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North American stock markets surged in the first quarter, continuing to build on strength from the end of 2011.

As fears of a Eurozone crisis recede, the rally in equities is being driven by improving economic data, particularly in the US. Equity investors remain cautious after the dark days of 2008, but we believe that the excessive bearishness and fear which has prevailed for the past few years is slowly dissipating.

We are also finally seeing some takeover activity in our portfolios as both strategic and financial acquirers begin to recognize the value in some of our holdings. During the quarter, two companies in Bridgeport's equity portfolio, Whiterock Real Estate Investment Trust (REIT) and Homeq Corporation, announced they were being bought out.

Whiterock REIT was among the first equities that we acquired when we started in mid-2007. Whiterock owns a portfolio of mostly office properties across Canada and was one of the smallest REITs in Canada when we started accumulating units.

We were attracted to the company as it owned quality buildings with long term tenants (many of whom were government agencies), virtually guaranteeing a steady stream of income and allowing Whiterock to pay a dividend yield of about 12% (at the time of original purchase).

Given Whiterock's size and low profile in the Canadian real estate community, stock market investors never seemed to recognize the true value of Whiterock's real estate portfolio such that its unit price was always significantly undervalued.

Dundee REIT acquired Whiterock in early March 2012. From the date of our original purchase to the buyout date, an investment in Whiterock generated a cumulative return of approximately 150% over the 4 year timeframe.

After the market close on March 30, 2011, Homeq announced it had entered into an agreement to sell itself to a Toronto-based private equity firm. Homeq is the only national provider of reverse mortgages in Canada. A reverse mortgage is similar to a regular home mortgage except the homeowner's obligation to repay the mortgage (including interest) can be deferred until they die or move. The product is only available to older homeowners and is popular for those who wish to remain in their homes, but need cash now to pay for their retirement.

Bridgeport originally invested in Homeq as we liked its near monopoly position in the Canadian reverse mortgage business and its long track record of financial success. We first purchased shares in Homeq for clients in September 2009 at around $6.80 per share which represented a slight discount to the company's book value. The company has also paid an annual dividend of approximately 4%. The buyout of Homeq is being done at $9.50 per share with the transaction expected to close in May, allowing us to make about a 50% profit over our holding period.

It is interesting to note that during the economic crisis in 2008 the share prices of both Whiterock and Homeq traded at levels that were between 70% and 75% lower than the buyout prices offered today. Both companies have grown earnings to some extent since 2008, but not enough to explain this significant run-up in share price.

The reality is that the panic of 2008 caused investors to dump stocks en mass with complete disregard for the underlying fundamentals (i.e. earnings power) of the companies they were selling. This is particularly true for Whiterock which faced only modest risk in 2008 unless you believed its mostly government and blue chip corporate tenants were going to walk away from their long term lease obligations.

While it is always difficult to remain focused on company fundamentals when the markets appear to be falling apart around us, the cases discussed here illustrate the benefit of both patience and understanding the value of what you own.

As always, please feel free to call us should you have any questions about your portfolio.

Yours truly,

John Fisher, CPA, CFA