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BRIDGEPORT
ASSET MANAGEMENT INC.

Q4 2014
Investment Commentary

While somewhat volatile, 2014 was a decent year for stock market returns. The S&P 500 climbed 11.4%, while the TSX Composite rose 7.4%. Both indices were weighed down by energy and mining stocks which tumbled along with the prices for most commodities.

The decline in oil prices has been particularly pronounced with the price of Brent crude oil falling from a high of $106/barrel in the summer to $53/barrel in late December and has continued to fall in 2015. As we have previously indicated, we have virtually no direct exposure to energy or mining securities in our portfolios as investing in these sectors does not fit well with our value investment philosophy. In particular, we are uncomfortable investing where the selling price of a company's products or services fluctuates widely over short periods of time and is often determined by macroeconomic or political events far beyond a company's control.

In the case of oil, we note that very few market analysts predicted the recent downturn. It was difficult to forecast that Saudi Arabia would maintain its oil production levels in the face of lacklustre demand in order to defend its long term share of the world market (and possibly to gain strategic advantage over regional rivals). For this reason, we continue to view investing in commodity stocks as more in the nature of gambling as opposed to investing, even though the risk-reward trade-off for investors is more favorable today than it was before the 50% fall in the price of oil.

Bridgeport's equity portfolios benefited from the lack of commodity exposure in 2014, producing strong returns. We continued to manage the portfolio for the long term as owners of a collection of businesses, and as such, portfolio turnover during the year was very low. Top gainers in the portfolio in 2014 included Great Canadian Gaming (+41%), Progressive Waste Solutions (+33%), Walgreens (+32%), AmerisourceBergen (+28%), Becton Dickinson (+26%) and Quest Diagnostics (+25%).

In the fixed income world, 2014 was all about fear of rising interest rates and the end of the decades-old bull market in bonds. Contrary to the predictions of most experts, bond yields actually declined during the year (meaning that bond prices rose).

The five year Canadian government yield went from about 1.9% to 1.3% and the ten year yield dropped from about 2.8% to 1.7%. In the U.S., the longer term rates followed a similar pattern with the ten year declining 83 bps to 2.17%; however, yields on the five year and shorter maturity bonds remained relatively flat.

The New Year seems to have brought more concern about deflation (as opposed to inflation) in both the worlds of investing and NFL football. We aren't going to pass comment on the Patriots, but the plunge in oil prices has definitely caused concern among governments that deflation is a real threat as evidenced by the Bank of Canada's recent 0.25% drop in the bank rate. Central bank cuts also suggest concern about the strength and breadth of the economic recovery. As such, we will be carefully watching the operating results of the businesses in our portfolios for any signs of weakness.

Our high income portfolios had a relatively good year. With the launch of our pooled fund, we expanded the portfolio and added income-oriented securities issued by Auto Canada, DHX Media, Direct Cash, Parkland Fuel, Superior Plus, JP Morgan and Wells Fargo.

Going forward, we expect continued volatility in markets, although this can be viewed positively as volatility often creates interesting opportunities.

As always, please feel free to call us should you have any questions. All the best in 2015!

Yours truly,

John Fisher

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