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BRIDGEPORT
ASSET MANAGEMENT INC.

Q3 2013
Investment Commentary

The third quarter was all about the inactions of the US government and Federal Reserve. In early September, the Fed surprised the market with its decision not to taper its treasury bond purchases as had been widely expected. A few weeks later, investors were rattled when Congress failed to reach a budget deal, causing a US government shutdown on October 1.

More concerning to investors, however, is the possibility that Congress will fail to increase the US debt ceiling. While there have been 12 US government shutdowns since 1981 (the most recent being in 1995-96), failure to raise the US debt ceiling would be unprecedented as it would ultimately lead to the US defaulting on its obligations to pay principal and interest on Treasury bonds. This would damage investor confidence and alter a long-held assumption underpinning financial markets that US government bonds represent a risk free investment.

Despite the dysfunction in Congress, we view the likelihood of the debt ceiling not being extended as remote given the consequences of failing to reach an agreement. The longer term question is whether the US can get its fiscal house in order and reduce its annual deficit as its current spending levels are not sustainable.

The US population today is effectively borrowing money from future generations. The country's increasing debt load coupled with higher future interest rates will lead to an ever increasing amount of US tax revenue being utilized for debt service as opposed to running the government. These critical fiscal issues must be dealt with by both parties in Congress in a common sense manner as partisan tactics such as those currently employed by the Tea Party are both distracting and destructive.

Our portfolios have held up relatively well amidst this economic and political backdrop. The threat of tapering caused many of our bonds to suffer price declines back in June, although we have started to gain some of those declines back as the market realizes it may have overreacted and that higher rates may not be coming as soon as expected.

We added one convertible bond issued by Retrocom REIT to our high income portfolios during the quarter. Retrocom REIT owns and manages $1 billion worth of shopping centres in Canada with an emphasis on secondary markets. We purchased bonds in Retrocom as we believe they are attractively priced given the risk profile associated with the underlying properties.

Our equity portfolios continued to perform well in the third quarter. A number of our equity positions have appreciated significantly and we are currently evaluating whether to replace them with other investment opportunities we are currently researching. In this vein, we decided to take profits on our position in Equifax (EFX) over the summer as, in our view, it had become overvalued relative to its future earnings potential.

The only stock we added to our equity portfolios in Q3 was Walmart. Walmart, of course, is the largest retailer in the world. It operates over 11,000 retail stores on a global basis and generates over $470 billion in annual revenue. While we don't usually focus on companies this large, we believe Walmart's share price is currently undervalued as many investors are discounting the retailer's growth prospects given the slow US economy.

Low US growth may be a near term factor for the company but we think that the issue is already largely priced into the stock. Longer term, we are convinced that Walmart has various avenues to grow and the strength of its distribution network will allow it to deliver strong shareholder returns. The company also has an impressive 20 year record of consecutive annual dividend increases.

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

Yours truly,

John Fisher

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