Fidelity Capital Management

June 2018 Investment Letter

May 31, 2018	YTD
Sparrowhawk Fund (EUR)	**8,13%**
Royal Albatross Portfolio (USD)	**1,84%**
Kingfisher Portfolio (EUR)	**-4,47 %**

DJ Industrial Index	-1,23%
S/P 500 Index	1,18%
MSCI World Index	-0,50%
Berkshire Hathaway	-3,49%
Gold	-0,24%
EUR/USD	-2,34%
Oil WTI	10,78%

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

The Sparrowhawk Fund has benefitted from being patient in the media sector, where Disney and Comcast is fighting for Fox's assets. Disney just raised their bid to $71,3 billion. The fight goes on and the whole sector is booming. The Fund is +8,13% end May 2018.

The Albatross Portfolio is up 1,84%, with the commodity sector + 8,59% and the US equity part +2,42% and the remaining in cash (60%).

Things had been relatively calm on the trade front, which made the US dollar stronger. China and the US imposed tariffs on each other's products in March. There have been some sharp words and diplomatic moves going back and forth since then. Tensions eased, until the end of May. The White House announced it will publish a list of $50 billion worth of Chinese goods that will be hit with a 25% tariff. The US also said it will continue pursuing action on trade with China.

Obviously, china was not happy, trying to protect their interest from "reckless" US trade threats. This is straining relations between the two countries, but then the US hit its closest allies as well. Tensions intensifies when the US said it will put tariffs on aluminum and steel imports from Canada, Mexico and EU. The US is also putting the heat on German cars.

None of this is good for the economy. It fuels uncertainty and the global economy and the stock markets don't like uncertainty.

The European Central Bank (ECB) announced it will begin phasing out its bond buying program by December, the latest step to end the massive programs put in place after the Great Recession. However, the ECB did say that it won't start raising interest rates until next summer at the earliest.

Compare this to the US, where the Fed stopped its bond buying a few years ago, they managed to raise rates seven times since late 2015. Both central banks states that the economic data will determine their next move. Both fear that raising rates too quickly will add volatility to the market.

For now, however, the US Economy is looking good. Unemployment is at a 17 year low. Consumer confidence is at a, 18 year high. The index of the Leading Economic Indicators is also hitting new highs and this is good.

But remember, 40% of US adults do not have enough savings to cover a $400 emergency expense. In addition, 43% of households can't afford the basics to live. So the outlook is actually very mixed.

The Big Picture

There is a lot going on in the world these days. And any of these issues can affect the markets, becoming the latest wild card. Maybe nothing will happen, but the ingredients are there.

- The G7 meeting recently held in Canada was a flop, ending in insults and it generated tensions between the US and its allies. With the new trade tariffs by the US, the allies were not happy. Trump's comments to let Russia back into the group was also unwelcome. There were growing concerns that the confrontation could hurt their 43 year old G7 history of working together to find consensus on the economy and other points of mutual concern.
  Merkel of Germany said that Europe may no longer be able to rely on the US. Many are worried these new tensions among friends are a dangerous precedent. But it seemed to be positive in the US because Trump's approval rating is up strongly.

- But on the other hand, trump's meeting with Kim Jong Un went well. This is important for the world and for the markets too. It makes the world a safer place and reduces uncertainty in the area. So far, so good.

- The Fed just raised the rates again. And when the Fed tightens, recessions usually follows, at least it has in 9 out of 11 cases, going back to the 1950s. Actually, the monetary environment has taken a turn for the worse and rising rates is one reason why. The housing sector has slowed down this year, due to higher rates. The same is true for of the global economy, it is still firm, but growth has been sluggish. In Japan, the economic growth shrank in the 1Q for the first time since 3 years. Could Japan be leading the way for the rest of the world? Let's hope not, but since countries generally tend to move together it is something to keep an eye on. Higher rates in the US are hurting some of the emerging markets, but the rest of the world has kept their rates at historically low levels.

What are the Markets telling us?

Experts put the world's total monetary base at about $24trillion. It has been growing a lot since 2008, the world simply created money at double-digit rates year after year.

This money has kept the economy going and the stock market surging higher. This will probably finally drive inflation higher too.

But with the economic environment now tightening up, these monetary experts expect liquidity growth of only 3% over the next year. If this proves to be true, it won't be enough to keep the economy or the financial markets sailing along.

" In an old style economy cycle, recessions triggered bear markets. It slowed consumer spending, corporate earnings fell and stocks dropped. That is not how it's works in a credit cycle, where we are now" (John Mauldin).

Corporate debt is now at a level that has not ended well in past cycles. The corporate debt/GDP ratio could still go higher, but not so much. Whenever it falls, lenders will want to sell, but it will be hard to find buyers. This usually leads to recessions.

The outcome is not yet clear, actually it never is. But our policy in the management of the Fund, is to be fully invested in themes and sectors that shows a visible long-term potential. We do not do market timing. The Fund is concentrated in quality companies that has a strong earnings growth potential with a positive cash flow or in value stocks. Long-term can be 5 to 10 years.

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.

Stock Market

Even though the market has been reacting to the trade tensions, higher interest rates and other geopolitical issues, solid earnings propelled stocks higher.

Interest rates could rise further which could spook the stock market. So is the record high level of margin debt. That is money which is borrowed to buy stocks, and the higher it goes, the more vulnerable the stock market becomes.

Index	2018 Peak	YTD
BSE SENSEX	6.95%	5.13%
S&P 500	7.45%	3.75%
CAC 40	6.17%	2.60%
Hang Seng	10.81%	1.30%
Nikkei 225	5.97%	-0.37%
FTSE 100	2.47%	-0.73%
DAXK	4.96%	-3.44%
Shanghai	7.63%	-8.63%
As of Jun 18 2018		

But all things considered, the bottom line is…..the stock market is still bullish and interest rates will be historically low…even if the Fed raises some more.

Opinions are all over the place:

Byron Wien: “Investors shouldn’t be too comfortable”.

Warren Buffett: “We are in the sixth inning and we have our sluggers coming to bat right now”.

Paul Tudor Jones: “A strong leg could come after the midterm election.

The Sparrowhawk Fund positions are doing very well, some hitting record highs. The tech stocks are still top performers and we are adding to some of the positions on dips.

International stock markets are also on the upswing, Germany and Japan. But some emerging stock markets are showing weakness, due to the stronger dollar and higher interest rates. This is because these countries have debt in US$ and it’s now becoming more difficult to repay the debt.

We are keeping a close watch on interest rates because whichever way they go from here will determine which way the world economy and the markets are headed.

Interest rates are very sensitive? Last month they rose sharply. The 10 year yield hit a seven year high. Mainly thanks to easing trade tensions and concerns over the new Italian government. Plus the Fed has been raising interest rates and the days of interest rates near 0% are over.

This in turn raised some concern in the stock market because raising rates are not good for stocks. There were also worries about the effects on economic growth. Even though, a short while ago rates suddenly turned down, driven by worries over Italy. Memories of Greece a few years ago spooked investors, even more this time because Italy is so much bigger than Greece, economically speaking.

Everyone was worried about Europe’s debt level at the time, and how they could hurt the whole Eurozone. But it didn’t happen then, and it is unlikely to happen now.

Goldman Sachs believes in higher rates in the year ahead. They say the US budget deficit is growing at a time when the unemployment rate is falling. This is something that hasn't happened in peace time since WW2. They predict that rising costs to fund the deficit will force the government to borrow more, which will push up rates. (The 2 year yield has already surpassed the dividend yield on the S/P500 for the first time since 2008).

On the other hand Huntington Investment Management sees lower rates ahead. They believe the outlook for the US economy is bearish as it begins to shake under the weight of rapidly rising debt and falling population growth.

We will see where it goes.

US Dollar

The US dollar is stronger due to expected higher rates, making it more attractive than the other currencies. The Fed hiked rates again, which keeps the dollar firm.

Italy also helped to boost the dollar. Since Italy is the third largest economy in the Eurozone, its political problems become Europe's problems, and they affect the global scene as well.

Gold and Natural Resources

Crude oil soared this year, leading the way in an inflationary move. It rose with the dollar, which is unusual. Copper was next to "take off" this month, following oil, taking many resource stocks with it. Steel, iron and nickel are also rising, and resources could be influenced by trade tensions in the US with its allies.

With gold demand growing, it looks like gold is set for a growing bull market that could last several years. The ins and outs of safe haven needs have basically kept gold firm this year. The ongoing political atmosphere and growing trade tensions, together with uncertainty coming up almost daily, makes gold a good place to park some money.

Money managers are also using gold to hedge against a pick up in inflation. Russia has surpassed China as the number two holder of gold in the world. That is, if you believe China's reporting, they are a major producer and they import tonnes of gold, which makes it seem unlikely that Russia has surpassed them.

China, Russia, Turkey and Switzerland continue to add gold to their reserves. This is a good sign for a higher gold price.

China's improving wealth and middle class including hundreds of millions is expected to renew growth in jewelry demand, creating long-term support for global gold demand and performance, according to WGC.

Competition in gold ETF's is also heating up. BAR, is growing by leaps. BAR's asset under management jumped up to $160 million from $15 million. It still has a way to go to catch up to GLD that has $34 billion. BAR is charging less fees, along with a guarantee to be fully backed by gold.

Investors are changing their asset allocations to include broad based commodities including gold. They are called " defensive equities", and some are more invested in this sector than any time since 2008.

The best performing asset class in the Albatross Portfolio is the commodity sector, which is up 8,59% end May 2018. The Albatross Portfolio is now with 60% in cash and up 1,84%.

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								5,46%	8,13%	1,18%

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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