BRADYCO

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Results

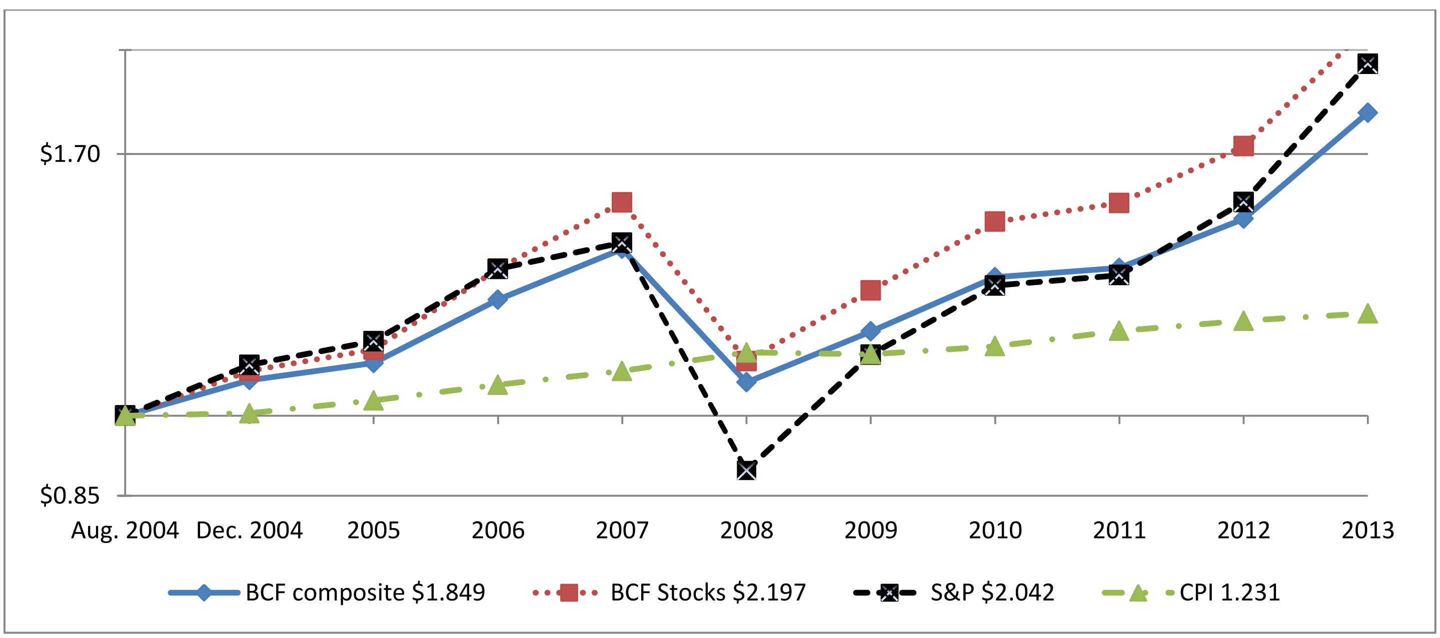
The Bradyco composite result for 2013 was a gain of 24.0%, net of expenses, while the S&P 500 index, including dividends, gained 32.4%.

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

	2013	2012	2011	Last 2 yrs.	Last 3 yrs.	Last 5 yrs.	Since Inception
Bradyco composite	24.0%	10.5%	1.9%	17.1%	11.8%	11.6%	6.7%
Bradyco stocks	27.2%	12.2%	3.9%	19.5%	14.0%	14.5%	8.8%
S&P 500 (w/ DIV)	32.4%	16.0%	2.1%	23.9%	16.2%	17.9%	7.9%
CPI	1.5%	2.1%	3.2%	1.8%	2.2%	1.6%	2.2%

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.



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Commentary

The stock market – as represented by the S&P 500 index – had a strong 2013 returning 32.4% (including dividends). During the same period, our stocks were up 27.3% while our composite – which includes cash – rose 24.0%. These results compare with an inflation rate of 1.5%. Our long-term track record is strong. Since our inception, our stocks have grown by 8.8% per year, our composite by 6.7%, the S&P 500 index was up 7.9%, and inflation grew at 2.2% per year.

While I am proud of my track record, I realize our stocks have underperformed the S&P 500 index during the past two years. From time to time, the type of company we like to invest in – a business with solid finances and a predictable future – becomes less popular with investors. While our emotions may crave a response to this short-term phenomenon, our pocketbooks do best when we stick to our strategy of focusing on those companies most likely to do best over the long run.

Incidentally, I am comforted by the knowledge that when the going got tough – during the financial crisis of 2008-09 – our stocks performed better than the S&P 500 index by a wide margin (-34.3% versus -41.5% for the period October 2007 to February 2009). Our composite, which includes cash, did even better (-27.8 versus -41.5%). Of course, watching the stock market fall during the financial crisis was painful, but our approach served us well. Further, while we may lag in the near-term, we are well positioned for long-term success regardless of short-term trends in the stock market.

What if the stock market falls just before you retire?

With the stock market reaching all-time highs, a nervous client contacted me concerned that the stock market might fall just before she retires. Could this happen? Absolutely. Should this change how she invests her retirement savings? No.

Let me explain. During the period 1900-2010, the stock market has dropped by 20% or more an average of once every 3.5 years. Thus, the stock market could fall just before any of us retires. These fluctuations in the stock market are quite normal and should be expected.

How should we plan for untimely stock market declines? The key is making sure we have enough cash to pay our bills -- without the need to sell invested assets -- for a period of at least a year or two (which is normally how long the stock market declines last). We start by estimating how much cash we will need to live during our retirement. Then, we deduct from our cash requirement any non-investment income we will receive such as social security and pension distributions. This revised cash amount becomes our target. Then, as we approach our retirement, we adjust our cash reserves so that – in addition to our rainy day funds – we have 1-2 years' worth of the "target" cash amount. With this cushion, if the stock market happens to drop just prior to our retirement, there will be no need to sell any of our investments to fund our normal spending needs. Of course, in recent years, the fact that cash has earned virtually no return has meant that there has been a meaningful cost to holding cash. Still, for most of us nearing our retirement, the cost of having a cash cushion is offset by the peace of mind it brings.

Beyond having excess cash, the key to investing for your retirement is to have investments whose returns are likely to exceed the inflation rate. While inflation has been on the low end of normal in recent years, history suggests that over time, it will become a bigger obstacle for investors. By investing in companies that have pricing power (the ability to raise their prices when costs go up without significantly reducing revenue), our investments are likely to keep pace with future inflation trends.

What's Next?

Last fall, I began to read news stories detailing how individual investors have started to flock to the stock market – many for the first time since 2009. Supporting this conclusion are reports that during 2013 stock-oriented mutual funds started to receive more new money than bond focused mutual funds.

This trend reflects rear view mirror investing. When we invest, just like when we drive a car, we need to direct our attention to the road in front of us. Investors who try to "time" their investing based on recent stock market trends usually end up buying high and selling low. Our long-term, forward based approach makes a lot more sense.

Going forward, we should expect greater volatility in the stock market as investors digest changes in the policies of the Federal Reserve Bank and shifts in world economic trends.

Housekeeping

A review of Charles Schwab & Co. recent financial results suggests that their policy of expanding their business now while interest rates are low – rather than waiting for interest rates to normalize (e.g. increase) – has been profitable for the firm. We applaud Schwab's long-term thinking and are pleased with our decision to join the Schwab family.

Thank you for your confidence.

Brad

	Bradyco Composite (all)1	Bradyco Composite (stocks only)2	S&P 500 Index	CPI
08/04 – 12/04	7.5%	9.8%	10.9%	0.5%
2005	3.7%	5.0%	4.9%	2.6%
2006	13.8%	18.0%	15.8%	3.2%
2007	10.8%	14.5%	5.5%	2.9%
2008	-23.8%	-27.7%	-37.0%	3.8%
2009	10.8%	15.5%	26.5%	-0.4%
2010	11.6%	15.0%	15.1%	1.6%
2011	1.9%	3.9%	2.1%	3.2%
2012	10.5%	12.2%	16.0%	2.1%
2013	24.0	27.2%	32.4%	1.5%
08/04 – 12/13	6.7%	8.8%	7.9%	2.2%

All returns over 12 months are annualized. All calculations use prices provided by Fidelity Investments and Charles Schwab & Co. Non-discretionary accounts and accounts with 100% cash are not included. Index returns reflect the reinvestment of dividends.

1. The Bradyco Composite (all) is net of all expenses including investment management fees and trading expenses. All composite returns are asset-weighted monthly and include cash.

2. The Bradyco Composite (stocks only) does NOT include investment management fees. Returns are asset-weighted monthly and do NOT include cash. Investments in ETF, equity mutual funds, and non-discretionary accounts are NOT included.