Fidelity Capital Management

March 2019 Investment Letter

2019 YTD

Sparrowhawk Fund (EUR)	**15,59%**
Royal Albatross Portfolio (USD)	**1,61%**
Kingfisher Portfolio (EUR)	**7,59 %**

DJ Industrial Index	10,97%
S/P 500 Index	12,99%
MSCI World Index	12,61%
Berkshire Hathaway	-1,52%
Gold	1,66%
EUR/USD	-1,03%
Oil WTI	31,03%

16.96%

In 1980, 38 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 16,96% compounded annually.

Sparrowhawk Fund (EUR)
Still No1 in 2019
No1in 2018 and No1 for 3year annualized.

The Sparrowhawk Fund, who doesn't do market timing, but rather is staying invested in quality companies for the long-term, succeeded in staying on the positive side in 2018, +2,47% and is up this year +15,59%. Also, No1 on a 3-year annual basis.

The Sparrowhawk Fund is a concentrated portfolio exposed to strong cash flow companies and, now more than ever, focusing on quality companies, safe dividends, strong long-term growth potential and cheap valuations.

The Royal Albatross Portfolio also remained on the positive side in 2018 with 80% in cash. This portfolio strategy has never had a negative year since 1973, except 2015 with a loss of -2%. The Portfolio is + 1,61% and holding 40% in cash.

We are convinced that in order to gain decent returns (risk adjusted) from an equity portfolio is to seriously invest for the long-term.

The Big Picture

The debt picture is a big concern, which we have mentioned may times. As the Fed head Powell recently warned…budget deficits are projected to surpass $1 trillion. He also noted that government debt is on an unsustainable path, and the idea that deficits don't matter is just wrong.

This is indeed a big worry lurking in the background. And sooner or later, the consequences are going to be felt. Powell knows this and that's why he is speaking out.

And it is not just government debt.

Corporate and consumer debts are becoming more worrisome and some fear they could become the next 'subprime" bubble, which could throw a wrench into the currently vulnerable economy.

The bottom line is that the debt load is at record levels, across the board. That's because consumers and corporations piled on debt when interest rates were so low and now they are struggling.

Credit card debt, for example, is at a record high, millions of people are delinquent on their auto loans, but corporate debt is the biggest concern.

So, these are some wild cards that may or may not trigger a recession, but they are capable of doing so and therefore, they warrant a close attention. That is especially true considering this economic expansion is already very long, historically speaking.

There hasn't been a recession in 10 years and if we get to June without a recession, which is likely, this will be the longest era of economic growth going back to the 1700s.

This alone tells us the economy is becoming more vulnerable to a recession with each passing month, which would be normal following such a long run. In fact, global growth forecasts keep getting slashed and this too means that any of these wild cards could be “the trigger”. But why do we need a trigger?

Mainly because every recession in the past 45 years has had a trigger….in 1974, it was Watergate? In 1982, it was soaring interest rates that started a surging inflation. In 1991, there was the savings and loan crisis? In 2000, it was the bursting of the tech bubble. And in 2008, the subprime housing crisis.

The Sparrowhawk Fund, which doesn’t do market timing, but rather is staying invested in quality companies for the long-term, and focusing on strong cash flow companies with decent debt ratios. The annual average return is at +16% since 1980, being fully invested even during crisis periods, such as 1987, 1998, 2000 and 2008.

Remember that if you have missed the 10 best days in the stock market during the last 20 years, you return would have been cut in half.

What are the Markets telling us?

Here is what we can see. One of the leading economic indicators is the housing sector. When the economy slows down, you will almost always see it in housing before it becomes obvious in other sectors.

The housing sector index has been on the decline since early 2018. This has coincided with higher interest rates, which generally puts the pressure on the housing sector. And weak housing and higher interest rates in turn tend to put downward pressure on the stock market. It is a chain reaction. Back in the days of QE, money was flowing and interest rates were super low. This fueled upmoves in housing and stocks. But then the Fed started tightening in 2015 by raising rates and the effects are now being felt.

Currently, for example, housing starts have been under pressure and home prices are raising at the slowest rate in more than six years. In some areas, prices are declining and if this continues, it will be a warning sign for the overall economy and the stock market.

The Baltic Dry Index (BDI) is another important economic indicator we are following. Basically, it provides insight into global economic trends, and it also tends to lead the economy and the stock market.

The BDI measures shipments on cargo ships. So, when demand is high, the BDI rises, signaling good economic times are coming. And when it declines, it’s a warning of potential trouble.

Note, the BDI was doing OK until last September. Since then it has dropped sharply, especially this year, falling about 50% in the past two months alone, hitting a two year low. This is not a good sign for the months ahead, and it could possibly be warning of a recession.

Stock Market

Maybe the market has risen too far, too fast? Since many years now investors are scared because they believe this bull market has gone too far.

But market timing is a big mistake.

Investors are still just as nervous now after a correction of almost 20% end 2018.

Just as a reminder: if you missed the 10 best days in the S/P500 since the last 20 years, you would have cut the total return in half.

Uncertainty has been soaring lately and it’s at record high. It is much higher than it was in 2000 following the tech boom or in 2008 during the worst financial crisis in nearly 80 years.

So why is everyone so uncertain? Mainly they are concerned about the trade war, which has slowed the global economy. Brexit, the US government shutdown, central bank policies and global tensions have also had an impact.

Global stock markets are rebounding too. These markets are still vulnerable, but they will likely continue moving in tandem with the US markets.

One market we are watching closely is the Chinese stock market, which has been slow to move up in 2018, which is a reflection of the trade tensions and it is a big concern. But in 2019 the Chinese stock market have risen on trade optimism.

Here are all eight world indexes in 2019 and the associated table sorted by YTD.

Index	2019 Peak	YTD
Shanghai	26.01%	25.60%
Hang Seng	17.03%	17.03%
CAC 40	15.43%	15.43%
S&P 500	12.86%	12.86%
DAXK	10.00%	9.73%
FTSE 100	8.39%	8.39%
Nikkei 225	9.03%	7.84%
BSE SENSEX	6.14%	6.14%
As of Mar 18 2019		

India is certainly an interesting area to invest in for the coming 10 years. The Fund is looking at a few potentially long-term holdings.

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.

US Dollar

The trade deficit has been surging. It's currently at a 10 year high, which is one of the largest in US history.

Tariffs didn't improve the trade picture, and this is not good news. Because a big trade deficit has almost always coincided with a big drop in the US dollar.

That's not the case now, but this could change pretty quickly. The main reason why is because a weaker dollar would make US products cheaper on the global stage, and therefore, more attractive. This alone would shrink the trade deficit. It also explains why a big trade deficit and weak dollar go hand in hand.

Trump wants a weaker US dollar for these very reasons. He has said so many times and it seems like he will make it happen, one way or another.

Foreign countries have been moving out of dollars. This too will keep downward pressure on the dollar. And if the dollar eventually loses its global reserve status, the dollar would plunge.

But the reason the dollar is holding firm is due to the US economy. The numbers have generally been better than those in most other countries.

But lately things haven’t been looking so good. Retail sales, manufacturing, industrial production and the real estate market have all been in the slumps. Thousands of stores have closed, and corporate debt and the budget deficit keeps growing. Taken together, these are negative signs, possibly signaling a recession downstream.

Gold and Natural Resources

Countries and investors around the world are moving into gold and into this arena. And more countries are adding to the list that are repatriating their gold. They are bringing their gold home.
Germany was the leader, then Netherlands and Austria followed. Hungary did the same last October. Romania is now seemingly right behind, not to mention other countries. It’s an ever growing trend in this skeptical world.

The Sparrowhawk Fund is analyzing and watching closely the gold price and may take a new position if the fundamental view is supporting that.

The oil price has been rising in a rebound rise. Waning supply is one good reason why oil could rise further. In Iran, for example, US sanctions have removed about 1,5 million barrels per day from the global markets. Venezuela’s exports are down 40%, OPEC has been cutting back, and US inventories are down. So, despite the global slowdown, shrinking supply will help keep oil firm.

Summary

The Sparrowhawk Fund strategy is to always be fully invested for the long-term in order the catch the strength of the long-term compounded returns. (CAGR +16% since 1980).

The Sparrowhawk Fund has a significant allocation to quality US focused companies priced at attractive levels in industries like media, payment industry, pharma, infrastructure and consumption.

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	2,05	4,28	1,65%	-5,05	0,40	-8,49	**-1,99%**	**2,47%**	**-6,24%**
2019	5,82	3,32											**8,48%**	**15,56%**	**12,16%**

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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