THIRD QUARTER 2011

The Power of Dividend-Paying Stocks

Summary

Fayez Sarofim & Co. outlines the following reasons why dividend-paying stocks appear to be particularly attractive:

1. **Offer Income Potential in a Low Current Yield Environment —** investors, including those nearing or in retirement, can pursue new ways to generate high current income.
2. **Dividends Could Once Again Become a Significant Component of S&P 500 Total Return —** today's companies are in a position to maintain or raise dividends.
3. **The Power of Investing in Companies with Compounding Dividend Growth Rates —** Fayez Sarofim & Co. seeks to buy stocks of financially healthy companies that can increase and grow their dividends, and ultimately provide a strong compound annual growth rate over time.
4. **Dividends Add Long-Term Value Over Time —** when held over a long time frame, a growing dividend becomes a significant value-creator when compared to what was paid for the original share.

Fayez Sarofim & Co., sub-adviser to the Dreyfus Appreciation Fund, believes dividends have been a reliable contributor to total return over time and have signaled future earnings growth indicating long-term potential performance. Fayez Sarofim and Co. believes in the following potential benefits of dividend-paying stocks and further explores their case in this piece:

- income generation
- strong component of overall total return
- dividend reinvestment is an important contributor to total performance
- favorable tax treatment

Fayez Sarofim & Co.'s Case for Investing in Dividend-Paying Stocks

1. Offer Income Potential in a Low Yield Environment

With the increasing number of baby boomers at, or near, retirement, the need for current income has never been greater. In today's low-yield environment, investors may not wish to rely on fixed income to generate their income. Investors can find other ways to generate income, such as exploring dividend-paying stocks. This, of course, presumes the suitability of equities for an investor, as the trade-off includes increasing a more heavily weighted fixed income portfolio's risk, that could erode principal in the process.

Dividend yield shows how much a company pays out in dividends each year relative to its share price. As investors seek potential growth in the equity market, they can also enjoy the stock's dividend yields. As illustrated here, equity dividends can offer a more attractive yield compared to credit-safe Treasuries, especially when the after-tax yield is considered, albeit with additional investment risk. In a seemingly extended low yield environment for fixed income, the income potential of equities also has the potential to increase demand for equities, which could help support their prices.

Dividend-Paying Stocks Currently Offer High Current After-Tax Yields

	Yield as of 9/30/11*	Current Income Tax Rate	After-Tax Yield
S&P 500 Index	2.28%	Taxed as Dividend Income — 15%	1.95%
5-Year U.S. Treasury	0.97%	Taxed as Ordinary Income — 35%	0.63%

Source: Fayez Sarofim & Co. **Past performance is no guarantee of future results. Yields fluctuate.** The S&P 500 Index is a widely used measure of U.S. stock market performance. Investors cannot invest in any index. Actual returns may vary. Dividends are not guaranteed payment, nor can they guarantee a rate of return. Illustration designed to show the potential attractiveness of current equity yields.

*While the dividend yield as of 9/30/11 of the S&P 500 Index may be higher than that of the 5-Year U.S. Treasury, especially when you consider the temporary tax advantage, remember, there are materially greater risks associated with investing in stocks. Comparisons to other fixed income products would produce different results.

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Equity Investing in a Low Yield Environment

Dividend Income Can Help Offset Effects of an Inflationary and Low Yield Environment

Equity investing is considered more risky than investing in fixed income in part because equity investment returns are more volatile. At the same time, the uniqueness of our low-rate environment today might cause some to rethink this conventional wisdom.

Given the lengths to which the Federal Reserve and the U.S. government have been willing to go in order to stimulate the economy, it is quite possible that inflation could rise, maybe markedly, in the years to come. Such a scenario could be problematic for bonds and the dollar, while companies with pricing power, global income streams and commodity exposures could be a much better inflation hedge.

In the shorter-run, stocks in the Dreyfus Appreciation Fund are still populated with leadership companies with very strong balance sheets, providing protection against deflationary forces that could potentially reassert themselves.*

In an inflationary environment, a set or "flat" dividend's purchasing power, like a bond payment, decreases over time. This decrease can have an adverse effect on the purchasing power of the income earned over the life of the investment. However, if the dividend is growing at a rate equal to, or faster than inflation, the loss of purchasing power can be reduced.

*Portfolio composition is subject to change.

Tax Aspects

The current tax treatment for dividend and capital gains earned on common stocks remains through 2012.** This means qualified stock dividends will be taxed at a maximum federal income tax rate of 15% (at 0% for investors in the 10% or 15% brackets). Before 2003, dividends from stocks were taxed at ordinary income tax rates reaching as high as 38.6%. Legislation reduced the rate at which certain stock dividends are taxed, making equity dividends more attractive than bond income (which is taxed at an investor's marginal rate) for tax purposes.

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2. Dividends Could Once Again Become a Significant Component of S&P 500 Total Return

Due to the current high corporate cash balances and investors' increasing preference for income, the pendulum may swing back toward companies paying a larger share of profits as dividends. If a sub-par U.S. recovery results in lower profit growth over the next three to five years, dividends could become a larger portion of total return, as they were in the 60's, 70's and 80's.

Dividend Contribution to S&P 500 Return by Decade

Years	S&P 500 Price % Change	+	Dividend Contribution*	=	Cumulative Total Return	Dividends % of Total Return	Average Payout Ratio**
1930s	-41.9%		56.0%		14.1%	>100%	90.1%
1940s	34.8%		100.3%		135.0%	74.3%	59.4%
1950s	256.7%		180.0%		436.7%	41.2%	54.6%
1960s	53.7%		54.2%		107.9%	50.2%	56.0%
1970s	17.2%		59.1%		76.4%	77.4%	45.5%
1980s	227.4%		143.1%		370.5%	38.6%	48.6%
1990s	315.7%		95.5%		411.2%	27.0%	47.6%
2000s	-38.5%		10.4%		-28.1%	>100%	34.8%
2010s as of 12/31/10	13%		2%		15%	15%	27%

With exception of the 90's, dividends have historically represented over 38% of total returns in each given decade.

With payout ratios at historically low levels, U.S. companies could be in a position to have capacity to maintain or raise their dividends.

Source: Strategas, Chained Annual Data.

***Dividend Contribution** is the amount that dividend payouts grew in the given decade. ****Payout Ratio** equals dividends per share divided by earnings per share indicating how much of a company's profits are used to pay dividends.

Past performance is no guarantee of future results. An investor cannot invest directly in any index. These illustrations are based on the historical returns of the S&P 500 Index, a widely accepted, unmanaged index of U.S. stock market performance. Data shown above is cumulative by decade. Dividend rates are not guaranteed payments nor can they guarantee a rate of return.

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The tax information contained herein is general in nature and not intended to constitute tax advice. It also is not directly applicable to the taxation of any dividends and/or capital gains paid by the Dreyfus Appreciation Fund. Please consult your tax advisor regarding your specific situation.

**The federal tax changes enacted in 2003 regarding dividends and capital gains earned from common stocks scheduled to expire after 2010 have been temporarily extended through 2012. It is unknown whether or not Congress will extend this tax treatment past 12/31/2012.

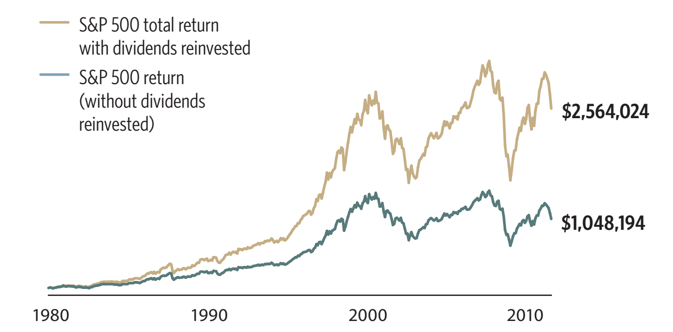
Focus on Dividends

Dividends provide one way for companies to impact investor return. Fayez Sarofim & Co. looks for companies that provide predictable earnings growth and strong cash flows — characteristics of companies that are underlying indicators that a company has the ability to declare, and potentially increase, its dividend.

Reinvesting Dividends Has Outperformed Over Time

The S&P 500 Index – Growth of $100,000; Hypothetical Dividend Comparison

The Importance of Dividends — 12/31/79-9/30/11



Source: Morningstar Direct.

Past performance is no guarantee of future results. These illustrations are based on the historical returns of the S&P 500 Index, a widely accepted, unmanaged index of U.S. stock market performance. They assume an initial hypothetical investment of $100,000 was made beginning 12/31/79. Investors cannot invest in any index. Actual returns will vary.

3. The Power of Investing in Stocks with Compounding Dividend Growth Rates

Most investors seek to attain long-term investment goals and the power of compounding is essential to being able to meet those objectives. Given the record low levels of interest rates today, investors have extra incentive to seek out this long-term dividend growth. The compound annual dividend growth rate of the holdings in the Dreyfus Appreciation Fund exceeded that of the S&P 500 and inflation as measured by the Consumer Price Index over the last 10 years.

Compound Annual Dividend Growth Rates of Component Stocks (and CPI)* as of 9/30/11

	3 Years	5 Years	10 Years
Dreyfus Appreciation Fund	9.0%	13.0%	12.4%
S&P 500 Index**	-6.4%	0.5%	3.4%
Consumer Price Index	1.4%	2.2%	2.3%

Source: Fayez Sarofim & Co.

***For the Fund and the S&P 500 Index, the dividend growth rates cited reflect an average for the component holdings of this Fund and component stocks of the Index, respectively. They do not reflect performance or dividend payout rates for the Fund or the Index.**

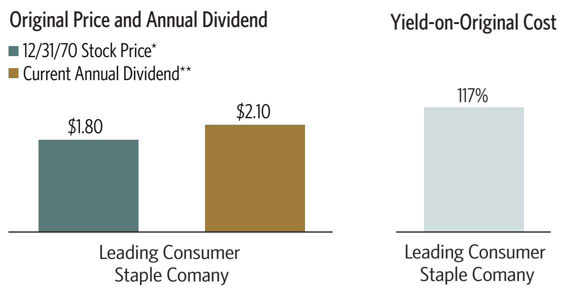
**S&P 500 Index annual dividend growth rate data available as of 12/31/10.

Consumer Price Index is a measure of price changes in consumer goods and services such as gasoline, food and automobiles. Dividend rates are not guaranteed payment nor can they guarantee a rate of return on investment. As of 9/30/11, 50 out of 53 Dreyfus Appreciation Fund holdings paid a dividend.

During the recession, many companies that faced a major cyclical pullback were challenged to maintain profits and cash flow. Fayez Sarofim & Co. aimed to select stocks that were able to maintain and grow their dividend in a very difficult investment environment.

4. Dividends Can Add Long-Term Value Over Time

A company that can grow earnings and dividends at attractive rates over long periods of time can build a meaningful income stream. When an investor holds a stock for a long time frame, a growing dividend becomes a significant value-creator when compared to what was paid for the original share — we call this yield-on-original cost. To illustrate, over a period of almost 40 years — from the end of 1970 to today — a leading consumer staples company held in the fund has raised its dividend consistently to the point that its current annual dividend of $2.10 per share is greater than its split-adjusted price of $1.80 on December 31, 1970. If an investor purchased shares on that day and held them since, his yield-on-cost is now 117% ($2.10/$1.80 = 1.17 or 117%).



*Adjusted for stock splits. Of course not all holdings in the strategy have been held for this length of time, nor have been purchased at these price levels, nor pay similar dividend rates. Example intended soley to illustrate calculation of "yield-on-cost" and not to reflect current investment strategy.

**As of 9/30/11

Source: Fayez Sarofim & Co. There can be no assurance that the securities purchased remain in the fund or that other securities have not been purchased. The holdings listed should not be considered recommendations to purchase or sell a particular security. It should not be assumed that securities bought or sold in the future will be profitable or will equal the performance of the securities in this list. Dividend rates are not guaranteed payment nor can they guarantee a rate of return. **Past performance is no guarantee of future results.**

What Is Yield-on-Cost?

Yield-on-Cost is the annual dividend of a stock divided by the average cost basis of the stock. Unlike current yield, which measures the yield of a stock relative to its current market value, the yield-on-cost can help illustrate the annual return of the dividend on the original investment amount.

$$\frac{\text{Annual Dividend per share}}{\text{Average Share Cost}}$$

=

Yield-on-Cost x 100

=

Yield-on-Cost %

Fayez Sarofim & Co., a disciplined manager seeking consistent growth, believes in the power of dividends.

Fayez Sarofim & Co. invests for the long term, looking to invest in established companies that are leaders in their industries and provide well-established revenue streams with the potential for further growth through market expansion and/or economies of scale. This approach has been consistently applied through numerous market cycles for more than five decades. Currently, 50 out of 53 Dreyfus Appreciation Fund holdings paid a dividend. Why Fayez Sarofim & Co. believes in the power of dividends:

1. Potential to produce a consistent income stream regardless of market conditions.
2. Can be a powerful contributor to a stock's total return.
3. Can signal a company's strong financial health.

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