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BRIDGEPORT
ASSET MANAGEMENT INC.

Q4 2011 Investment Commentary

The beginning of the year is a time for resolutions as well as making predictions about the year ahead. In short, it is usually a time of promise.

The end of the year, on the other hand, can sometime be about embarrassment—that is, embarrassment about not keeping our resolutions and about how off base our predictions turned out to be!

Everyone likes to take a stab at what the upcoming year may bring. As it relates to the stock market though, most people are rightfully jaded about the value of forecasts. In early 2011, virtually every expert was advising investors to steer clear of the US stock market in favor of Canada with its stronger economy and heavy commodity focus.

So much for forecasts! The S&P 500 was basically flat in 2011, while the TSX Composite declined about 11% as a result of weakness in commodity stocks. Despite recommendation early in the year from most analysts, the TSX energy and materials sub-indexes performed even more poorly than the broader indexes, dropping 17% and 19%, respectively, during 2011.

2011 would have also been a difficult year to time the markets as returns varied considerably by quarter as investors nervously watched events unfold in Europe and fretted about a soft economic recovery in North America. For example, quarterly returns for the S&P 500 were as follows: +5.4% (Q1), -0.4% (Q2), -14.3% (Q3) and +11.2% (Q4).

Unfortunately, many investors who chose to sit out the third quarter also missed much of the snapback in the market in Q4 (at least in the US), proving that timing the markets on a month-to-month basis is often difficult.

One of the major market themes in 2011 was the notion of "risk on/risk off". Some days were "risk on" meaning market participants were generally in the mood to take risk and buy more speculative securities such as common stocks and other days were "risk off" meaning that a piece of economic data may have been released that spooked the markets, causing investors to seek safer securities such as government bonds.

Managing money in this type of erratic environment is challenging, but we attempted to avoid getting caught up with these daily market mood swings and, in fact, made relatively few changes in our portfolios in the fourth quarter as we remained comfortable with most of our holdings.

We did, however, add one new holding to our non-registered High Income Portfolios which was Midwest Gaming (the bonds are ineligible to be held in registered accounts for tax reasons). Midwest Gaming recently opened the closest casino to downtown Chicago. The privately-held company is owned by affiliates of Toronto-based private equity firm, Clairvest Group, and Neil Bluhm and family, veteran Chicago-based real estate investors. The casino operates under state license and will likely generate annual operating earnings in excess of approximately $120 million. The bonds currently yield in excess of 10%.

We wish you much health and happiness in 2012! As always, please feel free to call us should you have any questions.

Yours truly,

John Fisher

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