BRADYCO

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Results

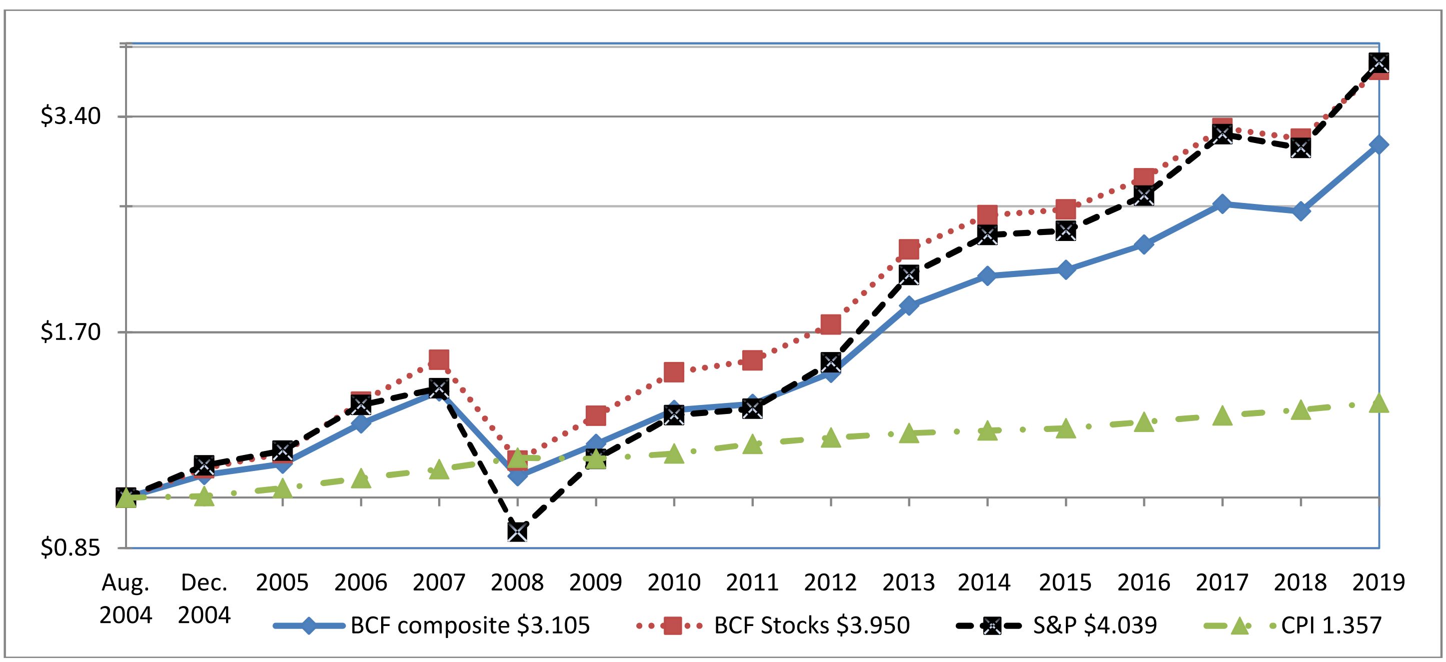
The Bradyco composite result for 2019 was a gain of 23.9%, net of expenses, while the S&P 500 index, including dividends, gained 31.5% during this same period.

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

	2019	**2018**	**2017**	**Last 2 yrs.**	**Last 5 yrs.**	**Last 10 yrs.**	**Since Inception**
Bradyco composite	23.9%	-2.3%	14.3%	10.0%	8.8%	10.6%	7.7%
Bradyco stocks	24.8%	-3.4%	17.6%	9.8%	9.8%	11.6%	9.3%
S&P 500 (w/ DIV)	31.5%	-4.4%	21.8%	12.1%	11.7%	13.6%	9.5%
CPI - U	2.3%	1.9%	2.1%	2.1%	1.8%	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 – gained 31.5% (including dividends) during 2019. During the same period, our stocks increased in value by 24.8% while our composite – which includes cash – rose by 23.9%. Inflation for the year rose by 2.3%. The relative weakness of Berkshire Hathaway's stock price, which was up only +11% (versus +31.5% for the S&P), reduced our composite's 2019 performance. The opposite was true in 2018.

The stock market's recent results were nearly the opposite of corporate earnings. During 2018, earnings showed significant growth while the S&P 500 stock index fell for the year. By contrast, in 2019, corporate earnings did not grow while stock prices were especially strong. Why the disconnect? The stock market tends to focus on the future. In 2018, fears of a recession were common while in 2019 confidence increased that despite continued trade conflicts, the economy would continue growing.

Changes to Retirement Account Rules

A new law, called the SECURE act, could significantly impact your retirement and estate planning. While there are many provisions in the law, I would like to focus on two provisions that could have the greatest impact on most of us: a) the age at which you are required to begin taking distributions (often called RMD's for Required Minimum Distributions) from your non-Roth retirement accounts and b) changes to rules regarding requirements for distributions from inherited IRA's. Here is a summary of the key points:

<u>RMD age</u>: Until January 1, 2020, all individuals with a non-Roth IRA were required to begin taking a minimum level of distributions (RMD) during the year in which they reached the age of 70 ½. The new law changes the age requirement from 70½ to 72. This provision applies to anyone who was born after June 30, 1949 (e.g. who turns 70½ after 1/1/20). Depending upon whether you were born in the first half or second half of the year, this provision could delay the effective date of your distribution requirement by either one or two years.

This change only impacts your <u>minimum</u> distribution requirements. As before, you can still take distributions from your retirement accounts penalty-free after you turned age 59 ½ with a few minor exceptions. However, unless the distributions are from Roth accounts, they are taxable since they represent tax deferred earnings.

<u>Inherited IRA rules</u>: In the past, a beneficiary of an IRA account could take distributions from their inherited IRA for the remainder of their life as long as there were funds available assuming they complied with required minimum distribution rules. The new law requires nearly anyone*, who inherits an IRA after 12/31/19 from someone other than their spouse, to withdraw (and thus, pay taxes on) 100% of the retirement account assets by December 31st of the year marking the 10th anniversary of the date of death of IRA's owner. The new law did not change the rules regarding what happens when a beneficiary inherits an IRA from their spouse.

* Aside from a surviving spouse and beneficiaries who are less than 10 years younger than the IRA owner, there are two other categories of beneficiaries who are eligible for special treatment under the new law: a) the minor children of the IRA owner while they are under the age of majority (afterwards, they are subject to the 10-year rule) and disabled or chronically ill beneficiaries.

The 10-year rule is flexible as to the exact timing. For example, a beneficiary could withdraw a portion of the IRA each year or they could withdraw 100% during the last year of the 10-year period as long as everything is withdrawn by December 31^{st} of the 10^{th} anniversary of the original IRA owner's death.

There is one major exception to the 10-year rule. If the owner of an IRA designates as their beneficiary a non-spouse who is less than 10 years younger than the IRA owner, the beneficiary can inherit the IRA without the 10-year restriction.

While distributions from Roth IRA's will continue to be tax-free, the 10-year requirement for distributions will also impact those who inherit a Roth account.

The new law did not change the distribution rules for those who inherited an IRA prior to 1/1/2020. However, when the owner of any inherited IRA dies, the 10-year rule will apply to any future beneficiaries.

Why was the change made? The original purpose of the IRA was to help people fund their retirement. Recently, retirement accounts have been used by some as an estate planning vehicle. The new law reduces the advantages of gifting large retirement accounts to heirs.

How should this affect your retirement and estate planning? The new law is complex, and its impact depends on circumstances. Thus, I would suggest a review of one's estate plan especially for those with large retirement accounts.

Schwab makes news

Our custodian, Charles Schwab & Co., had two noteworthy announcements during the 2^{nd} half of 2019.

First, on October 1, 2019, Schwab announced that they would be eliminating commissions for stocks, ETF's and options listed in the United States and Canada. The impact of this announcement on our trading strategy has been minimal since we trade so little. This change has increased the temptation for the average investor to trade more frequently, which is not necessarily a good thing.

Then, on November 25, 2019, Schwab announced the acquisition of TD Ameritrade. The impact this deal will have on us is unclear. Since the merger could take up to two years to complete, we will have plenty of time to monitor Schwab's behavior. So far, there are no signs of any significant issues.

What's Next?

From my vantagepoint, the stock market was too pessimistic in 2018 and too optimistic in 2019. Momentum has continued to drive prices up so far in 2020. While a rising stock market is good for our wallets, current valuations are such that any major unexpected event could cause high volatility including a correction (defined as a drop of 10% or more in the S&P 500 index from its latest high).

This situation also means that bargains are especially hard to find. As a result, there is no reason for us to change our long-term oriented approach of being cautious 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	23.9%	24.8%	31.5%	2.3%
08/04 – 12/19	7.7%	9.3%	9.5%	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.