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

BRIDGEPORT
ASSET MANAGEMENT INC.

Q2 2009
Investment Commentary

The stock market rebounded in the second quarter of 2009 as investors regained their confidence and began to gradually shift money from cash back into equities. We note that Q2 2009 was the first quarter of positive market returns for the S&P 500 index after six consecutive quarters of declines.

On a year-to-date basis through June 30, 2009, the U.S. S&P 500 and Russell 2000 indices increased 1.8% each, while the TSX Composite rose a more robust 15.4% led by strong gains in commodities and financials (which had previously suffered the most significant declines). Despite the positive quarter, most major stock market indices at June 30 were still down approximately 30% to 40% from their highs reached in 2007/2008.

As noted in our previous investment letter in April 2009, we continue to see positive signs that the economy is bottoming out and on the way toward recovery. We expect the way forward will undoubtedly be bumpy with tepid economic growth in the short term.

We do not agree, however, with many market commentators who suggest that consumer behavior patterns have been negatively affected over the long term. While consumers are clearly worried about their employment picture, have reduced their spending and embraced a more frugal approach to life, we do not think investors should bet against the age-old human desire to consume. In our view, this pattern of consumptive behavior may be as reliable over the long term as death and taxes. Although it would greatly benefit consumers to get off the spending treadmill, we frankly don't believe they will for any sustained period of time. This recession is unlikely to be any different from past ones in that consumers may temporarily reign in their spending, but inevitably they will open up their wallets again as economic conditions improve.

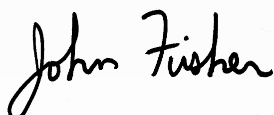
We believe equity valuations in many sectors remain compelling on a fundamental basis despite the recent recovery. We continue to look for value among companies with solid business models, high barriers to entry, substantial recurring revenues and high profit margins. In these challenging times, we also tend to favor companies which pay a portion of their earnings out to shareholders in the form of dividends.

One Bridgeport investment which exemplifies these characteristics well is our common share position in Keystone North America, an operator of 200 funeral homes and 15 cemeteries in the U.S. and Canada. Keystone's funeral homes are generally located in second tier markets where it faces limited competition from other funeral homes. The company generates relatively stable revenue and earnings as its results are largely driven by the number of deaths in the geographic areas it services. Unlike many other publicly traded funeral companies, Keystone generates most of its revenue from selling funeral services with only about 1% of its total revenue coming from selling cemetery plots in advance of a customer's death (i.e. pre-need). This is critical given that pre-need sales of cemetery plots typically plunge in recessionary periods as people often defer purchasing a plot if they are struggling to pay for basic necessities.

Keystone's common shares have appreciated significantly in the market since our initial purchase, but we believe they are still relatively attractive from a fundamental value perspective. We note that the company pays out a majority of its earnings in dividends to shareholders and carries an annual dividend yield of approximately 17% (based on its recent shares price).

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 wish you all the best for the remainder of your summer.

Yours truly,



John Fisher, CPA, CFA