LIONRIDGE
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The Lionridge Process in Action

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From the perspective of an outside observer, our investment process can seem about as exciting as watching paint dry. We don't hold a lot of positions, and we don't do a lot of trading. So perhaps my use of the word "action" is a little tongue in cheek.

What we do is very carefully assess any company that we put your money into. We look for situations with companies with highly stable business models and management that acts rationally. We look for companies that have a high degree of inherent profitability and the type of balance sheet strength that can help buffer inevitable economic downturns. And, very importantly, we only invest in such companies if they are trading at market prices that we believe are very advantageous in comparison to their underlying values.

One recent addition to the portfolio is a company called Seaspan Corp. It's in a very boring industry - containership management and leasing. Boring can be good. Due to declining shipping rates and worries about trade wars, shares of Seapsan are trading at what we believe to be very opportunistic levels. This company initially caught our attention because of the involvement of certain shareholders and management that we think highly of. As part of our examination we studied the capital cycle of the containership industry, Seaspan's industry positioning and its capital strategy. Along with our assessment of valuation scenarios, we came to the decision that the risk/reward profile of this investment was very much in our favour. And then we acted decisively.

At the same time, we're still holding a lot of cash. Once we invest in such companies we monitor them carefully (that's one of the reasons we run a concentrated portfolio). If the price of a stock has risen to a degree that it is too expensive as compared to its fundamentals, we will sell. Although we'll seize on opportunities like Seaspan when they arise, the reality of bull markets is that we start doing more selling than buying as markets get overheated, and hence the cash.

> "It's easier for us to grow your money if we don't lose it in the first place."

Of course this cash has put a drag on short-term returns, but one of our advantages is our ability and willingness to focus on the long term. This is how we have achieved strong long-term returns, and done so with lower downside risk than the markets. In the latter stages of bull markets this equation can seem not to work, when asset prices are too high and keep pushing higher. Eventually the market realizes that it has overreached, and in the wake of capitulation the power of discipline is exonerated. It's easier for us to grow your money if we don't lose it in the first place.

Although we can never predict how markets are going to behave in the short term, the current tone of market sentiment seems consistent with top of cycle optimism. Many economic indicators are very positive. Factors like low unemployment are typical of the latter stages of an economic growth cycle that has been in place for a number of years, and they set the stage for higher inflation. Central banks raise interest rates in an attempt to control inflation, and if handled properly can still allow for positive economic conditions.

Higher interest rates, however, can have a stifling effect on stock markets. This could become a catalyst for stock prices to moderate from current high levels and to start to provide us with more of the types of the opportunities we look for. We don't know when and by what degree the markets could decline, we only know that the good opportunities like Seaspan are scarce. When they do arise we act, but we will always remain patient and disciplined. ■

At Your Service,

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