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BRIDGEPORT
ASSET MANAGEMENT INC.

Q1 2013
Investment Commentary

The rally in equities continued unabated in the first quarter of 2013 as US markets once again outperformed those in Canada by a wide margin.

The Canadian stock market lagged as a result of its overweighting in the energy and mining sectors which performed poorly. Investor enthusiasm for these sectors has dampened in the last few quarters which stands in contrast to the strong appetite exhibited for commodities in recent years.

These have also been humbling times for investors who succumbed to the allure of two of 2012's most popular investment ideas, namely buying gold and shares of Apple.

As many of you know, we have been skeptical about Apple for some time. It is not that we don't agree Apple is a phenomenal company which produces great products. Rather, we believe Apple falls into the category of being a good company, but a risky investment. Many stocks fall into this category because they are overvalued, although this is not necessarily the case with Apple at least as measured by its current price to earnings ratio.

The issue with Apple is the industry in which it operates. The business of designing and manufacturing media and communications devices is exciting, but challenging to navigate given the pace of technological change and the fickleness of consumers who are always looking for the newest and coolest products, regardless of who is producing them.

To continue to win in this environment, Apple will have to successfully introduce a slew of new products and services to offset the inevitable cannibalization of its existing ones. Whether the company can pull this off is anyone's best guess, and as such, it is not a bet we are interested in making. We prefer to focus our investing activities on companies which are able to generate consistent and growing profits without having to radically change their business models over the long term.

The story with gold is somewhat different than Apple. Despite lots of opinions, we are convinced that no one really knows what drives the price of gold up and down including those who spend their lives analyzing and watching it.

Gold bugs are always calling for gold prices to rise, and for periods of time they are often correct, until the market proves them wrong later when prices fall back. Historically, gold has been a store of value and a hedge against inflation, but even this previously accepted bit of wisdom is being challenged now.

As we see it, the biggest issue with gold is that it is impossible to value as unlike an investment in a company, it does not have the potential to produce cash flow. For these reasons, our view of investing in gold is pretty much the same as our view of going to Vegas and playing black or red on the roulette wheel -- it is a 50/50 proposition at best.

Our portfolios performed well in the first quarter and benefited from their lack of exposure to commodities. As the stock market has advanced, we have become more cautious in our security selection process and, as a result, client cash balances have temporarily grown. In particular, a number of bonds in our high yield portfolio were redeemed during the quarter and we are actively looking at a number of quality securities into which we can reinvest the cash.

The only significant changes in the Bridgeport equity portfolio were the sale of shares in Morguard Corporation at a healthy profit and the purchase of shares of Retrocom REIT, an operator of retail properties in Canada which pays an annual dividend of approximately 8%.

Please feel free to call should you have any questions and we wish you all the best for a wonderful spring and summer!

Yours truly,

John Fisher, CPA, CFA