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BRIDGEPORT
ASSET MANAGEMENT INC.

Q4 2013
Investment Commentary

2013 was an unexpectedly good year for stocks. The US market did particularly well despite the threat of a government shutdown and fears that Congress might fail to raise the debt ceiling, causing a debt default. Canadian equity returns lagged the US as commodity stocks, which represent a large portion of the TSX, performed poorly.

Stocks have surged ahead on the strength of a rotation out of cash and fixed income investments into equities. Although we think this trend will continue, individual stock selection is likely to become increasingly important in driving returns as overall equity market valuations rise and investor greed begins to overtake fear. Our plan is to mitigate risk by adhering to our value oriented investment discipline which involves acquiring ownership interests in solid, growing businesses at attractive valuations.

Investor concern over the Fed's tapering of its bond purchases hurt fixed income returns in 2013. As expected, investment grade bonds underperformed relative to high yield bonds as returns from the latter include a premium for accepting increased credit risk. In general, we are of the view that bond yields will increase gradually over a number of years, although we will be watching the fixed income markets closely for signs that more dramatic increases are coming. As such, we are still recommending an allocation of medium term high yield bonds for investors who seek a degree of balance in their portfolio.

After a strong year for equities like 2013, we believe it is important to reemphasize to our clients why equities generally outperform bonds over long periods of time. Equities deliver higher returns as shareholders must be compensated as business owners for accepting greater risk than bondholders who, as lenders, receive their capital back first in the event of business failure. As compensation for accepting higher risk, equity holders are entitled to receive 100% of company profits which often grow over time and are theoretically unlimited compared to the fixed rate of interest received by bondholders.

Because business profits are often variable in the short term and investor emotion can wreak havoc on markets, the price that investors are willing to pay for equities fluctuates, leading to variability in equity returns. However, over the long term equities will usually outperform fixed income investments, offering a reward to those willing to accept less consistent short term investment performance.

We made relatively few portfolio changes in Q4 as we were happy to continue to hold most of our positions. After owning shares in Mac Gray Corporation since 2010, we elected to sell our shares at the end of the year. Mac-Gray is a leading laundry facilities management company in the US, operating thousands of laundry facilities in apartment buildings, student housing and condominiums on behalf of building owners. We invested in Mac-Gray as it generates stable profits resulting from long-term contracts with its customers for fixed annual amounts. Our initial acquisition of shares for clients was in 2010 at \$10.86/share which we believed was an attractive price relative to the company's earnings potential. We collected a healthy quarterly dividend since making our investment and sold our shares at the end of 2013 for \$21.18/share in advance of a buyout of the company by a competitor.

Several bond holdings in our High Income portfolio were redeemed during the quarter including Hub International, Superior Propane and Gateway Casinos. We expect Q1 to be an active quarter as we redeploy proceeds into new high yield bonds and other income oriented securities.

We wish you all a happy new year and encourage you to call should you have any questions about your portfolio.

Yours truly,

John Fisher

John Fisher, CPA, CFA