LIONRIDGE
QUARTERLY REPORT
Year End | 2021

Value vs Growth

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President & Portfolio Manager

The end of 2021 capped off an unusually strong year in equity markets. Despite a large cash position, Lionridge's Total Equity Portfolio still managed to return 16.8%* in 2021. We also ended the year with its long term returns meeting our minimum performance objective of 10% per annum, and doing that while exposing our clients to less downside risk and volatility as compared to the indexes that the Total Equity Portfolio is benchmarked against.

I've often found myself in conversations regarding the definitions of value investing as compared to growth investing. It's important to consider the semantics and distinguish between growth as a strategy and portfolio growth as an objective. Lionridge focuses on value investing as its strategy, but my objective is portfolio growth. The style of value investing I follow places significant emphasis on managing downside risk and protecting capital, and it's sometimes assumed that I'm willing to sacrifice growth to do so. That's erroneous, as my objective for our Total Equity Portfolio is to maximize growth - but the timeframe for growth that I focus on is long term versus short term.

There's no legal definition of growth stocks and value stocks. In practice growth investors focus on companies with prospects for increasing revenues and earnings at high rates, under the theory that the market rewards growth. That's generally true, all things being equal, but pure growth investing can entail investing in high growth companies irrespective of their price - and our view is that stocks that are expensive as compared to their intrinsic value are typically bad investments over a longer term. There are stocks in the Total Equity Portfolio that can certainly fit the definition of a growth stock, but it's the reasonableness of their market prices as compared to their underlying earnings power and growth prospects that make them a "value". We view the valuation of many popular growth stocks as unreasonably high and speculative, exposing their shareholders to a high likelihood of permanent losses.

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A true value investor's objective is to outperform one's benchmark on a risk-adjusted basis, but with an understanding that this can only be a long-term objective. To try to beat one's benchmark in every short term period is a counterproductive goal that can lead one to try to chase returns by investing in expensive glamour stocks.

Outperformance by investing in expensive growth stocks can rarely be maintained indefinitely, and such strategies can expose investors to unnecessary risk that can be avoided by being disciplined and choosy on both quality and price and by taking a patient, long term perspective. It's the latter strategy that I've always followed and remain committed to, and this has proved effective in growing and protecting your wealth.

At Your Service,

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

*The Composite consists of all fully discretionary accounts managed by Lionridge Capital Management Inc., according to the investment objective of the Lionridge Total Equity Portfolio. The objective of the Lionridge Total Equity Portfolio is to maximize long-term returns while minimizing long-term risk by investing in a concentrated portfolio of undervalued securities. The manager seeks to invest in securities only at prices offering a margin of safety, with a view to achieving the dual objectives of outstanding returns along with protection of capital. The strategy has a global focus and the manager has discretion over the geographic allocation of assets. Return figures are presented in Canadian dollars, are gross of management and custody fees but are net of all trading expenses, and include cash holdings. There is no minimum portfolio value required for inclusion.

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