



LIONRIDGE

QUARTERLY REPORT

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Commentary

Trying to Make Sense of What Doesn't Make Sense

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Equity markets were relatively uneventful in the second quarter, compared to the dramatic gyrations of the preceding two quarters. There were no changes to our portfolios other than some rebalancing.

I've been observing a perverse dynamic in the markets - prospects of an economic slowdown have been having a positive effect on markets. You would think that news of strong economic prospects is what the markets are looking for, but there have been a number of times that equity markets have gone up on the news of less than positive outlooks.

I'm specifically referring to the way markets have reacted to comments by federal reserve officials that suggest the possibility of cutting interest rates. For example, the chairman of the US Federal Reserve, Jerome Powell, recently made statements indicating concerns about the strength of the global economy. You would think that the markets would react negatively to such a statement but the opposite happened - markets reacted positively.

Why would this happen? In a scenario of a weakening economy the Fed might cut interest rates, and market sentiment is that this would encourage investors to invest in stocks as opposed to low yielding bonds. Therefore, on the speculation that stocks will become more attractive, stocks react positively. This is short-termism in action, where markets are less concerned with long term fundamentals of the underlying companies whose stocks are traded and more focused on speculation as to how

their prices might move in the short term (due to a large degree to the foibles of human emotions). I'm already of the view that low interest rates have caused asset values to over-inflate, and that's why I'm finding it difficult to find attractively valued opportunities in the stock market.

“I've been observing a perverse dynamic in the markets...”

One of the luxuries I have of running an independent firm is the ability to resist such short term pressures. I believe that the ability to remain focused on the long term provides a major advantage in achieving my goals of both growing your capital and protecting your capital. No speculating, no attempts to chase short term gains. “Rational, Disciplined Investing” is more than a mere tagline, it describes the bedrock foundation of every investment decision I make.

At Your Service,

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President and Portfolio Manager

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