BRADYCO

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Results

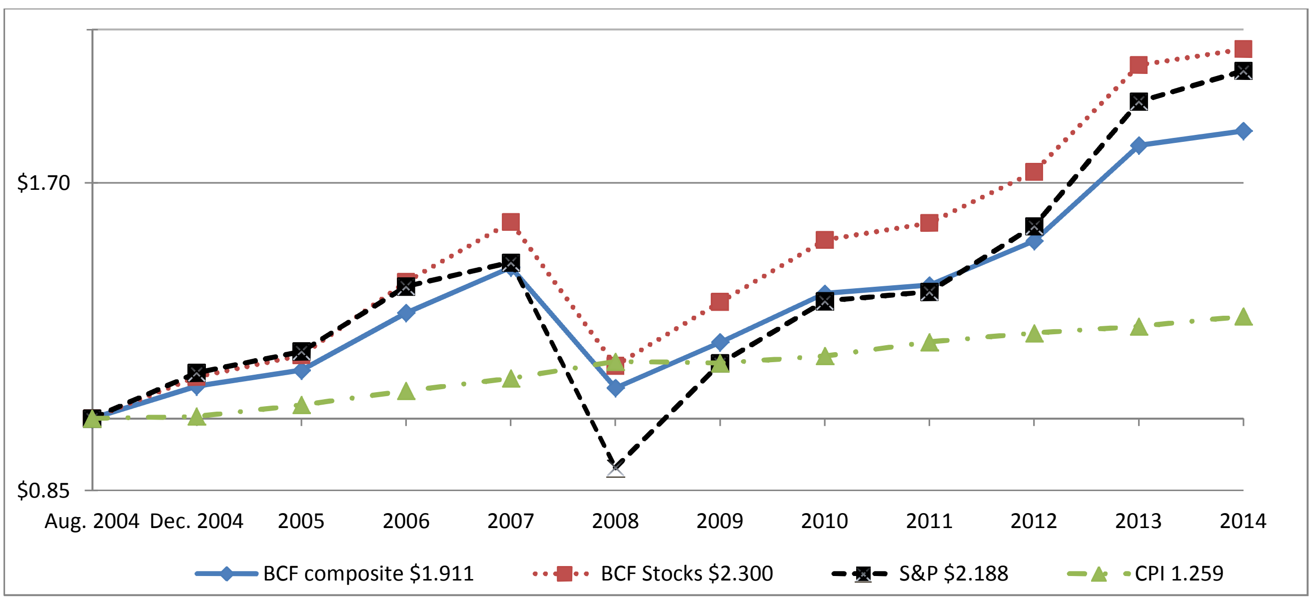
The Bradyco composite result for 2014 was a gain of 10.1%, net of expenses, while the S&P 500 index, including dividends, increased 13.7% during this same period.

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

	2014	2013	2012	Last 2 yrs.	Last 3 yrs.	Last 5 yrs.	Since Inception
Bradyco composite	10.1%	24.0%	10.5%	16.9%	14.7%	11.4%	7.1%
Bradyco stocks	11.7%	27.2%	12.2%	19.2%	16.8%	13.8%	9.1%
S&P 500 (w/ DIV)	13.7%	32.4%	16.0%	22.7%	20.4%	15.5%	8.4%
CPI - U	1.6%	1.5%	2.1%	1.5%	1.7%	2.0%	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 another strong year gaining 13.7% (including dividends) during 2014. During the same period, our stocks increased in value by 11.7 % while our composite – which includes cash – rose 10.1%. Inflation was 1.6%.

Since the Great Recession of 2008-09, the Federal Reserve has used various tools to strengthen the economy by boosting asset values. While the economic effects are debated by some, most observers agree that the impact on the stock market is beyond dispute. Since the end of February 2009 (the market hit its bottom early the next month), the stock market has risen nearly 22% per year. The S&P 500 index set 53 new all-time highs during 2014 alone.

Where are we now?

This success has made many investors nervous. Is the music about to stop? Frankly, there are plenty of aspects of today's stock market to satisfy either an optimistic or a pessimistic outlook.

From the optimist's perspective, America's economy continues to be a standout performer. Our economy, as measured by Gross Domestic Product (GDP), grew by 5% in the 3rd quarter, which was the highest rate in 11 years (the 4th quarter estimate was significantly lower, +2.6%). Employment continues to grow while the unemployment rate fell to a 6 ½ year low in December 2014. Fears of excessive inflation are tempered by a large and unexpected drop in the price of energy as oil prices (-46% during 2014 and sharply lower as 2015 begins). Mortgage rates are near historic lows.

There is also much that could go wrong in 2015. Stock market valuations continue to be on the high end of normal. The S&P 500 index has gone without a correction (a 10% decline) since the summer of 2011 (which is unusual but not unprecedented). While total employment has risen slightly since 2009, the labor force participation rate has dropped and the average real (inflation-adjusted) wages have stagnated. This makes the issue of income inequality both a moral and an economic one. Internationally, foreign currency markets have been in turmoil as the European Central Bank begins its own Quantitative Easing experiment and Greece's position in the Eurozone is tenuous. Finally, the U. S. dollar has been an especially strong currency. This means that purchases of foreign goods with dollars are cheaper while sales of American products in foreign currencies are more expensive.

A bigger concern to investors, than these transitory economic forces, is that two of the Federal Reserve's tools that have been propelling the stock market upward since 2008 (near zero percent interest rates and Quantitative Easing) are coming to an end (Quantitative Easing ended last fall and most observers expect interest rates to increase in 2015). Since neither of these tools has been used before, there is high uncertainty regarding how these experiments will end since there are no historical models to consult. While we could speculate endlessly on how the future will unfold, a more useful forecast – given by many Federal Reserve members in recent weeks – is of further stock market volatility as the markets try to anticipate what might happen and when.

So what should we do?

As you have seen historically, I do not believe in changing our strategy due to short-term factors in the stock market. Aside from proper cash management (see January 2014 newsletter), I see no need for major significant changes to our portfolios regardless of how we perceive the future. I have and will continue to look for strong companies run by solid management that can withstand any challenges that the economy and stock market throw at them.

This all-weather strategy sometimes produces below market returns when the stock market is strong and above market returns when the stock market is weak. Our results during 2008 (BCF composite returned -23.8% and BCF stocks -27.7% versus the S&P 500's -37.0%) and 2013 (BCF composite +24.0% and BCF stocks +27.2% versus the S&P 500's +32.4%) are examples of this phenomenon.

I think it is important to remember that regardless of today's news, we need to keep our focus on the long run and worry about those things we can control – namely, the selection of companies in which to invest our savings.

What's Next?

As we have seen so far this year, continued (and possibly increased) volatility in the stock market seems likely. Rather than spending our time obsessing over the latest economic report or forecast, we long-term investors should use our time identifying durable businesses run by competent managers that can withstand inflation, economic turmoil, and competition from other companies.

Thank you for your confidence.

Brad

P. S. Along with this letter, I have enclosed reports outlining your realized capital gains and losses, your investment income, and your expenses including investment management fees and margin (if any). These reports are bundled together in two groups: those related to taxable accounts, which you should give to your tax preparer; and, those related to non-taxable accounts, which are solely for your information. Your Schwab reports should be in the mail if you haven't already received them. A remainder, Schwab combines both your Form 1099 tax report and your Year End report into one document.

	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	10.1%	11.7%	13.7%	1.6%
08/04 – 12/14	7.1%	9.1%	8.4%	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.