

BRADY INVESTMENT COUNSEL LLC

# INVESTMENT REVIEW

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SEMI-ANNUAL REPORT FOR THE PERIOD  
ENDING JUNE 30, 2004

SEMI ANNUAL  
2004

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# INVESTMENT REVIEW

QUARTERLY REPORT FOR PERIOD ENDING JUNE 30, 2004

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## TO OUR CLIENTS AND INTERESTED INVESTORS

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### SUMMARY

We are happy to report solid investment performance for the first six months of 2004. Notably, each of our three model investment products outperformed both the S&P 500 and the Russell 1000 Growth indices.

For the six month period ending June 30, 2004, the Core Growth Portfolio model was up 5.0% while the Exchange Traded Fund Portfolio (ETF) was up 5.3%. The Focus Portfolio was the big winner over the period - up 8.3%. These increases were solidly ahead of 3.4% return for the S&P 500 and the 2.6% return achieved by the Russell 1000 Growth Index.

The biggest contributor to the Focus Portfolio's performance was a short-term position held in Kohl's. Our entire position was bought and sold during the last six months. Both actions were valuation driven. Other important performance drivers were our holdings in Providian and Ventana Medical Systems. Both are long-term investments and remain in the portfolio.

The Exchange Traded Fund's performance was driven primarily by our exposure to small caps early in the year. We have since eliminated our exposure here in favor of large caps. Our current target weighting for ETF clients is 50% S&P 500 and 50% S&P Large Cap Growth.

Finally, the Core Portfolio's performance was most positively influenced by a short-term valuation trade in Biogen. The portfolio also benefited from our investment in Microsoft and our holdings in Harley-Davidson and Providian. Recently we have selectively added to the Core Portfolio's holdings in the Financial Services and Technology sectors.

We would be remiss if we didn't take time to remind our clients that while the short-term success of the funds is good news, it is not a given. Our ultimate goal is to outperform the market over the long term by investing in quality growth companies that are attractively priced. From time to time there will be short-term periods of underperformance.

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## FORECAST AND TRADING

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Looking ahead, our long-term outlook for equities is positive. Investments here have historically produced the greatest returns relative to fixed income securities and cash. We see no reason for this to change. Short term, however, we are cautiously optimistic. We think earnings in the second half of 2004 will be impressive, at least relative to the consensus view at the start of the year. Our enthusiasm is dampened somewhat by the prospect for higher interest rates. Though even here we are more optimistic than most. We feel as long as worker productivity continues to rise at a faster rate than wages, inflation will remain under control and the Fed will not act aggressively. In general, over the next 12 months we expect equity prices to rise just below the pace of earnings, which we forecast to be in the 7%-10% range.

Finally, we will continue to conduct our own research. In our actively managed Core and Focus portfolios we will look for quality growth companies that are underappreciated by Wall Street. If a holding becomes overvalued we will chip the position or sell outright. In the ETF Portfolio we will continue to favor Large Cap Growth – an area of the market has underperformed most other sectors over the last five years. As such, we feel the sector is attractive from a risk/reward standpoint.