The Tortoise Beats the Hare

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

Dear Clients,

I look to the parable of the Tortoise and the Hare as a metaphor for the contrast between my investment philosophy and the way the broader markets appear to behave. Many active traders try to hop from one “hot” idea to another. I prefer to advance in a steady and consistent manner with the discipline that comes from confidence in the benefits of my approach, not being lured by supposed short-cuts for fast returns. We all remember who won the race.

The end of this September marked four and a half years since the launch of the Lionridge Total Equity Portfolio, and I’m happy to report that it has so far achieved my dual objectives of out-performing its Benchmark* along with experiencing lower downside volatility. Since inception**, the portfolio has achieved an average annualized return of 12.8%***. I want to grow your capital and I want to protect your capital, and these results confirm my conviction in the effectiveness of a disciplined value approach.

The keys to success in investing include having both the ability and the temperament to avoid supposedly attractive opportunities that actually have a high degree of risk lurking below the surface. One theme I’ve been very vocal about in the last few years is the unsettling trend of people chasing what appear to be attractive yields for their fixed income portfolios, a trend that has been fueled by this low interest rate environment. An example of this is preferred shares, which I fear people have been looking to as an alternative to fixed income investments. Those people have been in for a rude awakening.

“I want to grow your capital and I want to protect your capital, and these results confirm my conviction in the effectiveness of a disciplined value approach.”

My belief is that fixed income investments are suitable either for the portion of peoples’ portfolios that they need to draw from in the next few years, or as a way to temper portfolio volatility for those who have less appetite for volatility. Either way, a fixed income portfolio should be limited to instruments with low volatility. I’m sure that many people...
who shifted portions of their fixed income assets into preferred shares were not expecting the kind of setback they endured this year. As opposed to the relative stability seen in high quality bonds, the Canadian preferred share index has seen a decline of over 20% from the start of this year to the end of this September. By contrast, Canada’s main equity index has seen a decline of 7.1% in that same period. (For further contrast, Lionridge’s Total Equity Portfolio has risen by 5.8% during this period, and its benchmark is up by 1.9%).

Despite the fact that Lionridge’s Total Equity Portfolio has enjoyed positive returns since the start of this year, it has not been immune to the market volatility we’ve been experiencing. After peaking at the end of July of this year, its value subsequently fell by 3.2% to the end of September. By contrast, our Benchmark fell by 7.4% in that same period. The fact that Lionridge’s portfolio was more resilient was due both to its cash position and the fact that the stocks in the portfolio held up better on average than the broader markets represented in our benchmark.

I often refer to the mantra that’s popular among value investors; “be fearful when others are greedy, and be greedy when others are fearful”. While the market was acting greedy, I started to back off and sell certain positions opportunistically. As the markets are starting to act fearfully, I’ve been getting a little greedy by adding to some positions at very attractive prices. In the event that the mood gets more negative, I can use the Portfolio’s big cash position to make further opportunistic investments for you (and I’m currently looking at some possible new additions).

Being disciplined and methodical removes much of the emotional factor out of investing. Taking advantage of the emotional foibles of the general public can make a meaningful contribution to the growth of your wealth. This is what I do for you.

At Your Service,
Hardev Bains, LLB, MBA, CFA
President and Portfolio Manager

*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.
***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.