BRADY INVESTMENT COUNSEL LLC

CORE GROWTH EQUITY INVESTMENT STRATEGY REVIEW AND OUTLOOK

ANNUAL REPORT

TOPIC INDEX

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CORE GROWTH EQUITY INVESTMENT STRATEGY

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TO OUR CLIENTS AND INTERESTED INVESTORS

SUMMARY

The investment climate was the most challenging our generation has seen. Record volatility coupled with declines of 37% for the S&P 500 and 38% and the Russell 1000 Growth Index combined to make 2008 one of the worst years in market history. The cause for the big drop is clear. Although many were involved and their roles were circular; at the end of the day it was greed, pure and simple that contrived the market bubble and subsequent arduous declines in financial and real asset prices.

The equity market continues to deteriorate in 2009. The S&P 500 is already down 8.4% through the end of January, which is greater than the 6.1% drop recorded in January 2008, making it the poorest start in more than 50 years. Before the financial markets can recover, a credible fiscal stimulus plan must take hold, undercapitalized big banks should be nationalized and a real solution addressing declining housing prices by reducing supply must be put in place.

Fortunately opportunity coexists nicely with chaos. Even though 2008 was the worst year for the market since the Great Depression, 2009 is shaping up to be the best long-term investing opportunity of our generation. Our strategy will be as it has always been: to pursue individual company investments when the market price of a targeted company trades below our intrinsic value estimate. This approach has consistently produced market beating results over the long term. Our model currently leads us to companies in the Consumer Discretionary, Industrial and Materials sectors.

INVESTMENT REVIEW, TRADING AND FORECAST

2008 REVIEW

The investment climate was the most challenging in a generation. Record volatility combined with declines of 37% for the S&P 500 and 38% and the Russell 1000 Growth Index to make 2008 one of the worst years in market history. The difficult conditions were not limited to the United States. On average, world stock markets were down 42% in 2008. The European market was down 50%, Emerging Markets were off 55% and Latin America declined by a whopping 60%. In this most challenging environment, the Brady Investment Counsel LLC Core Growth Composite was down 34%.

The reasonable explanations for the market meltdown are as numerous as Dow Jones Industrial Average points lost in the current bear market -- 5,500 peak-to-trough for those not keeping score. To sum them all up, the pure oxygen fueling the market's decline was greed. Wall Street, the ratings agencies, individual and institutional investors, hedge funds, the Fed, consumers, quasi private/government agencies and our elected officials all played integral roles.

The events causing the market's drop are circular. While you can pick any starting point, we choose jump on where Wall Street successfully convinced the ratings agencies to triple-A rate pooled and repackaged junk mortgage loans. That doesn't sound so bad in and of itself but for a collapse there first must sufficient demand to create a bubble. Triple-A rating junk securities significantly expanded the universe of interested buyers many times beyond what there would have been had the pooled mortgages been properly rated as junk. Institutional investors asked few questions and lined up like lemmings to buy what was presented as a highly rated, low-risk, high return investment.

Hedge funds loaded up on these mortgage-backed securities and what is more, funded their purchases with a low interest rate, courtesy of the Fed. Banks furiously lent to consumers against phantom income and equity to generate more loans for pooling. Fannie Mae and the rest of the government sponsored enterprise enterprises (GSE) kept mortgage lending fully primed by supplying more and more low-cost capital to banks. The GSE role in the melt up, and consequently in the melt down, was greatly enhanced through acts of Congress expanding their ability to purchase a broader menu of mortgages from the banks.

The music actually stopped in June 2003 but unfortunately, few were listening. At that time the Fed began a three-year program to raise their Funds rate to a normalized level of 5.25% from 1.0%. Borrowing rates went up and demand for loans went down…eventually way down. Disappeared were those who previously stood ready to pay higher and higher prices for homes. With demand on the decline and housing prices in a freefall, market prices for Wall Street-created, incorrectly rated, mortgage-backed securities also fell as borrowers walked away from their homes and mortgages. Banks and prime brokers protected their capital by tightening lending and margin standards.

Hedge funds and other financials were forced to sell at any price to meet margin calls and rapidly increasing redemptions. Leveraged investors indiscriminately sold good assets with bad, putting near-term pressure on everything that traded and continue to do so today. All the while healthy hedge funds sold short financial assets both contributing to and profiting from the market's gravity.

Banks, investment banks and insurance companies have failed. Confidence in the global financial system is badly shaken and was on the brink of implosion in October 2008. The government and Fed have come to the rescue by providing short-term capital, guarantying bank debt and creating TARP to keep the big banks alive. While credit markets have stabilized, equity markets remain under pressure as forced selling by and of leveraged financials continues. How long the selling will go on is a guess. Our estimate is it will be sufficiently complete by the March-June 2009 time frame.

In the end, the 2008 crash was primarily a consequence of the greed of relatively few individuals who blindly strove to make a bigger bonus, rake in higher fees, increase profits and achieve more political power. These otherwise ordinary people created nothing and in the process expropriated billions of dollars from the rest of us for themselves. Along the way they destroyed $30 trillion in global stock market value and $3.3 trillion in U.S housing wealth. That equates to picking $5,000 from the pocket of every man, woman and child on the planet.

With chaos there is opportunity. Most stocks have dropped significantly in price, even for companies not directly impacted by the problems in Financials. Today there are many U.S. companies market priced at staggering discounts to their intrinsic value. It is on these opportunities our attention is focused. Even though 2008 was one of the worst years for the market since the Great Depression, 2009 is shaping up to be the best long-term investing opportunity of our generation.

CORE GROWTH STRATEGY PERFORMANCE

Core Growth (BCG) bettered the market's return by 300 basis points (3.0%) in 2008. BCG sectors that performed relatively well were Health Care, Consumer Staples and Industrial. Our zero weighting in Energy also helped. BCG sectors that performed poorly were Financials and Consumer Discretionary.

Individual holdings that added to performance were Amgen (AMGN $56), Anheuser Busch and Wal-Mart (WMT - $47). Each posted impressive gains. Key developments related to its product pipeline drove AMGN's shares higher. Anheuser-Busch shares rose after the company received a bid from and then agreed to sell to InBev (INBVF - $17) for $70 per share in cash. The deal closed in November. Finally, Wal-Mart (WMT - $48) executed better against key domestic competitors by taking back market share. WMT's share price followed the company's improved performance.

Companies that detracted from performance included Chipotle Mexican Grill (CMG - $49), AIG (AIG – $1.07) and Goldman Sachs (GS - $81). CMG began 2008 fully valued relative to the company's near-term fundamentals. The shares took a big tumble after management announced that near-term earnings forecasts would not be met due to the slowing economy. AIG shares collapsed on problems related to the company's derivatives exposure, mostly credit default swaps (CDS). As we understand the situation, five or six people were responsible for managing AIG's CDS exposures. (By the way, CDS never accounted for more than about 5% of AIG's operating profits.) Hard to believe five or six guys is all it takes to bring down an investment grade company the size of AIG, but they did. My career began in the investments department of a large insurance company. The rule first taught to any and all making security recommendations was that in the course of our business - to prudently invest policyholder premiums - we should never do anything to jeopardize the insurance operations. It is too bad AIG's investments department (and many others around the world) did not understand a rule so simple. Finally, GS stumbled along with the other Financials. In tough market conditions the company fell short of operational expectations and capital projections. To survive, GS had no option but to convert to a commercial bank from an investment bank and access the TARP.

TRADING

We increased our CMG holdings as the company is solidly capitalized, well run and poised for long-term growth by adding stores and taking share from weak competitors. AIG and GS were sold along with other leveraged Financials where we have no confidence in our ability to understand their businesses and balance sheet risks.

Industrial and Materials sector weightings were increased. There are many quality companies in these two sectors that experienced sharp share price drops as global growth slowed. However, the long-term fundamentals for well run companies here remain firmly in place. The caveat being the benefits of emerging market demand were never as good as most thought as recently as 2007. Positively, they are not nearly as bad as they appear today. Industrial and Materials companies were the darlings of Wall Street and well owned by hedge funds all the way up until the 2008 margin calls hit. Today forced selling by leveraged traders is creating outstanding buying opportunities. I guess now it is our turn to be greedy as we buy up shares in the best-of-the-best companies in these two currently unloved sectors.

We increased our Consumer Discretionary holdings and added a new position by investing in Williams Sonoma (WSM - $8.37). The increase was funded by trimming Consumer Staples holdings that performed well in 2008. We begin 2009 with roughly the same combined Consumer Discretionary and Staples weighting, only it tilts toward Discretionary holdings such as retailers. The risks to investing in retailers are many: Consumers are cutting back, retailers are going out of business, and the credit crunch makes big ticket purchases impossible and so on… However, these problems are well understood and expected to correct over time. The U.S. consumer has not fundamentally changed. They are simply in the process of learning to operate with less capital made available to them. Therefore, we conclude that even though the risks of owning retailers today are great, they are outweighed by the return potential of investing in well run, solidly capitalized, growing companies.

Finally, we initiated a position in the Energy sector through our investment in PowerShares WilderHill Clean Energy ETF (PBW-$7.90) and added to our small cap exposure by purchasing Vanguard Small Cap Value ETF (VBR-$37.45) and Vanguard Small Cap Growth ETF (VBK-$39.85). We believe energy alternatives are good long-term investments. PBW is a way to own many different companies in one security without having to make a bet on which new energy source(s) will win in the long run. Simply, it is too early to make that bet given that we favor concentrating our investments.

U.S. small caps are attractive as well, especially when compared to other risky investments such as emerging markets. We learned long ago it is much better to hold a well run small cap company operating in the USA than to invest in the opaque emerging markets. That rule has never held truer than today. Our plan is to use the small cap ETFs as placeholders until individual company investments are identified. Our purchases in Energy and small caps were funded by reducing exposure to Health Care and by trimming our weightings in Technology and Financials.

OUTLOOK

The Market is down 8.4% through the end of January, 2009, which is significantly more than the 6.1% drop recorded for January 2008. It is the worse start to year in more than five decades with January 1970's 7.4% drop coming closest. The housing mess needs a credible plan to stabilize prices and undercapitalized mega banks should be put to rest. We see no merit to the current good bank/bad bank proposal. Leveraging the remaining $350 billion in TARP capital 8X to create a government bank with $2.8 trillion in bad-asset buying power is just ridiculous. Our government should be focusing on investing taxpayer money in things that can earn a positive real return. Plus, how will the government come up with $2.8 trillion? Printing more money would create inflation and destroy the international trade value of the dollar. Borrowing, even if we could find the investors to pony up that kind of money, is expensive, unnecessary and wildly unfair to future generations who would be responsible for paying off the debt. The interest alone would be $125 billion per year.

The real solution to the financial crisis is to temporarily and partially nationalize US banking. The mega bank experiment is over. It didn't work. Not that spread lending is a bad thing. The problem is, as we have learned it is impossible to understand the balance sheet risk of the mega banks. Banking is a local business. Grand scale does not help anything.

Banks with assets greater than $100 billion not meeting required capital standards, excluding TARP funds, should be taken over by Resolution Trust Corp. 2.0 (2.0). Banks below the $100 billion and falling short of required capital should be merged with healthy banks. 2.0's objective can be to liquidate both good and bad bank assets in an orderly way over the next 10 years. 2.0 would not compete with rather it would assist healthy banks in growing over the long-term as nationalized assets are sold.

With nationalization the bankers who helped create the problem would be out of a job. Plus, with TARP, government bank-debt guarantees and government imposed executive compensation, haven't banks already been nationalized? The Fannie Mea experiment proved that the quasi government/private operating model creates poor risk-management incentives, leads to financial disaster and should be avoided at all costs.

Finally, no solution to the financial crisis is credible without a plan to stop the meltdown in residential real estate prices. Last month 42% of houses sold were done so at a loss. That is about 7X what is typical. There is much debate over what to do. The recent fix attempt has been to stimulate demand by lowering interest rates. That will not work in today's market. The benefit from lower interest expense is quickly offset by the expected future price decline resulting from the excess housing supply relative to demand.

A division of 2.0 can be made responsible for reducing the supply of existing homes by tearing them down. Holding demand constant and reducing supply sufficiently will immediately stabilize and could even boost housing prices if enough supply is taken off the market. Stable-to-rising housing prices will yield consumer confidence and spending. Banks will lend on sound security. Plenty of good jobs would be created as well, in an area where workers are already trained and jobs have been decimated. Scrap building materials should be donated to markets outside the U.S. or destroyed. This step is necessary to protect the domestic building materials market.

A CONSERVATIVE ARGUMENT FOR FISCAL STIMULUS

Conservative legislators and radio talk show hosts should be better informed before serving up their pavlovian criticisms of President Obama's fiscal stimulus plan. That is because it's going to work -- if it is responsibly done. The economic conditions are right for Federal spending over tax cuts to revive our moribund economy. Ultra conservative economist Milton Freedom explains in his book *Capitalism and Freedom*, fiscal stimulus will work if two rare conditions exist. Consumers must be completely indifferent to holding government bonds versus money and, no change in interest rates will impact potential borrowers spending patterns. In economists' speak; the investment marginal efficiency schedule is perfectly inelastic with respect to changes in interest rates.

Condition one is definitely satisfied. If anything, people prefer holding government Bonds, Notes and Bills over cash: witness recent investor willingness to accept zero percent T-Bill rates. Under more typical circumstances, an increase in government borrowing to fund spending would require and result in an increase in interest rates, both public and private. High interest rates would discourage private investment to the point where the net benefit of fiscal stimulus (change in government spending minus change in private investment) is near to zero. With conditions as they are the government can issue debt without having to induce buyers with higher rates. Therefore private borrowing costs have no reason to go higher, private spending will continue as per usual and the stimulus spending will be additive to our national income.

Condition two is also well satisfied. Today, spending patterns are completely insensitive to changes in interest rates. Just look at the housing market. Mortgage lending rates are at an historically low level; yet, nobody is buying. If borrowers were rate change sensitive then lower mortgage rates should have resulted in a buying frenzy. Similar arguments can be made for spending outside of housing. Does anyone believe zero percent auto loans would coax car buying?

The present economic environment is the first since the Great Depression that a clear and convincing case can be made for increasing government spending relative to tax receipts to grow national income. The stagflationary environments in the 1970s called for just the opposite -- cutting taxes to stimulate the economy. This explains why Jimmy Carter's Presidency was a disaster from an economic stand point. Carter taxed and spent at a time when the economy needed lower taxes, which would eventually have led to lower prices and interest rates and improved investment returns. Fortunately, Ronald Reagan got it right for the 1980s.

Our economy will recover with the help of a credible fiscal stimulus plan. We have a word or two to the wise for our legislators, however. The plan must be focused on investment rather than frivolous spending. Before acting, understand the long-term return potential of your spending/investing. If the expected return is positive then move ahead. If not, holster the idea for a better day. Infrastructure, energy independence, education and the environment are all terrific places to invest. Wasteful spending such as $160 million to sod the Mall will prove fruitless. Besides, my boys and I would like to bring our tiller and spreader from Illinois and take care of the job, for say, $1.0 million apiece. The government can supply the water and pay for the seed.

It is time to get behind Obama's plan. If done with an eye towards positive return generating investments, it will work.

INVESTMENT STRATEGY

By every long-term measure we track, the stock market is attractively valued. Many quality companies are trading at bargain prices. It is likely there will not in our lifetime be a more rewarding moment for investors focused on achieving superior long-term, risk-adjusted returns. As has been the case since the Core Growth Strategy's inception in September 1994, our aim is to outperform the broad market over the long run by investing in a diversified portfolio of high-quality growth companies that are underappreciated by Wall Street. We do not pick market bottoms. In fact, our strategy typically results in us being early to market changes. It is very usual for our best investments to go down before going up in price. We can live with this as long as our strategy produces superior long-term, risk-adjusted results, as it has in the past.

The Core Growth portfolio holds positions in 40-50 companies or exchange traded funds (ETFs). Our investment turnover ranges between 20%-40% in a typical year. Historically, our investment approach has worked well in achieving our goal of delivering superior investment results. The table below demonstrates we have outperformed the market 75% of the time as measured on a rolling monthly five-year basis and 100% of the time on a rolling monthly 10-year basis.

Brady Long-Term Quality Growth Strategy Batting Average				
Rolling Monthly Returns				
(% Periods of Brady Outperformance)				
	1-Year	**3-year**	**5-Year**	**10-Year**
Brady Composite Vs. S&P 500	54%	62%	75%	100%
Vs. Russell 1000 Growth	64%	73%	87%	100%

PORTFOLIO STATISTICS AND ATTRIBUTES

CORE GROWTH STRATEGY GENERAL INFORMATION

MINIMUM ACCOUNT SIZE	$500,000
Standard Management Fee	50 basis points
Target Portfolio Turnover	20%-40%
Current Yield	2.1%
BIC LLC Inception	March 20, 2003
Strategy Inception	September 30, 1994

Investment Manager: David P. Brady, CFA, developed and manages the Brady Investment Counsel LLC Core Growth Strategy (Core Growth). Prior to founding Brady Investment Counsel LLC, Mr. Brady was lead portfolio manager of the Stein Roe Young Investor Fund (Young Investor Fund) from September 1994 through March 2003. Mr. Brady employs substantially the same investment philosophy and strategy to manage the Core Growth Strategy as he did to manage the Young Investor Fund.

PORTFOLIO CHARACTERISTICS (JANUARY 16, 2009)

	BRADY CORE GROWTH	S&P 500
Number of Holdings	40	500
Median Market Capitalization - $bil.	6.3	6.1
Largest Co's Market Cap - $bil.	202	406
Smallest Co's Market Cap - $bil.	0.06	0.48
P/E Multiple		
Trailing	11	14
Forward	11	11
EPS Growth Rate		
Trailing 3-Yr. – Annual Percent	21	-14
Forward 5-Yr. – Annual Percent	14	6

TEN LARGEST HOLDINGS (JANUARY 16, 2009)

	% INVESTED ASSETS
Linear Technology Corp.	3.4
Accenture, Ltd.	3.3
Becton, Dickenson & Co.	3.3
Microsoft Corp.	3.2
Johnson & Johnson	3.1
Donaldson Company, Inc.	3.1
Amgen, Inc.	3.1
Paychex, Inc.	3.1
Chipotle Mexican Grill, Inc.	3.0
Stericycle, Inc.	3.0

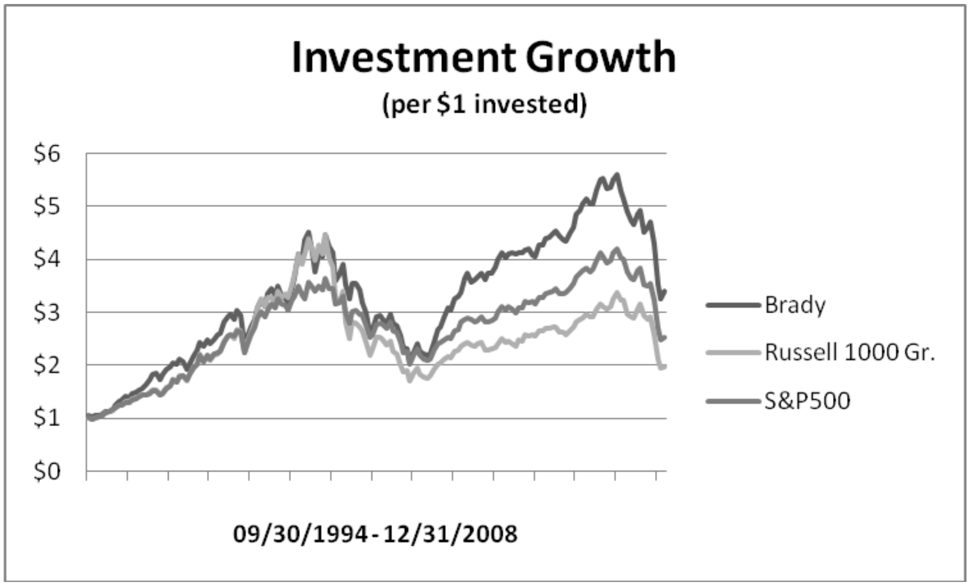
AVERAGE ANNUAL TOTAL RETURN (%)

					INCEPTION	
Ending 12/31/2007	**1-Yr**	**3-Yr**	**5-Yr**	**10-Yr**	**BIC LLC 03/31/2003**	**Strategy 09/30/1994**
Brady Core Growth	-34.1	-7.4	0.2	1.0	7.8	9.0
S&P 500	-37.0	-8.3	-2.2	-1.4	3.1	6.7
Russell 1000 Growth	-38.4	-9.1	-3.4	-4.3	1.8	4.9

SECTOR DIVERSIFICATION

AS OF 01/31/2009	BRADY CORE GROWTH %	S&P 500 %
CONSUMER DISCRETIONARY	14.6	8.2
CONSUMER STAPLES	6.5	12.8
ENERGY	2.4	14.1
FINANCIALS	8.6	10.7
HEALTH CARE	18.9	15.9
INDUSTRIALS	18.9	10.6
INFO. TECHNOLOGY	18.4	16.2
MATERIALS	3.0	3.0
TELECOMMUNICATIONS	0.0	3.7
UTILITIES	0.0	4.6
OTHER (SMALL CAP ETFS)	5.0	0.0
CASH	3.7	0.0

HYPOTHETICAL INVESTMENT GROWTH



Additional Product Information, Disclosures and Compliance Statement:

Brady Investment Counsel LLC has presented this report in compliance with the Performance Presentation Standards of the CFA Institute (formerly AIMR), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). The CFA Institute has not been involved in the preparation or review of this report. Performance prior to March 31, 2003 is of The Stein Roe Young Investor Fund (the Fund). The Fund's past performance has been linked to the Core Growth Composite performance for supplemental evaluation purposes only. Linking returns is not GIPS compliant. Mr. Brady was lead manager of the Fund from September 1994 to March 2003. He employs substantially the same investment strategy managing the Brady Investment Counsel LLC Core Growth Composite as he did managing the Fund. The Stein Roe Young Investor Fund data were provided to Brady Investment Counsel LLC by Columbia Management Group, the Fund's advisor. Brady Investment Counsel does not warranty their accuracy.

Brady Investment Counsel LLC Core Growth Composite performance represents time-weighted rates of return for a dollar-weighted composite of that portion of all fully discretionary taxable and tax-exempt accounts managed in accordance with the Firm's Core Growth large cap growth equity strategy whether focused or diverse. Accounts greater than $200,000 are eligible for inclusion. Performance is calculated monthly in U.S. dollars on a total return basis. Composite Creation Date: March 31, 2003. Gross returns are time-weighted; include cash and a return on cash, and after deducting trading expenses. Net returns are gross returns after deducting our maximum 0.50% (fifty basis points) management fee accrued monthly. Carve-out portfolios were eliminated from the Composite beginning March 31, 2008.

Prior to March 2003, the Core Growth gross returns are the linked to the investment returns before management fees but after certain expenses of the Stein Roe Young Investor Fund (the Fund). The Core Growth net investment results are linked to The Fund's net returns are after deducting the maximum Brady Investment Counsel management fee of 0.50%. David P. Brady was the lead manager of the Fund between September 1994 and March 2003. Mr. Brady employs substantially the same investment strategy of buying high quality growth stocks at a market price below their intrinsic value managing the Firm's Core Growth Strategy as he did while managing the Fund. The Fund investment returns are given as supplemental information only. The Fund performance numbers were provided to Brady Investment Counsel LLC by Columbia Management Group, the Fund's advisor. Brady Investment Counsel does not guarantee there accuracy.

The Russell 1000® Growth Index is a subset of those Russell 1000® Index securities with a greater-than-average growth orientation. Companies included in the Index tend to have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth than value securities. The index is unmanaged and does not hold cash, reflect transaction costs or management fees and other expenses. Unlike the index, a portfolio is actively managed and may include substantially fewer securities than the number of securities comprising the index. Investors cannot purchase interests directly in an index.

The S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the US economy. Unlike a portfolio, the S&P 500 Index is market-weighted and focuses on the large-cap segment of the market. Returns reflect the reinvestment of dividends. The index is unmanaged and does not hold cash, reflect transaction costs or management fees and other expenses. Unlike the index, a portfolio is actively managed and may include substantially fewer securities than the number of securities comprising the index. Investors cannot purchase interests directly in an index.

Past performance is not indicative of future returns. Past GIPS Compliance does not guarantee future compliance. Contact Brady Investment Counsel LLC for their up-to-date opinion on Brady Investment Counsel Core Growth Composite GIPS Compliance. The value of an investment may decrease as well as increase, an investor may not receive the amount initially invested, and income, if any, may fluctuate. The value of an investment may be affected by a variety of factors, including economic and political developments, interest rates and foreign exchange rates, as well as issuer-specific events. Performance records of any accounts and composites presented herein reflect the particular guidelines, cash flows and timing considerations applicable to that account or group of accounts. Careful consideration should be given to the potential differences between any account opened in consideration of the information contained in this presentation and the results of any accounts shown herein. Tracking and calculating investment performance is cumbersome and inexact. Brady Investment Counsel puts forth its best effort when calculating performance. This notwithstanding, unintentional mistakes can be and are made. Brady Investment Counsel LLC reserves the right to change previously reported performance numbers without notification and free from liability should the firm discover a computational inaccuracy that leads to a change or changes in previously reported performance. Contact Brady Investment Counsel for the firm's most up to date investment performance data.