BRADYCO

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Results

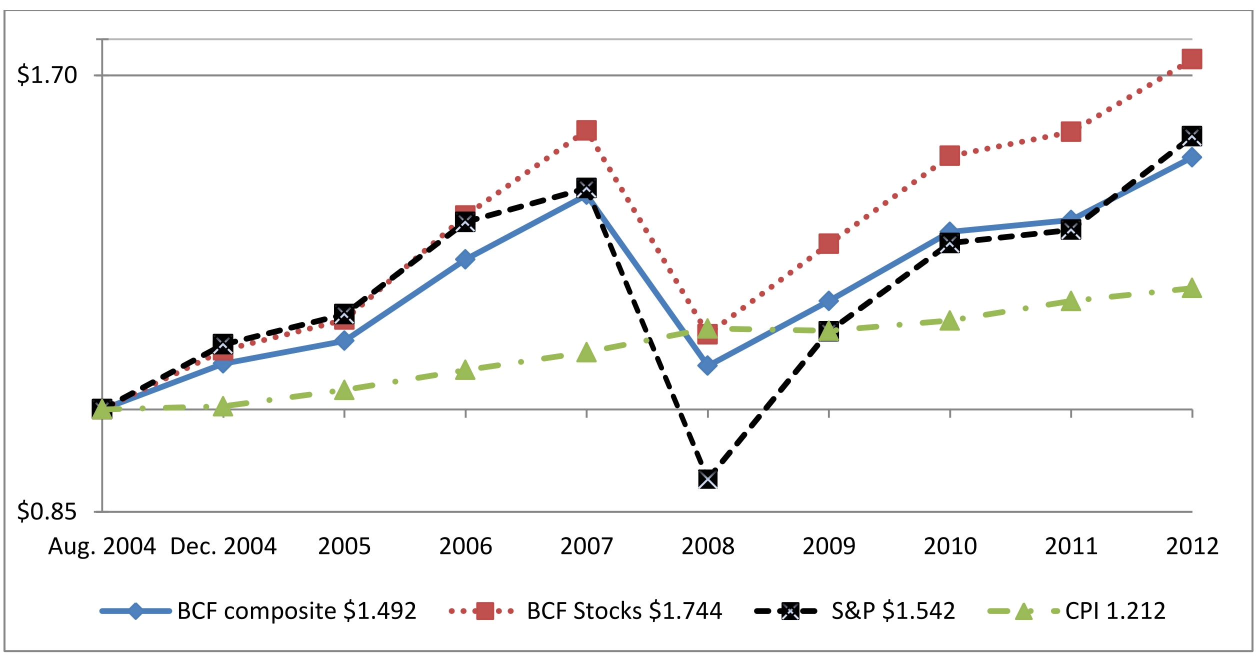
The Bradyco composite result for 2012 was a gain of 10.5%, net of expenses, while the S&P 500 index, including dividends, gained 16.0%.

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

	2012	2011	Last 2 yrs.	Last 3 yrs.	Last 5 yrs.	Since Inception
Bradyco composite	10.5%	1.9%	6.1%	7.9%	1.2%	4.9%
Bradyco stocks	12.2%	3.9%	8.0%	10.3%	2.3%	6.8%
S&P 500 (w/ DIV)	16.0%	2.1%	8.8%	10.9%	1.7%	5.3%
CPI	2.1%	3.2%	2.6%	2.3%	2.1%	2.3%

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

Despite our economy's slow recovery, the stock market – as represented by the S&P 500 index – had a good year in 2012 returning 16% (including dividends). Bradyco Financial also had a good year, but, as we often do when the overall stock market has a substantial advance, our holdings lagged the broader market. Many of our investments are in companies that tend to be less appreciated by investors in times of euphoria and more popular when the stock market is weak. Bradyco Financial's composite rose by 10.5% while our stocks rose by 12.2%. Our long-term track record remains strong with a gain in our composite of 4.9% per year since inception, which is more than double the inflation rate. However, for the first time in years, we lag the S&P index by 0.4% per year. Our stocks continue to beat the S&P – growing 6.8% per year since inception, 1.5% per year more than the S&P 500 index.

The Power of Long-Term Thinking

The media has been full of stories in recent years about the world's economic woes and the challenges governments have faced in dealing with these problems. The topics have included the sovereign debt issue in the European Union, and the debt ceiling and fiscal cliff crises in the United States. The headlines produced by these events have given investors numerous temptations to alter their investment approach. We have not done so. Instead, we have stuck to our long-term strategy and watched our stock holdings rise over 10% per year over the past three years.

Such returns add up over time due to the wonders of compounding. How does compounding work? Let's assume you put $100 in an investment for 10 years that generates a 10% return per year. The income from this investment would be $100 x 10% = $10/yr. for all 10 years. Thus, after 10 years, you would have your original $100 investment plus $100 in accumulated returns for a total value of $200. Most bonds work like this.

Take the same investment ($100) and add the effect of compounding. In year one, the return is the same as without compounding ($10). Gradually, the yearly return increases to $24 in year ten. The difference is the growth of the reinvested income, which adds up over time. By the end of 10 years, the compound return is worth $259, 30% more than the investment without compounding ($200). After 20 years, the difference would be even more dramatic --- $673 vs. $300 (124%).

Seeking out undervalued companies whose circumstances suggest they will provide us with above average, predictable returns over lengthy periods allows us to take maximum advantage of the principle of compounding. That is, as long as we tune out the noise from current events.

Reasons for Optimism

While it is easy to get discouraged when considering our country's many economic problems and its dysfunctional political system, it is important to remember how strong our nation remains.

- 4 ½ years ago, our nation's economy was falling apart and the stock market with it, yet today, our nation's economy has been growing about 2% per year while the stock market has recovered to its pre-crisis levels.
- For the first time in many years, several American companies, including General Electric & Apple, are moving their manufacturing plants from China **to** the USA.
- America is now a net exporter of **oil,** broadly defined, and may well become a net exporter of **energy** in the future largely due to technological changes in the ability to recover natural gas using a process called "hydraulic fracking."

Trends like these are why I am optimistic about the long run. Yes, we have problems, but we also have a dynamic economy that will produce solutions we can't even imagine today.

What's Next?

After a year of volatility in 2011, 2012 brought the market relative calm. While the market didn't go straight up (it almost never does), it started 2012 with a strong 1^{st} quarter (so strong that 80% of the market's yearly gain occurred in the 1^{st} quarter alone) and despite falling in the 2^{nd} & 4^{th} quarters, the stock market ended the year with a significant gain.

As 2013 starts, stocks have rallied another 6% and for the first time in a while, stocks are becoming more popular with individual investors. The S&P 500 index is within 5% of its all-time high reached in the fall of 2007. While I am obviously happy to see the gains in our accounts, I would also caution that the stock market never goes straight up; so we should expect the normal ups and downs ahead.

Housekeeping

First, as you know, the so-called "fiscal cliff" was partially resolved with an agreement to change tax rates going forward. While a full explanation is beyond the scope of this newsletter, the two areas that are most likely to affect you are: the increase in the payroll tax from its temporary rate of 4.2% of wages back to its previous rate of 6.2%; and the Medicare tax of 3.8% on net investment income for taxpayers whose yearly income exceeds certain complicated thresholds starting at $200,000/yr.. Also, the estate tax exemption was raised to $5.25M while the annual gifting limit was raised to $14,000.

While most of you receive your statements electronically, if you would also like to receive your annual Fidelity tax document electronically, you must make a separate request for this. Just let me know and I will initiate the process.

Finally, for those with non-retirement accounts, some of our companies elected to preempt possible changes in the tax laws by paying some dividends during the 4Q of 2012, instead of the 1Q 2013 as they would have done under normal circumstances. As a result, if you see abnormally high dividends in your November and December 2012 statements, you may see correspondingly lower dividends in your early 2013 statements. The exact details and amounts varied by company and not all companies did this. If you have any questions, please let me know.

Thank you for your confidence.

Brad

P. S. Along with this letter, I have enclosed reports outlining your realized capital gains and losses, your investment income, and your expenses including investment management fees, commissions, and margin expense (if any). These reports are bundled together in two groups: those related to taxable accounts, which you should give to your tax preparer; and, those related to non-taxable accounts, which are solely for your information. Your Fidelity reports should be in the mail.

All Assets	Bradyco Composite (all)	Growth Composite	Growth & Income Composite	S&P 500 Index	CPI
08/04 – 12/04	7.5%	7.3%	8.0%	10.9%	0.5%
2005	3.7%	3.5%	4.4%	4.9%	2.6%
2006	13.8%	14.3%	12.8%	15.8%	3.2%
2007	10.8%	12.7%	6.0%	5.5%	2.9%
2008	-23.8%	-25.5%	-18.6%	-37.0%	3.8%
2009	10.8%	11.2%	9.7%	26.5%	-0.4%
2010	11.6%	10.7%	15.1%	15.1%	1.6%
2011	1.9%	2.3%	0.4%	2.1%	3.2%
2012	10.5%	10.4%	10.9%	16.0%	2.1%
08/04 – 12/12	4.9%	4.8%	5.3%	5.3%	2.3%

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	Bradyco Composite (all)	Growth Composite	Growth & Income Composite	S&P 500 Index	CPI
08/04 – 12/04	9.8%	8.4%	16.6%	10.9%	0.5%
2005	5.0%	3.5%	10.8%	4.9%	2.6%
2006	18.0%	17.3%	19.8%	15.8%	3.2%
2007	14.5%	16.5%	7.9%	5.5%	2.9%
2008	-27.7%	-29.0%	-22.7%	-37.0%	3.8%
2009	15.5%	15.6%	15.0%	26.5%	-0.4%
2010	15.0%	13.8%	19.7%	15.1%	1.6%
2011	3.9%	4.5%	1.7%	2.1%	3.2%
2012	12.2%	12.2%	12.5%	16.0%	2.1%
08/04 –12/12	6.8%	6.3%	8.8%	5.3%	2.3%

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.