources, including, but not limited to, Thomson Financial, Lipper and index websites.

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. The **S&P 500® Financial Index** is a capitalization-weighted index that tracks the companies in the financial sector as a subset of the S&P 500® Index. Investments cannot be made directly in an index.

After April 30, 2010, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

Shares of the Davis 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.