



October 31, 2017

YTD



**Sparrowhawk Fund (EUR)**

**6,98%**



**Royal Albatross Portfolio (USD)**

**7,10%**



**Kingfisher Portfolio (USD)**

**6,14%**

DJ Ind Index	18,29%
S/P 500 Index	15,05%
MSCI World	16,26%
Berkshire Hat	14,88%
Gold	10,71%
EUR/USD	10,76%
Oil WTI	1,13%

**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.*

## Look beyond earnings New Fed Chairman

The new Fed Chairman is named: Jay Powell. If he survives the confirmation process, it's a done deal. He is in favor of low interest rates. But people are afraid he can change his mind. He is not an economist, which might be a good thing. Low interest rates and the inflation currently below the Fed target of 2%, as we all know, is good for the stock market. This is why Trump choose him....low interest rates is good for business. If he chooses to raise rates, he will be in conflict with the President and may be dismissed. You are not supposed to do those kind of things, but Trump doesn't care. It wouldn't be the first time the Fed wanted to raise rates and the President didn't.



## The Big Picture

Are the problems just temporary, or will the volatility continue indefinitely? It is easy to argue the latter: there are many different scenarios by which the Eurozone could disintegrate. The rise of populism, political tensions between member states, growing economic divergence, the unwillingness of one group of countries to help another, the collapse of a national banking sector, government debt spiraling out of control: the list is long.

As a currency area, the Eurozone is far from ideal, which makes it somewhat fragile. According to this view, volatility is bound to re-emerge before long and eventually, just saying 'whatever' may prove to be too costly. There is one very important reason why this cannot be allowed to continue: the cost of having any country leave the Eurozone would be crippling. The banking sector would have to be nationalized, capital and trade flows would be seriously disrupted and the government would most likely default on its debts. Although disgruntled electorates tend to ignore such risks, the Brexit process set to unfold over the next several years will no doubt lead to a broader awareness that you can't 'have your cake and eat it too'. We expect that logic will prevail, leading to further integration, rather than disintegration.

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## What are the Markets telling us?

The expected returns 2018-2022 predicts that developed market stocks will earn an average 5% a year, down from 6,5% forecast in the previous 2017-2021 edition. The expectations for emerging markets equities is 6,25% against 7,25% last time.

For alternative investments, there is no change in the view that commodities will earn 2,75% a year over the coming period, but indirect real estate with returns of 4,25% against 5% last time.

### Expected annual returns 2018-2022

Equities (global developed markets) +5.00%

Equities (emerging markets) +6.25%

Government bonds (German 10Y) -2.50%

High yield bonds (worldwide) +0.25%

Commodities +2.75%

Indirect real estate +4.25%

Cash or money markets (euro) +0.50%

Index	2017 Peak	YTD
Hang Seng	30.50%	29.98%
BSE SENSEX	26.83%	26.83%
Nikkei 225	17.97%	17.97%
S&P 500	15.74%	15.74%
DAXK	14.32%	14.23%
CAC 40	13.02%	12.80%
Shanghai	10.09%	9.17%
FTSE 100	5.36%	5.36%

*As of November 6, 2017*



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## Stock Market

In major bull markets, stocks can rise a lot further than anyone expects”.

The current strong bull market rise has been a good one and it can run a lot further. That’s why we are saying to stay invested as long as it lasts. After a certain correction we will neutralize the portfolio following a strict model, but our main objective is to remain invested for the long-term in order to catch a strong compounded annual performance. Our conviction is to make money slow for our clients.

But yes, at some point it’s going to come to an end and the decline that follows could be a steep one, like in 2000 and 2008. But it would probably be a short one, considering all the cash waiting on the sideline, waiting for opportunities.

Most important being a long-term investor doesn’t mean never sell the stocks, but it means adapting and adjusting the stock positions, based on what’s happening in the economy, the business cycle, the global scene, financially and geopolitically.

This bull market has barely had a correction this year. Normally corrections provide good opportunities to buy at lower prices. We are still adding to our stronger positions and would buy more once the market corrects downward.

Many speak of bubbles, they believe stocks are in a bubble, along with crypto currencies, real estate, auto loans and corporate credit. Meanwhile Deutsche Bank and veterans such as Jim Rogers and Stephen Roach believe central banks and their massive balance sheets are another bubble, and how they handle this could present huge risks. Adding N.Korea, there are indeed many wild cards hanging overhead.

But when or if these bubbles are going to pop, is one big unknown. And as long as that’s the case, the market could keep going. Of course, we are watching these potential bubbles.

Generally, the good news is overpowering the not-so-good. According to the latest indications are good since a long time now, which means people are feeling good about the general path the economy is taking. The stock market is telling us the same thing and so are the global stock markets.

Low interest rates remain a huge plus and even if they head higher, the rise will likely be gradual. Plus, rates are coming from such low levels, it’ll be a while before they’re high enough to disturb this bull market in stocks.

The Albatross Portfolio is + 7,10% YTD, being 40% in cash. The US Stock part is + 16,18%, the Global Stock part is + 23,89% while the Commodity part is slightly negative.

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## US Dollars

The weaker US dollar, has been a positive for stocks, exports, corporate earnings and the economy. It’s also been good for the global stock markets, especially the emerging markets. Same is true of the commodity prices, like copper.



The current rebound in the dollar is due to several factors this month. Most influential was the Fed's statement to raise rates one more time this year and three times next year, thanks to a strong and robust economy. Plans for a tax reform also boosted the dollar and so did the ongoing tensions with N Korea....the dollar emerged as a safe haven.

## Eurozone

The euro got into some downward pressure. Even though Merkel won a fourth term as German Chancellor, making her one of the longest and most powerful European leaders, it wasn't all smooth. She is having trouble putting together a coalition and this creates uncertainty in the euro currency.

Also, the events in Catalonia, the turmoil and protest between the Catalans and Madrid, who doesn't recognize the vote for independence, put pressure on the euro.

Imagine a number of different ways in which the Eurozone may disintegrate. The rise of populism, political tensions between member states, growing economic divergence, the unwillingness of one group of countries to help another group, the collapse of a national banking sector, government debt spiraling out of control. Grexit, Frexit, Italexit, even Nexit and – our favorite when it comes to the name – Fixit (Finnish exit) have all been mentioned in the course of the last year. Although all these potential 'x-its' have different direct causes, it does not take much imagination to bring them back to a single root cause: the Eurozone is not an optimal currency area.

The literature on optimal currency areas was developed in the 1960s and '70s, with Robert Mundell generally regarded as the pioneering thinker in this field. The idea is that losing the ability to adjust your exchange rate has benefits (the predictability of trade) but can also increase costs (you lose an easy adjustment mechanism). The costs outweigh the benefits if there are frequent asymmetrical shocks and no alternative adjustment mechanisms. Mundell's four main criteria for an optimal currency area are labor and capital mobility, symmetrical business cycles and a fiscal transfer mechanism, but shared customs or language are sometimes also put forward as being essential.

Joining a joint currency area tends not to benefit regions that have a completely different economic make-up, as they will be impacted more often by asymmetrical shocks. But this does not mean that all the regions involved need to have a completely synchronized growth pattern: that's certainly not the case for the various States of the US, for example, which is generally seen as a text book SPECIAL TOPIC EUROZONE '

Economic differences are normal even on a regional level, but prolonged divergence, or increased boom-bust developments within a currency area are tell-tale signs that the adjustment mechanisms are not working effectively. And this will ultimately undermine the much needed solidarity within the system. Also, while people have complete flexibility to move from one part of the US to another, the absence of a shared language in the Eurozone acts as a barrier to do the same in Europe: the free movement of labor may not be as free as it sounds in theory.

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## Gold and Natural Resources

Gold has gained almost 12% so far this year. As long as gold closes above \$1152 it'll be higher than the close in 2016. Gold is now \$100 higher than those levels and that is a good sign. Wherever gold end up in the coming months will tell us a lot about the strength of the turnaround.



If the Fed says 2 ½% for interest rates is the goal and so is 2% inflation, then we'll have a half percent short-term real interest rates, which will be positive for gold. Plus, lowering the balance sheet, even gradually, will be another positive.

Fed's Brainard says disinflation is a serious problem for a country with an over 100% debt-to-GDP ratio. This means inflation is needed to help the debt load. Gold will benefit from this.

Less than two month ago money managers were the most bullish on gold in almost a year. Ray Dalio, who has the world's largest hedge fund at Bridgewater Associates, recommended investors put as much as 10% of their assets in gold. Other were forecasting \$1400 early next year.

German investors put \$7 billion in gold products last year, according to WGC. China has been the world's largest producer for 10 years and the largest consumer for 4 years. This continues to grow and China is aiming to increase its annual gold output in three years to come.

China is also the world's biggest oil importer and if they launch a crude oil futures contract priced in yuan and convertible in gold, as expected, this could have a huge impact on the gold price and the dollar's future as a reserve currency.

Russia is getting set to become the world's second largest gold producer with the launch of a major mining company in the Far East. And it's more than doubled the pace of its gold purchases, bringing its reserves to the highest level since Putin took over 17 years ago, according to WGC.

Is it a coincidence that the two countries who want to break away from dollar dominance, are also producing and buying the most gold?

They both have an interest in gradually replacing the US dollar as the world's reserve currency.

We have bubble like tendencies in many areas and many believe gold is being purposely held back. If so, it'll eventually break loose. And when it does, it could surge, making up for lost time.

The Albatross Portfolio, is now invested partly in the resource sector as of October.

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## Summary

There is a high possibility that stocks will stay in their major uptrend, especially if interest rates remain at low levels and a weak US dollar is also a boost for US stocks.

But an upcoming downward correction would provide a good opportunity to buy into some of the stronger sectors.

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%	0,52%	0,25	4,83				17,24%	6,98%	15,06%

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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Past performance is not a guide to future performance.

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