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This is a special year-end letter, which includes performance information and an extended look at the recent stock market behavior.

The 4th quarter was not a good one for the stock market. While it began on a positive note with the S&P 500 index hitting a new all-time high, the trend quickly reversed itself and the S&P index ended the quarter having lost 3.3%. For the year, the S&P 500 had a 5.5% return. This yearly return was similar to the S&P 500's 10 year annualized return of 5.9% and is down sharply from the index's long-term trend (since 1926) of 10.4%.

Bradyco Financial clients had a much better 2007 with returns that averaged about twice that of the S&P 500. This outperformance should not come as a surprise. My contrarian strategy typically does best when the stock market is in turmoil.

The bad news from late 2007 has continued into 2008 as more of the details of our current economic problems come to light. Volatility has also continued. At one point in mid-January, the S&P had dropped over 14% since its all-time high on October 9, 2007.

It is interesting to note what has changed since the all-time high in October. Frankly, not much. Sure, now we have more details from economic reports to company earnings, etc. that give us some clarity on the current trends that ail our economy. Still, I would argue the problems we now worry about were apparent when the market hit its high.

This illustrates an important principle about the stock market, which is that it is prone to extremes. When the market sets new all-time highs, we should be a bit skeptical. Similarly, now that pessimism has become the mantra, we need to recognize that the problems we face are not likely to be as dire as many pundits proclaim.

What about the future? While the stock market is obsessed with the crisis du jour including the possibility of a recession, I view such problems as only short-term obstacles that are likely to work their way through our system in a relatively brief period.

The one potential problem that does concern me is the possibility that our economy is hit by a relatively rare phenomenon known as "stagflation" (where inflation occurs during a period of sluggish economic growth). This trend can cause havoc for the markets. Still, while no companies would be immune from the ill effects of this circumstance, the companies I choose for our portfolios are well positioned for such a challenge.

Finally, the most important point is that the current market turmoil – far from being a cause for alarm -- is an excellent opportunity to put cash to work as many strong companies are currently "on sale" (e.g. selling for valuations that are much less than I believe they are worth).

Thank you for your confidence.

Brad

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Bradyco Financial Performance 2004 to 2007

I am pleased to present performance results for three groups of portfolios: the growth group, the growth & income group (which have a greater focus on current cash generation than the more long-term focused growth group), and a group containing all the portfolios.

I am happy with these numbers, but since they cover a mere 3 ½ years, they are hardly a long-term track record. As I learned running cross country races in high school, while it is important to start a race well, one's place at the finish line is not necessarily determined by how well one is performing at the beginning.

With that caveat in mind, as a stock-picker, I am very proud that my stock picks are well ahead of the S&P 500 index (see 2nd table). In fact, looking at the entire 3 ½ years, the annual compounded returns for my stock picks in all three groups of portfolios beat the S&P by between 2.5-5.0% per year! While these figures do not include management fees or the effect of cash (which can often hurt returns in the short run when waiting for bargains), they do suggest that my stock picks have served you well.

Total portfolios	**7/04-12/04**	**2005**	**2006**	**2007**	**07/04 to 12/07**
All portfolios	7.5%	3.7%	13.8%	10.8%	10.5%
Growth portfolios	7.3%	3.5%	14.3%	12.7%	11.1%
Growth & Income portfolios	8.0%	4.4%	12.8%	6.0%	9.1%
S&P 500 index	10.9%	4.9%	15.8%	5.5%	10.8%

All returns over 12 months are annualized and net of all expenses including investment management fees. All portfolio returns are asset-weighted monthly and include cash. All portfolio calculations use prices provided by Fidelity Investments. Non-discretionary accounts and accounts with 100% cash are not included. Index returns reflect the reinvestment of dividends.

Stocks Only	**7/04-12/04**	**2005**	**2006**	**2007**	**07/04 to 12/07**
All portfolios	9.8%	5.0%	18.0%	14.5%	13.8%
Growth portfolios	8.4%	3.5%	17.3%	16.5%	13.3%
Growth & Income portfolios	16.6%	10.8%	19.8%	7.9%	16.2%
S&P 500 index	10.9%	4.9%	15.8%	5.5%	10.8%

All returns over 12 months are annualized and do NOT include investment management fees. All returns are asset-weighted monthly and do not include any non-stock investments including equity mutual funds. All portfolio calculations use prices provided by Fidelity Investments. Non-discretionary accounts and accounts with 100% cash are not included. Index returns reflect the reinvestment of dividends.