BRADYCO

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August 12, 2014

Results

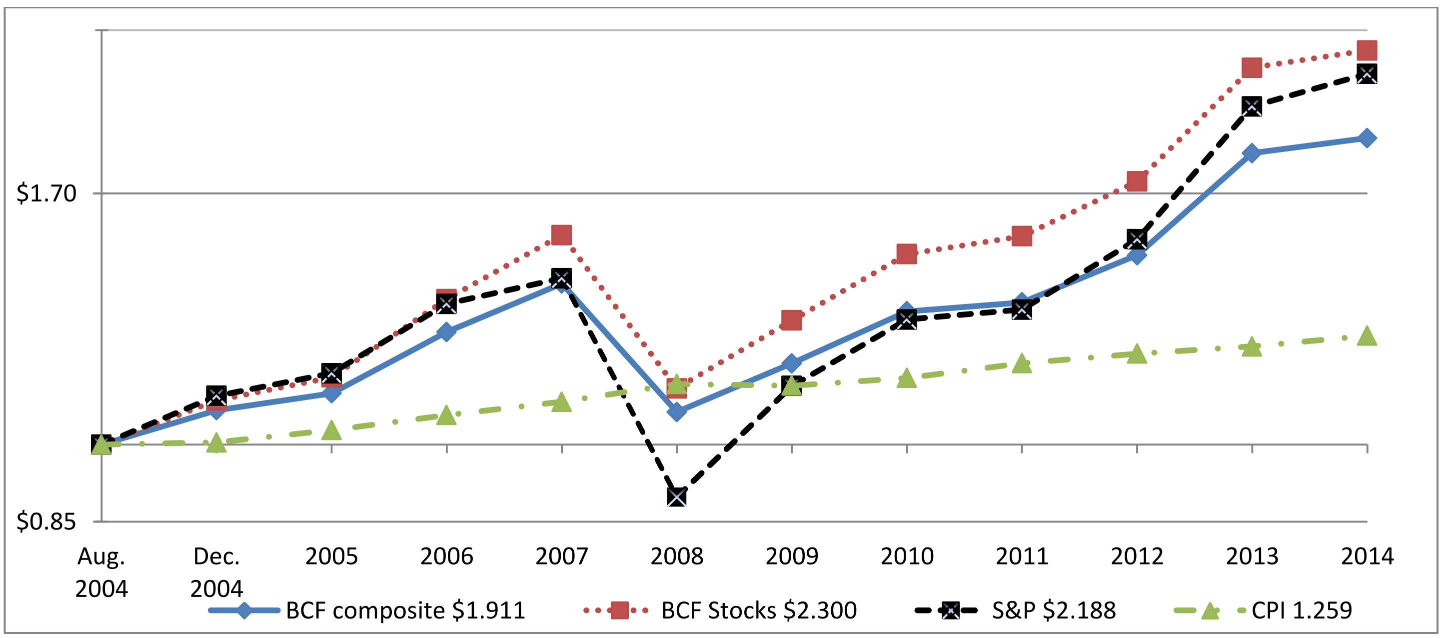
The Bradyco composite result for the 1st half of 2014 was a gain of 3.3%, net of expenses, while the S&P 500 index, including dividends, increased 7.1% during this same period.

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

	2014 YTD	2013	2012	Last 2 yrs.	Last 3 yrs.	Last 5 yrs.	Since Inception
Bradyco composite	3.3%	24.0%	10.5%	14.7%	11.5%	12.7%	6.8%
Bradyco stocks	3.7%	27.2%	12.2%	16.6%	13.3%	16.2%	8.8%
S&P 500 (w/ DIV)	7.1%	32.4%	16.0%	22.6%	16.6%	18.8%	8.2%
CPI - U	2.3%	1.5%	2.1%	1.9%	2.0%	2.4%	2.4%

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 another strong six months during the 1st half of 2014 gaining 7.1% (including dividends). During the same period, our stocks increased in value by 3.7% while our composite – which includes cash – rose 3.3%. These results compare with an inflation rate of 2.3%.

After last year's extraordinary 32.4% return, it would have been reasonable to expect weak results from the stock market in 2014. To the surprise of many observers, the stock market's strength has continued and its major averages have all hit new all-time highs.

A Ten Year Review

Since Bradyco Financial celebrates its 10th anniversary this summer, I thought it would be interesting to look back over the past decade and review some of the major economic challenges we faced during this period.

-- Extreme Weather Events: The period began with two very powerful hurricanes, Katrina and Rita, which occurred 3 weeks apart during the summer of 2005. These storms were the most costly and among the deadliest hurricanes in American history.

-- The Great Recession: During the fall of 2008, several financial institutions including Lehman Brothers' went out of business while the government essentially took over AIG, Fannie Mae and Freddie Mac. Things deteriorated to the point that the Dow Jones Industrial Average during the week of October 6th had its worst week ever during its 118 year history – declining by 18% (The S&P 500 index dropped by a similar amount that week.). The Federal Reserve kept cutting interest rates until they were nearly zero. The stock market also fell sharply.

-- European Sovereign Debt Crisis: The European Union (EU) faced its biggest crisis in its short history starting in 2009 when as documented by a Congressional Research Service report: "…a new Greek government revealed that previous governments had been misreporting government budget data…. Fears quickly spread that the fiscal positions and debt levels of a number of Eurozone countries were unsustainable." By 2012, the crisis had spread from three relatively small economies: Greece, Ireland and Portugal to the 3rd and 4th largest economies in the EU, Spain and Italy. Many observers felt this crisis would be the end of the European Union or at the very least, Greece would be forced to exit from the EU. Neither event happened.

-- Political Conflict: In 2011, the United States had its own crisis when Congress refused to pass legislation increasing the nation's debt limit. The stock market fell over 19% and Standard & Poor's downgraded the country's credit rating for the first time in history. (In 2013, there was another government shutdown along with another debt ceiling standoff. This time, the stock market's reaction was not significant.)

As this review points out, we have had some challenging times during the past 10 years. Yet, those investors who – despite the sometimes grim headlines – stayed in the stock market during this *entire* period have benefited from the stock market's 8.2% compounded return.

Why has the stock market done so well despite all the economic problems we have faced? Two themes sum up why I believe America has prospered during the past decade and will continue to do so during the next.

First, America continues to foster innovation. Let's consider two examples. First, think about how our lives have been changed during the past 7 years since the introduction of the original Apple iPhone. The capability of this device, whose original purpose was to make phone calls, keeps expanding. Second, as a result of technological developments in the energy industry, the International Energy Agency projects that the U.S. will be the world's top oil producer in 2015 (ahead of Saudi Arabia and Russia) and could achieve energy independence in the next two decades. As these examples demonstrate, our nation's innovative culture provides both novel contributions to our lives and helps us solve many of our nation's challenging problems.

Second, while there are sharp political divisions in our country, when it really mattered, our nation's leaders were able to work together to avoid catastrophe during the "Great Recession" of 2008-09. While there is much we could criticize about the government's response to the crisis, our government's actions mitigated the effects of the crisis and enabled our economy to bounce back quicker than many other industrialized nations.

What's Next?

The last time the stock market fell by 10% or more (a so-called "correction") was approximately 3 years ago. Historically, we have experienced one correction every 1 ½ years. The market's strength seems to be endless. Can this continue? It *could*. While valuations are on the high end of normal, they are not at extreme levels. Still, last week's sell-off – which produced the biggest weekly drop for the S&P 500 index in over 2 years – demonstrates that while the stock market has been less volatile recently, this trend could change suddenly.

America's stock market is not the only one that has shown unusual strength of late. The annual report of the Bank of International Settlements (published in late June by the world's largest central banks including our Federal Reserve Bank), described its worries about the state of the world's financial markets: "Overall, it is hard to avoid the sense of a puzzling disconnect between the markets' buoyancy and underlying economic developments globally."

So what should we do? If you are a long-term investor with a long time horizon, there is no need to adjust your portfolio. However, there is a sub-set of long-term investors who might make a small adjustment. Those of us who are long-term investors, who also depend upon our investments to fund some of our living expenses, should review their cash reserves. As I wrote in my last newsletter, keeping an extra cash cushion can give us extra flexibility in case of stock market volatility. While the amount of extra cash cushion will vary by individual, the idea is NOT to time the market, but rather to take advantage of higher than normal valuations to prepare for a potential short-term fall in the stock market.

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%
2014 YTD	3.3%	3.7%	7.1%	0.0%
08/04 – 06/14	6.8%	8.8%	8.2%	0.0%

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.