LIONRIDGE
QUARTERLY REPORT
summer | 2017

Trying to Find Winners and Avoid the Dangers

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

Dear Clients,

In managing your money, I'm not investing in "markets". Rather, I'm using the markets to invest your money in shares of companies - companies that I believe can prove to be winners by virtue of their inherent attributes and the price at which I purchase them.

I have previously described the investment made in preferred shares in June of last year. When I made this investment, I saw a special opportunity to include a position in a couple of pref share issues at a time when the markets had overly penalized them. This turned out to be a profitable investment, as the markets ultimately recognized the mispricing and reacted. I exited the position in Fortis preferred stock last month, seeing a return of 23.3% from the initial purchase date just under a year prior. As at the date of this writing I have exited the position in Transcanada preferred stock. This investment enjoyed a total return of 43.9% since the initial purchase date. Clearly a couple of winners.

Although I love to get the occasional opportunities to experience short-term returns like I did with the pref shares, it's unrealistic to expect that as a long term goal in the aggregate. Opportunities like the pref shares are what I consider to be special situations, where the investment horizon can be short. The core of Lionridge's portfolio is intended to be long term holdings in strong companies with the potential for great profitability where I can buy in at an attractive price.

> There's no point in trying so hard to pick winners unless I also remain focused on avoiding the risk of permanent loss of your capital.

I then let those companies do the work for us (when I say "us" I mean you and me, as I'm invested in the same equity portfolio as you are). It is through their profitable business activities that they build wealth for their shareholders. This wealth accumulation will typically get reflected in their share price (although not always smoothly or immediately). I monitor those holdings and sell only if I become less enamoured with their underlying business performance or prospects, or if the stock rises to a point that I feel it's too expensive to safely keep holding.

There's no point in trying so hard to pick winners unless I also remain focused on avoiding the risk of permanent loss of your capital. That could mean selling one of the winners if its market price gets dangerously high. It also means avoiding companies that might look cheap but have weak fundamentals (pertaining to their business prospects, or weak financial positions, or inherent profit dynamics). It also means avoiding companies that are overpriced or over-hyped - or both! This is why I have done much more selling than buying over the last few years as markets have risen sharply and stocks have generally become expensive, resulting in a large cash position in the Lionridge Total Equity Portfolio.

In my last commentary in early April of this year, I discussed inherent dangers I was seeing in the inflated shares of marijuana companies. Although that bubble has not completely burst, it's certainly lost a lot of air since that time. A new index that was launched earlier this year to track marijuana stocks, the "North American Medical Marijuana Index", fell 17.45% in the second quarter of this year. Some of the well-known marijuana stocks based in Canada were hit even harder. The largest Canadian company by market capitalization, Canopy Growth Corp, was down 25.2% in the last quarter.

Growing your capital and working hard to avoid permanent losses, this is what I strive to do for you. ■

At Your Service,

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

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