Fidelity Capital Management

Monthly Letter
May, 2017

April 28, 2017	*YTD*
Sparrowhawk Fund (EUR)	**6,88 %**
Royal Albatross Portfolio (USD)	**2,22%**
Kingfisher Portfolio (USD)	**5,99 %**

DJ Ind Index	5,97%
S/P 500 Index	6,53%
MSCI World	7,27%
Berkshire Hat	1,47%
Gold	10,42%
EUR/USD	3,63%
Oil WTI	-8,26%

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.

Dangerous Times

We are in a quite period for data. The Obamacare drama is finished for now. The Fed meeting is over. Earnings season is past the peak with strong earnings. Don't worry the market will find something new soon.

Corporate earnings have been strong on all fronts; improvement over last year, beating expectations on earnings, and beating expectations on revenues.

There have been several important developments, some obvious, some not so obvious, that provide clues as to how this may play out.

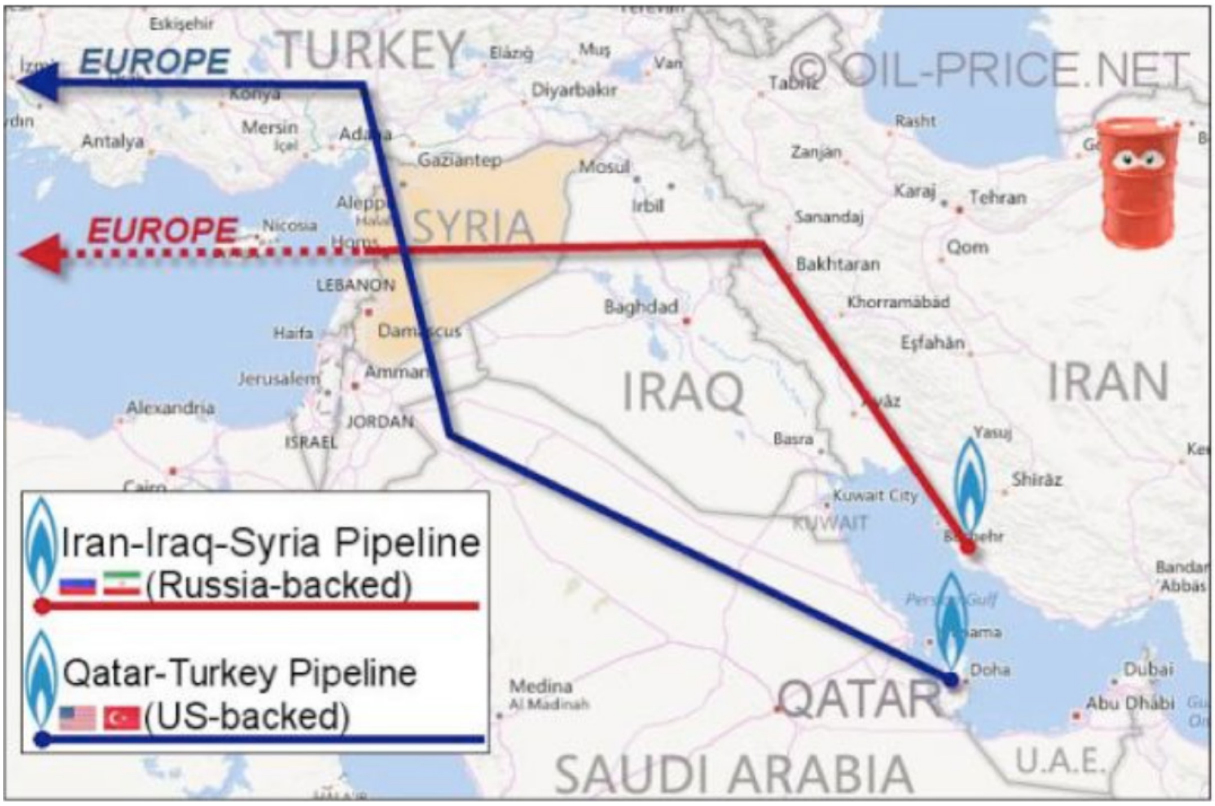
The obvious event that everyone paid attention to was the +50 barrage of missiles fired at a Syrian air force base in what was said to be a response to the horrific chemical weapons attack that someone perpetrated on civilian men, women and children. Although the attack was not said to be part of a permanent campaign in Syria there has clearly been a change in policy that Russia has been quick to denounce.

The response wasn't exactly mild. A statement by a joint command center consisting of forces of Russian, Iranian and allied militia supporting Syrian President al-Assad said that the US strike on the Syrian air base crossed "red lines" and it would "respond with force" to any aggression while increasing its level of support to its ally.
Not exactly the friendly tone that existed before between Putin and Trump.

"What America waged in an aggression on Syria is a crossing of red lines. From now on we will respond with force to any aggressor or any breach of red lines from whoever it is and America knows our ability to respond well". (al-Harbi).

So, there is a great potential for a rapid escalation of hostilities because of what is at stake.

Is this again about commodities and natural gas?



The map shows the competing Shia (Russia-backed) and Sunni (US-backed) gas pipelines into Europe.

The immediate response by the precious metals was predictable: higher gold and silver prices.

The not-so-obvious developments that merit attention was the jobs report and the Fed minutes, that showed the US added 263000 workers in March, the most since December 2014 and well above economist's expectations and the minutes said that "most Federal Reserve policymakers think the US central bank should take steps to begin trimming its $4.5 trillion balance sheet this year as long as the economic data holds up.

The Royal Albatross (+2,22%) moved out of commodities The stock sections are still fully invested with 40% and 60% in cash.

The Big Picture

Everything is growing! Better U.S. and global economies, rising markets, but also inflation and geopolitical tensions are rising. The markets have a story to tell, and Q1-2017 gave us an insight. Silver, for example, outperformed the best stock sector, such as Nasdaq.

Q1-2017 SCORECARD	
Palladium	16.81%
Silver	14.20%
Nasdaq	9.82%
Gold	8.64%
Gold shares (HUI)	8.18%
S&P 500	5.53%
Dow Industrials	4.56%
Crude Oil	-5.80%

Aside from debt, there are other negatives hanging over the market, which also warrant attention. Bank lending, for instance, is down and so is money supply growth. Historically, these have led recessions by about one year. Will it happen again? It could.

Currently there’s no recession in sight and the positives are outweighing the negatives. But things can change and the outlook could be different later this year.

Time will soon tell and we still believe that 2017 will be a key year. In the meantime, stay invested in the strongest markets, which are the metals related and stock markets

What are the Markets telling us?

Nasdaq has clearly been the stock market winner this year. It's risen more than twice as much as the Dow Industrials. This tells us investors are willing to take more risk, and of course bigger gains also attract buyers.

Short-term interest rates and long-term interest rates usually move together, but lately they've been going their separate ways.

Short-term interest rates, like the 90-day T-Bill rate for instance, is near an eight year high. That's because it tends to move with the Federal Funds rate, which is the interest rate the Fed moves up or down when it wants to change the overnight rate banks lend to each other.

Lately, we've been pointing out how the economy has indeed been improving. Deflation concerns have moved to the background and the outlook keeps getting better.

Consumers drive the economy and consumer confidence is now at the highest level since 2000. This is very positive. The stock market is also reinforcing this and so is the Leading Economic Index.

Note it's now at the highest level in a decade. And since this indicator leads the economy, it's telling us the U.S. economy is going to accelerate

The Sparrowhawk Fund follows its strategy to be fully invested and let the power of compounded and capital growth patiently do the rest. (+15% annually since 1980).

The market will call the Fed's bluff if it appears Yellen is serious about trimming the balance sheet. Any similarity to a 2008 market collapse will force the Fed to reverse course and once again "stabilize" markets. How? More QE.

There are three ways to get out of the debt problem. You grow your way out (not going to happen), you let free markets be free markets (anyone up for food lines and a 30s style depression? Don't think so), or if you inflate your way out of it and further devalue the currency.

"First, this will lead to a soft launch of further rate hikes and a slimmer balance sheet. It starts with the rhetoric which has now been introduced in official "Fed speech" via the most recent Fed minutes."

"Next reaction will be what we saw lately. Higher dollar, lower precious metals prices and lower bond yields in the US. But this will be short-lived."

"Then the reaction by central banks worldwide will lead to a high-stakes game of central bank chess game that will unfortunately have many serious real-life consequences, but will also ignite one of the most powerful bull markets in precious metals".

Stock Market

Attention is turning to Trump's promised announcement on tax cuts and the French presidential elections. Trump will decide to do something on the tax front, but how will that be taken, especially if it leaves a big gap in revenue?

Will he slash the corporate income tax rate and offer companies a steep tax break on overseas profits brought into the US. Just presenting the plan doesn't mean the plan is going to be passed.

But strong attention is on company earnings.

Despite a small pullback in March, the Dow gained 4,6%, the S&P 500 gained 5,5%, and the World Index rose 5,8% in the 1Q 2017. The Sparrowhawk Fund made 6,83% during the same period.

For the most part, the markets don't like surprises. It makes them nervous and they tend to react accordingly. That's especially true with geopolitical surprises.

Currently, that's the case with the situation in Syria and North Korea. Tensions could escalate and we're watching this closely, but so far the market reactions have been relatively moderate.

Gold moved up and so did bond prices, but that was to be expected because these markets are traditionally safe havens.

For now, these markets seem to be in wait-and-see mode. But if tensions intensify, they'll likely head higher.

Currently, stocks are also holding firm. But again, much will depend on how events unfold.

The market likes what it sees, like ongoing job growth and unemployment at another 43 year low. (We know these numbers are adjusted and not accurate, but they're what the markets watch and react to).

And along with surging confidence, rising corporate profits and inflation finally reaching the Fed's target for the first time in five years, it was all good news. Month after month, these factors (and many more) continue to reinforce a back seat for deflation. The markets are happy about that.

In fact, rising inflation in the U.S. and around most of the world has been another one of the key reasons why gold performed so well in the first quarter. And rising inflation expectations will now likely keep a foundation under the gold price.

Silver and gold outperformed the S&P500 in the 1Q. That's pretty incredible considering the stock market's been getting all the hype and news attention.

In contrast, little has been said about gold and silver, but that's not unusual.

The news tends to focus on stocks and there's no question the stock market has been a good performer so far this year. That's certainly true of Nasdaq. It's been the top stock gainer, rising nearly 10%, compared to about 5 1/2% for the S&P500.

Still, silver gained an impressive 14% in the 1Q quarter, despite the decline in March, and gold was up nearly 9%...

All of these trends remain up and these markets will likely keep doing well as long as these uptrends stay in force and/ or until the markets tell us the trends are nearing an end.

Interestingly, the emerging markets have been doing well and this too is yet another bullish omen. It tells us investors are betting on more economic growth.

The Templeton Emerging Markets (EMF), for in- stance, has good potential. It has a nice chunk in China, which has been doing well, and it has a good portion in Europe, which just had its best quarter since 2015.

Currently, the market is telling us to stay with it, and that's what we continue to recommend.

SO, WHAT COULD DRIVE STOCKS HIGHER?

The Trump Rally has been good for stocks because investors remain positive about his planned changes, which will be good for business and stocks. But there's much more behind this bull market... investors are coming around to the idea that this is a "Reflation Trade." That's the bigger picture and here's the story...

Behind Trump is a global economy that's been improving for quite some time, and it's likely to continue doing so. This improvement has less to do with Trump, and more to do with a general reflation of the global economy, led by a rebound in energy prices. And since the oil price remains bullish, this should continue to bode well for the world economy, which is being reflected in stocks around the world.

US Dollar

When the Fed raised interest rates last month, the dollar also declined.

This is exactly the opposite of what you'd expect... Normally, when interest rates rise, it makes a currency more attractive and, therefore, it creates more demand for buyers. This in turn pushes the currency higher... So what happened?

There were actually a couple of reasons for this...

Even though the Fed raised their Federal Funds interest rate for the third time in 15 months, the markets expected more. They wanted to hear enthusiastic comments about the Fed's outlook and future interest rate hikes. Basically, the market felt the Fed's comments were too dovish.

Many were focused on the meetings between Trump and China's president Xi. As the leaders of the world's two strongest economies, these meetings were important due to the possibility of repercussions depending on the outcome.

Most sensitive were the currency markets because trade issues and currency depreciation were on the table.
But in the end, the outcome was friendly and the issues were kicked down the road for another time. The U.S. has essentially suggested it would like to see a weaker dollar, but we'll see if it happens.

Gold and Natural Recources

In fact, it seems little known that gold and especially silver, gold shares, palladium, aluminum and lumber have all outperformed the S&P500 during the first quarter.

Interesting, the gold price today is near the same price in US dollars as it is in euros. This is unusual and it may be saying gold is undervalued in dollar terms, or that the dollar is too strong.

Either way it's a good sign for gold. When gold rises in all currencies you know the rise is real, and it's not just a currency movement. And this is what we're currently seeing.

The mega trends have been up for gold and down for the dollar ever since gold was taken off the gold standard, when it began to move in the free market in the early 1970s.

Low interest rates have been a positive for gold and the metals because they don't give gold much competition.

The Fed raised rates in mid-March for the third time since December 2015, but short-term rates are still very low, while long-term rates have been coming down since this March announcement.

And coincidentally, the gold price bounced up from $1200 when the Fed raised rates. In other words, interest rates are unlikely to adversely affect the gold price. That is, until they rise much further, or until the Fed talks more aggressively about raising interest rates.

Russia, for example, has been accumulating gold over the last three years when they decided to diversify their currency reserves into gold. And this last quarter was no exception as they started with larger amounts.

How Trump's promises play out will also be a factor moving gold this year. The health care reform situation was seen as a hit on confidence in the Trump card. This too helped taper the post election rally in assets.

In fact, this year will be a key year to determine how the markets react going forward. And for now the Syria strike is a good reason to have safe haven investments.

When gold shares first reached their bombed out lows in January 2016, no one wanted them. They then did an abrupt about- face and soared over 180% in less than seven months, when they peaked last August.

Silver was a star metal, gaining over 14% in the 1Q. And this is after completing 2016 with an annual gain of almost 16%.

Palladium has been on a run with the auto industry in its favor. It gained almost 17% this 1Q.

Crude oil made an about-face, rising briskly over the last few weeks. Geopolitical worries are growing in the Middle East after the U.S. air strike on Syria. Together with another shutdown at Libya's largest oilfield it's pushing oil up and it's approaching its February highs near $55.

OPEC meets on May 25 and will discuss extending its agreement with a number of rivals, including Russia, to cut output by 1,8 million barrels per day. But the price of crude oil is lingering around $50, close to its lowest level this year.

China surpassed Canada as the top buyer of U.S. crude in February at a time when OPEC seeks to cut global supply. In fact, China's February imports quadrupled its January ones, which in turn helped boost US exports to a record 31.2 million barrels that month, according to the U.S. Census Bureau.

Copper is bouncing up from last year's lows while China stabilizes. Plus, the Baltic Dry Index (BDI) is now also jumping up.
This index is a practical economic indicator on a global scale as well. It shows the cost to ship materials. And it's saying the global weakness has turned the corner, which also bodes well for the Transportation stocks.

This whole sector is slowly turning bullish. More money is flowing into commodities as investors search for investments that can keep up with faster inflation, and metals such as copper face supply shortages.

Plus, with silver stronger than gold, it's yet another good sign for the resource sector.

Summary

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 favourite sector is chosen.

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									**10,38%**	**6,88%**	6,53%

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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