BRADYCO

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Results

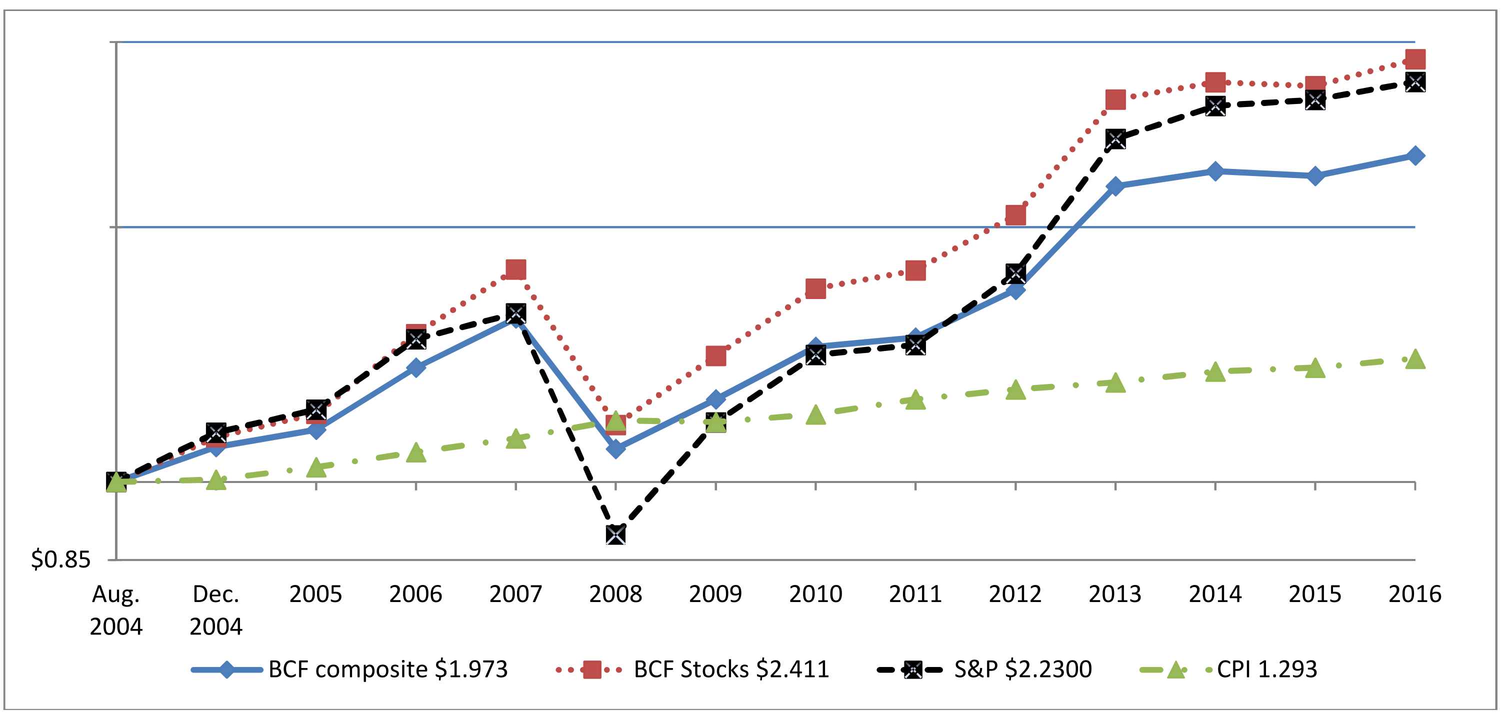
The Bradyco composite (which includes cash) gained 4.3%, net of expenses, in the first half of 2016 while the S&P 500 index, including dividends, increased 3.8% during this same period.

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

	2016 YTD	2015	2014	Last 2 yrs.	Last 5 yrs.	Last 10 yrs.	Since Inception
Bradyco composite	4.3%	2.0%	10.1%	6.5%	9.2%	6.7%	6.8%
Bradyco stocks	5.8%	1.8%	11.7%	7.7%	10.7%	8.4%	8.5%
S&P 500 (w/ DIV)	3.8%	1.4%	13.7%	5.7%	12.1%	7.4%	7.8%
CPI - U	1.9%	0.7%	0.8%	0.6%	1.4%	1.7%	2.0%

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 – gained 3.8% (including dividends) during the first half of 2016. During the same period, our stocks rose in value by 5.8 % while our composite – which includes cash – rose by 4.3%. Inflation rose by 1.9%.

The stock market started 2016 with a continuation of last August's volatility as investors speculated on what impact the slowdown in China's economy and the continued drop in oil prices would have on the U.S. and world economies. The result was the 2nd "correction" (drop by 10% or more) in the S&P 500 index in six months, which fell 10.5% between January 1st and February 11th (Previously, there were no corrections in 5 years!). Repeating the August 2015 trend, the stock market recovered quickly and ended the first quarter of 2016 up slightly.

The second quarter trends were similar. The stock market seesawed with investors focusing mainly on the actions of the Federal Reserve Bank, whose job of guiding America's economy was complicated by foreign trends mentioned above plus abnormally low or negative interest rates in several industrialized countries. The importance of international considerations came to a head in June when the U.S. stock market rallied strongly and quickly reversed course after Britain unexpectedly voted to leave the European Union. This drop in stock market did not last long and the S&P 500 closed the 2nd quarter with another gain.

Berkshire Hathaway after Warren Buffett

For most of us, Berkshire Hathaway is our largest holding. Led by Warren Buffett and Charlie Munger, Berkshire has served its shareholders well with its sensible practices and record setting results. One close observer and shareholder of Berkshire Hathaway, Whitney Tilson, has written that he believes Mr. Buffett could conceivably run Berkshire for another 5-10 years. Still, with Mr. Buffett turning 86 this summer and Mr. Munger in his 92nd year, it makes sense to consider what the post-Buffett/Munger era will look like.

To do justice to this subject, one could write a book. One academic did (Berkshire Beyond Buffett by Lawrence A. Cunningham (2014)). For those interested in a summary, here are my thoughts:

1) A transition does not appear to be imminent. Observing Mr. Buffett and Mr. Munger answer questions for hours at the company's annual meeting this past May 2016, both men appeared to be in excellent health both physically and intellectually.

2) Berkshire Hathaway has made tremendous strides in the past 5 years to prepare for the post-Buffett/Munger years. The plan is to divide Mr. Buffett job into three positions:

- CEO: The next CEO will be the public face of Berkshire and will be involved in both capital allocation and the supervision of divisional leaders. The most likely candidate for this role is one of the current senior Berkshire managers (Several Berkshire executives currently manage operations large enough to put them in the S&P 500 if they were independent of Berkshire.).

- Chief Investor: Buffett hired two hedge fund managers, Todd Combs and Ted Weschler (both of whom are decades younger than Mr. Buffett), in 2010-2011 to help him manage Berkshire's over $100 billion stock portfolio. Currently, they manage about $9 billion each.

- Board Chair: Mr. Buffett has suggested that the Board elect his eldest son, Howard, to take on this non-operating job. Why? I believe Warren Buffett thinks that in the unlikely event that his successor as CEO does not work out, his son would be the best person to lead the effort to fix this problem. Another current board member, former Microsoft CEO, Bill Gates, whose foundation is the primary recipient of Buffett's estate is another candidate for this role.

3) Replacing Mr. Munger will be no easy task. As shareholders, we hope the new Berkshire CEO is able to find his or her own confidant.

4) The unusual Berkshire Hathaway culture is likely to endure. Most companies and their leaders were selected in part for their "fit" with the decentralized Berkshire model.

5) Whoever runs Berkshire Hathaway will take over a company with a great collection of businesses with above average economics that are broadly diversified. While Berkshire's enormous size will make spectacular returns less likely, we should continue to expect above average results.

6) While I would expect Berkshire's stock price to drop immediately following a transition, the company's current valuation seems to reflect excessive concern over Buffett's retirement. Thus, once the transition is over, Berkshire's stock price could end up higher than today.

Replacing a CEO is not easy and replacing an "irreplaceable" CEO, such as Mr. Buffett, is harder still. However, the transition at Apple from the "irreplaceable" Steve Jobs to the current CEO, Tim Cook, suggests that "irreplaceable" CEO transitions can be done successfully. I remain confident in Berkshire Hathaway's future.

What's Next?

The major story in 2016 is how technology and other trends have continued to increase the world's interconnectedness. While the world economy is not robust, it continues to grow while interest rates and inflationary trends remain abnormally low.

Thank you for your confidence.

Brad

P. S. A reminder that beginning in early August, Schwab will be sending monthly statements only for those accounts with activity such as deposits, withdrawals, trades, and stock dividend distributions and reinvestments. Accounts that do not have activity will receive statements on a quarterly basis. This change will apply to all statements including electronic and ones that are bundled together.

	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%	0.8%
2015	2.0%	1.8%	1.4%	0.7%
2016 YTD	4.3%	5.8%	3.8%	1.9%
08/04 – 6/16	6.8%	8.5%	7.8%	2.0%

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.