BRADYCO

Bradley F. Richardson

July 30, 2012

Results

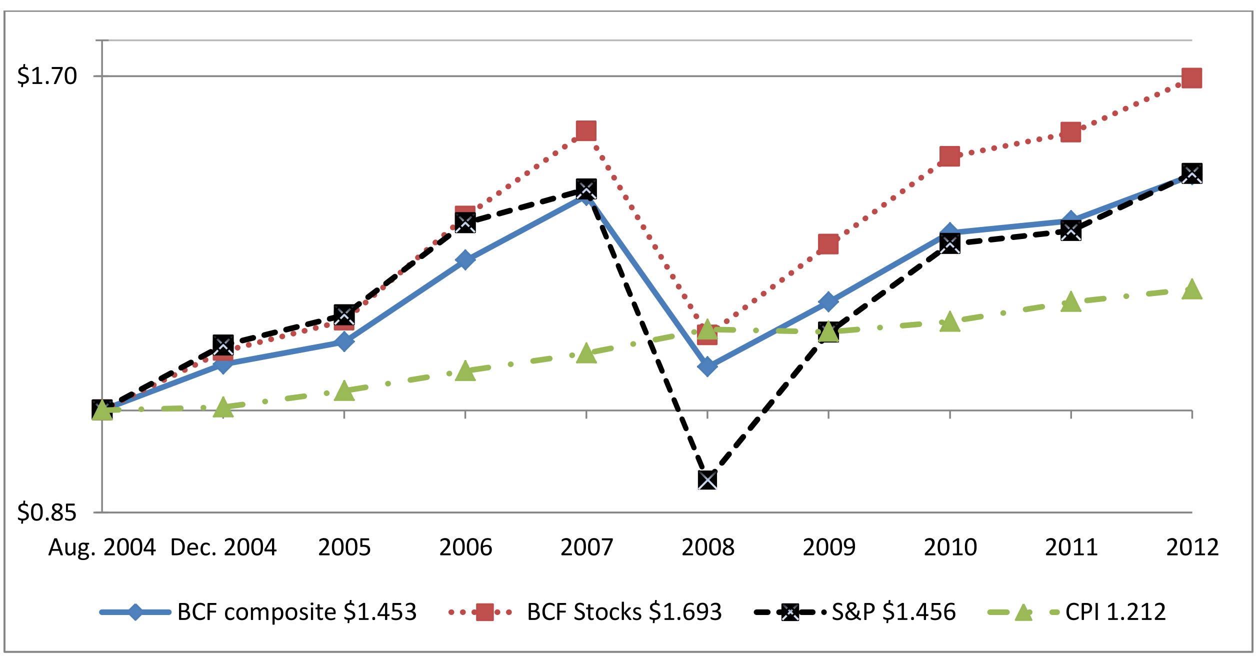
The Bradyco composite result for the first half of 2012 was a gain of 7.5%, net of expenses, while the S&P 500 index, including dividends, gained 9.5%.

The following table compares our results versus the S&P 500 index. Complete results are included at the end of this letter.

	2012 YTD	2011	Last 2 yrs.	Last 3 yrs.	Last 5 yrs.	Since Inception
Bradyco composite	7.5%	1.9%	13.7%	12.6%	3.0%	4.8%
Bradyco stocks	9.0%	3.9%	16.2%	15.9%	3.5%	6.9%
S&P 500 (w/ DIV)	9.5%	2.1%	17.4%	16.4%	0.2%	4.9%
CPI - U	2.0%	3.2%	2.6%	2.1%	2.0%	2.5%

Returns are annualized; past performance is no guarantee of future results.

The following graph compares the performance of one dollar invested by Bradyco Financial since 7/31/04 to one dollar invested in the S&P 500 index.



Bradyco Financial
16 Sargent Street, Cambridge, MA 02140-2514
TEL (617) 945-1991 ■ FAX (617) 517-9197 ■ Brad@BradycoFinancial.com
www.BradycoFinancial.com

Commentary

Both Bradyco Financial's stocks and its composite lagged the S&P 500 index in the first half of 2012. Our stocks didn't miss by much (0.5%) while our composite (2%) was hurt by our cash position. I have continued to seek ways to profitably deploy our cash, and as a result, our cash at the end of the June was the lowest it has ever been. On a long-term basis, our composite is in a virtual tie with the S&P 500 index since our inception (the two differ by 0.03%). Since our stocks continue to beat the market by 2% per year and our cash level is low, I believe we are especially well positioned going forward.

1st Half Recap

The year started strongly with the S&P 500 index posting a 12.6% gain for the 1st quarter. The 2nd quarter has been a different story with the market dropping by 2.8%. The net change for the first half of 2012 was +9.5%. What is going on? The stock market alternates between focusing on how great things could be and how bad they are now. Our recovery continues, but the crisis in the Eurozone, a greater than expected slowdown in China's growth, and concerns about the US "fiscal cliff" have spooked the market.

Observations

Thoughts about the current investment climate:

-- **LIBOR**: The current controversy du jour is about the setting of the LIBOR rate. First, what is the LIBOR rate? LIBOR stands for "London Interbank Offered Rate." It is an *estimate* of the average interest rate key London banks would pay to borrow from one another. Why is this rate important? First, because it is used to set many interest rates throughout our financial system including many adjustable rate mortgages in the United States. Second, allegations that the rate was manipulated for profit as well as to cover up individual bank financial solvency issues further undermines our collective faith in world's banking system.

-- **What is safe?** According to Morningstar, investors continue to purchase taxable bond funds while shunning stock mutual funds. Why? Probably because many investors consider bonds to be "safer" than stocks. Whether this is true depends on how you define "safe." If your goal is to have an investment whose notational value doesn't fluctuate, individual bonds are indeed relatively "safe." The problem with such thinking is that it ignores the risk inflation poses to the value of your money. Since bond payments are generally fixed, bond investors have no protection against inflation. Thus, when we take into account the risk of inflation, stocks can be a "safer" investment than bonds. Given today's ultra-low interest rates, bonds are especially vulnerable to inflation.

-- **Fiscal Cliff?** Without action by Congress, the US will hit a so-called "Fiscal Cliff" on January 1st. This label has been applied to a phenomenon in which many pieces of legislation either expire or take effect on the first day of 2013. When combined together, these changes could cause the U.S. economy to contract sharply, thereby, sending it metaphorically over a "cliff." The non-partisan Congressional Budget Office (CBO) believes that without action by Congress, our economy could slide into a recession in the 1st half of 2013 as tax hikes and spending cuts totaling $607 billion (4% of GDP) hit an already fragile economy. By contrast, if none of these tax hikes and spending cuts were to occur, the CBO estimates that our economy would grow by a healthy 4.4% (versus 0.5% without). So, why hasn't Congress done something? For starters, if the Congress did nothing, the tax hikes and spending cuts would reduce our federal deficit by 5.1% of GDP. Also, there is a lack of agreement on what to do when we reach our debt ceiling limit in early 2013. In sum, the challenge for our political system is to balance the desire for economic growth against the need to reduce our federal deficit. While both are possible over time, there are tradeoffs to be made in the short run.

-- Taxes? 2013 could see a host of changes to our tax code. First, there is the looming expiration of the so-called Bush tax cuts as well as the end of the temporary reduction in the individual payroll tax contribution rate. Further, the Affordable Healthcare Act has a new tax of 3.8% on interest, dividends, or capital gains on married couples with incomes over $250,000 (for singles the limit is $200,000) with a lot of complicated fine print that will keep tax practitioners busy. Under normal circumstances, investors should focus more on earning income rather than trying to avoid taxes. This advice is especially appropriate today given the unprecedented uncertainty regarding what the tax code will actually be in 2013.

-- Facebook IPO: Was the Facebook IPO a disaster? It depends on whose perspective we take. For Facebook, the immediate goal was to maximize the amount of money raised by the IPO. By that measure, the company and its early (pre-IPO) investors did very well since those who sold shares in the IPO got a high price. For those on the other side of the trade, the answer is more complicated. For those who purchased IPO shares seeking a quick return, their Facebook investment was clearly not a success. Facebook's stock price fell almost immediately after the IPO. For those who purchased the IPO as a long-term investment, the jury is still out. While there is a lot to admire about Facebook, I did not invest in the company's IPO because I felt the valuation was too high given the business's rather uncertain future prospects. How have things worked out so far? Since the IPO, the value of Facebook's stock has declined by almost 40%.

-- Eurozone Crisis: How worried should we be about the Eurozone crisis? My biggest concern is that a major meltdown in Europe triggers a recession in the US. Obviously, this would hurt all our investments – even those with no European exposure. While this scenario is certainly possible, it is not probable. A more likely scenario is one involving mini-crises accompanied by patchwork solutions and stock market volatility. I will continue to closely monitor the situation.

What's Next?

Recently, I was asked, "Are things ever going to get better?" It is easy to get discouraged. Our recovery from the so-called "great recession" has been one of the longest on record. Some of this is due to the unique circumstances that caused this recession. While progress is slow and uneven, our economy is improving. For example, housing -- which has lagged during the recovery -- is finally improving. Things are getting better, but more slowly than we would like.

Brad

All Assets	Bradyco Composite (all)	Growth Composite	Growth & Income Composite	S&P 500 Index	CPI
08/04 – 12/04	7.5%	7.3%	8.0%	10.9%	0.5%
2005	3.7%	3.5%	4.4%	4.9%	2.6%
2006	13.8%	14.3%	12.8%	15.8%	3.2%
2007	10.8%	12.7%	6.0%	5.5%	2.9%
2008	-23.8%	-25.5%	-18.6%	-37.0%	3.8%
2009	10.8%	11.2%	9.7%	26.5%	-0.4%
2010	11.6%	10.7%	15.1%	15.1%	1.6%
2011	1.9%	2.3%	0.4%	2.1%	3.2%
2012 1st Half	7.5%	7.6%	7.2%	9.5%	2.0%
08/04 – 06/12	4.8%	4.8%	5.2%	4.9%	2.5%

All returns over 12 months are annualized and net of all expenses including investment management fees and trading expenses. All composite returns are asset-weighted monthly and include cash. All 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	Bradyco Composite (all)	Growth Composite	Growth & Income Composite	S&P 500 Index	CPI
08/04 – 12/04	9.8%	8.4%	16.6%	10.9%	0.5%
2005	5.0%	3.5%	10.8%	4.9%	2.6%
2006	18.0%	17.3%	19.8%	15.8%	3.2%
2007	14.5%	16.5%	7.9%	5.5%	2.9%
2008	-27.7%	-29.0%	-22.7%	-37.0%	3.8%
2009	15.5%	15.6%	15.0%	26.5%	-0.4%
2010	15.0%	13.8%	19.7%	15.1%	1.6%
2011	3.9%	4.5%	1.7%	2.1%	3.2%
2012 1st Half	9.0%	8.9%	9.1%	9.5%	2.0%
08/04 – 06/12	6.9%	6.4%	9.0%	4.9%	2.5%

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 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.