BRADYCO

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Results

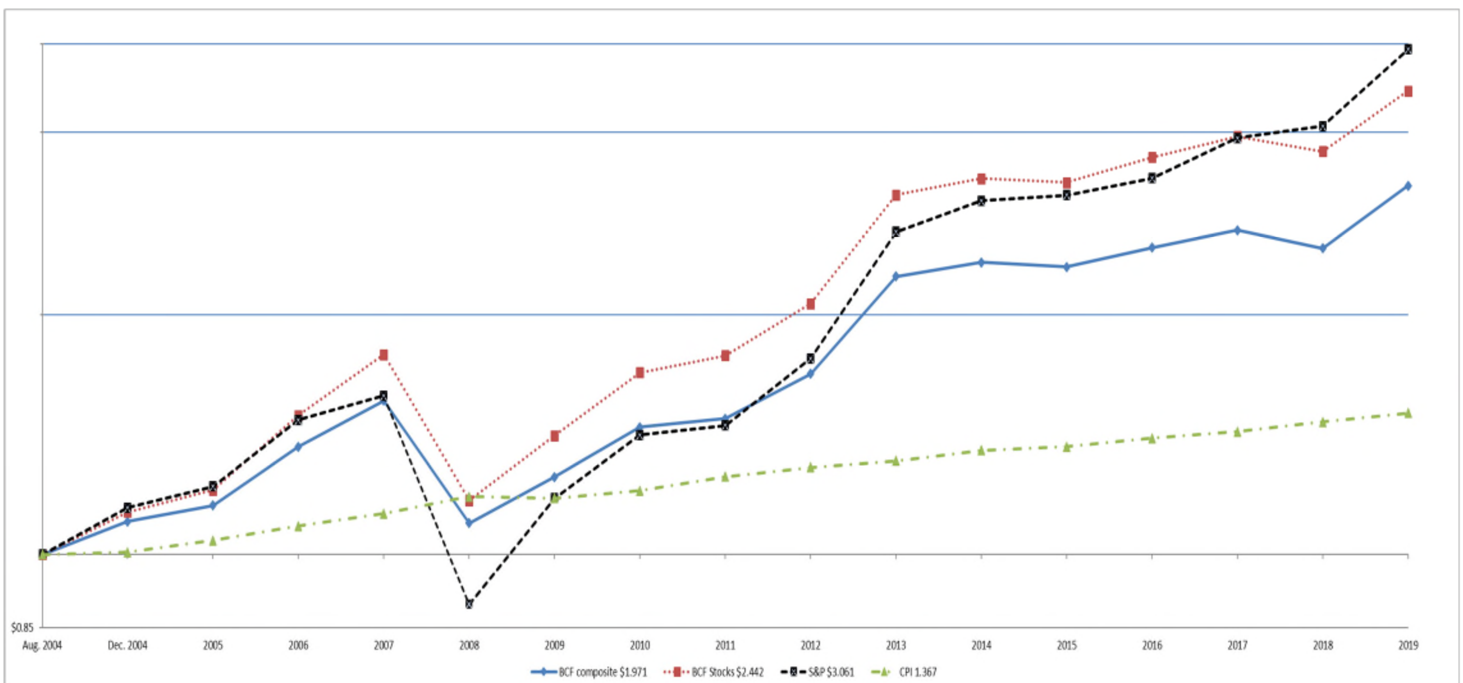
The Bradyco composite result for the first half of 2019 was a gain of 14.9%, net of expenses, while the S&P 500 index, including dividends, gained 18.5% during this same period.

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

	2019 1H	2018	2017	Last 2 yrs.	Last 5 yrs.	Last 10 yrs.	Since Inception
Bradyco composite	14.9%	-2.3%	14.3%	11.1%	8.6%	10.6%	7.4%
Bradyco stocks	14.4%	-3.4%	17.6%	11.4%	9.5%	12.6%	9.0%
S&P 500 (w/ DIV)	18.5%	-4.4%	21.8%	12.4%	10.7%	14.7%	9.1%
CPI - U	2.0%	1.9%	2.1%	2.3%	1.5%	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 18.5% (including dividends) during the first half of 2019. During the same period, our stocks increased in value by 14.4% while our composite – which includes cash – rose by 14.9%. Inflation for the year rose by 1.9%.

The first quarter of 2019 was almost the reverse of the fourth quarter of 2018. During the last three months of 2018, the stock market fell sharply (nearly 14%) due to fears of a recession. However, when the Chair of the Federal Reserve Bank hinted that the Fed might change its interest rate policies in response to changing economic conditions, the stock market abruptly reversed course. The S&P then not only recovered the 4^{th} quarter losses, but it went on to make several new all-time highs. As a result, the S&P 500 index's 1^{st} half performance was the best in 22 years.

Whiplash?

While we can all cheer the good news about the first half of 2019, the stock market's growth during the past 18 months was not straight up. In mid-January 2018, the S&P 500 index (excluding dividends) exceeded 2800 for the first time as investors took note of strengthening corporate earnings. Since then, the S&P index has had a rollercoaster-like performance of ups and downs above and below this number on numerous occasions as investors have speculated about the future of earnings and interest rates. The policies of the Federal Reserve Bank have been a key factor. In December 2018, the Fed increased rates for the ninth time since the financial crisis of 2008-09 and the stock market reacted negatively to the suggestion that the Fed wasn't done increasing rates. Recession fears were especially pronounced. By contrast, in late July 2019, just prior to the Fed's first interest rate cut since 2008, the stock market hit its latest high, which was about 7% above the 2800 mark. Earlier this week, the stock market fell sharply due to fears of a trade war with China which could cause a recession.

What is Going On?

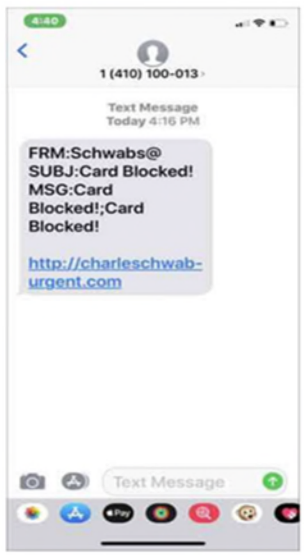
While it appears that the United States continues to benefit from the longest economic expansion in its history (I am hedging here, because we typically do not realize when growth has stopped until well after the fact.), warning clouds of a possible recession are plentiful. For example, global economic growth is slowing (the IMF has reduced its forecast for the world's economy twice in 2019) while trade tensions between the US and China have caused major shifts in this key trading relationship. Economic weakness in Europe continues with the European Central Bank considering a plan to further reduce interest rates that are already negative. (Imagine going to a bank and being told you have to <u>pay</u> the bank to leave your money on deposit with them! Then, imagine the same scenario if you were a large company with millions of dollars in cash.) Finally, yields on United States' government bonds indicate that expectations for a recession are very high.

With all these cross currents, what changes should we make to our investment strategy? I do not see any reason to change our investment strategy. First, it is not clear where things are headed. Like New England weather, if you wait a couple days, the stock market's short-term direction often changes rather abruptly. Second, for long-term investors, any stock market movements as a result of these short-term economic trends will show up as a blip on the long-term results. Finally, for investors who need cash in the near-term, the strategy should always be plan ahead and take advantage of stock market volatility to raise cash at sensible prices. Our current situation is no different.

Another scam to avoid

According to our custodian Charles Schwab & Co., a new scam exists in which people receive a text message purporting to be from Schwab directing recipients to a phony website where they are instructed to enter confidential information that the scammer can then use to steal the recipients' money. If you receive a text message that claims to be from Schwab, I strongly urge you to not click on any links. Instead, if you believe the text may be legitimate, log-in to Schwab as you normally would (via the mobile app or your computer) and check to see if there is a message from Schwab waiting for you. If in doubt, please contact me.

An example of a fraudulent text message:



What's Next?

Many observers believe that much of the stock market's recent success is because there is nowhere else to profitably invest. With interest rates already relatively low and possibly headed lower, neither the bond market nor cash hold great attraction for investors. This has resulted in a very strong stock market. While the stock market is not in bubble territory, its valuation is certainly on the high side of fair value. Thus, it is not surprising that events such as the recent escalation of trade tensions with China are enough to cause the stock market to react sharply. As always, we must remain vigilant and opportunistic.

Thank you for your confidence.

Brad

	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%
2019 1H	14.9%	14.4%	18.5%	2.0%
08/04 – 06/19	7.4%	9.0%	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.