



# LIONRIDGE

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## QUARTERLY REPORT

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## Don't Let Your Savings Go Up In Smoke!

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

Dear Clients,

I waited with anticipation for someone to come out with a marijuana-related fund. Sure enough, the inevitable has occurred. Whenever some trend is occupying the public's attention, the investment industry can usually be counted on to come up with a product to capitalize on the hype.

There is no doubt that legal marijuana will be a growth industry. The valuations at which these companies are trading, however, will make it difficult for investors to profit from them at this time and the risk of losing money is high. Chasing ideas that are trendy and hot is a recipe for potential disaster. Analogies can be made to the technology bubble in the late 90's, where all kinds of companies were bought by the investing public at ridiculously high prices. Although a handful of those companies prevailed in the competitive landscape and grew into their valuations, investors overall suffered a lot of pain when the tech bubble burst.

To justify current valuations, these marijuana companies are going to have to see phenomenal growth in earnings. Although the market for their products will likely become much larger in the new legal environment, they are going to have to maintain market shares and abnormally high

profit margins. I believe that will be very difficult. They are in a commodity business, with low barriers to entry and the absence of protection that can come with a strong brand. Investing in these companies at current prices is pure speculation, the opposite of rational investing.

What's new in the Lionridge Total Equity Portfolio? The cash position is now higher. I recently sold the position in American International Group (AIG). Unlike some of our recent sales which were based on higher prices and over-valuation, this decision was based on questions regarding the fundamentals of the company.

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AIG is a large insurance company, writing both property and life coverage. It became infamous in the last financial crisis as some bad bets on mortgage derivatives effectively

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bankrupted the company. After a government bailout and installation of new management, we saw signs that the business had been cleansed of its rogue elements and was focused on its core businesses. There were clear signs that it was returning to financial health as it paid off its government funding.

I eventually became comfortable with the company's return to health. Because it was being shunned by the markets, it was trading at a very attractive valuation (well below my estimate of liquidation value). At that point I added it to the Total Equity Portfolio. The stock has performed very well since that time, and although still seemingly cheap it's certainly no longer at rock-bottom prices.

That is normally not enough of a reason for me to sell. If one of our companies is performing well operationally and continuing to create value for shareholders, we prefer to hang on to it as long as the price remains at least reasonable. We will sell regardless of the price, however, if our assessment of the quality of the business changes.

Some recent announcements by AIG had raised some concerns for me, suggesting that they may not have been pricing their policies appropriately. An insurer that has been underpricing risk will eventually have to pay a price for that, resulting in lower future profitability. That is why I made the decision to sell.

This case illustrates the advantage of my insistence on conducting fundamental analysis and concentrating our portfolios so I can properly monitor the names I purchase for you. I don't make "bets" on stocks. I make educated and well-considered investments in companies. This is how I protect your capital.

With the cash position now being higher, I would love to put it to work by investing it in great companies trading at great prices. The markets have continued to rise, however, and I'm still not finding the right opportunities. I'll therefore wait patiently for the attractive opportunities to become available. This is also how I protect your capital. ■

At your service,

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

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\*Benchmark: 45% TSX Total Return; 35% S&P 500 Total Return (Cdn \$); 20% MSCI EAFE (Cdn \$).

\*\*The inception date of the Total Equity Portfolio was March 30, 2011.

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