

BRADY INVESTMENT COUNSEL LLC

INVESTMENT REVIEW

SEMI-ANNUAL REPORT FOR THE PERIOD
ENDING JUNE 30, 2005

SEMI ANNUAL
2005

1844 N. CLEVELAND AVENUE
CHICAGO, ILLINOIS 60614
WWW.BRADYINVESTMENTCOUNSEL.COM

INVESTMENT REVIEW

QUARTERLY REPORT FOR PERIOD ENDING JUNE 30, 2005

TO OUR CLIENTS AND INTERESTED INVESTORS

SUMMARY

Our Core Growth Strategy model gained a modest 0.4% during the year-to-date period ending June 30, 2005 and an impressive 9.8% over the past 12 months. These results compare very favorably to the general market and to the large cap growth benchmarks. During the corresponding periods, the S&P 500 Equity Index (SPX - \$1191) was down 0.8% and up 6.3%, while the S&P/Barra Growth Index (SGX - \$568) was down 1.7% and up only 1.6%.

Our two other equity investment strategies have also performed well. The Focus Strategy was up 0.2% during the first six months and 7.9% for the year, while our Index Strategy was down 1.1% and up 3.8% for the like periods.

The broad market, as measured by the S&P 500 Equity Index, was up 1.4% during the second quarter. Mid and small cap stocks once again led the way with their respective S&P indices rising 4.3% and 3.9%.

The large cap growth segment was up 0.1% during the quarter and remained challenging for investors. Positively, large growth companies continued to grow earnings and their valuation relative to other market cap segments is attractive. In addition, we maintain our view that the large cap growth sector is the most promising equity market cap sector as measured from a risk/reward perspective.

The economic backdrop was favorable during the quarter. The period began with the economy growing at a 3.8% annual rate and the inflation outlook in check. Though short-term rates were higher than year ago levels; intermediate and long-term rates finished the quarter lower. For example, the two-year Treasury yield was 3.7% at the 2nd quarter's end versus 2.7% last year, while the 10-year Treasury yield was at 3.9% versus one-year-ago levels of 4.6%.

The high price of oil was the market's main sore spot and its effect cascaded through all levels of the market. The impact has been felt by low income consumers in particular. Consequently, businesses that rely on this segment's discretionary spending have suffered as a slowdown in consumer spending is evident. As was mentioned in our March 2005 Quarter Investment Review, we feel this problem is transitory. As such, we will be looking for investment opportunities in high-quality companies whose operations were temporarily depressed. Wal-Mart (WMT - \$48) is one such company. During their first quarter earnings review, management lowered short-term EPS guidance citing the impact the high price of gasoline was having on their core customers' spending patterns. The shares took a hit and were marked down 10% from where they started the year and down 13% over the last 12 months. Meanwhile, the S&P Consumer Stock Equity Index (S5CONS - \$235) was up 3.1% and 7.0% for the like periods. We took advantage of WMT's share price weakness believing

the company's long-term prospects were unchanged and its position as the discount store industry leader was very much intact. New positions were developed in both our Core and Focus models.

INVESTMENT REVIEW, FORECAST AND TRADING

CORE GROWTH STRATEGY

The Core Growth Strategy model was up 0.5% during the second quarter. Investments helping performance included St. Joe (JOE - \$82), AFLAC (AFL - \$43) and Corning (GLW - \$17). Alcoa (AA - \$26), McDonalds (MCD - \$28) and Mattel (MAT - \$18) each detracted from results. In addition to our new investment in Wal-Mart, positions were initiated in both Xerox (XRX - \$14) and Biomet (BMET - \$35). The rest of the model's cash was put to work by adding to our existing holdings in Biogen (BIIB - \$34) and Hewlett-Packard (HPQ - \$24). Walgreen's (WAG - \$46) and Panera Bread (PNRA - \$62) were sold due to valuation. Our investments in St. Joe and HCA (HCA - \$57) were trimmed, also due to valuation

FOCUS STRATEGY

The Focus Strategy's performance was flat during the quarter. HCA, Fiserv (FISV - \$43) and Hewlett-Packard each helped performance. However, the positive results were offset by our holdings in Alcoa and Biomet (BMET). BMET was a new investment made during the quarter. We believe this a quality company that leads in the growing medical device marketplace. The long-term share valuation is attractive as well but given the 1.9% price decline subsequent to our purchase, it appears the investment was premature, at least from a short-term point of view. However, our long-term conviction in the company is unchanged. We will make the decision on whether or not to add to the position after the company reports its current quarter operating results and updates investors on the prospects for the rest of the year.

Xerox and Wal-Mart were also added to the Focus model. FISV and Comcast (CMCSK - \$30) were sold as was our long-time investment in Provident Financial (PVN - \$18). PVN was sold after Washington Mutual (WM -\$41) announced their intention to acquire the company.

EXCHANGE TRADED FUND (ETF) STRATEGY

The ETF Strategy was up 0.8% during the quarter. Our 50% weighting in the large cap growth sector hurt performance. However, our conviction remains that this market cap sector will post the most attractive risk-adjusted results over the next three-to-five years. No change was made to our 50%/50% allocations in the S&P 500 and the S&P Barra/Growth indices.

FORECAST

Our equity investment outlook for the second half is positive. We forecast market gains in the 5%-8% range including dividends. The increase will largely be a function of increasing earnings. Note, however, this is fast becoming a contrarian point of view. There are many investor concerns over the pace of future economic growth and the impact high oil prices could have on profit margins. However, the market is attractively valued at 16.6 times 2005 estimated EPS and 15.8 times our preliminary 2006 estimate. In addition, the dividend yield is a respectable 2.0%. These valuations metrics become even more compelling after considering the current low level of interest rates and the prospect that rates could remain low for the foreseeable future.

In the second half of 2005, we expect the economy to grow, job creation to continue and inflation to remain manageable. Supporting these factors are strong corporate balance sheets and ample market liquidity. All of these markers lead us to conclude there is upside potential to the consensus market earnings as forecasted and that stock prices will follow the better than expected earnings.

We began 2005 estimating the equity market total return would be in the 6%-8% range. While our original market view could prove to be optimistic, we do not think it will be lowered by much. We will continue to position the actively managed Core and Focus portfolios in attractively priced companies capable of growing both sales and earnings. Again, the large cap growth sector, after having spent more than five years correcting from the excessive valuations of the late 1990s, is the most attractive area for finding investments that meet our selection criteria.

The large cash position carried into 2005 in both the Core and Focus strategies was put to work during market correction that occurred in the second quarter; although, that quickly changed for the Focus Strategy. The cash position there is currently at 14%. This is due to sale of our long-term investment in Provident Financial, which was completed immediately after that company's management announced their intention to sell the company to Washington Mutual.