Fidelity Capital Management

Monthly Letter
August, 2017

June 30, 2017	*YTD*
Sparrowhawk Fund (EUR)	**4,16 %**
Royal Albatross Portfolio (USD)	**3,42%**
Kingfisher Portfolio (USD)	**3,80 %**

DJ Ind Index	8,03%
S/P 500 Index	8,28%
MSCI World	9,45%
Berkshire Hat	4,33%
Gold	8,12%
EUR/USD	8,66%
Oil WTI	-11,59%

15.26%

In 1980, 37 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 $180 Million at a rate of 15,26% compounded annually.

Solid Earnings

US companies report more upbeat earnings. Crude oil is back above $50 and helping lift stocks on global markets. Earning and economic data is taking away worries that the world economy may be headed for a slowdown.

The Big Picture

The Fed recently raised interest rates for the 4th time in 18 months. They feel the economy is strong enough to withstand these rate hikes.

In their favor, they point out the employment picture is the best in decades. Housing is improving with sales picking up, and housing prices are hitting their highest levels since prior the financial crisis. Risk of deflation is diminished.

Since the start of the financial crisis in 2008, the world's central banks have created the equivalent of $US 12,25 trillion. To put it in perspective, the value of all the gold that has ever been mined amounts to $US 7,4 trillion. So the money that has been created in the past nine years is 65% greater than all the gold that has been accumulated throughout world history.

Yellen says the banks are much stronger than in 2008 and the Fed has learned lessons from the crisis and it has brought stability to the banking system.

But others warns that higher interest rates could be a disaster. The economy is not strong enough to handle more interest rates hikes. Inflation, for example, remains low. It's not a threat in any way and the commodity prices reinforces it's not going to be a problem in the near future.

Then there is the velocity of money, which has been declining since end 1990. It measures the rate that money is "turning over" and the fact that it keeps hitting new lows is a negative sign and worrisome.

It tells us that, despite all the monetary stimulus over the past eight years, people aren't borrowing or spending like before. It is a sign of a weak economy that isn't responding like the Fed would like. With the GDP growing at a 1,4% annualized rate in Q1, it's no wonder many are concerned the Fed is on the wrong track by raising interest rates into a weakening economy.

"If the Fed raises interest under the wrong conditions, it could throw the economy into a recession and provide a haircut to asset prices. The Fed has a rich history of throwing the economy into recession by raising rates too far into a weakening economy. Monetary policy acts with a lag, and we need some time to allow the latest rate hikes to make it through the system".

In other words, considering the mixed signals, it would be best to take a wait and see attitude for the time being. It is probably the most important factor hanging over the economy now. So it is important to watch what the Fed does and see how the economy unfolds in the months ahead.

What are the Markets telling us?

We have seen some weaker economic numbers. Some are skeptical of the Fed's interest rates hikes, generally feeling it's been a mistake to keep raising rates in the current sluggish economic environment. So long-term yields are declining. The bond market is one of the biggest markets in the world. Bond investors tend to be more sophisticated than other investors. So if they don't like what they see, for whatever reason, long-term rates will keep declining. This could be because they don't see inflation picking up, or they think business is going to slow down in the months ahead, or whatever.

It is good to remember, if bond prices and the rate action tell us what is coming, we have to listen because these markets look ahead. They see things before they become obvious.

If long-term rates declines, a lot of people will be surprised, especially the central banks. Japan is the biggest foreign holder of US government bonds in the world. China is a close second and it's been buying more bonds for the past three months, hitting the highest level in six months.If bond prices fall sharply, along with a weakening US dollar, bond holders aren't going to be too happy.

We would recommend to avoid bonds. There are better opportunities in other markets. The Sparrowhawk Fund is focusing on quality stocks in US, China and India.

Stock Market

Index	2017 Peak	YTD
Hang Seng	22.03%	22.03%
BSE SENSEX	21.10%	21.10%
S&P 500	10.50%	10.32%
CAC 40	11.72%	5.46%
Shanghai	5.97%	4.74%
Nikkei 225	5.84%	4.51%
DAXK	9.38%	3.55%
FTSE 100	5.15%	2.78%
As of July 24, 2017		

The stock market continues to be a bright spot. It keeps on rising; which is extremely positive for the economy. It is a reliable leading economic indicator and since the stock market leads the economy by about six to nine months on average, and some of the stock markets indexes are still hitting record highs, this is a big plus.

The stock market is focusing on the positives and ignoring the Trump controversies, like it's been doing all along.

Out of the 30 biggest stock markets, 26 posted gains in the first half of this year. Plus, it was the best first half performance since the 2008 financial crisis. Half of these 30 markets are at record highs. This is powerful, further fueling the bullish outlook. Especially because all types of markets are rising… markets in developed countries, emerging markets and frontier markets. So it's all good.

We are also looking at some exposure to China, which has been one of the strongest.

We are keeping the stocks we have and we will not be surprised to see a further downward correction in the weeks ahead. It is a possibility and if so, we will probably buy more stocks at that time in some of the stronger sectors.

The Albatross Portfolio is up 3,42% with still 60% in cash. The worst yearly drawdown since 1973 is -2,06% (2015).

US Dollar

The US dollar posted its biggest quarterly drop in seven years. Investors has become concerned about the US and there has been a loss of confidence. Uncertainty from foreign investors, so they have been lightening up on their dollars.

Higher US interest rates would normally be good for the dollar. But since rates are rising into a weak economy, it makes investors nervous. Also with interest rates now may rise in other countries, it's reducing the edge the dollar had before.

Also, it didn't help that the IMF downgraded their forecast for US growth, stating Trump's target of 3% growth will be difficult to reach for several reasons, like the aging population and so on.

The there is the trade deficit, it's huge and this too is putting pressure on the dollar.

Trump is getting what he wants….a weaker dollar…because it will make US exports more attractive and help boost the economy.

Gold and Natural Recources

With the dollar declining, Trump just may be the one who brings gold's role back to the monetary table…the dollar is the global currency for trade and reserves, and Trump likes a new gold standard.

Donald Trump: "We used to have a very, very solid country because it was based on a gold standard," he told WMUR television in New Hampshire in March last year. But he said it would be tough to bring it back because "we don't have the gold. Other places have the gold."
Trump's comment to GQ: "Bringing back the gold standard would be very hard to do, but boy, would it be wonderful. We'd have a standard on which to base our money."
Trump has been misled to believe that "we don't have the gold. Other places have the gold." In fact, the United States, Germany, and the IMF together have about as much gold as the rest of the world combined and America has well more than Germany and the IMF combined. [Note: This column has been updated to clarify that the United States has well more gold than Germany and the IMF combined but not, as originally stated, more than twice as much.]
We have the gold. Bringing back the gold standard would not be very hard to do.

So part of Trump's "Make America great again" theme could have a gold standard attached to it. Greenspan also said he views gold as the primary global currency.

"The economy is sluggish with serious problems and unwind the Fed's balance sheet is difficult." Inflation is already here, when you consider the high cost of education, medicare and the stock market.

In 2000 gold was at $300 and Nasdaq hit 5000. Today gold is at $1200 and Nasdag surpassed 6000 just a few months ago. This is a good example showing gold has done very well during 17 years, when comparing this year's red hot tech stocks to the gold price.

But back to reality. Many have turned their backs on the gold universe. Even though gold has held up well in dollar terms, rising almost 15% this year. But silver and gold shares have been weaker, and so have commodities during this year's ongoing run-up in global stock markets.

Summary

We believe that there are still returns to be had in the US equity market, but corrections are inevitable. Therefore we focus on quality cash flow companies.

Further returns are dependant on growth, interest rates and confidence.

Uncertainty continues to plague investors.

The best thing is to focus on signals such as earnings growth and the long term and avoid noise and market timing.

The Sparrowhawk Fund has a significant allocation to quality US focused companies priced at attractive levels in industries like media, payment industry, pharma, infrastructure, consumption, etc. Precious metals are also an important long-term position allocated to the Fund.

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 chosen sector.

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	5,49	-0,85	0,05	-1,09	-1,46%							**12,56%**	**4,16%**	8,28%

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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