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Q4 2012
Investment Commentary

While 2012 had the potential to end with a big bang, the year played out in a rather uneventful way. The so-called end of the Mayan calendar did not bring Armageddon on December 21 as some had forecasted, but it did provide wonderful material for Hollywood and several book publishers.

On a more serious note, the US Congress decided to dangle one foot over the fiscal cliff at the end of the year, but then quickly pulled it back and agreed to a short term fiscal deal, yet again shirking its responsibility to deal with the country's runaway spending issues.

2012 turned out to be far better year for equity returns than market watchers expected with most major North American stock indices increasing between 4% and 13%. Despite its macroeconomic problems, the US stock market generally outperformed Canada in 2012 as the TSX is heavily weighted toward the energy sector which declined close to 7% as measured by its sub-index. Bridgeport's equity portfolios performed well in 2012 as most of our stocks rose in price and a few accepted buyout offers. The portfolios also benefited from their lack of exposure to energy stocks.

Equity investors would have been wise to ignore all the doomsayers at the beginning of 2012 who were urging a reduction in exposure to stocks. Certainly there was good reason for caution as problems seemed to lurk around every corner (i.e. the Greek debt crisis, the potential breakup of the Eurozone, the continuing US fiscal crisis and weak growth in most developed economies).

As we have written before however, it is trickier than it seems to predict stock market returns based on macroeconomic factors for several reasons, not the least of which is that macroeconomics is far from an exact science and, even when economic information is accurate, investors often base their decisions on such information much too far after the fact. 2013 was a good example of this phenomenon as many of the economic problems mentioned above were already well publicized at the beginning of the year and thus already factored into stock prices.

Our best guess for 2013 is that economies will continue to recover. We generally remain positive about the investment climate, although we expect to take profits in some sectors where stocks are getting pricey such as real estate and other yield oriented investments.

We made relatively few changes in our model portfolios in the fourth quarter, although we did initiate investments in two new companies in the High Income Portfolio in December: Hub International and Government Properties Income Trust.

Hub International is a leading global insurance brokerage that provides a broad array of insurance-related products and services including property and casualty, life and health, employee benefits and risk management. The company focuses on both commercial and personal client accounts which it serves through 5,700 employees at 280 offices in the US, Canada and Brazil. Hub has a stable business model and strong profitability as demonstrated by the fact that the company generates revenue and EBITDA of approximately $900 million and $300 million, respectively. We purchased bonds recently issued by Hub which yield approximately 7%.

Government Properties Income Trust is an office real estate investment trust (REIT) which owns $1.7 billion worth of property with 10 million square feet in 31 states and Washington, D.C. Government Properties generates consistent profits as approximately 95% of its annual rental income is generated from leasing space to US Federal Government and State Agencies and the United Nations.

We purchased units of the REIT late in 2012 in the $23 per unit range which equates to an annual income yield of approximately 7% based on anticipated distributions. We also expect the units to appreciate as we believe the REIT is undervalued relative to its income potential.

We wish you all the best in the year ahead and look forward to a prosperous 2013!

Yours truly,

John Fisher, CPA, CFA