

# Dreyfus Appreciation Fund, Inc.

**SEMIANNUAL REPORT** June 30, 2011



BNY MELLON  
ASSET MANAGEMENT

**Dreyfus**

A LETTER FROM THE CHAIRMAN AND CEO

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Dear Shareholder:

We are pleased to present this semiannual report for Dreyfus Appreciation Fund, Inc., covering the six-month period from January 1, 2011, through June 30, 2011. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

Although 2011 began on an optimistic note amid encouraging economic data, by midyear investors returned to a more cautious outlook. The U.S. and global economies continued to grow over the reporting period, but at a relatively sluggish pace. First, manufacturing activity proved unsustainably strong in late 2010 and early 2011, leading to a subsequent slowdown in new orders. Second, turmoil in the Middle East drove oil prices higher and produced an inflationary drag on real incomes. Third, natural and nuclear disasters in Japan added to upward pressure on energy prices, and these unexpected events disrupted the global supply chain, especially in the automotive sector. Finally, in the United States, disappointing labor and housing markets weighed on investor sentiment. As a result, U.S. stocks generally produced only modest gains over the first half of the year.

We expect economic conditions to improve over the second half of 2011. Inflationary pressures appear to be peaking in most countries, including the United States, and we have already seen energy prices retreat from their highs. In addition, a successful resolution to the current debate regarding government spending and borrowing, without major fiscal tightening over the near term, should help avoid a serious disruption to the domestic economy. To assess how these and other developments may affect your investments, we encourage you, as always, to speak with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Jonathan R. Baum  
Chairman and Chief Executive Officer  
The Dreyfus Corporation

July 15, 2011



## DISCUSSION OF FUND PERFORMANCE

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*For the period of January 1, 2011, through June 30, 2011, as provided by Fayed Sarofim, Portfolio Manager of Fayed Sarofim & Co., Sub-Investment Adviser*

### **Fund and Market Performance Overview**

For the six-month period ended June 30, 2011, Dreyfus Appreciation Fund produced a total return of 7.45%.<sup>1</sup> In comparison, the total return of the fund's benchmark, the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index"), was 6.01% for the same period.<sup>2</sup>

Although stocks rallied early in the year as an economic recovery appeared to gain traction, renewed concerns later caused the market to give back some of its previous gains. The fund produced a higher return than its benchmark, primarily due to its focus on higher-quality stocks that held up well during bouts of market weakness.

### **The Fund's Investment Approach**

The fund seeks long-term capital growth consistent with the preservation of capital. Its secondary goal is current income. To pursue these goals, the fund normally invests at least 80% of its assets in common stocks. The fund focuses on blue-chip companies with total market capitalizations of more than \$5 billion at the time of purchase, including multinational companies. These are established companies that have demonstrated sustained patterns of profitability, strong balance sheets, an expanding global presence and the potential to achieve predictable, above-average earnings growth.

In choosing stocks, the fund first identifies economic sectors it believes will expand over the next three to five years or longer. Using fundamental analysis, the fund then seeks companies within these sectors that have proven track records and dominant positions in their industries. The fund employs a "buy-and-hold" investment strategy, which generally has resulted in an annual portfolio turnover of below 15%. A low portfolio turnover rate helps reduce the fund's trading costs and minimizes tax liability by limiting the distribution of capital gains.<sup>3</sup>

### **Shifting Sentiment Sparked Heightened Volatility**

Investors' outlooks had improved dramatically by the start of 2011 due to improvements in employment, consumer spending and corporate earnings, sending stock prices broadly higher. However, the market rally was interrupted in February when political unrest in the Middle East led to sharply rising crude oil prices, and again in March when devastating natural and nuclear disasters in Japan threatened one of the world's largest economies. Nonetheless, investors proved resilient, and the U.S. stock market bounced back from these unexpected shocks.

In late April, investor sentiment began to deteriorate when Greece again appeared headed for default on its sovereign debt, U.S. economic data proved disappointing and the debate regarding U.S. government spending and borrowing intensified. Stocks suffered bouts of heightened volatility as newly risk-averse investors shifted their focus from economically sensitive industry groups to those that historically have held up well under uncertain economic conditions.

### **Quality Bias Supported Fund Performance**

Our longstanding focus on blue-chip companies with globally diversified markets, healthy balance sheets and strong income characteristics enabled the fund to participate substantially in market rallies over the reporting period, and it held up better than market averages during market declines.

Underweighted exposure to the financials sector helped the fund avoid concerns related to financial institutions that might be adversely affected by a slowdown in the U.S. economy, Europe's sovereign debt crisis and a more stringent regulatory environment. Although the fund also held an underweighted position in the information technology sector, the fund scored individual successes in holdings such as payroll processor Automatic Data Processing (ADP), wireless chip maker QUALCOMM and consulting services giant International Business Machines. Finally, an overweighted position supported relative performance in the energy sector, where integrated energy leader Exxon Mobil ranked among the fund's top contributors to relative performance.

Detractors from relative performance included comparative weakness in key holdings in the consumer discretionary, health care and materials sectors. Results from the consumer discretionary sector were hurt by underweighted exposure and unfortunate stock selections. For example, mass merchandiser Target was hurt by the dampening effect of higher energy prices on consumer spending. Our security selection strategy also undermined results in the health care sector, where Merck & Co. suffered pipeline related setbacks and Medtronic dealt with earnings disappointments. Lastly, in the materials sector, metals-and-mining giants Freeport-McMoRan Copper & Gold and Rio Tinto posted lagging performance due to concerns regarding a slowdown in global economic growth.

## New Opportunities in a Choppy Economic Recovery

We expect the U.S. economic rebound to persist fitfully amid significant headwinds over the remainder of 2011, leading us to conclude that investors will continue to favor large, multinational companies with solid business fundamentals. In addition, we believe that stocks may be poised for further gains as companies deploy some of the massive cash reserves on their balance sheets. In the reporting period, we eliminated the fund's holdings of Becton Dickinson & Co., Fomento Economico Mexicano, SYSCO, Halliburton and Microsoft to focus on better opportunities we believe we have identified in the McDonald's Latin American franchisee, Arcos Dorados Holdings, and Canadian oil producer Imperial Oil.

July 15, 2011

*Equity funds are subject generally to market, market sector, market liquidity, issuer and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus.*

- <sup>1</sup> Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, fund shares may be worth more or less than their original cost.
- <sup>2</sup> SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's 500 Composite Stock Price Index is a widely accepted, unmanaged index of U.S. stock market performance. Investors cannot invest directly in an index.
- <sup>3</sup> Achieving tax efficiency is not a part of the fund's investment objective, and there can be no guarantee that the fund will achieve any particular level of taxable distributions in future years. In periods when the manager has to sell significant amounts of securities (e.g., during periods of significant net redemptions or changes in index components) funds can be expected to be less tax efficient than during periods of more stable market conditions and asset flows.