



LIONRIDGE

QUARTERLY REPORT

Sleeping Soundly on a Mattress Stuffed with Cash

Hardev Bains, LLB, MBA, CFA
President & Portfolio Manager

The equity markets have been taking a bit of a beating the last few weeks. It's interesting to note how a lot of the talk in the investment media is now focused on the chances of a major correction. Only a couple of months ago, in light of several months of steeply rising markets, any naysayers were marginalized and treated with contempt. Is the bull market coming to an end? I don't know, and I don't attempt to predict the timing of these things.

If further weakening does occur, that will not be a concern to me for a couple of reasons. Firstly, there is currently a significant cash position in the Lionridge Total Equity Portfolio – now over 30%. This cash position is the result of the discipline I follow in selling stocks as they get expensive and being choosy about the price at which I'm willing to buy stocks (I've been doing more selling than buying given the rapid rise we've experienced in the markets over the last couple of years). I am patiently waiting for the right individual opportunities to arise in which to deploy this capital, sticking to my philosophy that only the right stocks purchased at the right price make for good investments – the kind of investments that provide strong upside potential along with lower downside risk. It is in waiting for only these kinds of opportunities that I can strive to meet my objective of protecting your capital. Patience in being able to wait for the proper opportunities is critical, and further weakening in the markets can hasten the arrival of such opportunities.

Secondly, I'm not worried about short term declines in the market price of the stocks that we own. Such declines do not necessarily indicate impairments in the intrinsic value of these companies. The companies that I purchase for the Lionridge Total Equity Portfolio are carefully chosen for their favorable fundamental attributes and I anticipate they

“

Is the bull market coming to an end? I don't know, and I don't attempt to predict the timing of these things.

”

will perform well in the markets over the long run (this is how I have outperformed the Portfolio's benchmark* since the inception of the Portfolio****). Remember that the portion of your assets that is allocated to equities is only that amount which we determined that you don't need to access for a number of years, so short term price fluctuations have no effect on the attainment of your goals for your lifestyle and legacy.

If anything, short term declines in the price of the stocks in the portfolios are potentially a positive as they may provide

an opportunity to buy more shares of these companies at advantageous prices. You're happy when your favorite consumer goods go on sale; I feel the same about our long term investments.

Effective investing requires discipline, and this discipline often comes with a cost in the short term. The Total Equity Portfolio has outperformed its benchmark over the long term. Its total return since inception (from March 30, 2011 to September 30, 2014) was 54.3% as compared to 43.1% for its benchmark (and only 17.5% for the main Canadian index). It has underperformed over the last 12 months to September 30, however, returning 18.1% vs. 22.5% for the benchmark. Note that I have achieved this return by exposing you to lower risk than the overall markets (in my last commentary I outlined the tangible measures that demonstrate this), and this lagging of the benchmark is not unexpected given the disciplined decision to hold cash – it's the short term price that is paid for the potential for high long term returns. It's a price that I'm willing to pay in order to help protect your capital, and I refuse to expose you to unnecessary risk for the purpose of keeping up with the benchmark during every period.

When practicing a disciplined value approach to equities that allows for accumulation of cash, lagging the markets in the short term is to be expected when markets rise at an abnormally rapid pace. Studies have demonstrated that managers who achieved higher long term returns have typically underperformed their benchmarks over short term periods much of the time. One of the keys of effective investing is having the ability to focus on long term results and not be distracted by short term performance. This mindset is common among the most astute investors (like Warren Buffet), but is not necessarily reflected in sales practices seen in the investment industry.

What is important is that the high cash position sets us up for the potential of stronger long term gains, for the reasons cited above. Rather than being a cause for concern, weakening markets are therefore welcomed as they can provide exactly the kind of opportunities that I get excited about. ■

At your service,

Hardev Bains, LLB, MBA, CFA
President and Portfolio Manager

*Benchmark: 45% TSX Total Return; 35% S&P500 Total Return (Cdn \$); 20% MSCI EAFE (Cdn \$)

**The content of this report is intended for information purposes only and does not constitute an offer to buy or sell our products or services nor is it intended as investment and/or financial advice on any subject matter. Every effort has been made to ensure the accuracy of the contents of this report. Performance reports may be compiled utilizing information provided by third party sources. Every effort has been made to ensure the accuracy of such third party information but such information cannot be guaranteed to be accurate. The opinions, estimates and projections contained in this document are those of the author as of the dates indicated and are subject to change. The performance returns are before the deduction of any fees and are not guaranteed. The Total Equity Portfolio returns are a composite of all client accounts invested in that mandate, calculated on a monthly weighted average basis. Individual client account returns will vary from the returns of the Total Equity Portfolio. Values change frequently and past performance may not be repeated. Further details about investment returns are available upon request.