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BRIDGEPORT
ASSET MANAGEMENT INC.

Q3 2018
Investment Commentary

Both our equity and income-oriented client portfolios continued to rebound in the third quarter after a challenging start to the year.

As you receive this report in mid-October and the stock market is whipsawing back and forth, we find it a valuable exercise to remind ourselves that stocks aren't merely pieces of paper; rather, they represent ownership stakes in businesses where real people apply their talents to increase the value of real assets and generate real profits for shareholders like us and you.

It is clear today that there are many other participants in the market who view things through an entirely different lens, one which is more short term and often disconnected from the fundamental principles of business ownership and valuation.

For example, many popular investment vehicles today are based on market capitalization-weighted stock indexes that construct portfolios based on mathematical formulas and are essentially investing on auto-pilot. This may work fine in good markets but can be disastrous when investor sentiment turns and these vehicles experience large scale redemptions, forcing the sale of shares irrespective of valuation metrics.

Strategies like this can also drive a very short term mindset. In fact, stock exchange data indicates that since 1985 investment holding periods have shrunk by more than 80% in Canada and by about 40% in the US.

To make things worse, it is well established that trading in and out of the stocks on a frequent basis generally hurts investors, particularly those who are not doing much research. Fidelity Investments published a very surprising research study back in 2014 that discovered that the firm's best performing self-directed accounts were from investors who forgot about their accounts or were dead!

Now, we would never encourage you to forget about your account with us, but the study clearly shows that "time in the market" is more important than "market timing".

For example, the cumulative return from the S&P 500 from 1928 to 2016 was 12,470% (5.6% per year). Missing the ten best days would have resulted in a cumulative return of 4,093% (4.3% per year). More impressively, missing the ten worst days would have resulted in a cumulative return of 39,554% (6.9% per year). In a perfect world, we would love to miss out on the ten worst days in the market, but figuring out the ten worst days over an 88-year period is no easy feat.

Despite the short term mentality of many market participants, we remain committed more than ever to our long term, bottom-up, value-oriented investment philosophy. Simply put, we believe in staying the course and buying ownership stakes in strong businesses at inexpensive prices which helps us mitigate risk and enhance returns. Sticking to our value oriented philosophy, we added shares of Six Flags Entertainment Corporation to our portfolios during the last quarter.

Six Flags is the world's largest regional theme park company and the largest operator of waterparks in North America, with $1.4 billion in revenue and 25 parks across the United States, Mexico and Canada. For 57 years, Six Flags has entertained millions of families with world-class coasters, themed rides, thrilling water parks and unique attractions. The company boasts the highest margins in its industry, has hard-to-replicate assets and is executing successfully on an ambitious "capital-lite", international growth plan, which will bring Six Flags amusement parks to China, Dubai and Saudi Arabia, among other countries.

By the time you read this letter, we expect to have launched our new alternative income fund which will provide another layer of diversification to client portfolios with minimal correlation to the stock market. The fund will offer exposure to a diversified portfolio of private investments that generate enhanced income with expected low volatility across a wide range of specialized asset classes including corporate loans, real estate and infrastructure loans, aircraft finance, royalty finance and other specialty

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areas. We look forward to sharing more information with you in the coming weeks about how this new fund may be suitable as a core part of your portfolio.

As always, please feel free to call us should you have any questions.

Yours truly,

John Fisher

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