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

BRIDGEPORT
ASSET MANAGEMENT INC.

Q1 2011
Investment Commentary

The market continued its upward march in the first quarter with the US and Canadian markets both posting solid gains. Despite the market rally however, the S&P 500 still remains approximately 15% below its peak from October 2007.

The stock market has obviously been a roller coaster ride for investors these last few years and it has practically become a national pastime to try and predict whether the market is going to go up or down. In fact, probably the most common query we receive from clients concerns our view on where the stock market is headed in the near term.

This is obviously a perfectly understandable question as the answer dictates how much money our clients may make in the short term. It is, however, an extremely difficult question to answer and it is not particularly clear if it is even productive to ponder it too extensively.

In our view, it is virtually impossible for anyone to know the short term direction of the market with certainty as the market's direction is largely determined every day by the consensus view of millions of investors who are engaged in the buying and selling of shares. To understand investors' aggregate intentions, you would have to get inside all of their heads which simply cannot be done.

A somewhat more productive exercise is to try to determine whether the market is overvalued or undervalued relative to the earnings power of the companies that make up the market or one of its benchmark indexes such as the TSX Composite or S&P 500. This is still far from an exact science as one would need to exercise stellar judgment in determining the the rough level of future earnings for all of the companies in a given index (which is typically at least a few hundred companies) in order to accurately assess value.

And even if you could accurately assess the true value of the stock market index, the index price may not necessarily converge with this value in the short term. You have probably heard Benjamin Graham's famous line that the stock market is a voting machine in the short term and a weighing machine in the long term, meaning true value may only be reflected in price over longer periods of time.

As opposed to trying to guess the market's future direction, we prefer to take a simpler approach to investing in equities which is to attempt to identify a handful of good publicly traded companies with solid business models and reasonable growth prospects which are trading at prices which should enable us to earn an above average rate of return over time based on our estimate of future earnings. We generally ignore businesses which are too complex to understand as an outside investor and instead focus on stocks where we have a good understanding of the industry and the key opportunities and challenges that the companies face.

This approach allows us a greater degree of control as investors as (i) it does not require us to be experts in everything, (ii) it gives us a degree of comfort and helps us to avoid panicky decisions in that we understand what we own if the market temporarily moves against us and (iii) we don't have to spend time analyzing things that are impossible to analyze (such as predicting short term market movements).

In this vein, we continue to identify attractively priced stocks, although our search for value has clearly become more challenging than it was in 2009 or 2010 when security prices were unusually depressed.

In particular, we believe the US stock market remains underappreciated relative to the Canadian market which is starting to look a bit frothy. Only a short time ago Canada was roundly criticized for its lack of productivity and innovation and economists fretted over our chronic dependence on the resource sectors, while today Canada's underlying issues are virtually ignored as the commodities boom paints over all blemishes.

We have identified many US large cap companies with substantial exposure to growing foreign markets that are trading at attractive prices. For example, during the quarter, we added a position to our equity portfolio in Pepsico which sells a mix of beverages (51%) and snacks (49%) and generates 47% of its annual revenue outside the US. We purchased our shares of Pepsico at approximately 9x operating earnings which is a significant discount to the company's historic earnings multiple.

For our high income portfolio investors, we have also added a number of securities to the portfolio over the last several months. Late in 2010, we purchased the common shares of Partner Communications, a Nasdaq listed company which is one of the largest wireless telecommunications firms in Israel with over 3 million subscribers. The shares currently generate an annual dividend yield in excess of 10%.

At the beginning of 2011, we also bought shares of Medical Properties Trust, a US REIT which owns a portfolio of real estate leased to US hospitals on a long term, triple net basis. Medical Properties generates a stable stream of annual cash flow and has an annual dividend yield of approximately 7%.

We expect the road ahead for both bonds and equities to be somewhat bumpy as economic growth in the US and Canada is still relatively weak and there is considerable uncertainty and disagreement around whether deflation or inflation is the greater risk going forward.

As always, please give us a call should you have any questions.

Yours truly,

John Fisher

John Fisher, CPA, CFA