Bridgeport Asset Management Inc.
Tel: 416-849-2225 x 103
info@bridgeportasset.com
www.bridgeportasset.com

BRIDGEPORT
ASSET MANAGEMENT INC.

MARKET WHIPLASH

The stock market exhibited phenomenal volatility in the first quarter of 2009, giving investors an extreme case of whiplash. The S&P 500 declined 25% on a year-to-date basis through early March then promptly recovered 18% from that point to end the quarter. Stock market index performance for the entire Q1 2009 period was negative across the board, despite the late quarter rally. Index performance numbers for Q1 2009 were as follows: S&P 500 (-12%), S&P/TSX Composite (-3%), S&P/TSX Small Cap (-5%) and Russell 2000 (-15%).

There are encouraging signs on the horizon for both the economy and stock market, although it is difficult to have anything more than a cautiously optimistic outlook for the balance of the year given the market gyrations and slew of bad news we have seen over the last 18+ months. Thus far in April, we have generated solid investment returns across all our portfolios and we have seen some better than expected economic news in a few areas which gives us encouragement.

An economic recovery over the longer term will be predicated on a bottoming in residential housing prices, improved credit flow in the banking sector and lessening job losses. Governments have pulled out all the stops, both fiscal and monetary, to aid a recovery. We expect to begin to see the impact of these initiatives take hold toward the end of this year and into 2010.

The one obvious downside to government's extravagant spending is that no one knows how taxpayers are ultimately going to pay for it. As Margaret Thatcher once famously said, "*the problem with socialism is that you eventually run out of other people's money*." We remain concerned that the scope of government spending today combined with the large amount of money being printed will lead to significant inflation over the long term.

To date, deflation has been more of a concern than inflation, but we believe this could change rapidly in the months and years ahead. There is a substantial amount of liquidity in the economic system today, but individuals and institutions are still hoarding cash out of fear. The tendency to hoard reduces the velocity of the economy's money supply, or the average frequency with which money is spent. Low velocity reduces inflation and can even lead to deflation, however if credit conditions improve, banks increase lending and consumers start spending, the velocity of money will increase. This could potentially cause inflation to surge as our inflated supply of money begins to move through the system at a much quicker pace.

Our concern over inflation has led us to focus on shorter term securities in our fixed income portfolios to protect against rising interest rates. In our equity accounts, we have generally invested in shares of companies with an ability to pass on price increases to customers. This should mitigate the impact of inflation on their earnings. In addition, our value-oriented equity investing approach should serve us well if inflation and higher interest rates cause earnings multiples to contract.

We added a few securities to both our equity and high income portfolio models over the quarter. In particular, we invested in the units of Pizza Pizza Royalty Income Fund. The Fund owns the Pizza Pizza brand name with which we are all familiar as well as related trademarks and collects a 6% (or in some cases 9%) royalty from Pizza Pizza's franchisees based on their gross sales.

BRIDGEPORT
ASSET MANAGEMENT INC.

We are enthusiastic about our investment in the Fund as Pizza Pizza has a market leading position in its restaurant category, offers food to customers at relatively low prices and should not experience significant sales declines if the economy continues to deteriorate. From a valuation standpoint, we purchased our interest in the Fund at a relatively low multiple of earnings so we should be reasonably protected on the downside. The Fund pays out the majority of its earnings as distributions to shareholders, and based on our average unit purchase price, we expect to receive an annualized cash yield on our investment in 2009 of approximately 15%.

As always, we appreciate your business and encourage you to call should you wish to learn more about other securities in your portfolio or have more general questions. We also wish to thank those of you who have referred family and friends to us over the last several months.

Yours truly,

John Fisher

John Fisher, CPA, CFA