Fidelity Capital Management

Monthly Letter
January, 2018

Decembre 31, 2017	*YTD*
Sparrowhawk Fund (EUR)	**8,24%**
Royal Albatross Portfolio (USD)	**9,33%**
Kingfisher Portfolio (EUR)	**10,75 %**

DJ Ind Index	25,05%
S/P 500 Index	19,42%
MSCI World	19,99%
Berkshire Hat	21,91%
Gold	13,42%
EUR/USD	14,11%
Oil WTI	12,48%

15.52%

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 $284 Million at a rate of 15,52% compounded annually.

Outlook 2018

This stock market rise doesn't stop. And as the new year got underway, the stock market continued its incredible record breaking surge with most of the indexes hitting new all-time record highs. The Dow Industrials also made history by chalking up 71 record closes, ending the year with a gain of 25%. And the other stock indexes were similar

Nasdaq charged through the 7000 level, gaining nearly 30% for the year and marking its longest string of gains in 37 years. Like the Dow, it too hit a record number of new all-time highs. Meanwhile, the S&P500 was making records too. It climbed nearly 20%, its biggest annual gain in four years, which was double its gain in 2016. And the S&P started off 2018, hitting one record high after another,

which is something it hasn't done in 53 years.
The Sparrowhawk Fund made +23% in USD and +8,24% in EUR, due to the weak dollar.
The MSCI World Index (EUR) made +7,51%.
All signs point to an ongoing rise in the stock market… that goes for the U.S. and global stock markets too.
We also believe we're starting to see a turnaround, which may well end up being significant.
As you know, resources, commodities and the metals tend to move together. With copper, palladium, oil and a few other resources heading North, this is promising for something big this year.
For example, the U.S. economy grew at its fastest pace in more than two years in the third quarter.

Royal Albatross Portfolio

The Albatross Portfolio total return in 2017 was 9,33% being most of the year with 40% in cash.

Following Trump's inauguration, who really thought the stock market was going to keep soaring all year? Not many, and this provides a perfect example of why it's so important to go with the price action.

That is, let the market tell you what to do, instead of the other way around. Remember, the market knows everything it needs to know. It looks ahead and the price action will reflect this.

It'll reflect the collective opinions of millions of investors, experts and gurus all over the world. So, when the market speaks, we'd be foolish not to listen, whether we agree with it or not.

We know this can be difficult at times. That's why we always stress the importance of being flexible and staying humble.

From a technical viewpoint, and considering the power in this bull market rise, it would not be unusual to see the Dow continue up to the top of its trading channel in the next couple of years or so.

Of course, the Albatross Portfolio will go with the trends, but it's indeed a possibility and there are a few solid reasons why..

The US equity part of the Albatross Portfolio made +21%

As you know, this bull market is global, reinforcing its solid foundation. Not only that, but these global stock markets are also hitting records.

For example, the All Country World Stock index, which tracks 47 countries, rose every month in 2017, gaining 22%. This was the first time this has ever happened.

The global equity part of the Albatross Portfolio made +27%

Commodities staged a nice comeback, especially in the second half of the year, in part due to the strong stock market and a bigger appetite for riskier assets. They ended 2017 on a high note, reaching highs last seen in 2015.

In fact, both copper and crude, the two barometers, fared well compared to the soaring stock market. Copper outperformed the S&P500 while oil quickly made up for lost time, ending the year just about as strong as the S&P. Of course, the weaker dollar, helped all of them too.

And now, the commodities rise has a bright road ahead. It's already gained 65% from its lows two years ago. It's holding steady above its 65 week red average, and it could easily rise back up to test its 2008 downtrend, and possibly the 2014 highs.

The resource part of the Albatross Portfolio made 1%

The Big Picture

Momentum is picking up and it's being fueled by global growth, low interest rates, a positive U.S. economy, strong earnings, the weak U.S. dollar, the tax plan and, increasingly, more bullish sentiment.

Basically, the market is embracing the good news and ignoring the bad news,

Specifically, interest rates dropped to the lowest levels ever in recorded history in recent years and that's a big deal for several reasons.

It shows how desperate the world's central bankers were in their determination to fight deflation and pull the economy back from the abyss in 2008.

It also illustrates how they were willing to keep monetary policy easy for a very long time. And it shows us that interest rates are still at historical lows.

In other words, even though interest rates have been rising for the past two years, the rises have been small and gradual.

And as long as that's the case, rising interest rates are not going to hurt the stockmarket, gold, or real estate. That's because interest rates are coming up from such super low levels, so they're still very low.

For example, the Fed Funds interest rate, which is the one the Fed moves, is now only near 1 1⁄2%. So, it's not anywhere near a worrisome level.

What are the Markets telling us?

Wholesale inflation hit a six year high and the U.S. dollar is weak. This is the type of environment that enhances these markets.

Plus, there's going to be steady demand as the global economy continues gaining momentum.
The same is true of U.S. infrastructure demand and the ongoing needs out of China, which are huge.

It's also important to note that commodities are super cheap compared to stocks. In fact, they're the cheapest in 60 years.

This too tells us that commodities are bombed out and due for a turnaround, and increasingly that's what we believe is happening.

If so, this will be bullish not only for commodities, but for the metals markets and resources as well. The sector is poised to do well.

Two markets that did amazing this year were Bitcoin and some of the other cryptocurrencies, and some of the marijuana stocks.

Bitcoin They're actually in the biggest bubble since the Dutch tulip bubble, which was the biggest in almost the past 400 years in 1636-37. So, we advise watching the action from the sidelines.

As for marijuana, this too could be the next big thing...

Many of the stocks have been surging but with little history behind them, it's hard to know which ones are good and which aren't. This is similar to the Dotcom boom.

A recommended position in this area is the Horizons Marijuana Life Sciences ETF (HMMJ.TO) if you wanted to buy and diversify within the industry.

But a word of caution if you do... Even though eight states have legalized cannabis, Trump's attorney general, Jeff Sessions, is not tolerating this.

Last week he rescinded the Cole Memo, which treated marijuana as a state issue. That is, his new policy could signal a crackdown by the federal government, which could overpower state laws.

The cannabis movement, however, is powerful, and we believe any weakness that comes from this will become a good buying time.

We'll continue to monitor many companies closely. But since HMMJ.TO invests in 10 large marijuana stocks, it's a good way to diversify in this field.

Stock Market

It was a year of contradictions, despite all the noise and distractions created by politics, geopolitics and natural disasters, the stock market went up so gently that a baby could have slept through it. It was a great year despite continuous bickering between Democrats and Republicans, missile tests from N. Korea that could one day carry nuclear warheads and huge hurricanes that hit hard.

The Sparrowhawk Fund manager is avoiding to be distracted by these events as the markets does not care about these things unless they will hurt corporate profits – and none of them did. We saw the economies of countries started to accelerate. The dead calm spooked some observers, but low volatility is never a reason to sell. There were very few signs that a bear market was imminent. No recession indicators flashing red, no inverted yield curve, no drop in corporate profits.

The tax package is expected to stoke higher deficits and inflation, and it could accelerate economic growth, making metals more attractive and bonds less so. This could add to upward pressure on interest rates.
Asset rotation: Equities are soaring, and as amazing as they are, their rise has been a long one, and we could see some rotation in this area.

Index	2018 Peak	YTD
Hang Seng	6.64%	6.64%
Nikkei 225	5.21%	5.21%
Shanghai	3.91%	3.91%
S&P 500	4.21%	3.85%
CAC 40	3.98%	3.79%
BSE SENSEX	3.05%	2.83%
DAXK	3.62%	2.54%
FTSE 100	1.18%	0.89%
As of January 16, 2018		

US Dollars

The U.S. dollar is bearish and it fell sharply this month, ending the year down 10%. In fact, the dollar declined throughout 2017 in its worst drop in 14 years and it's set to fall further this year.
We suspect Trump will let the U.S. dollar weaken for a couple of reasons...

First, the U.S. is importing more than it's exporting. Imports are actually at a record, and the trade deficit is at a six year high. This makes the U.S. less competitive and it hurts producers of U.S. goods, which ends up hurting the economy.

A weaker U.S. dollar is making exports cheaper and it helps fuel some inflation. A pick-up in inflation would be a welcome relief, because it would reinforce that global growth is solid and deflation continues to diminish.

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As you know the U.S. dollar has been falling ever since 1971 when it went off the gold standard and started trading in the free market.
This downtrend has been fueled by massive debt and deficits, and a gradual loss of confidence. Unfortunately, this is accelerating.

As we've pointed out before, the U.S. dollar has been the world's reserve currency since 1944, but over the past decade or so, we've been seeing cracks on the surface.

This too shouldn't come as a surprise... Over the centuries several countries have been the world's reserve leader. This privilege usually goes to the world's strongest and most fiscally sound country. Spain, Holland and the U.K., for instance, all had their day in the sun, at different times.

Eventually though, things changed and the torch was passed. These changes can take years, and increasingly it looks like it's happening again.

Many countries have been turning away from the U.S. dollar and doing their own thing. They've been making trade deals in their own currencies, and thereby eliminating the dollar from their transactions.

In the meantime, China has been making its currency more available and attractive, and dozens of countries are moving in that direction.

One reason why is because the U.S. has tons of debt and China has huge monetary reserves. Plus, China has been buying huge amount of gold. They also produce gold, and rumour has it they will eventually back part of their currency with gold.

If so, it would make the yuan the world's most desirable currency and the U.S. dollar could plunge. But there's more and it's important...

Also, weighing on the dollar are other factors, like low interest rates, more central banks reducing their monetary stimulus in 2018, the tax cut bill, rising commodity prices, the trade deficit, Trump's political problems, North Korea tensions, and more bearish dollar sentiment than before.

Gold and Natural Recources

The Chinese government recently announced a new mechanism that will allow world oil producers to trade their oil for gold (and not in U.S. dollars, as is currently the case). For many oil producers this will be much more attractive than the petrodollar system... Here's the deal...

"The Shanghai International Energy Exchange (SIEE) is launching a crude oil futures contract denominated in yuan, China's currency. This will allow oil producers around the world to sell their oil for yuan.

But most oil producers don't want large stashes of yuan and China knows this. That's why it's linked the crude oil futures contract with the option to convert the yuan into physical gold through exchanges in Shanghai and Hong Kong...

Meanwhile, Russia is one of the world's largest energy producers and China is the world's largest energy importer. And they've been buying and selling in yuan.

But the SIEE will streamline the process of selling oil to China for yuan - or effectively for gold... So, when two of the biggest players in the global energy market totally bypass the petrodollar system, it's a very big deal."

The bottom line is, China's "golden alternative" will provide an attractive option. It will also likely become a key factor that'll put downward pressure on the dollar and upward pressure on gold. And we'll be watching this closely.

Gold is impressive in spite of the overbearing stock market. It ended its best year since 2010, and after being up now for two consecutive years.

Copper is enjoying its best run in almost three decades while crude oil is seeing the strongest start to 2018 in four years. Other base metals and raw materials are on the rise too.
The resource sector is backing this up in a solid turnaround, and we believe 2018 is going to be a really good year for this sector.

We're starting to see a very bright future for the whole sector of precious metals, resources and energy, and their shares.

Stronger demand in a growing global economy, and lower supply, together with some geopolitical tensions and a weaker U.S. dollar are the main reasons why.

Plus, renewed optimism about the health of the Chinese economy is providing a huge boost to the copper price since China accounts for 40% of global demand for copper.

Gold is getting a boost of safety with the tensions in North Korea, and protests in Iran. The Bitcoin cryptocurrency volatility has also spilled over to gold. And it looks like this will continue.

Crude is similar. The violence in Iran and speculation that crude stockpiles are in the longest decline since the Summer have boosted oil. And of course, OPEC's production cuts started the rise.

There's strong global demand... China is the largest gold consumer, and it bought lots of gold bars last year, up 40% through November from a year earlier. India, the second largest consumer, saw their gold imports surge 67%!

Plus, the U.S. Gold Council reported that gold backed ETFs added almost 200 tonnes of gold to their holdings in 2017, which is up 8.4% from 2016. In December alone when gold reached its lows the global gold ETFs increased their holdings by 5.3 tonnes.

European funds captured a big 75% of global inflows last year. This was a gain of almost 150 tonnes of gold. In the U.S., the two largest gold ETFs accounted for about 28% of the global net inflows.

As we write, gold is reaching new highs in eight emerging market currencies. This means the bull market is solid and strong. Gold is better than most key currencies.

In fact, both copper and crude, the two barometers, fared well compared to the soaring stock market. Copper outperformed the S&P500 while oil quickly made up for lost time, ending the year just about as strong as the S&P. Of course, the weaker dollar, as you can see, helped all of them too.

The best way to take advantage of this ongoing and upcoming rise is to buy selective raw material, resource and energy stocks. We already have BHP Billiton, and it's paid off to ride it through. It's the world's largest metals and minerals company based in Australia.

We're looking at a Rare Earth position (REMX). It's done very well, buy it now and on weakness. REMX is an ETF composed of different rare earth elements and it's a great way to be exposed to elements such as lithium.

Crude oil is in a good situation. It's been soaring this month, reaching an almost 4 year high on speculation oil inventories in the U.S. are low. OPEC's members have kept their production low to push up the price. But the shale oil business in the U.S. hasn't been obliging, and OPEC is getting anxious as oil prices above $60 could cause shale producers to step up their output.

Overall, demand is strong and supplies are still down, and together with tensions it's all keeping crude up.

Summary

The Sparrowhawk Fund strategy is to always be fully invested for the long-term in order the catch the force of the long-term compounded returns. (CAGR +15% since 1980).

The 2017performance was particularly hurt by the weak US dollar, which fell more than 14% against the EUR in 2017. The Sparrowhawk Fund was up +23,52% in USD terms.

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.

Whatever happens, we're excited about the potential for this year. It's going to be an interesting and profitable year, and we look forward to sharing it with you.

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	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%**	**19,56%**

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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