Fidelity Capital Management

April 2020 Investment Letter

29/03/2020

Sparrowhawk Fund (EUR)	**-8,41%**
Royal Albatross Portfolio (USD)	**-4,32%**
Kingfisher Portfolio (EUR)	**-8,16 %**

DJ Industrial Index	-23,20%
S/P 500 Index	-20,00%
MSCI World Index	-31,45%
Berkshire Hathaway	-19,90%
Gold	3,55%
EUR/USD	-1,61%
Oil WTI	-66,45%

16.57%

In 1980, 40 years ago, the investment manager launched the FCM Opportunity Fund (Sparrowhawk Fund as of 2009).

The value of the Fund has grown from $900.000 to $402 million at a rate of 16,57% annually.

We are at War
The only real golden rule of Investing is to buy Low.

Never in the history of all our lives have we seen the world economy come to a standstill. This goes far beyond the markets. It’s affecting us in a much more personal, practical and profound way.

The goal is to stay healthy. This is especially so if you’re over 65 years old. That would include many of us, and even though this is new for all of us, we can make the best of our new reality.

Everyone in our office is now working from home. I am working from home too and sometimes in the office, which is rather close. We’re all in touch via WhatsApp, Skype and Zoom. So far, it’s working well.

For now, none of us know how this will end up. But we do know it’s best not to focus on fear and the unknown. It’s best to take one day at a time, which will help to ease stress and anxiety.

Remember, we’re all in this together and we’ll ride it out together. And we’ll come out at the other end with our finances in good shape, we believe. In fact, it’s already starting to happen.

The Sparrowhawk Fund is now -3% YTD up from the low of -8% in March.

We’ve often talked about wild cards. These are unexpected events that pop up from out of nowhere and upset the markets. But we’ve never seen a wild card wield more influence than the coronavirus.

Panic became the dominant driving factor. Day after day stocks were plunging, so much so that it became exhausting to watch, especially combined with the worsening coronavirus news.

Bonds became very volatile after the Fed, in a surprise announcement, dropped interest rates to near 0%. Gold also fell as investors unloaded everything to meet margin calls. Others just wanted to be more liquid. As a result, the U.S. dollar surged, becoming the safe haven of choice... then everything changed...

Gold is now surging upward, and so is the gold universe. This is likely going to continue because gold has always been, and still is the world’s favorite safe haven. The Fund bought some more gold in the March dip.

Even though it may seem like it at times, it’s not the end of the world. Yes, the economy is going to suffer, but we don’t yet know how bad it’s going to be.

For now, the world’s big central banks and governments are doing all they can to keep the financial system working and intact. So far, this has been to the tune of about $7 trillion but this amount is expected to grow. Emergency financing is needed all over the world.

The Fed, for instance, is printing money like mad. They're also buying tons of U.S. government bonds, mortgage backed securities and now corporate bonds. And in just a matter of weeks the amounts are already double what was spent in the years following the 2008 Financial Crisis.

The end result is that the Fed's balance sheet is now at new record highs and it's headed a lot higher.

The Big Picture

The Fed has never had so much on its plate as it currently does. It's taken on the role of saving the economy, the people and plugging the dam wherever it's leaking.

The pressure is enormous. It means taking on the task of saving the banks, the government, the markets and the entire financial system!

Just in recent weeks, for example, the Fed had two surprise announcements, which is something it hasn't done in decades. They lowered interest rates one full point to near zero.

They also poured trillions into the repo market and they are purchasing mountains of Treasury bonds, mortgage backed securities, commercial paper and many corporate bonds. That is, they're buying everything to keep it all together.

Is this a good or bad thing? It depends on who you ask... but of course it's good for now to keep a bad situation from getting 10 times worse.

We know the global tourism sector has stopped. It's been the first casualty and this accounts for 10% of world GDP. More businesses are going to fail and unemployment is going to soar higher. The big question is "how bad could it get?"

That's why the Fed is saying it will do whatever it has to do to essentially soften the blow. That means debt is going to skyrocket, much higher than we can only imagine.

This is why we say inflation is coming downstream. The amounts involved will be mind blowing...and this is not our opinion... it's the numbers that're telling us.

What are the Markets telling us?

Since the recent low of 2237.40 registered on March 23, the S&P 500 index has staged a major counter-trend rally gain of 24.69%, as of April 9. This includes a gain of 11.23% in the past week. Although there were several technical factors and news catalysts that have contributed to this massive counter-trend rally, perhaps the most important critical factor has been expectations and announcements regarding unprecedented measures by the US Treasury and the US Federal Reserve to inject massive amounts of fiscal and monetary stimulus into the US economy and financial markets.

Very strong weeks for markets have tended to happen in overall bad market environments. This year has been no exception.

Volatility is likely to remain elevated before ultimately receding. Over time, markets rebound and deliver an equity risk premium to investors.

But maybe it will not be enough.

Fed and Treasury stimulus may not be able to prevent massive losses of income, production and wealth in the economy.

No one knows how long this virus is going to last. It won't be the same and it's going to take time to recover once this pandemic comes to an end. Looking at history can provide us with some insight...

During the Spanish flu in 1918-20, which was much worse than the coronavirus, for example, the markets actually rose for about two years.

The thing about this bear market, however, is that it's happened so fast. So far, it has dropped 35% from top to bottom, assuming that was the low.

As an aside, the fact that the Dow Industrials is now near a major low versus bonds is also important. And it strongly suggests that stocks will soon be stronger than bonds. In other words, it reinforces our view that stocks will soon rebound and it's best to be out of bonds for now.

Investors have been dumping bonds. And foreign governments, who had already been selling bonds, are now having to sell even more U.S. bonds for cash to take care of their own countries. Foreign investors are leary, domestic investors are worried, and taking a closer look at the U.S.'s debt load and future obligations.

That's why more investors are now turning to gold.

Stock Market

Index	2020 Peak	YTD
Shanghai	2.15%	-9.38%
S&P 500	4.81%	-17.55%
Hang Seng	3.07%	-17.57%
DAXK	3.80%	-24.21%
Nikkei 225	1.80%	-24.67%
FTSE 100	1.75%	-25.99%
CAC 40	2.23%	-27.30%
BSE SENSEX	1.69%	-33.12%
As of Apr 06 2020		

The decision to take now is depending on the conviction you have.

The strategy of the Sparrowhawk Fund is to invest for the long-term and grasp the strength of the compounded total return generated by companies with strong balance sheets and a serious cash flow.

One of our convictions is to be invested due to the fact that if you have missed out of the 10 best days of the market during a period of 10 years, the return will be cut by more than 50%. Usually the market starts to move up when everything looks very gloomy. Therefore, we prefer to be invested in strong quality companies rather than try to time the market.

The Fund have been invested in 4 important crashes so far and returned a +16% compounded annual return since 1980.

We are convinced that:

1. 0% interest rates will be with us for a very long time.
2. A vaccine will be developed within the next nine to twelve months. More than twenty companies, laboratories and universities are working frenetically with the issue.
3. The annualized inflation rate over the next 10 years will be greater than 0,67%, which is the current 10-year US Treasury yield.

These three highly probable outcomes all point to stocks being the place where investors should be allocating capital. It feels bad right now, but we believe it is time to own stocks.

The virus has taken a hold a lot stronger than anybody thought it would. The recession is probably going to be a lot deeper than people thought it would. But we think a great deal of that is in the price. It may be too early to call it a bottom, but if the virus is contained and we continue with sensible policy decisions, there will be a recovery and the markets will recover with it.

Probably the market is already expecting several weeks, if not months, of grim economic news.

Currently, the overall damage has been startling. In the U.S., all of the gains made since Trump became President are gone, and worldwide stock losses reached $25 trillion in just one month.

This has been difficult to watch. Day after day the market's been wild and mostly in panic mode. Fear among investors is everywhere, and with reason. But then they get hopeful and the market surges higher, all resulting in the big volatility that's been unprecedented.

Actually, we are getting an opportunity here to get in at extremely low levels of valuation. Maybe, we would not rush because we think there is plenty of time to take a long-term view to put new money to work, but we certainly would ensure that money that has been invested at the moment, continues to work and we are going through the Fund looking at where value has been created.

There are some financially very, very strong companies out there with really robust business models, who are going to come through this in good shape and even stronger.

Those that are invested in strong balance sheet companies does not have to worry, even in a crisis like this.

During the last months I have been noticing that most fund managers do not do what they say. They are not investing in quality companies as they are focusing their effort to find cheap companies.

Investors who can stay in the market for a decade should buy now on any dip, diversify and average down. If they are passive investors, they could buy something simple like an S/P 500 index fund. It is not important to time the bottom perfectly. They should just have to buy at prices that are reasonable compared with the alternatives, and hold for a long time.

But of course, when you own an index tracker, one thing you can be certain of, you will never beat the market.

The S/P 500 index is now at 16 times last year's earnings and so long we expect earnings to return to prior levels over the next couple of years, prices are still reasonable, especially compared with a 10-year Treasury yield of 0,8%. Yields could remain low for years.

The point of maximum panic has already been reached. But the point of maximum pessimism is still to come. People maybe do not appreciate that we are heading for maybe the worst recession since the war, where company earnings will be badly hit.

Howevver, it is somewhere between these two points where value and buying opportunities lie. Some companies will emerge even stronger and the opportunity to lock in high levels of income at low prices is already here.

Sparrowhawk Fund was at – 8% on March 31st 2020. Holding mostly US and Chinese stocks. While the S/P 500 index was at -20%

Still number one on the Global Equity Fund List.

US Dollar

The U.S dollar has been volatile. It shot up this month, then it dropped sharply in its biggest weekly decline since 2009. But it's still gaining as a safe haven.

Remember, the U.S. does not want a strong dollar. With things the way they are and debt piling up, it would only make matters worse.

The bottom line is, a weaker dollar would help make the debt a bit more manageable and it would have other benefits as well. For example, it would make U.S. exports less expensive and, therefore, more desirable. But there's so much more involved...

U.S. DOLLAR BIG PICTURE

We have mentioned this many times, but this is a good time to revisit it and to refresh some of the basic fundamentals that have led to the dollar's long road down.

It all began in 1971. That's when President Nixon announced that the dollar would no longer be backed by gold. That is, the U.S. went back on its promise to convert dollars into gold for all those who wanted to receive gold rather than dollars, which was the case for many years. That's why the dollar was good as gold.

But then the U.S. dollar embarked on its long-term almost 50-year downtrend that continues to this day.

Within this downtrend, however, there have been times, lasting several years, when the dollar has risen, like now. But these upmoves have not lasted and we have every reason to believe this current upmove will be the same. Eventually it's going to turn down .

The trigger this time around will probably be the coronavirus and the resulting "helicopter" money that's coming down the pipeline. But this actually all started in September with all of the repo loans pouring into the banks. The end result is the more dollars that are printed, the more they become worth less.

Plus, the Fed's big interest rate cut has made the dollar less attractive, eliminating an advantage it had before. And the dollar is expensive based on value, such as purchasing power parity. A spike in the dollar, like we saw this month, also tends to be a sign of global panic.

But here's something else that's important, which we've often discussed in the past...

Over the centuries, the reserve currency of the world has belonged to the most powerful and financially sound country. At different times in history, this privilege has belonged to the British and Dutch empires, as well as others. These periods of power generally lasted about 100 years.

The U.S. has had this privilege since 1944, so it's a few decades from hitting the 100 year mark. Interestingly, this is coinciding with massive, ever ballooning debts, and the fact that many of the U.S.'s long-term foreign lenders have cut back on their U.S. lending, and they're lightening up on holding the U.S. dollar in their reserves.

Of course, these changes don't happen lightly. They happen gradually and they take time, essentially decades. But slowly we're seeing it. And once it happens, this typically changes from the country who was on top to a new top leader.

As this happens, we can expect to see the U.S. dollar continue on its long road down.

For now, however, **the U.S. dollar is still the best currency in the world and the Fund continues to have a major part in U.S. dollars.**

Keep in mind, this could change soon, but so far it hasn't. Despite its volatility, the U.S. dollar is still bullish.

For now, the major currencies have also been volatile and they're generally weak.

This suggests the U.S. dollar could stay strong for a while longer because the major currencies move opposite to the dollar. At this point, they all have near 0%, or minus 0% interest rates, so that's no longer a consideration. And they too have "helicopter money." With the coronavirus raging around the world, it's hard to tell which countries will do better than others, and likewise for their currencies.

For now, the U.S. has moved into the position of the country with the most Covid 19 cases, and it's hard to think about the markets and how they could be affected with so much uncertainty and crisis going on.

Gold and Natural Resources

The gold price had a wild ride too. It started with dumping gold to cover other losses in the markets. Then safe haven demand stepped up causing havoc in the physical metals market. Premiums exploded upward while gold production closed at some of the Mints.

Other Mints sold their entire inventory in record time. Plus, mines around the world are closing.

In spite of all this panic demand, the gold price didn't surpass its February highs. It's been hanging near the highs, until now. As we enter Easter week, gold hit a new high, approaching $1700.

As gold reached a new high now in April, it rose while the Dow Industrials jumped 1600 points on some optimism. Normally, gold would fall on a day like this, although both ended up down on the day. The point is, safe haven demand continues, even with some good signs, because overall gold is looking at harder times ahead and the outlook for higher inflation thereafter.

It's still to be seen how all the unprecedented money stimulus by the Fed, the government and the other central banks all play out. It's doing the duty of saving lives and easing hardships, and we'll just have to bear the effects afterward. We will stay protected with gold and silver.

Resource and energy took a bigger hit with the global panic and standstill. Demand has gone way down and the crude oil price collapsed against a perfect storm. With demand down and Saudi Arabia and Russia playing a dangerous game of production moves, oil fell below $20 to an 18 year low.

The $40 level was the peak in 1980 after the oil crisis in 1973. It was an unbelievable price at the time and it was a level that wasn't surpassed until 2005 when the resource sector was in full bull market swing. Since then, this level has essentially held until now.

With crude so extremely oversold, the major 74 year uptrend looks like it will hold near $20. And interestingly, even if oil rises back to $40, it just may have a hard time rising more than that.

This ties in with the lower demand we'll most likely have for the rest of this year. Plus, the Saudi Prince and Russia's Putin are in process of making a pact on production.

Copper is a good barometer for global growth and infrastructure. Copper has fallen with the emerging markets and the Australian dollar. This reflects the sad state of the resource sector and the slowing defused global economy.

P. Trump is calling for a $2 trillion package to build bridges and infrastructure in the U.S. If passed it could be the reason that turns the corner for this depressed sector.

Summary

But again, we have to take this all as it comes and go with what we see and feel is the best route to take. These are unusual times and unusual times can have unusual outcomes. So, keep an open mind because anything is possible.

Investors that missed the 10 best days of the S/P 500 Index in any given decade would have seen 70% lower returns over the course of that decade on average.

The Sparrowhawk Fund's major strategy is usually fully invested (today 10% cash) in a highly concentrated portfolio with long-term holdings of quality companies, with solid balance sheets that generally enables the company to go through any recession. Since 1980 the fund manager has generated + 44.000%, compared to the S/P500 +2.500% or 16,5% annually vs 9,72% for the S/P 500.

The conviction of the managers that spend time in the market and catch the immense strength of the long-term compounded returns is much more important than trying to time the market. (Average Annual Growth Rate +16,5% since 1980).

How can you catch returns such as 77.000% (Microsoft since 1980) if you do not stay in the market?

The Sparrowhawk Fund has a significant allocation to quality global companies focusing on those that can organically grow. Priced at attractive levels in industries like media, payment industry, pharma, online education and consumption.

The Sparrowhawk Fund, a Long Global Conviction Equity Fund that is actively managed based on views with a time horizon measured in years, emphasizing fundamental, economical and geopolitical analysis and select those sectors that should benefit from these movements. The Fund has a selection of a limited number of leading stocks in each favorite sector.

We never time the market and believe it cannot be done successfully. We analyze all of our themes fundamentally and the companies from the "bottom up".

ROYAL ALBATROSS PORTFOLIO -4,3% YTD

The Portfolio has left us with a large 80% position in cash since end February. We are holding a 20% position in bonds which we are comfortable with for the moment.

We are out of US stocks, International stocks, commodities and real estate stocks.

Stay safe and look after each other and keep in touch.

Sparrowhawk Fund
Monthly Performance Figures

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD (USD)	YTD (EUR)	S/P 500
1980							7,04	3,45	3,77	5,46	16,3	0,54	**41,70%**	**57,35%**	18,83%
1981	-3,78	-2,08	1,23	-5,70	0,53	-2,60	-4,00	-5,64	-3,98	3,55	-2,1	0,15	**-22,23%**	**-6,54%**	-9,73%
1982	2,70	-5,83	-0,88	3,63	-0,42	3,93	2,92	9,78	8,83	12,96	9,02	9,05	**69,77%**	**92,22%**	14,76%
1983	3,26	4,96	5,07	9,53	5,68	7,51	0,05	-1,77	-0,45	-2,86	0,18	-1,28	**33,20%**	**57,97%**	17,26%
1984	-2,67	-2,98	-0,35	-1,91	-3,04	0,82	0,33	10,61	-3,33	4,6	-0,12	7,42	**8,63%**	**25,61%**	1,38%
1985	6,11	0,16	-1,19	-0,4	7,38	2,93	1,15	1,31	-1,95	4,42	5,04	3,57	**31,95%**	**5,45%**	26,36%
1986	1,71	4,30	1,59	-0,54	4,23	1,47	-2,39	1,65	-4,40	2,42	0,41	-1,53	**8,89%**	**-9,69%**	14,62%
1987	6,80	2,35	1,09	-3,85	-0,23	-2,31	7,59	-1,12	-2,11	-20,52	-4,48	5,03	**-14,00%**	**-29,60%**	2,03%
1988	4,17	2,54	1,08	2,65	-3,62	3,53	0,10	0,18	1,82	0,76	0,82	1,75	**16,71%**	**30,43%**	12,39%
1989	1,99	1,44	-0,09	1,46	2,05	0,99	3,99	0,67	-0,52	-0,71	1,69	-2,08	**11,29%**	**9,62%**	27,25%
1990	-2,2	1,23	3,18	0,09	6,79	3,21	2,10	-5,39	-6,21	0,58	3,24	2,44	**8,64%**	**-5,29%**	-6,56%
1991	5,73	6,16	3,8	0,45	-1,06	4,12	3,45	0,62	-0,32	0,67	-2,53	8,10	**32,69%**	**35,65%**	26,30%
1992	2,88	4,53	-3,22	-1,73	-0,33	-2,42	0,52	-0,33	2,50	3,85	8,52	-2,77	**11,93%**	**24,27%**	4,47%
1993	1,31	3,11	3,08	2,39	8,59	0,57	1,89	1,91	0,33	3,48	1,61	3,52	**36,93%**	**48,19%**	7,06%
1994	5,00	1,94	-0,14	2,36	2,4	0,07	5,65	5,25	1,25	-1,21	-6,24	-0,86	**15,91%**	**5,15%**	-1,55%
1995	3,43	3,26	5,03	-0,22	1,55	2,76	11,64	1,77	0,80	-0,73	7,45	-1,47	**40,58%**	**35,01%**	34,12%
1996	5,67	6,01	-5,00	5,88	-0,38	-3,34	-6,79	5,56	5,67	-0,34	8,17	-1,27	**20,07%**	**22,34%**	20,26%
1997	7,63	-0,27	-2,94	4,23	9,81	1,87	11,37	1,75	0,95	-2,25	3,28	1,17	**41,93%**	**61,92%**	31,01%
1998	-2,25	16,05	5,26	0,82	-4,70	6,31	-1,19	-12,08	0,00	11,64	10,66	14,16	**49,43%**	**43,31%**	26,67%
1999	6,37	-5,14	8,10	1,87	0,24	7,37	-3,04	2,64	-2,51	7,09	3,53	10,54	**42,20%**	**61,76%**	19,53%
2000	-1,56	5,36	9,32	-8,22	-5,69	5,95	-1,98	17,36	-8,48	-9,31	-12,12	1,49	**-11,46%**	**-5,37%**	-10,14%
2001	3,32	-14,68	-2,93	12,31	-11,19	-3,55	1,56	-1,09	-4,28	2,4	3,72	-1,88	**-17,52%**	**-12,72%**	-13,04%
2002	-0,64	-5,42	2,56	1,33	1,15	2,13	6,73	-0,78	2,8	0,33	-6,24	2,93	**6,34%**	**-9,79%**	-23,37%
2003	-0,18	-2,24	2,61	0,00	2,40	-4,62	0,88	4,33	-4,38	5,5	3,16	4,44	**11,85%**	**-6,72%**	26,38%
2004	2,01	3,32	1,12	-4,67	2,07	2,02	-1,67	-1,75	0,95	2,53	4,35	1,2	**11,71%**	**3,70%**	8,99%
2005	4,71	10,78	-2,84	-4,9	3,00	2,41	6,54	3,85	3,78	-4,17	6,2	3,87	**37,24%**	**57,15%**	3,00%
2006	21,12	-4,49	9,06	8,97	-5,29	-5,14	-4,86	2,62	-4,86	-0,47	5,10	-1,61	**18,09%**	**5,95%**	13,62%
2007	5,72	-3,93	3,2	7,28	6,50	2,25	-1,57	-2,05	15,1	9,58	-2,69	3,46	**49,90%**	**35,58%**	3,53%
2008	3,31	9,14	-6,09	8,25	0,62	6,98	-8,8	-8,56	-11,02	-4,71	0,81	4,39	**-8,92%**	**-4,93%**	-38,48%
2009	-0,08	2,82	1,29	7,80	7,74	9,18	-9,41	9,63	3,71	3,34	-0,08	2,98	**48,08%**	**44.51%**	23,45%
2010	-9,79	3,43	7,78	-5,85	-6,39	-4,61	9,02	3,11	8,70	3,77	1,11	9,89	**7,71%**	**15,27%**	12,78%
2011	3,02	0,40	-7,01	0,94	-2,98	-2,73	5,63	-8,41	4,32	-7,97	2,70	-3,27	**-17.60%**	**-15,46%**	0,00%
2012	4,49	0,03	-1,33	-1,03	-2,91	-1,10	3,18	0,53	0,73	-0,96	-2,14	-1,86	**-0,73%**	**-2,60%**	13,41%
2013	2,81	2,24	0,99	-3,69	-0,88	-5,21	-2,3	0,25	-1,70	1,55	1,45	-0,25	**-1,36%**	**-5,31%**	29,60%
2014	-0,02	2,94	2,75	-0,86	1,22	-0,49	-0,53	3,01	-0,51	-0,32	-0,01	-0,02	**-5,71%**	**7,16%**	11,39%
2015	1.59	3,94	1,79	-2,84	1,21	-1,90	0,55	-5,42	-2,47	6,06	2,15	-3,39	**-9,62%**	**0,64%**	-0,73%
2016	-2,71	1,16	-0,99	-0,04	1,17	-0,10	2,72	-1,08	0,37	1,84	1,78	2,48	**3,28%**	**6,69%**	9,54%
2017	2,17	4,16	0,39	0,47	-1,09	-1,46	0,49	-2,76	0,25	4,39	0,53	0,64	**23,52%**	**8,33%**	**19,42%**
2018	5,79	-1,20	-4,80	2,80	5,69	2,22	2,05	4,28	1,65%	-5,05	0,40	-8,49	**-1,99%**	**2,47%**	**-6,24%**
2019	5,82	3,32	5,22	6,33	-7,29	2,94	3,68	-0,80	0,86	0,74	3,63	1,19	**24,59%**	**27,03%**	**29,30%**
2020	4,08	-3,18	-8,70										**-10,58%**	**-8,41%**	**-20,00%**

Performance prior to January 2009 is based on the FCM Opportunity Fund (USD) which has been managed by the Investment Manager since 1980 using the same investment strategy and approach as the Sparrowhawk Fund.
Past performance is not an indicator of future results.

Audited YTD performance.
1980-2008 in USD
2009-today in EUR

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