BRADYCO

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What a difference a year makes! A little over a year ago, the stock market was shrugging off a looming financial crisis and the S&P 500 index hit an all-time high on October 11, 2007. Today, this same index is down about 40% from its all-time high and 19% for the first nine months of 2008. Fortunately, our results are much better with all 3 composites exceeding the S&P 500 index by from 7-13 percentage points during the first 3 quarters of 2008. More importantly, the long-term record of all 3 composites exceeds the S&P by around 2.3% per year.

All Assets	**7/04-12/04**	**2005**	**2006**	**2007**	**01/08 to 09/08**	**07/04 to 09/08**
Bradyco Composite (all)	7.5%	3.7%	13.8%	10.8%	-10.7%	5.6%
Growth composite	7.3%	3.5%	14.3%	12.7%	-12.2%	5.7%
Growth & Income composite	8.0%	4.4%	12.8%	6.0%	-6.4%	5.7%
S&P 500 index	10.9%	4.9%	15.8%	5.5%	-19.3%	3.3%

All returns over 12 months are annualized and net of all expenses including investment management fees and trading expenses. All composite returns are asset-weighted monthly and include cash. All calculations use prices provided by Fidelity Investments. Non-discretionary accounts and accounts with 100% cash are not included. Index returns reflect the reinvestment of dividends.

Stocks Only	**7/04-12/04**	**2005**	**2006**	**2007**	**01/08 to 09/08**	**07/04 to 09/08**
Bradyco Composite (all)	9.8%	5.0%	18.0%	14.5%	-11.6%	8.0%
Growth composite	8.4%	3.5%	17.3%	16.5%	-10.5%	8.4%
Growth & Income composite	16.6%	10.8%	19.8%	7.9%	-6.5%	11.3%
S&P 500 index	10.9%	4.9%	15.8%	5.5%	-19.3%	3.3%

All returns over 12 months are annualized and do NOT include investment management fees. All returns are asset-weighted monthly and do not include any non-stock investments including equity mutual funds. All calculations use prices provided by Fidelity Investments. Non-discretionary accounts and accounts with 100% cash are not included. Index returns reflect the reinvestment of dividends.

Reminder: past performance is no guarantee of future results.

In my April 2008 letter, I wrote about the re-pricing of risk, readjustments in real estate prices, and how these issues might affect our overall economy. The effects have been bigger, more widespread, and more sudden than expected. As a result, our economy has faced challenges that many observers believe are the worst since the Depression. Intervention by our government should keep things from getting out of control, but these efforts will take time to work.

So where are we? Our economy is facing some serious problems. Delays and mistakes by the Treasury, the Federal Reserve Bank, and Congress in dealing with the financial

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crisis probably exacerbated it. Further, it is quite possible, indeed probable, that the headlines regarding the economy will get worse before they get better. Still, I am bullish on America in the long-term. We will get through this and when we do, I want your accounts to be well positioned.

To that end, I continue to seek out investments in great companies with strong competitive positions, durable demand and manageable debt. Such companies will not only survive our current economic challenges, but also prosper as the economy improves. The current economic crisis has given me unprecedented opportunities to invest your money in such companies at bargain prices that haven't been available in the recent past.

Unlike the period of 2004-2006, when the number of companies selling at discounted prices was quite small, the past two years have offered many such opportunities. The recent downturn in the stock market has put virtually every company on sale. My biggest challenge is deciding which of the many excellent companies to buy and when to buy them (always a tough decision when prices are so volatile). In short, your portfolios will be in good shape for when the stock market recovers.

Finally, I want to thank you for your patience. According to Morningstar, September saw the largest monthly net redemptions in the history of the mutual fund industry. Yet, I have not had one client ask to sell any of their investments in an effort to avoid the declines in the stock market. While seeing the paper value of our investments decline is quite painful (just ask Marylou), the stock market is an excellent long-term investment. By staying fully invested, we will be ready for when the bull market begins again.

Thank you for your confidence.

Bud

P. S. In case you missed it, I have attached a copy of the recent Op-Ed piece by Warren Buffett of Berkshire Hathaway in the NY <u>Times</u> in which he explains why he thinks now is a great time to buy stocks.

NY Times 10/17/08
Op-Ed

Buy American. I Am.

By Warren E. Buffett

OMAHA

THE financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

So ... I've been buying American stocks. This is my personal account I'm talking about, in which I previously owned nothing but United States government bonds. (This description leaves aside my Berkshire Hathaway holdings, which are all committed to philanthropy.) If prices keep looking attractive, my non-Berkshire net worth will soon be 100 percent in United States equities.

History suggests that this is a smart time to invest in U.S. equities.

Why?

A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now.

Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month — or a year — from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over.

A little history here: During the Depression, the Dow hit its low, 41, on July 8, 1932. Economic conditions, though, kept deteriorating until Franklin D. Roosevelt took office in March 1933. By that time, the market had already advanced 30 percent. Or think back to the early days of World War II, when things were going badly for the United States in Europe and the Pacific. The market hit bottom in April 1942, well before Allied fortunes turned. Again, in the early 1980s, the time to buy stocks was when inflation raged and the economy was in the tank. In short, bad news is an investor's best friend. It lets you buy a slice of America's future at a marked-down price.

Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.

You might think it would have been impossible for an investor to lose money during a century marked by such an extraordinary gain. But some investors did. The hapless ones bought stocks only when they felt comfort in doing so and then proceeded to sell when the headlines made them queasy.

Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value. Indeed, the policies that government will follow in its efforts to alleviate the current crisis will probably prove inflationary and therefore accelerate declines in the real value of cash accounts.

Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their move away from it later. In waiting for the comfort of good news, they are ignoring Wayne Gretzky's advice: "I skate to where the puck is going to be, not to where it has been."

I don't like to opine on the stock market, and again I emphasize that I have no idea what the market will do in the short term. Nevertheless, I'll follow the lead of a restaurant that opened in an empty bank building and then advertised: "Put your mouth where your money was." Today my money and my mouth both say equities. □

Warren E. Buffett is the chief executive of Berkshire Hathaway, a diversified holding company.