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Q4 2015
Investment Commentary

Overall, 2015 was a dismal year for investing. The S&P 500 dropped by 0.7% and the TSX fell by 11.1% over the course of the year. Of note, 2015 was the fifth year in a row that the TSX has underperformed the S&P 500, a losing streak which has occurred only twice in the last 30 years.

The main factors behind stock market declines were plummeting oil prices, diminished Chinese economic growth, the recent hike in the Fed rate, and concerns over corporate profits. The Canadian market suffered more acutely than the US from the decline in commodity prices as materials and energy comprise a much greater segment of the TSX vs the S&P 500 (27% in Canada vs 9% in the US).

Compared to stock market indices, our client equity portfolios performed well in 2015 as a number of positions appreciated significantly and our heavy allocation to the U.S. market helped boost returns. Most importantly, in keeping with our strategy over the last eight and one-half years, our direct client portfolio exposure to the commodities sector was essentially zero. Investors in these areas generally suffered heavy losses as The Economist's broad commodity index declined 18% in 2015, while the metals index was down close to 25%.

Our High Income client portfolios also managed to dodge many of the problem segments in the high yield bond market. Our High Income Fund was up over 5% for the year as we had no exposure to energy bonds and riskier high yield credits (CCC or lower), while our returns were enhanced by currency gains on our US investments.

Our poorest performing client portfolios were those with significant exposure to Canadian investment grade, rate reset preferred shares which have suffered share price declines as a result of declining government bond yields and higher interest rate spreads. We expect the prospects for these portfolios to improve over time as fears of further government bond yield declines recede and investors recognize the current relative attractiveness of these investments.

We sold a few investments in our equity portfolios in the latter half of 2015 to raise cash and reposition client portfolios. In some cases, we decided to sell as a stock had become overvalued (Walgreens), while in others we exited our investment as our outlook had changed (OneREIT, Annaly).

New investments added to our equity funds later in the year include DH Corporation, Hydro One, SP Plus, Chesswood Income Fund, Clearwater Seafoods, Carmike Cinemas, HCA Holdings and Ameriprise Financial. In our income funds, we purchased common shares from Verizon and preferred shares from two Canadian banks.

As this report is being written, it is mid-January and the year has commenced with additional stock market index declines. Given current world events including a continued slump in oil prices – which is confusing investors and impacting the global economy in various ways (both positive and negative) – we expect 2016 to be another volatile year.

From a more positive perspective however, we are beginning to see many interesting investment opportunities to take advantage of in coming weeks as all of the Bridgeport funds are holding ample levels of cash equivalents. As fundamental, bottom-up, long term investors, now is the time that researching stocks and bonds actually gets a little more interesting for us. As we have mentioned in the past, when a product at a retail store goes on sale, consumers get excited and buyer demand increases. Strangely, stocks are one of the few items that often attract less demand when prices decrease and more demand when prices go up!

We have one final note on currency. For our Canadian client portfolios, we expect to gradually reduce our exposure to US dollars as there is likely more upside than downside in the Canadian dollar over the longer term. That being said, in the near term, the Canadian economy may perform more poorly than the U.S. economy given our much heavier exposure to commodities. Our job is to give appropriate weight to these factors going forward in investing client portfolios.

We appreciate your continued support and please feel free to call us should you have any questions.

Yours truly,

John Fisher

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