BRADYCO

Bradley F. Richardson

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From an investment standpoint, 2006 was clearly a very good year as most of the market averages exceeded their long-term average by a significant margin. The S&P 500, for example, returned 15.8% while the return on the Dow Jones Industrial average was about a half percent higher (16.3%). At the same time, one could argue that the market was just catching up after some rough years following the end of the so-called "bubble" in 2000. The S&P 500 index grew at a compound rate of only 6.2% during the past 5 years and 8.4% during the past 10 years. Only by going back 15 years, do you see a more typical long-term compounded rate of 9.9%.

The strong 2006 yearly results mask the ups and downs during the year. The 1st half of the year saw the Federal Reserve increase interest rates incrementally by a total of 1% to 5 ½% (the 17th increase in rates since June 2004) while worldwide oil prices shot up to a historical record of $77/barrel in mid-July (While the yearly average price of oil in 2006 was the highest ever in nominal terms, on an inflation-adjusted basis, it was only the 5th highest in history.). In the face of higher interest rates and high oil prices, the stock market hit lows in June and July. The trends during the second half of the year were more benign as interest rates stayed the same and oil prices receded to below where they began the year. As a result, the stock market ended 2006 on a strong note.

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This letter continues the segment, started with my last letter, discussing factors used to invest your money.

Every year, there are some stocks whose value explodes to the upside. If you had bought one of these stocks before it went up, would that mean you were an investment genius? Not necessarily. The reason is the difference between decisions and outcomes.

To see why this is the case, let's go to a place few professional investors are likely to spend much time -- the roulette table. Let's assume that I arrived with $100,000 and made a bet with the full $100,000 on the number 7. Further, let's assume that I won and got paid $3.5 million dollars. I clearly had a good outcome, but was my decision a good one?

The answer, of course, is that I made a foolish decision with a good outcome. By putting all my money down on only one number and one spin of the wheel, I had a 97% chance of losing $100,000! The fact that I had a happy outcome was pure luck, not good decision making.

So how does this relate to investing? Over time, success will come from making good decisions rather than simply being lucky. While good decision do not always result in good outcomes in the short run, over the long haul, good decisions will lead to good long-term outcomes.

Thank you for your continued confidence. While I can't tell you how 2007 will turn out, I can promise that I will continue to focus on making "good decisions."

Brad

P. S. Bradyco Financial also had a strong year in 2006 as the amount of money managed grew by 44% and our website www.BradycoFinancial.com.underwent a major redesign.

Bradyco Financial
16 Sargent Street • Cambridge, MA 02140-2514
TEL (617) 945-1991 • FAX (617) 812-7787 • Brad@BradycoFinancial.com
www.BradycoFinancial.com