BRADYCO

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Results

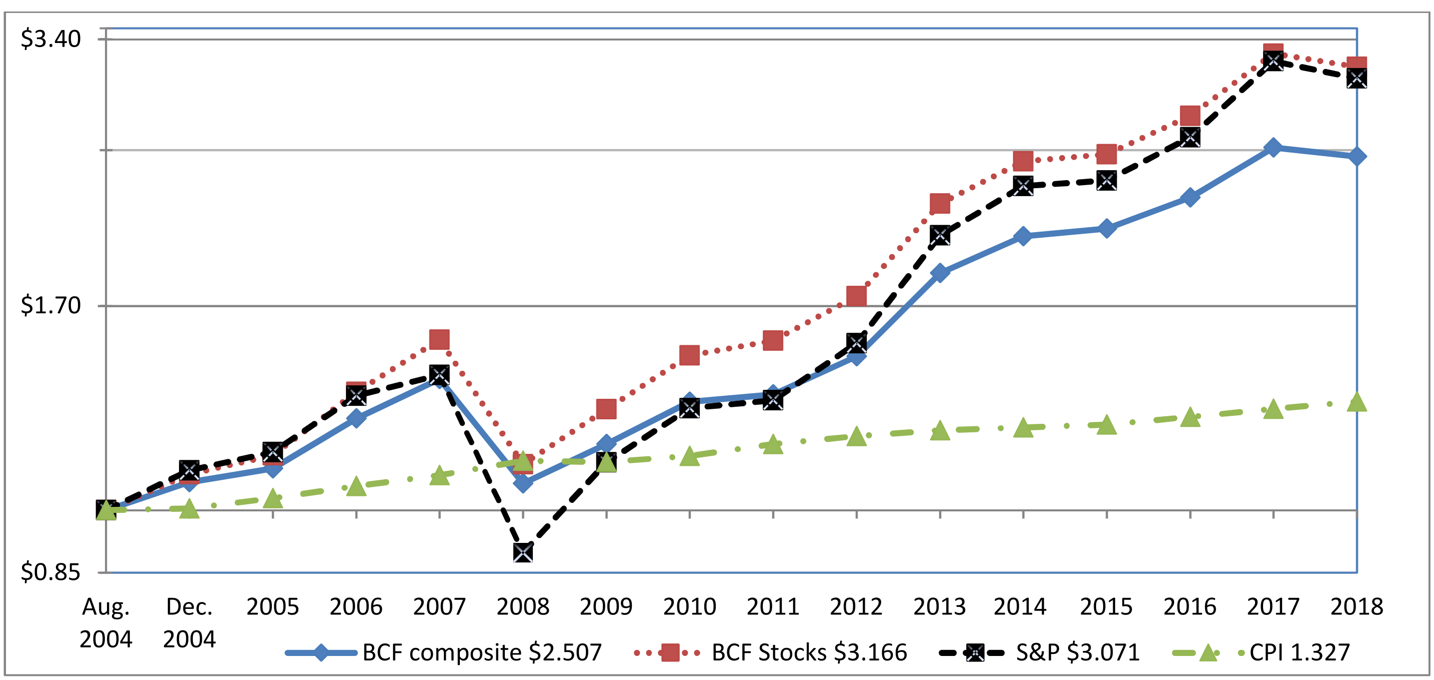
The Bradyco composite result for 2018 was a loss of 2.3%, net of expenses, while the S&P 500 index, including dividends, lost 4.4% during this same period.

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

	2018	2017	2016	Last 2 yrs.	Last 5 yrs.	Last 10 yrs.	Since Inception
Bradyco composite	-2.3%	14.3%*	8.4%	5.6%	6.3%	8.8%	6.7%
Bradyco stocks	-3.4%	17.6%	10.5%	5.5%	7.4%	10.7%	8.3%
S&P 500 (w/ DIV)	-4.4%	21.8%	12.0%	7.9%	8.5%	13.1%	8.1%
CPI - U	1.9%	2.1%	2.1%	2.0%	1.5%	1.8%	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 – lost 4.4% (including dividends) during 2018. During the same period, our stocks declined in value by 3.4% while our composite – which includes cash – declined by 2.3%. Inflation for the year rose by 1.9%.

After 2017's so-called "melt-up" rally, the stock market cooled during the first half of 2018. The 3rd quarter brought new highs for the year and was followed by high volatility in the 4th quarter caused by concern over how long the good times would last. By December, financial markets acted as if a recession might be coming sooner than expected. Stocks fell precipitously. Since making a low on December 24th, stocks have modestly recovered based on greater optimism regarding the economy.

Bradyco's results were helped both by our cash (which was the only major asset class with a positive return in 2018, according to Bianco Research) and because our stocks did not include a handful of extremely highly valued companies, which were hard hit by the 4th quarter decline.

When to Buy

Last month when the stock market fell rather abruptly, one could have been forgiven for wondering whether buying stock during the first nine months of 2018 had been a huge mistake. Some in the media even called out large companies, such as Apple, for repurchasing company stock during much of 2018 at significantly higher prices than were available in December.

How can we/they avoid this problem? The simple answer is that you can't. Trying to predict future stock prices is a fool's game. If Apple's experts, who should know the company better than anyone, are unable to predict the likely future price of Apple's stock, why should we assume we can do better?

What should we do? The key is knowing the valuations of companies you wish to purchase. While all of us would like to buy stocks at the exact moment when their prices have hit near-term bottoms, a more reasonable goal is to purchase stocks at sensible prices based on their earnings power.

The final part of this approach is having the patience to wait for the right price (something corporate buyers like Apple may not be able to do), so that you can buy when valuations are reasonable.

What if a recession occurs?

The financial press is full of stories of analysts and economists predicting that a recession is on the horizon. As I have written before, at some point, we will have a recession. Predicting the timing of a recession is not only quite difficult, it should not matter to long-term investors.

For investors with no current need for cash from their investment account, short-term stock market volatility should not concern them. Clients who need cash or who are obligated to take Required Minimum Distributions from their IRA's will be impacted, but with proper planning, the negative effects of economic events, such as a possible recession, can be mitigated.

How? The key for those who need cash is to plan their cash flows so that they do not need to liquidate securities at low valuations during periods of economic turmoil. My approach is to let cash positions grow when valuations rise so that there is minimal need to sell stocks when the stock market falls.

Changes to Schwab's policies regarding sweep accounts

Until recently, our investment accounts' cash balances (so-called "sweep accounts") were invested in money market funds. After the financial crisis of 2008, the SEC changed its money market fund regulations to take into account the near meltdown of the money market fund system after Lehman Brothers failed. In response, our custodian, Charles Schwab, has adjusted its approach.

One change by Schwab will have a significant impact on us. Schwab is gradually moving all of our sweep accounts from money market funds to bank accounts. This change has two ramifications. First, our sweep accounts will be insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 with some restrictions. Second, the interest paid on these bank accounts will be quite low.

In order to maximize the interest paid on the cash in your investment accounts, I have made changes to how I handle sweep account cash. Most of you will see a new position in your accounts called "Schwab Government Money Market Fund." This money market fund pays a competitive rate (currently near 2%) yet it is relatively conservatively invested. It is not, however, FDIC insured.

Using this new money market fund will require an extra step on withdrawals. When you wish to take cash from your investment account, I will need to transfer funds in advance of any transaction. (Unfortunately, Schwab will NOT do these transfers automatically.) Such movements will take one trading day so I will need advanced notice on your withdrawals if you wish to earn the extra interest.

What's Next?

While major declines in the stock market can be emotionally jarring, the market's recent weakness did not come as a huge surprise. In 2017, the stock market went virtually straight up, so weakness in 2018 was to be expected. What surprised some observers was both the speed and strength of the decline in stock prices. Why was the market's decline so abrupt? The likely cause was the recent growth in "autopilot" computer trading, which according to the WSJ, now accounts for about 85% of all trading. We should get used to this. Future momentum swings are likely to remain fast and pronounced.

If we look beyond this short-term volatility, we see that ten years ago, our country was going through the most severe financial crisis since the Great Depression. Our economy and the stock market were hit hard. Today, our economy has strongly rebounded and our stocks have also done quite well. It is important to remember these long-term trends as we watch short-term volatility take over the financial markets. Regardless of what comes next, our job -- as my beloved cat, Oscar, showed me -- is to always be prepared and act opportunistically.

Thank you for your confidence.

Brad

P. S. Starting this year, I am no longer including my own tax reports with this letter. Given the new tax law, which took effect in 2018, investment fees are no longer tax deductible and do not need to be given each year to your tax preparer. The only investment expenses that remain deductible are foreign taxes and margin interest (if any) and both of these amounts will be reported by Schwab in their yearly tax forms, which should be mailed to you 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	8.4%	10.5%	12.0%	2.1%
2017	14.3%*	17.6%	21.8%	2.1%
2018	-2.3%	-3.4%	-4.4%	1.9%
08/04 – 12/18	6.7%	8.3%	8.1%	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.

* Due to an input error, Bradyco Financial's 2017 composite was incorrectly calculated in past reports as 13.9%. The correct number is 14.3%. Bradyco's Stock Portfolio performance was not affected by this mistake.