



## Quarterly Portfolio Manager Commentary

Summer, 2013

### **BUILDING YOUR WEALTH WITH A DISCIPLINED APPROACH**

I'm happy to report that the returns for Lionridge's Total Equity Portfolio have continued to be positive, and stronger than those for the overall markets. Since launching this portfolio in March of 2011, it has achieved an average annual return of 11.9%, out-performing its benchmark\* by 7.3% per annum\*\*. (During that same period, it has outperformed Canada's TSX by 15.6% per annum\*\*). I've managed to achieve this for you despite cash levels in the portfolios that are high and growing.

I have received a few questions lately about the high cash levels. There was an old R&B song from the 50's entitled "Your Cash Ain't Nothing but Trash". In the context of your investments, however, I beg to differ. When the right opportunities are scarce, cash (combined with patience and discipline) is an excellent asset.

It is often the case that when markets rise rapidly, good investment opportunities begin to disappear. I want to invest in two types of companies: great companies available at good prices, and good companies available at great prices. If we hold a good or great company and its price rises rapidly, it can become unattractive as an investment. My method and discipline then compels me to sell the stock and take profits. This has happened with a number of the stocks in the portfolio. At the same time, in rising markets it becomes difficult to find the right opportunities that fit my strict criteria, and this is why the cash level in the portfolio now exceeds 25%.

An example of this is Loblaw Companies, which was first purchased in early 2011. At the time it was what I considered to be a good company at a great price. The stock was depressed due to the market's concern over the deterioration of the competitive landscape with the growing penetration of Walmart and Target in the Canadian grocery market. Although these concerns are valid, I believed the stock was being overly

punished. I held on to the position patiently as the price remained stagnant for some time. In such situations, the thesis is that it can be reasonably expected that the market will eventually recognize the value of the company. This happened earlier this quarter when the Loblaw Companies announced its intention to unlock value by spinning its real estate assets off into a separate entity. At this point, I still believed Loblaw to be a good company, but its higher price eliminated the margin of safety which is an essential element of how I manage risk. At that point I decided to exit the position with a nice profit for you.

Remember that the goal of my approach is to provide you with returns that are superior to the markets, with lower risks than those in the overall market. I seek to achieve this by only buying strong companies at appropriate prices. When rising markets make such opportunities scarce, it's prudent to allow cash to build and patiently await the right opportunities. I am constantly on the look-out for these opportunities, with a view that as a result you will benefit from the fact that we have the cash to take advantage of them as they arise.

At Your Service,

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

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

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