BRADY INVESTMENT COUNSEL LLC

INVESTMENT REVIEW

ANNUAL REPORT FOR THE PERIOD ENDING
MARCH 31, 2004

FISCAL 2003

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TO OUR CLIENTS AND INTERESTED INVESTORS

SUMMARY

Last year's equity market experienced dramatic change. One year ago the markets were depressed. Investors were focused on a slowdown in the pace of economic growth, a decline in the rate of job creation and the initiation of a ground war in Iraq. Back then, the S&P 500 was yielding 1.9 % and trading at 16X projected 2003 earnings.

However, investment fundamentals weren't so bad. Corporate profits were poised to accelerate and fiscal policy was growing accommodative. The personal tax rate cuts, planned for 2006, were retroactively moved to 2003 and the tax rate on corporate dividends was lowered to 15%.

The Fed was becoming generous with its monetary policy as well. This policy making group, and lender to financial institutions, lowered its funds rate to 1%. The unprecedented move was a big surprise for the market, as most participants were actually expecting the Fed to raise rates over the course of the year.

The stock market responded to these positives occurrences. For the 12 months ending March 31, 2004 the S&P 500 was up 35% including dividends. The increase was as broad as it was impressive: 479, or 96%, of the companies making up the S&P 500 were up for the year.

Our three primary investment strategies also performed well. The Core Growth was up 41% year over year and the Focus was up 50% and the ETF strategy gained 40% during the 12-month period ending March 31, 2004.

INVESTMENT REVIEW, FORECAST AND TRADING

CORE GROWTH STRATEGY

The Core Portfolio was up 41% for the 12-month period ending March 31, 2004. This compares favorably to both the S&P 500, which was up 35%, and the 31% increase for the Russell 1000 Growth Index.

Genentech (DNA) was the star performer. DNA was the portfolio's sixth largest holding at the start of the year and the shares more than tripled. The big move was driven by new product approvals and stellar operating results. At its peak price, DNA was trading at 71x our 2004 estimated earnings. DNA is an exceptional company and capable of growing EPS at a 20% annual rate over the next three to five years. However, the shares are overpriced and have been for some time. We began selling the position near $79 and finished our selling in early March 2004 at $92 per share.

Core performance also benefited from our investments in financials. Financials were the second best performing S&P 500 sector for the year, trailing only the materials sector. Our financial sector investments represented five of the portfolio's top 10 largest holdings at the start of the year. All of our financials performed well, even those not in the top 10. Our credit card company investments, in particular, did well with Providian (PVN) up 100% and MBNA (KRB) up 84% for the year.

Everything did not work as well as initially hoped, however. Our pharmaceutical holdings underperformed. Wyeth (WYE) and Johnson & Johnson (JNJ) were both top 10 holdings to start the year. JNJ was one of the few companies in the entire market to have experienced a negative return last year. WYE was up, but only slightly and significantly below the S&P 500 return. Both holdings remain in the portfolio but are no longer in the top 10. We like the growth and return characteristics of the pharmaceutical industry and believe both companies are attractive from a long-term risk/reward standpoint.

The Core Portfolio looks significantly different at the beginning of fiscal 2004 compared to fiscal 2003. In the top 10, only MSFT remains and there are no financial sector holdings. The S&P Barra Large Cap Growth Index Fund (IVW) is our largest holding. Again, we think large cap growth is the most attractive area of the market.

Anheuser-Busch (BUD), Ecolab (ECL) and Mattel (MAT) are new to the portfolio and are currently top 10 holdings. Both BUD and ECL have exhibited good long-term trends in sales and EPS growth. We expect these trends to continue into 2004 and 2005. Positive operating trends at MAT have developed more recently. We are attracted to the shares because we believe management's efforts to turn this company around are underappreciated by Wall Street.

Alcoa (AA) is also a top holding. The company earned its way into the top 10 based on appreciation, as the shares were up 83% last year. We think the 2004 prospects for the company are good as well. Though, it should be noted that AA is close to our target price and we are not looking for a repeat of 2003 total return performance in 2004.

Positions were also initiated in HCA (HCA) and UnitedHealth Group (UNH). We believe both companies are attractively priced given their earnings and growth potential. Other healthcare positions included in the top 10 are Medimmune (MEDI) and Merck (MRK).

St. Joe (JOE) is another new name for 2004 and rounds out our top 10 holdings. Our investment was made on the belief the company's real estate portfolio, mostly in the Florida panhandle, will continue to experience good appreciation. Further, the investment makes a good hedge against inflation, which will be necessary if our current views prove incorrect. Finally, we expect the company to report solid EPS gains in the years to come.

FOCUS STRATEGY

The Focus Portfolio was up 50% for the year – a very big increase and significantly greater than what we expect, on average, going forward. Performance was driven by a large commitment to small cap stocks gained mostly through investments in exchange traded funds. To start the year, the Russell 2000 Value Index Fund (IWN) was 28% of assets and the Russell 2000 Growth Index Fund (IWO) was 21%. Both funds were up approximately 64% for the fiscal year. Other small cap holdings making significant contributions to total return in fiscal 2003 were Ventana Medical Systems (VMSI), Providian (PVN) and Network Appliance (NTAP), each up 105%, 100% and 92%, respectively.

The Focus Portfolio's risk/reward characteristics changed significantly with performance as strong as it was last year. A major portfolio rebalance was undertaken between January and March of 2004. We significantly reduced our small cap exposure by selling both Russell 2000 index funds. We also continued to reduce exposure to technology – a process actually begun in October 2003. Finally, the portfolio's healthcare exposure was increased. At the start the new fiscal year, three of the portfolio's top five holdings were from this sector.

Medimmune is a 10% position and the Focus Portfolio's largest holding. We are attracted to the quality of the company's management, its product pipeline and the overall commitment to research and development. However, keep in mind Medimmune is a biotech company and the business is risky. There is no guarantee the pipeline will develop as quickly as hoped. We feel the risk is mitigated by the existing product lineup, which currently generates real sales and profits, and the company's strong financial position. Further, we are comfortable with the downside price risk, which we estimate to be $16 per share, relative to the two-to-three year upside price potential, which could be as high as $40.

EXCHANGE TRADED FUND (ETF) PORTFOLIO

The ETF Portfolio was up 40% last year. Again, similar to Core and Focus, the ETF portfolio's performance was exceptionally strong. We do not believe a 40% increase is typical and is unlikely to repeat any time soon.

The ETF Portfolio was rebalanced in early January 2004. At this point we felt the long-term risk reward characteristics of the large cap growth and health care sectors were significantly more attractive than for small caps. We sold both Russell Small Cap Index funds and added to our position in the S&P 500 Index Fund. We also initiated positions in the S&P 500/Barra Growth Index and Healthcare Select Sector SPDR funds.

FORECAST

2004 promises to be an interesting year for the equities market. Although market price increases will likely be mild, we are confident that equities remain the best long-term option for growing wealth. We will remain focused on building portfolios one quality investment at a time and are looking forward to working with you to achieve your investment objectives.