Fidelity Capital Management

November 2018 Investment Letter

October 31, 2018 YTD

Sparrowhawk Fund (EUR)	**11,52%**
Royal Albatross Portfolio (USD)	**0,04%**
Kingfisher Portfolio (EUR)	**-4,98 %**

DJ Industrial Index	1,60%
S/P 500 Index	1,43%
MSCI World Index	-3,87%
Berkshire Hathaway	3,40%
Gold	-6,78%
EUR/USD	-5,69%
Oil WTI	8,03%

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.

"Has Trump's tweets influenced the Fed ?
"Bull markets don't die of old age, they die of fright."

Now, this weekend the Trump and China agreed to halt additional tariffs in a deal that keeps their trade war from escalating. This should be good for the stock market. Trump is asking China to reduce and remove “tariffs”. But Chinese authorities has yet to confirm any move. This has given European car makers, like BMW and Daimler a strong boost in share prices.

“Returning from the G20 summit on Air Force One, Mr Trump told reporters "it's an incredible deal" that would have an "incredibly positive impact on farming".

"What I'd be doing is holding back on tariffs. China will be opening up. China will be getting rid of tariffs," Mr Trump said.”

Before the G20 meeting Trump insisted on new tariff threats during these meetings. The Chinese may not be under pressure to make concessions. After all, China has the ability to play a long game and the US doesn’t. China has many more weapons in its arsenal in a trade war, including depreciating the currency, launching fiscal stimuli, lowering taxes and interest rates and ending the purchasing of US Treasuries, to name a few.

Uncertainty on the trade dispute has been hindering companies from spending more. Corporations have pulled back on expenditures even as the economy is expanding at one of the fastest paces of the cycle. Many companies have opted to put future expansions on hold until there is more clarity on the effects of tariffs on demand and profits.

Also, crude oil prices are down more than 30% from the October peak, hurting the profit margins of energy companies and their spending plans. The slowdown of business spending is probably only temporary and things will start picking up. Once US business have clarity on trade, they may be able to focus more on boosting growth and productivity, which may fuel the next leg of the US economic expansion.

The Sparrowhawk Fund is still exposed to strong cash flow US companies by 80%.

The Royal Albatross Portfolio is up 0,04% with 80% 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

We are in one of the best economic periods since World War II. The U.S. economy is 70% driven by consumers. Now, we have high consumer confidence because more people have jobs. There is the beginning of wage growth. Corporate confidence is high. Not a single leading economic indicator shows a slowdown. It’s hard to believe that we can get a heck of a lot better.

Now, splitting Congress means having a little bit of gridlock. Nothing will really change regarding economic policy because the administration controls regulation. Very few different laws will get enacted. There may be some change in infrastructure or health care, but no big change that would affect the course of business, economic growth, jobs.

An all-out trade war with China would be bad. The probability of that result is lower than 50%. If you can do a deal with Canada, you'll eventually figure out a deal with China. [The market] will be volatile, but valuations are actually more attractive after this correction. We're still relatively bullish because corporate earnings will definitely be able to improve.

Stand back and look at the big picture. Following are the items that are most important that could change our long-term strategy.

The debt. Unfortunately, debt has been a real drag hanging over the world. And thanks to easy money over the past 10 years, the debt has literally skyrocketed. The world is drowning in debt and no one really knows how this is going to work out. There are plenty of theories, but what we have today is unprecedented.

Between 1776 and 1969 the US debt grew to $1 trillion. But over the past 49 years, the debt has soared from $1 trillion to $21 trillion!

Many have been warning, since years, of a collapse or a crisis is coming…but things have managed to move along without too many mishaps.

The big question is, how much longer can this go on? No one knows; In the meantime the debt keeps growing. It is not in the US alone. Debt has expanded worldwide and everyone's is in the same boat to some extent. Even China, with its huge reserves is facing some big problems. They have been lending billions to low income countries

In Africa, an elsewhere, and almost no one knows how much debt is on the books.

Then there are the leveraged loans, the gigantic derivatives market, and so on…we will just remind you how overwhelming the underlying situation is, which doesn't make things easy.

Many experts believe there are only two ways to deal with the debt…Paying it back is not an option, because the debt is too massive. One option would be to default on the debt, but that's not really a valid option either.

The second option is more workable, which would be to inflate the debt to more manageable levels. That is, boost inflation and let the dollar decline. This generally how the debt has been handled since 1971, when the US dollar went off the gold standard. At that point, fiscal discipline vanished, spending soared, and so did the debt.

Inflation soared too and the dollar has been in a long-term decline since then, dropping about 80% against the other major currencies.

What are the Markets telling us?

Interest rates are "just below" the so-called neutral level, which means it neither stimulates nor retards the economy. (Jerome Powell). This casual comment sent stocks higher, where our benchmark S/P 500 briefly entered a "correction" territory, or a 10% drop from its record highs. Simply stated, the Fed chief's remarks strongly indicated the central bank won't be raising its fed-funds rate nearly as many times in 2019 as their projections had implied.

There is no evidence that Trump's tweets have influenced the Fed, and nobody dared to ask Powell about that. So, the stock market is less nervous, now that the Fed doesn't have as far to go on its rate-raising program as earlier feared.

There are tensions between them. In recent weeks Trump said "Jerome Powell was endangering the US economy by raising rates and that he "maybe regretted nominating him". He also noted that "Powell almost looks like he's happy raising interest rates".

This, in itself, is unusual because the President and the independent Federal Reserve don't usually air their differences in public. But the Fed seems to be divided. Some Fed members feel rates have risen enough, and further increases could slow the economy too much and boost the risk of a recession. Others, however, feel further hikes are necessary to keep inflation under control. But inflation is not a problem, it has actually been coming down in recent months and is currently below 2 ½%.

Stock Market

Since President Trump's election, the S&P 500 has risen more than 27%. That figure betters the early months of Bill Clinton, Ronald Reagan and George W. Bush. Barack Obama's numbers are much higher, but stocks were springing back from the depths of the financial crisis.

On average, the S&P 500 has been up 16.7% in the 12 months after a midterm election, going back to World War II.

The consensus forecast for U.S. midterm elections proved correct as Democrats won control of the House, while the GOP hung on to the Senate. History has shown that mixed party control is generally the best combination for equity markets, while the highest-growth stocks can keep putting up terrific numbers even during an economic slowdown.

Democrat-friendly sectors, like the biotech cohort which runs counter to Big Pharma, could also get a boost.

The elections boosted stocks, but debt and interest rates didn't.

The big question now is, is the bull market going to continue, or not? Opinions are allover the place. Some say the stock market is much worse than many investors think. Others, say that a huge stock market rise is still to come. So it is no wonder investors are confused and uncertain. The stock market hate uncertainty and the primary force driving the stock market right now is China.

When trade tensions between the US and China increase, it weighs on the stock market. And the likelihood of an escalating trade war really spooks the market, for a couple of reasons. It hurts the US corporate earnings growth. It is also slowing China's economy, which in turn raises concerns the slowdown could spread to the rest of the world, dragging global economics and stock markets down.

This we already see in some degree in the table below.
And since the stock markets of the world generally move together, this intensifies concerns across the board.

Index	2018 Peak	YTD
BSE SENSEX	15.04%	4.56%
S&P 500	9.62%	-0.01%
Nikkei 225	6.61%	-4.19%
CAC 40	6.17%	-5.98%
FTSE 100	2.47%	-8.48%
Hang Seng	10.81%	-11.84%
DAXK	4.96%	-14.57%
Shanghai	7.63%	-22.11%
As of Nov 26 2018		

But then, in early November, hopes of a US-China trade deal evolved and stocks moved up sharply on optimism a resolution could be worked out.

Usually rising interest rates have not historically been good for stocks. The main reason why is because, at some point, the upmove in rates hurts the economic growth. And slower growth affects business in general, which results in lower stock prices.

Actually, the current rate rise has been going on for over two years. What has changed is that rates are now rising faster. Which is making the stock market nervous.

Note that the S/P 500 has had two steep declines during the current bull market that started in 2009. These happened in 2011 and in 2016, when the index declined 19,38% and 14,60%, respectively, and then the market headed higher.

A similar situation could be happening again, but time will soon tell. For now, the Sparrowhawk Fund is up 11,52% and holding the concentration of quality cash flow stocks, which always been its policy since 1980, and which has generated over 15% in compounded average annual return.

Sparrowhawk Fund is holding strong cash flow quality companies, with experienced people in management. We have a fairly good cash position, which is temporarily okey until we see how things unfold.

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 US dollar is still in a mega 47 year decline, but it's been rebounding in recent years. In other words, the dollar's current strength will likely be temporary. That is especially true considering the huge debt and the fact that the dollar is gradually losing its international status.

The most important that goes with being the world's reserve currency is that you can borrow all you want in your own currency. And then create more of that currency to pay it back. Slowly changes will be put in place by non-americans. There is a reason why central banks are buying more gold then they ever have before. They are preparing for a time when the US dollar loses its reserve currency status.

One big positive in the US dollar's favor is that it has been the world's leading reserve currency for the past 74 years. This means it's been the international currency, accepted and saved by central banks around the world.
In the past, this position was held by the Spanish, Dutch, British and others.

In recent years, change again appears to be in the air. Whether we like it or not, there are many signs showing that the US dollar is slowly losing its reserve status. It's being chipped away and some feel it's just a matter of time until this happens. The main reason why is because the US is the world's largest debtor nation. But international tensions and trade wars between the US and other countries aren't helping matters either.

Last month, China and Russia agreed to further conduct trade in their own currencies, thereby bypassing the US dollar in their transactions. The general feeling seems to be that the world will move ahead with its various agreements and plans without the US.

Many don't realize that the US dollar has already lost about 98% of its purchasing power ever since the Fed was formed in 1913. But since it's been gradual, the decline hasn't been so obvious.

Gold and Natural Resources

Gold have to reach $1260 before the Fund takes a new decision if taking a new position or not.

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 +15% since 1980).

Intertest rates may rise but are still low. Central banks are unlikely to be overly aggressive in raising interest rates.

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.

Robin Curry-Lindahl
LCL Asset Management AB
FCM S.A.
19 Avenue De Mot
1000 Brussels
Tel +32 2 6411590
Mob +32 496 166368
rcl@fidelity-sa.be

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%				**5,13%**	**11,52%**	**1,40%**

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

Robin Curry-Lindahl

LCL Asset Management AB
FCM S.A.
19, Avenue Emile De Mot
1000 Brussels, Belgium

Mob: +32 496 166368
Tel: +32 (0)2 641 1599
Email: rcl@ fidelity-sa.be
www.fcm-sa.com