Fidelity Capital Management

May 2019 Investment Letter

2019 YTD

Sparrowhawk Fund (EUR)	**22,32%**
Royal Albatross Portfolio (USD)	**2,67%**
Kingfisher Portfolio (EUR)	**16,67 %**

DJ Industrial Index	14,00%
S/P 500 Index	16,67%
MSCI World Index	15,66%
Berkshire Hathaway	6,23%
Gold	0,00%
EUR/USD	-2,20%
Oil WTI	41,46%

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.

Red Hot Economy or Recession?
Hard Brexit or Reverse Brexit?
Re-elect or Impeach?
Tariffs or Free Trade?

The Sparrowhawk Fund's successful start in 2019 is partially due to our long-term approach, as business buyers, and not because we are short-term traders or momentum chasers.

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 +22,32%. Also, the Fund is still holding the top spot based on the 3-year average total return.

The Sparrowhawk Fund is primarily an Opportunity Fund or a Conviction Fund, based on 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 + 2,67% YTD and is divided in 5 asset classes 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 big picture is the dominant trend and it is the most important. It dictates which way the economy and the markets are headed in terms of years, not months.

The economy has been in an upswing for the past 10 years, ever since the financial crisis literally pushed the economy and the whole financial system to the brink.

The economy was saved by QE. This included super low interest rates and bond buying by the Fed and other central bankers.

It was done to stimulate the economy and turn it around. They succeeded by adding trillions to the financial system, which was basically thanks to this manipulation.

Interest rates hit 5000-year lows three years ago, which is as far back as the records go, and it looks like they're going to stay near these low levels for some time. This will be good for stocks.

Even though this stock market rise is now getting long and it should be maturing, the rise could keep going as long as interest rates stay low.

There is also a new twist in the big picture. The monetary policy has become political.

Trump, for instance, has demanded that interest rates must stay low. He has also been consistently criticizing the Fed. In a recent comment, Trump said, “If the Fed had done its job properly, which it has not, the stock market would have been up 5,000 to 10,000 additional points, and GDP would have been well over 4% instead of 3%, with almost no inflation. QT was a killer, they should have done the exact opposite.”

Whether you agree or not is not the point. The point is, the President is telling the Fed what to do and the Fed is following instructions.

This is totally new, because the Fed has always been independent. The President wants the era of low interest rates and super loose monetary policies to continue, and he is not alone.

Bernie Sanders wants the same. So does the UK, India and many other countries as well.

It is becoming more obvious each month that more stimulus is going to be the end result. Basically, the world is following Japan, and it has been for years.

Over 20 years ago, the Japanese lowered their interest rates to zero to help boost their economy. Even though this didn’t help much and their debt continued to surge, the rest of the world has been following this strategy, especially after the 2007-08 financial crisis, dropping their interest rates to near zero, and in many cases below zero.

Currently, the main countries simply do not have room to cut rates much further. So, they will again have to turn to unconventional stimulus measures.

“With Europe’s economy in the doldrums and signs of a coming economic slowdown in the US, the advanced economies could be at risk of falling into the same kind of long-term rut that has captured Japan.” (Mohamed El-Erian, Pimco’s CEO).

What will the government do when most of their expenses are interest payments of their debt. They will revert to more QE, buying bonds, negative interest rates, buying stocks and corporate bonds. But like Japan, it won’t work. It will postpone the recession ? Yes. But solve the underlying debt-ridden problem ? No. That’s the bottom line.

Rather than let the cycle unfold on its own, everyone is jumping in to turn the tide. This will delay the inevitable recession/crash/crisis or whatever is eventually coming, but it will not eliminate it.

For now, enjoy the ride. Go with the flow. Recognize where we are in the big picture and pay attention. Using Japan as a guide, recognize that this manipulated postponement period could last for a long time.

What are the Markets telling us?

Economic growth in the US surprised on the upside in the first quarter. This got everyone excited. It eased recession concerns. Just a few months ago we were hearing a lot of talk about a recession on the horizon. The economy was gloomy and investors were nervous about what was coming. But now, it’s another story. Better growth is reinforcing the view that if rates stay low, it will continue to boost the economy. The President will probably make sure the Fed continues this path.

All 11 sectors of the S/P 500 were higher in Q1. Technology + 19%, Industrials and REIT, both up +16%. Financials +8% and Healthcare +6% were the two laggards.

USA has clearly been the best market. Many other markets, from Europe to Japan to various emerging markets are barely higher than they were 10 and even 20 years ago.

Stock Market

We know the stock market loves low interest rates. It’s been the primary fuel driving stocks higher since the early 1980s. And if interest rates are going to stay low for the next two years as Fed Chairman Powell says, then stocks would indeed keep rising.

If they do, this would suggest the economy is going to improve. It would mean there is no recession down the road, and it would suggest the trade tensions are going to be worked out.

Also, positive, the P/E ratio is about average. Historically it is not too high, not too low. In other words, stocks are not too expensive and they have room to rise further. Another positive is that global stocks have been rising, following the US’s lead. China has been leading the pack and it will probably continue…..Lower yields in the US also help the global world markets and economies.

The S/P500 and the Nasdaq both hit new all-time record highs a few weeks ago and even though the markets are under pressure now due to trade tensions, oil supply tensions and events that is historically only affecting the market short-term, they still appear to be leading the way.

We have better earnings reports, which is easing concerns about an economic slowdown. This is good news as so are low interest rates. They will be the fuel driving stocks higher and other indications are backing this up.

The Sparrowhawk Fund is seeing this as an opportunity to pick up some leading stocks on a dip.

Most of the individual world markets are also on the rise and this a good sign. Because when they all rise together, it is real and widespread and that's a good sign.
Overall, the stock market has a lot going for it, especially with low interest rates. Don't forget the old rule: Don't fight the tape and don't fight the Fed. And we got both in our favor at this time.

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

Index	2019 Peak	YTD
Shanghai	32.67%	17.78%
Hang Seng	20.00%	13.61%
CAC 40	19.24%	12.22%
S&P 500	17.36%	12.03%
DAXK	15.95%	9.97%
FTSE 100	11.71%	6.38%
Nikkei 225	11.46%	5.88%
BSE SENSEX	9.43%	3.34%
As of May 13 2019		

On a long-term view, it isn't too late to buy China and Sparrowhawk owns a mixture of value and growth stocks. China and India are two regions to own in a portfolio, China will probably do better to start with, as the Indian election is in full force now in May and it will keep investors nervous. 900 million voters will make some important decisions. It is the biggest political event in Asia. Probably Modi will be reelected.

US Dollar

The US 10-year yield is almost 3% higher than the German yield. This makes the US dollar more attractive. So even though all global rates are declining, US rates provide the best return and that's keeping dollar demand high, which in turn is keeping upward pressure on the dollar.

The dollar hit a two year high and set to head higher. One of the biggest factors in the dollar's favor is that the US is now one of the few countries paying interest on deposits, notes and bonds. Even though short-term US rates are low at 2,35%, they are a lot better than rates in other countries.
The majority of rates in the major countries going out 6 months and beyond are actually paying a negative rate. But it stretches out to the 10-year bond in the cases of Switzerland, Germany and Japan.

“It against all common sense to have rates below zero, and yet that is what the world has been afflicted with.” (Chris Weber)

So, it is no wonder the US dollar is the star performer because at least it pays interest. The US economy has also been showing better economic signs than most other countries and that too is plus.

So, what is going to happen going forward. With rates below zero, or near zero, combined with slow growth, the obvious answer is that most countries are going to return to a QE program, if they haven’t already done so. More money and stimulus will flow into the world economy to keep things going. This will keep stocks and bonds on the upswing and it’ll be good for the US dollar, driving it higher.

Gold and Natural Resources

We know that central banks have been accumulating gold. They know the currency market is unsettling and trade tensions have added more the uncertain world. Global demand was up 4% on 2017. This annual increase was driven by the highest central bank buying in 50 years together with accelerated investments in bars and coins.

This global demand continues. It grew over 1000 tonnes in Q1 2019, up 7% from last year, according to the WGC. China’s central bank remains a big gold buyer for 5 straight months. In April alone China’s reserve rose over 60 million ounces. Which means they have acquired almost 60 tonnes of gold since December. Even with this, their reserves are low by international standards.

India is right behind them. Indian gold buying picked up significantly last month. They bought 120 tonnes of gold in April alone. Indians appreciate buying on weakness and this is what we are seeing.

Trade tariff tensions and tariffs in general is good for gold. “A US—China trade war would be bad for the whole world.” (Warren Buffett). Gold would benefit as a safe haven.

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

Summary

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. With the conviction of catching the strength of the long-term compounded returns. (CAGR +16% since 1980).

The Sparrowhawk Fund has a significant allocation to quality US companies focusing on those that can organically grow. 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	5,22	6,33									19,41%	22,32%	16,67%

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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