# BRADYCO

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## Results

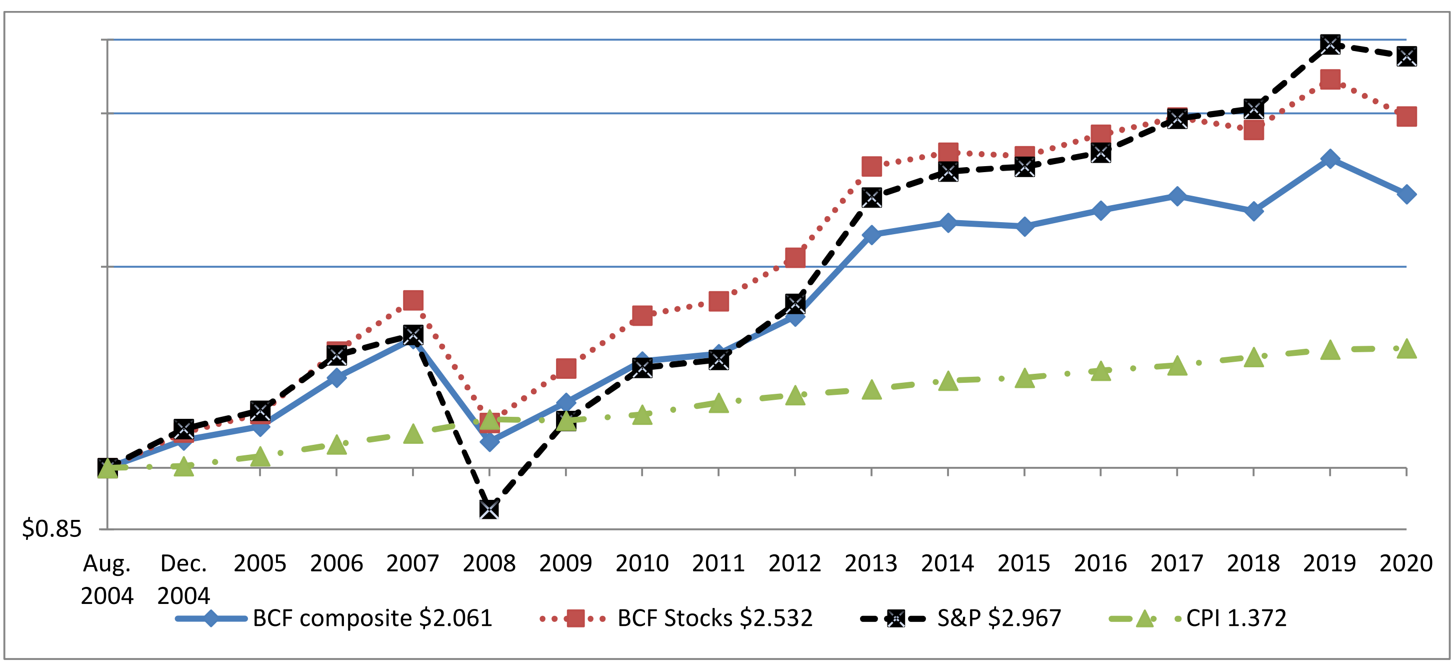
The Bradyco composite result for the 1st half of 2020 was a loss of 9.0%, net of expenses, while the S&P 500 index, including dividends, lost 3.1% during this same period.

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

| | 2020 1H | 2019 | 2018 | Last 2 yrs. | Last 5 yrs. | Last 10 yrs. | Since Inception |
|---|---|---|---|---|---|---|---|
| **Bradyco composite** | -9.0% | 23.9% | -2.3% | 5.8% | 8.0% | 9.3% | 6.8% |
| **Bradyco stocks** | -9.4% | 24.8% | -3.4% | 6.3% | 7.0% | 10.9% | 8.3% |
| **S&P 500 (w/ DIV)** | -3.1% | 31.5% | -4.4% | 9.0% | 10.7% | 14.0% | 9.0% |
| **CPI - U** | 0.3% | 2.3% | 1.9% | 1.2% | 1.6% | 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 – declined by 3.1% (including dividends) during the first half of 2020. During the same period, our stocks declined in value by 9.4% while our composite – which includes cash – declined by 9.0%. Inflation rose by 0.3%.

As stated in my January 22, 2020 newsletter, when the year began, "current valuations [were] such that any major unexpected event could cause high volatility including a correction." A "major unexpected event" (COVID-19) arrived about a month later and not surprisingly, fears about the economic impact of the pandemic caused both a stock market correction and a lot of volatility in the latter part of the 1st quarter. During the 2nd quarter, the S&P 500 index -- led by five technology related stocks (Apple, Microsoft, Amazon, Google and Facebook), which currently make up 23% of the index -- rebounded sharply. Bradyco's composite, which is less technology-focused, lagged.

## What happened?

If one only looked at where the stock market – as represented by the S&P 500 index – started the year and where it ended up on June 30th, you would see a small decline of 3.1% (including dividends). The journey during those six months was much more dramatic.

The year began with a continuation of the stock market's 2019 momentum. Then, on January 20th, the first diagnosed case of COVID-19 in the United States occurred. Soon after, the S&P 500 had its biggest decline in five months (-3% over several days) as it became clear that COVID-19 was becoming a world health issue impacting at least 13 countries. On January 30, 2020, the World Health Organization declared a worldwide public health emergency. A day later, the United States did the same and flights from China were restricted. Investor concern about COVID-19 quickly faded and the stock market reached a new all-time high on February 19th (up 5.1% for the year).

Soon after, investors began to fear the possible economic consequences of the growing pandemic. Volatility followed. From March 9th to April 6th, the S&P 500 index closed up or down by 5% or more 11 times (by comparison, the index had not been this volatile even once during the preceding 4 years). As governments responded to the pandemic with various measures including shutting down parts of the economy, the stock market dropped sharply. On March 23rd, the S&P 500 index hit its recent low -- down nearly 34% from the February 19th high.

With the stock market in a virtual free fall and credit markets seizing up, the federal government responded with strong monetary and fiscal policy initiatives. First, the Federal Reserve Bank -- which had reduced interest rates to near zero on March 15 -- stepped in to provide unprecedented liquidity to the credit markets on March 24th. Days later, Congress passed, and President Trump signed into law the CARES Act, which provided financial relief for struggling individuals and businesses. The stock market responded favorably to these measures rebounding by 39% between March 23rd and June 30th. As a result, the S&P 500 closed the 1st half of 2020 down 3.1% YTD.

## Important Change to 2020 RMD rule - CARES Act

As mentioned above, on March 27th, President Trump signed into law the so-called CARES Act (the Coronavirus Aid, Relief, and Economic Security Act) that suspended for this calendar year the requirement that many retirees (as well as those who are beneficiaries of an inherited IRA) take a required minimum distribution in 2020. This one-time change was done to prevent retirees, whose distributions were based on high stock market prices at year end 2019 from having to sell those assets at greatly reduced valuations to fund their distributions. Later, the IRS decided that *any* retirement distributions taken this year, including those that occurred before this law was passed, could be returned to a taxpayer's retirement account without consequence if done by August 31, 2020.

## What's Next?

While the challenges of the COVID-19 pandemic continue, the stock market's behavior suggests that investors are expecting the economic fallout from COVID to end sooner rather than later. According to Schwab's Chief Investment Strategist, Liz Ann Sonders, the forward P/E for the S&P 500, which measures investor's expectations about future earnings (higher is more optimistic) increased sharply from 13.1 on March 23 to 21.5 as of July 27th.

Why? I believe there are three factors that have caused valuations to become elevated. First, the Federal Reserve Bank appears to be willing to do whatever it takes to prevent an economic calamity caused by the pandemic including keeping interest rates at near zero for an extended period. Second, there is optimism that scientific solutions such as vaccines and medical treatments might be forthcoming sooner rather than later. Finally, it appears that retail investors -- in some cases doing day trading -- have taken advantage of free stock trading commissions and the lack of opportunities to bet on sporting events (which have only recently restarted) to "bet" on stocks.

While I share investors' optimism regarding the long-term outlook for our economy, I am more cautious about the short-term. With so many unknowns about the future course of the pandemic, I think it is unwise to "bet" on the timing and impact of events that are inherently unpredictable.

The Federal Reserve Bank noted in its July 29th statement, "The path of the economy will depend significantly on the course of the virus." While the status of the COVID-19 pandemic in the United States changes almost daily, its current trajectory throughout much of the country is worrisome. Further, there is little evidence to suggest the trend will reverse anytime soon. At the same time, it would be foolish to discount the capabilities of the world-wide effort to find treatments and vaccines for COVID-19. Still, the timing and impact of these efforts are subject to a wide variety of outcomes. The economic picture is similarly muddled. The initial rebound in economic activity that began in mid-May became more tentative during July as COVID-19 trends worsened.

Investors should be prepared for a variety of outcomes including increased volatility and depressed future returns if the timing and efficacy of COVID-19 medical breakthroughs do not materialize as expected.

Thank you for your confidence.

Brad

| 1 | **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% |
| 2020 1H | -9.0% | -9.4% | -3.1% | 0.3% |
| 08/04 – 06/20 | 6.8% | 8.3% | 9.0% | 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.