BRADYCO

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Results

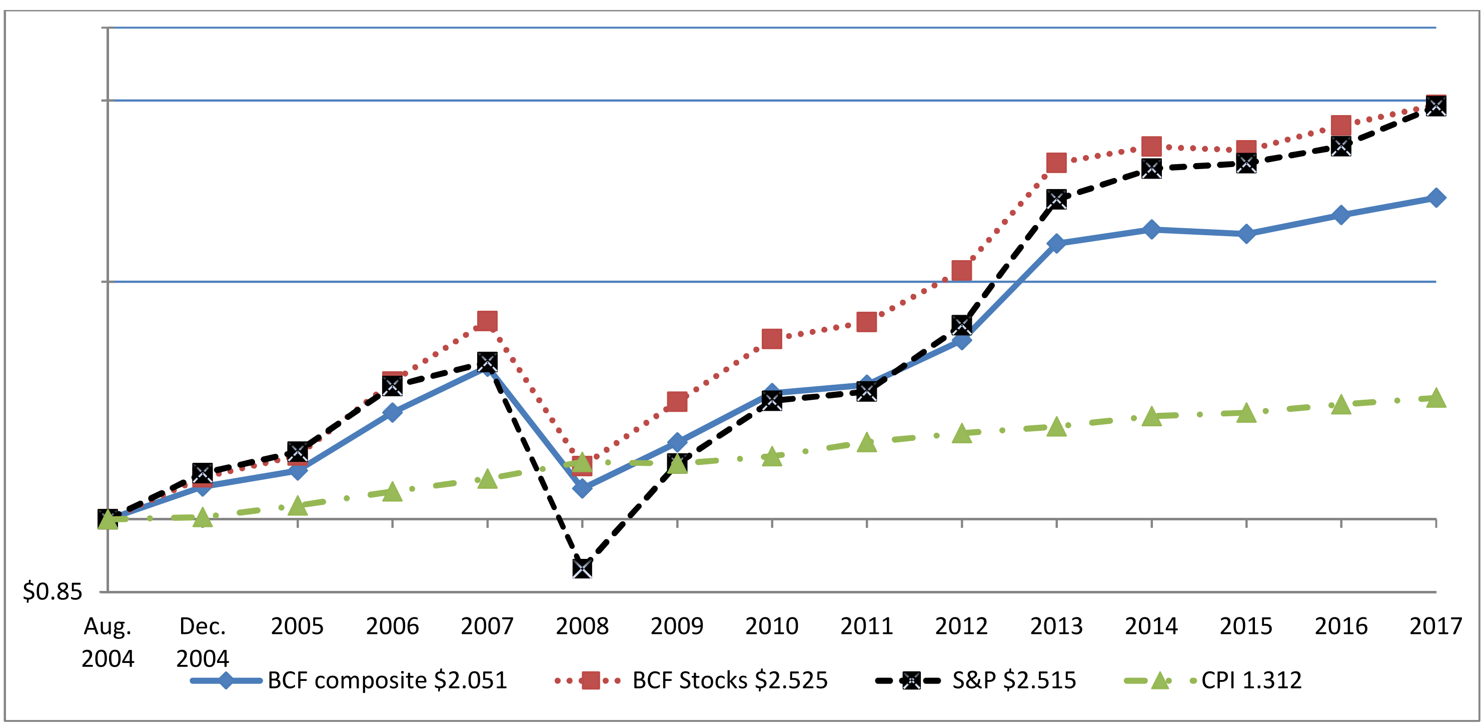
The Bradyco composite result for the first half of 2017 was a gain of 3.9%, net of expenses, while the S&P 500 index, including dividends, increased 9.3% during this same period.

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

	2017 YTD	2016	2015	Last 2 yrs.	Last 5 yrs.	Last 10 yrs.	Since Inception
Bradyco composite	3.9%	8.4%	2.0%	7.6%	9.7%	5.9%	6.9%
Bradyco stocks	4.7%	10.5%	1.8%	9.4%	11.3%	7.3%	8.6%
S&P 500 (w/ DIV)	9.3%	12.0%	1.4%	10.7%	14.6%	7.2%	8.5%
CPI - U	1.4%	2.1%	0.7%	1.3%	1.3%	1.6%	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 9.3% (including dividends) during the first half of 2017. During the same period, our stocks rose in value by 4.7% while our composite – which includes cash – rose by 3.9%. Inflation rose by 1.4%.

While many stock-market observers have expressed concerns about the high level of stock market valuations, the S&P 500 index has continued its upwards path with an unusual lack of volatility. It has not been alone. According to the Wall Street Journal, this is the first time in 30 years that three major stock-market benchmarks in the US, Europe and Asia have all completed a calendar year without at least a 5% pullback from their recent highs. For the S&P, its last 5% drop was in June 2016 while its last "correction" (10% drop) was in January 2016.

Could problems in Washington cause the stock market to fall?

Despite the S&P 500 index's lack of volatility, there are concerns that the stock market's strength could be harmed by America's turbulent political situation. This issue can be examined from a couple different angles.

First, based on the results of the November 2016 election, the stock market rose on the premise that a Republican-controlled Congress and White House could pass legislation important to Wall Street such as tax reform and infrastructure spending. Those hopes faded as efforts to pass legislation to alter the Affordable Care Act (aka Obamacare) have failed. While tax reform and an infrastructure spending bill are still possible, the battle over health care legislation has shown the difficulty in getting agreement on major legislation from different factions in the Republican party. However, since this phenomenon has been playing out over the past several months, failure by Congress to move forward on these bills will not surprise the stock market and its impact is likely to be muted.

The second concern is the potential for a political and/or constitutional crisis. In the modern-day era, there is only one comparable example – the Watergate scandal of the early 1970's. The impact of the Watergate crisis on the stock market was minimal because other strong economic forces were already at work. Just prior to the scandal, our nation faced high inflation, an oil embargo, termination of the Bretton Woods currency agreement in 1971 and a recession in 1973. By contrast, today's economy is relatively strong and much more able to withstand the impact of significant economic uncertainty that a major political crisis could bring.

The third concern is that since the stock market has been strong for an usually long period of time, it is possible, even likely, that the stock market could fall sharply and that observers might blame the decline on a political crisis. The stock market rarely goes up in a straight line and so-called corrections – drops of 10% from a recent high – are quite normal. A political crisis is easy to blame when the real cause is more likely to be normal, random movements in the stock market.

In sum, given the high valuations in the stock market, a correction is possible. However, because of the strength of our nation's economy and corporate earnings, the risk of an extended decline is low.

What should we be worried about?

I am concerned about two broad themes.

First, current stock market valuations only make sense if our abnormally low inflation and interest rates continue to remain below average for an extended period. If inflation and interest rates were to revert to their long-term historical averages, today's stock prices would suddenly look expensive. Inconsistencies in current economic data make forecasting an answer to this quandary especially difficult. Under these circumstances, caution is in order.

The second theme is as old as the stock market itself – competition. Accelerating advances in technology are causing unforeseeable changes to the competitive landscape facing our companies. For example, Amazon has recently announced a proposal to acquire Whole Foods. While it is unclear exactly how Amazon's ownership of Whole Foods will change the grocery industry, Amazon's use of technology in its other businesses suggests that the grocery industry is about to experience a revolution in how it operates. This trend is likely to impact some of our holdings in both the retail and consumer products industries. Our companies need to be nimble, but neither we nor they should overreact to the evolving landscape.

Cybersecurity

Schwab recently sent out a notice that some of its clients had received a fraudulent e-mail that appeared to come from Schwab. This is another reminder to think twice before clicking on e-mail links. Also, you should be especially suspicious of any financial firm that asks you via e-mail to provide personal information. Bottom line: if you have any doubts about an e-mail that appears to be from Schwab, please contact me.

What's Next?

Stock valuations are high and thus, the potential for stock prices to fall for a period of months is significantly higher than normal. That said, good investment alternatives to the stock market are hard to find, inflation and interest rates remain relatively low, and corporate earnings growth is strong. Thus, stock prices could continue to climb for an extended period. The big unresolved question is what the impact of a strong labor market and higher import prices, due to the recent fall in the value of the U.S. dollar, will have on inflation?

Thank you for your confidence.

Brad

P. S. The Securities and Exchange Commission (SEC) has announced that beginning on Tuesday, September 5th (the first trading day after the Labor Day holiday), stock trades will be settled two days after they occur instead of three days at present. (Europe moved to this standard three years ago.) As a result, stocks will be convertible to cash a day earlier than they have been in recent years.

	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	8.40%	10.5%	12.0%	2.1%
2017 YTD	3.9%	4.7%	9.3%	1.4%
08/04 – 6/17	6.9%	8.6%	8.5%	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.