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BRIDGEPORT
ASSET MANAGEMENT INC.

Q1 2019
Investment Commentary

The beginning of 2019 marks ten years since the end of the Great Recession of 2008. To commemorate this anniversary, we decided to go back and revisit the Bridgeport Q4 2008 quarterly investment client commentary (found in the Investment Commentaries section on our website, along with all of our other quarterly letters).

I remember returning to work after New Year's day in January 2009, writing the letter and thinking that markets could not get much worse. Well, I was wrong! January and February 2009 were awful. The S&P 500 declined 44% from its peak in 2007 through the end of 2008 and dropped a further 22% in early 2009 until stock markets finally started to recover in early March of that year.

So looking back on that period and the last ten years, what are the lessons to be learned?

First, market talk is cheap. By that, we mean every so-called market expert has an opinion on where the market is headed in the short term but such views are nothing more than conjecture. No one has the ability to call a market top or bottom. Instead, investors should focus on company fundamentals and valuation to guide their investment decisions.

In our Q4 2008 investment commentary, I wrote: *"while we have little to offer in terms of predicting the short term direction of the market, we continue to view stocks as historically inexpensive on a fundamental basis. Share prices for many high quality companies are so low that if these businesses were privately held, few owners would consider selling at current levels as the sale proceeds would represent only a few years' worth of future earnings."* After writing this paragraph, the share prices of many high quality companies continued to decline for a few months, but over the long term share price appreciation has been significant as it was clear that many companies were fundamentally undervalued relative to their earnings power at the time.

Second, it is important to always focus on acquiring quality assets. The prices of good investments with strong cash flow generating abilities will always bounce back after a market panic, although the actual pace of this snapback can be hard to predict (see the point above). This is true across most asset classes - whether it's publicly traded stocks or privately held real estate. In contrast, investments in uneconomical business models or companies based on faulty business premises hardly ever recover their value as they were never worth much in the first place. For example, many dot com companies never recovered after the tech crash of 1999 (flawed business models), while large numbers of micro-cap energy and mining stocks have barely budged from their 2008 crash levels (as they have little hope of earning a reasonable rate of return on capital invested). There are undoubtedly some publicly traded companies which fall into this category today, whatever revenue growth they may be achieving.

Third, successful investing is as much about controlling your emotions as it is about logic and numbers. We are all internally wired as humans to run from things we fear (declining stock prices) and chase things we desire (high rates of return).

As we wrote in January 2009 in the midst of the crash, *"the opportunity is to buy future profits for low prices today, but the difficulty is that those opportunities often present themselves when others are selling. Everyone aspires to buy low and sell high, but yet finds it difficult to buy when everyone else is selling! It is often said that stocks are perhaps the only item that people are less interested in buying as prices decline. Retailers wouldn't last a minute if their customers behaved like this!"*

Looking at these lessons through the lens of recent market activity, it is clear that not much has changed. Predicting short term movements in the stock market remains a fool's game. After very difficult conditions this past December, both equity and fixed income markets have come back strongly in 2019. Only a few months ago, it was widely expected that US and Canadian central banks would continue raising rates in 2019 based on strong economic growth. Today, dovish central bank sentiment has buoyed stocks and bonds over the last few months as growth expectations are more tempered.

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We do not think investors should be overly emotional about the recent market ups and downs. Corporate earnings growth has been strong, although there are a number of concerns on the horizon including excessive debt levels across some segments of the economy and America's unresolved trade relations with China. Our plan to achieve strong investment results going forward is to remain focused on the long term, ensure our clients adhere to a reasonable portfolio mix given their specific circumstances (as this helps to manage emotions) and continue to invest in high quality businesses at attractive prices.

We wish you all the best as spring advances. As always, please feel free to call us should you have any questions about your portfolio.

Yours truly,

John Fisher

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