Fidelity Capital Management

July 2018 Investment Letter

June 31, 2018	*YTD*
Sparrowhawk Fund (EUR)	**10,80%**
Royal Albatross Portfolio (USD)	**1,56%**
Kingfisher Portfolio (EUR)	**-1,07 %**

DJ Industrial Index	-1,81%
S/P 500 Index	1,67%
MSCI World Index	-0,67%
Berkshire Hathaway	-5,23%
Gold	-4,20%
EUR/USD	-3,24%
Oil WTI	22,60%

15.38%

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 $321 million at a rate of 15,52% compounded annually.

"Know what you own, and know why you own it" - Peter Lynch

It's all about Trump. He is attacking the Fed, which could cause the central bank to hold back on rate hikes. There are many bets on a flattening yield curve and Trump has told that he expects GDP to hit 4,8% in 2018.

You may think it is hard for the stock market to ignore these kind of moves, but it does. The Sparrowhawk Fund has again benefitted from being patient. The Fund is up 10,80% as of end June 2018 and +13,8% mid July.

AT&T will report its results today, a position in the Fund due to their takeover of Time Warner. Verizon shares are up on strong results, so maybe same thing will happen to AT&T. Another position of the Fund, Alphabet, was up 5% due to strong results.

The Albatross Portfolio is up 1,56% end June 2018 with 60% still in cash. The commodity part is + 6,44% and the US equity part is +3,14%.

The Dow Jones Ind is still in negative territory -1,81% and the S/P 500 Index is + 1,67% end June 2018.

The Big Picture

The big news has all been about the trade tensions and it creates uncertainty and the stock market hates uncertainty. It has affected the markets, strained international relations and resulted in an intensifying trade war.

The feared trade war started with China and the US allies. Trump imposed a 25% tariff on $34 billion worth of Chinese goods, and more is coming. China then accused the US of starting "the largest trade war in economic history". China responded by imposing the same tariffs on $34 billion of US goods to China.

Tariffs were also imposed on steel and aluminum from Canada, Mexico and the EU. Trade wars are not good for the world economy or global trade. They hurt everyone, including the US, in one way or the other. About 2/3 of US and Asia Pacific business leaders have warned Trump that their companies are going to be negatively affected over the next six months, along with workers and farmers.

Car producers have said that tariffs will cost hundreds of thousands of jobs, it will hike prices and threaten industry spending. Harley Davidson is moving to its European bound motorcycle production out of the US. It is doing so to avoid tariffs on US motorcycles, which was imposed by the EU in retaliation for US tariffs that were put on European goods.

Fears are growing this could lead to a recession. It's also being reflected in the stock market, which has been nervous and under pressure.

It started with the US and China and a trade war would devastate both economies. Things started heating up and threats are spreading worldwide. Russia and India also jumped saying they won't be pushed around, Canada as well. The IMF and central bank leaders keep warning that these trade policies are going to hurt the global economy and undermine the world's trading system.

Can the world's leaders come to mutual agreements before damage is done?

What are the Markets telling us?

2108 has generally been difficult for investors. The markets have been volatile, swinging up and down. The trends are not clear. The stock market rise has already lasted over nine years and while bull markets don't normally last so long, it is vulnerable and we need to be cautious.

Global stocks have been even more vulnerable and they could be leading the way down. (The Albatross Portfolio closed out the non-US equity position end May already. The Portfolio holds 60% in cash now). That is especially true of the emerging markets. (China).

One reason for weaker emerging markets is because many of these countries have debt in US dollars. And with the dollar and the US interest rates rising this year, it's making it tougher for some of these countries to manage their debt, so the credit risk is rising, which is weighting on the stock markets. The trade war will also add pressure.

We will probably see some good new opportunities worth taking advantage of. For others this bull market in stocks is already the second longest in history. So, while it could still go higher, it's near maturity and warrants some caution.

The US debt is huge and it keeps growing and about half of the debt is financed by foreigners. They do this by buying US Treasury bonds and the money is used to cover government spending. Over that past 20 years, foreigners have financed $8 trillion in new bonds just to cover the deficit.

This all worked well, but now we see some change. Trump's tariffs and trade war tensions are straining relations and many countries are dumping their US bonds. The Russians, Chinese, Japanese and others are selling their bonds, and concerns are growing that if the trade war continues to escalate it could lead to a global boycott of US Treasury bonds.

Already foreign ownership of US debt has dropped from 50% to 43% in recent years. Russia is leading the charge and it is pretty significant. In April, Russia sold half of all its Treasury bonds. It sold $47 billion out of $96 billion. And by doing so Russia dropped down to 22nd place on the list of major foreign holders of US securities. This was Russia's response to new US sanctions on their aluminum exports. Other countries are expected to follow.

The Fed is also selling bonds. In 2008, the Fed had to intervene to help rescue the economy. They did this by dropping the interest rates to near zero. They also bought bonds for several years via their EQ program. They ended up buying about $4,4 trillion worth of mostly US Treasury bonds. All that money added fuel to the economic recovery and it helped drive asset prices higher.

But last year, the Fed started selling bonds, it actually went from being the biggest buyer of bonds to the largest seller. They felt the economy was strong enough to stand on its own. The Fed also raised interest rates. They will have sold $80 billion in T-bonds by year-end.

This could lead to higher interest rates to attract potential buyers. So, bond prices will be under pressure. That actually wouldn't be a big deal because compared to other major countries, the US interest rates are still the highest. This in turn has been one of the main factors keeping the US dollar firm.

But now you can see that the 3 month T-Bill rate is almost as high as the 10 year yield. This is important because it is a strong sign of caution for the US economy. This historically precede recessions. We are watching this closely.

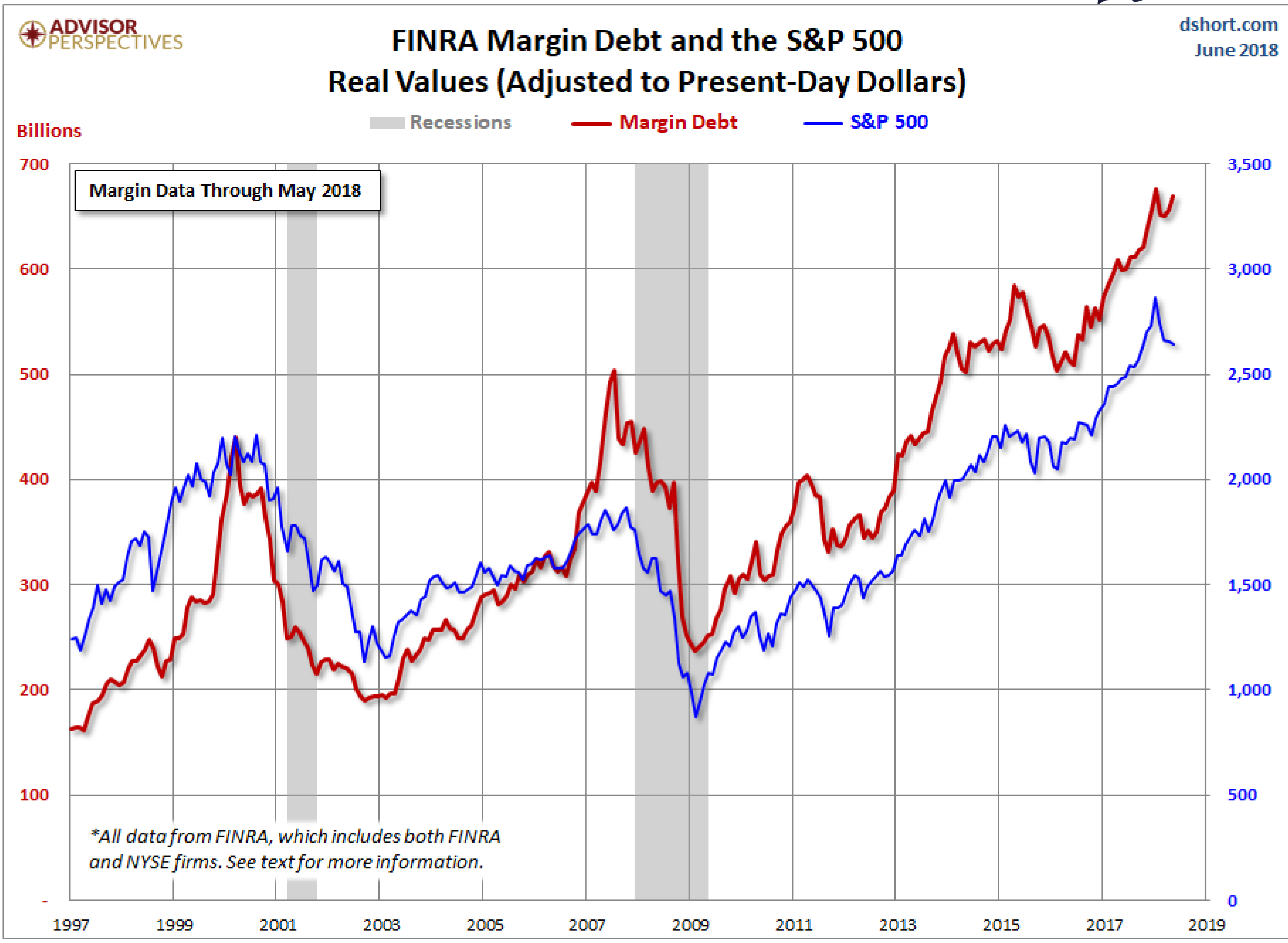
Stock Market

The trade tensions were the big market mover last month and everything else was secondary. The Nasdaq and the Russel 2000 index have been stronger than the Dow Industrials, which dropped a lot. That is mainly because the Dow stocks have a lot of international exposure. And these trade fights have cost the stock market trillions. On the other hand, small cap stocks are holding up better because they are generally immune from overseas turmoil, tending to be more domestic.

The market is bouncing up and focusing on a strong 2Q earnings season. This bullish scenario makes sense in many ways, mainly because the economy remains firm. The bank and energy sectors have room to rise further. Plus, the leading economic indicators are showing that risks to the economy and the stock market are still low.

Index	2018 Peak	YTD
BSE SENSEX	8.09%	7.43%
S&P 500	7.45%	4.67%
CAC 40	6.17%	1.82%
Nikkei 225	5.97%	-0.74%
FTSE 100	2.47%	-1.14%
Hang Seng	10.81%	-4.61%
DAXK	4.96%	-5.49%
Shanghai	7.63%	-14.91%
As of Jul 16 2018		

The Sparrowhawk Fund has as a long term strategy to be fully invested at all times, convinced that spending time in the market is much more important than trying to time the market. The Fund has a CAGR of +15% and is up 13% so far this year.



Margin debt has shot up into the stratosphere. This means more investors are going into debt to buy stocks, which is not a healthy situation. And combined with the emerging markets dropping, it adds even more uncertainty to a vulnerable backdrop.

US Dollar

The dollar is stalling. Probably, due to he global trade tensions, which is keeping the dollar from rising. Trade tensions have escalated almost daily, which creates uncertainty about the future and how it will affect the global economy.

Foreign investors are starting to dump US T-bonds and as they do they're selling their dollars as well and converting them to gold or other currencies.

But the dollar still has an edge with its much higher interest rates than in most other countries. And if their rates head higher, so will the dollar. So, the question is, will the trade war overpower the interest rate advantage and drive the dollar lower, or will higher interest rates prevail and keep the dollar strong?

The US wouldn't mind a weaker dollar because it would make US exports cheaper. And with the US's trading partners now putting tariffs on US goods a weaker dollar would actually be beneficial.

Although there is no proof, it looks like China has already been taking steps in this direction. The yuan has taken a plunge against the US dollar. This is maybe not a coincidence. Probably the Chinese are weakening their currency to help offset Trump's new tariffs on Chinese goods. A weaker yuan would make Chinese goods cheaper, giving them an edge as the trade tensions mount.

Gold and Natural Resources

The natural resource sector have been mixed. Even though commodities are generally due for a good sized upmove following several years declines, it's not happening yet.
Oil has been jumping up, reaching a 3 ½ year and is poised to rise further. But copper has abruptly turned down, following a lackluster first half of the year.

Precious metals have not done much. They have not benefitted as safe havens, at least not yet. Instead, they have been moving like commodities. We have expected a turnaround in these markets, which could happen at any time, especially if inflation picks up. We are watching it closely.

Commodities are at an extreme low area versus stocks for the third time in 47 years. It doesn't happen often. We are in the best opportune moment to buy select commodities in almost 20 years.

The Fed's core inflation hit and surpassed its 2% target for the first time in six years. This is a big deal for commodities in general because as inflation continues to perk up, it'll keep upward pressure on commodities.

Many are wondering why gold isn't rising with the trade tensions and geopolitical uncertainties. Investor sentiment for gold has reached a bottom, it's exhausted. The Sparrowhawk is aside on gold for the moment, but ready to buy in order not to miss the great move up, that surely will come.

Ian Tefler, a mining industry executive, says the peak of gold production is here. He doesn't think there are more mines out there, or nothing significant. "Mine production will continue to decline because all of the major deposits have been discovered".

South Africa was once the top gold producer by far, but output had fallen steadily. China has clearly become the number one gold producer followed by Australia and Russia.

2017 saw a decline in global gold mine production and it marks the first annual drop since 2008.

Russia has been producing more gold over the last 8 years. And 83% of European gold comes from Russia. But of course, like China, the government buys a good part of all gold produced in-house.

The US and Canada comes in 4th and 5th and both are producing more than previous years.

It is possible that some kind of gold discipline will play a role in the future for the international community. It's a matter of when and how. It makes sense that several gold producing countries are keeping the most of their gold production for themselves. If the BRICS are seriously considering an internal gold trading platform, according to Russian officials, the global economy will change and the West could lose dominance? And if a creation of a new gold standard by BRICS becomes a reality, it would be a step closer to ending the US dollar dominance in the world.

Crude oil left the resource sector in the dust; soaring while copper and the base metals took a hit. The tariff war with China is hurting copper because it is the world's biggest copper consumer. Trump has been blaming OPEC for high oil prices and Iran accuses Trump of stroking volatility after he withdrew from the global nuclear arms deal with Iran.

Oil could well be leading the way for other commodities, including gold.

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).

US and global growth remain, healthy. Intertest rates may rise but are still low. Central banks are unlikely to be overly aggressive in raising interest rates.

But this actual downward correction is providing 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.

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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							7,21%	10,80%	1,67%

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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