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BRIDGEPORT
ASSET MANAGEMENT INC.

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Investment Commentary

The second quarter was a relatively volatile one for stock markets with some indices dropping by as much as 10% from peak to trough during the quarter before rebounding toward the end of June.

Overall, the TSX Composite and S&P 500 (C$) benchmarks declined approximately 6% and 1%, respectively, in the second quarter. On a year to date basis through June 30, the TSX Composite was down 1%, while the S&P 500 (C$) was up 2%.

Market nervousness has continued into July as Democrats and Republicans in the U.S. engage in a game of chicken over negotiations to increase the country's debt ceiling and avoid a default. That elected officials have been unable to reach a compromise with only days left before the early August deadline is obviously a source of dismay and great concern for investors as failure to reach a deal could have dire consequences and send both bond and equity markets into turmoil. In the event a deal is not negotiated by the deadline, we expect in the short term that bond yields will rise and the US dollar and equities will fall.

On the positive side (if there is a positive side), the protracted negotiations around this issue and related media attention have brought a much needed focus to attacking the structural issues related to reducing government spending and the deficit. These are painful issues but solving them is critical to restoring the long term health of the American economy.

In terms of portfolio activity, we sold positions in two stocks in our equity portfolio during the quarter and added two new ones. We sold shares in H&R REIT and BCE as they had both appreciated significantly over time and were becoming expensive relative to their earnings potential. We redeployed the cash proceeds from these sales by purchasing common shares of Morguard Corporation and Great Canadian Gaming Corp.

Great Canadian is based in BC and operates local casinos across Canada and the US Pacific Northwest. Unlike Las Vegas casinos which are destinations, Great Canadian's casino properties attract mostly local gamblers who are looking for a few hours of entertainment. The local nature of the company's business partially insulates it against economic headwinds as gamblers are more likely to make a short trip to a local casino as opposed to taking a vacation in Vegas if they are concerned about the economy.

Great Canadian is a highly profitable company, generating earnings before interest, taxes and depreciation (EBITDA) of approximately $130 million on annual revenue of over $380 million in its last fiscal year. We purchased our share position in the company at an attractive price which equates to less than 7x trailing EBITDA.

Morguard Corporation owns and manages commercial and residential real estate properties across Canada and the southeastern US. Its market capitalization on the TSX is approximately $1 billion.

Morguard is considered an odd animal in the publicly traded real estate world for a few reasons. First, it is structured as a corporation whereas most real estate firms are structured as REITs for tax efficiency. Second, the company is tightly controlled by its CEO as a result of his significant share ownership. Third, Morguard's shares offer a dividend yield of less than 1% which is low compared to yields offered by other publicly traded real estate vehicles. And finally, the company's shares are thinly traded.

Despite the foregoing, we invested in Morguard's shares as we believe they are substantially undervalued relative to the underlying worth of the company's real estate portfolio. Over time, we expect Morguard's share price to more accurately reflect the true value of its real estate holdings, particularly if the company begins to evaluate ways to increase shareholder value.

We hope you are enjoying your summer thus far. Please feel free to call us should you have any questions about your portfolio.

Yours truly,

John Fisher

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