BRADYCO

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Results

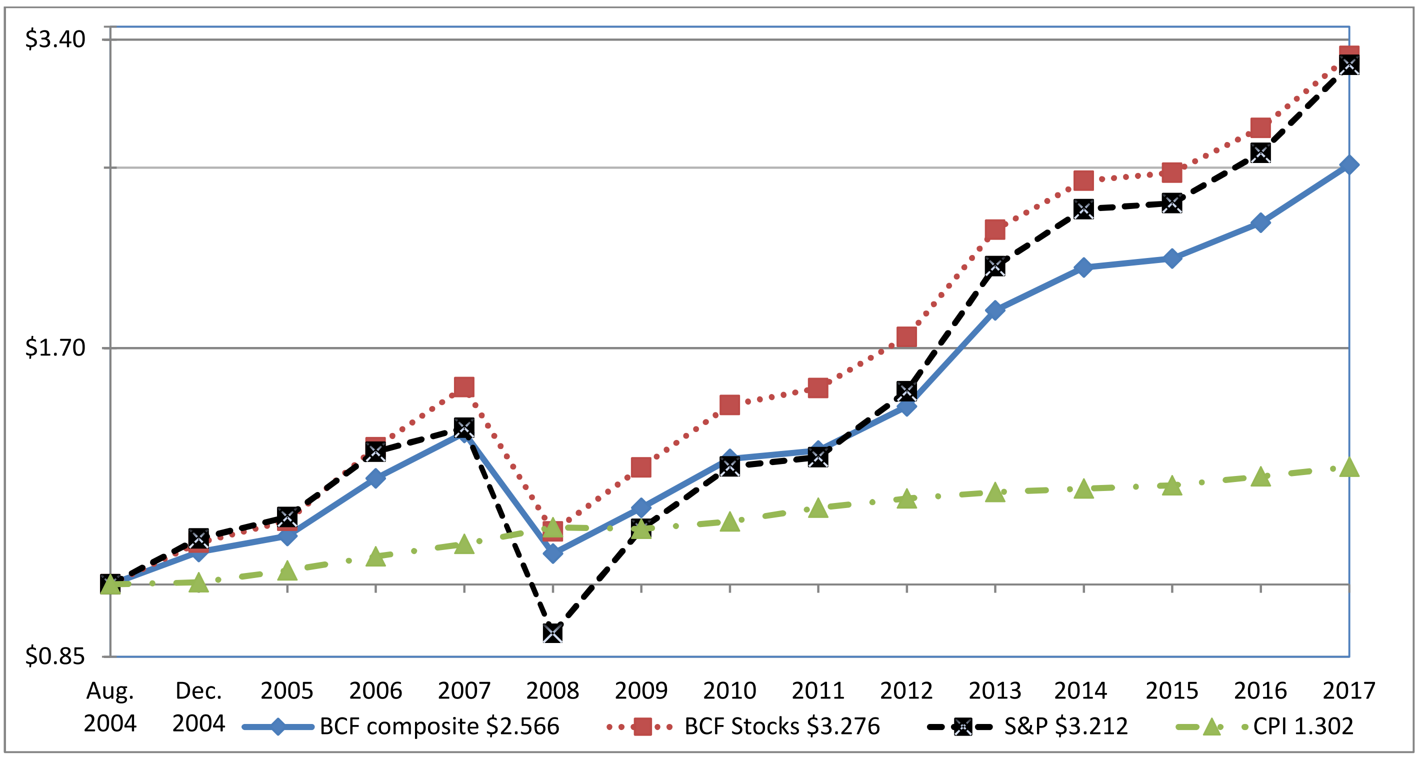
The Bradyco composite result for 2017 was a gain of 13.9%, net of expenses, while the S&P 500 index, including dividends, increased 21.8% during this same period.

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

	2017	2016	2015	Last 2 yrs.	Last 5 yrs.	Last 10 yrs.	Since Inception
Bradyco composite	13.9%	8.4%	2.0%	11.1%	11.4%	6.2%	7.4%
Bradyco stocks	17.6%	10.5%	1.8%	14.0%	13.4%	7.6%	9.2%
S&P 500 (w/ DIV)	21.8%	12.0%	1.4%	16.8%	15.8%	8.5%	9.1%
CPI - U	2.1%	2.1%	0.7%	2.1%	1.4%	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 21.8% (including dividends) during 2017. During the same period, our stocks rose in value by 17.6% while our composite – which includes cash – rose by 13.9%. Inflation rose by 2.1%.

A year ago, most investment analysts issued relatively subdued stock market forecasts for 2017 based on the strong recovery in equities since the Great Recession of 2008-9. Instead, the stock market had an especially robust year reflecting near perfect conditions including very low inflation, accommodative central bank policies, and a growing global economy. The S&P 500 index, with dividends, showed positive returns during every month of the year in 2017! The last time this occurred was in 1970 according to the Wall Street Journal.

The Virtues of Being an Opportunistic Investor

This past September, Marylou and I said our final goodbye to my 17-year-old cat, Oscar. One of the valuable lessons that I learned from Oscar was the virtue of opportunism.

Oscar was focused on food. To that end, he would frequently position himself near the door to the source of his food (our pantry) whenever he was hungry and sometimes even when he wasn't. As investors, we need to metaphorically position ourselves near the pantry door so we can pounce on investment opportunities that may appear suddenly and only last for a short period of time.

1) preparation – Oscar knew what he would do the minute I started to open the pantry door. As investors, we need to know what we want to buy, the price we are willing to pay, and how much we want to invest so that when a stock (or the stock market overall) suddenly goes on sale, we are ready. The key here is having the discipline to prepare when doing so seems premature.

2) patience – Oscar would wait for hours just in case I happened to come by the pantry door. As investors, we sometimes must wait a long time for that perfect opportunity. Unlike cats, humans often do not have either the patience or the composure needed to take full advantage of situations especially during stock market extremes. It isn't easy to sit and wait for bargains when the stock market is doing well, such as during the tech bubble of the late 1990's. Similarly, it is difficult for humans to remain calm during times of stock market distress such as the major market decline of 2008-09. As Warren Buffett told his investors in 2004: "[we] should try to be fearful when others are greedy and greedy only when others are fearful."

Tax Law Changes

The recently passed tax bill has several changes you should be aware of. First, changes to individual tax rates include a doubling of the standard deduction on Schedule A. For single taxpayers, the amount has increased from $6300/yr. to $12,000/yr. starting in 2018 while the deduction for married taxpayers has gone from $12,700/yr. to $24,000/yr. This change will mean that many taxpayers, who previously itemized their deductions, will instead take the standard deduction starting in 2018.

One result of this change is that for some taxpayers, the tax benefit of their charitable deductions will be reduced or eliminated. One way to ameliorate the impact of this new law is to use a Donor Advised Fund to separate the timing of your tax deduction with the IRS from your actual charitable donations. Using this strategy, you would donate to a Donor Advised Fund, such as Schwab Charitable, the equivalent of several years' worth of planned charitable donations (the best benefit is generated by a contribution of highly appreciated securities). If the total of your other deductions combined with the Donor Advised Fund contribution exceeds your standard deduction, your tax bill will be reduced. Once the cash or securities have been transferred to the Donor Advised Fund, you can direct the Fund to make donations on your behalf to your desired charities in such amounts and timing as you wish with very few restrictions. While this strategy may seem complicated, it can make a lot of sense for many taxpayers. Marylou and I have opened a Schwab Charitable account.

Other changes to itemized deductions in 2018 include a $10,000 limit for both single and married taxpayers for all state and local taxes combined. Also, the cost of investment management, including your Bradyco Financial fees, and the cost of your tax preparation will no longer be deductible.

Finally, the major change in the corporate tax rate from a maximum rate of 35% to 21% will impact many of our investments. Companies have been debating what to do with the savings. Possible uses include lowering customer prices, increasing employee compensation, and increasing direct shareholder returns such as dividend increases and share buybacks. Most companies will do a combination of these and other strategies. Competitive pressures may force some businesses to emphasize one strategy over another.

What's Next?

The stock market rarely goes straight up, but it has during the past 14 months and the so-called "melt-up" rally has continued into 2018. At some point, this unsustainable trend will end. When it does, we shouldn't panic. It is unlikely that the next significant drop in stock prices will be caused by a fundamental shift in the factors that have fueled the recent growth in valuations. More likely, the stock market's weakness will reflect the historical trend that stock markets rarely go up in a straight line.

My major long-term concern continues to be inflation. While inflation has remained abnormally low since the 2008-09 recession, it is virtually certain that it will become a problem over time.

Thank you for your confidence.

Brad

P. S. I have included my own tax reports – which list your account expenses including investment management fees (which are still deductible for 2017) and margin interest (if any) – in this mailing to those of you who I think will need it for your tax preparation. If I left anyone out or if there is any other tax related information that you need, please let me know. Schwab will be mailing your tax forms shortly.

	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	13.9%	17.6%	21.8%	2.1%
08/04 – 12/17	7.4%	9.2%	9.1%	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.