October 2018 Investment Letter

September 29, 2018 YTD

Sparrowhawk Fund (EUR)	**17,46%**
Royal Albatross Portfolio (USD)	**3,81%**
Kingfisher Portfolio (EUR)	**1,29 %**

DJ Industrial Index	7,03%
S/P 500 Index	8,99%
MSCI World Index	3,83%
Berkshire Hathaway	7,53%
Gold	-8,56%
EUR/USD	-3,20%
Oil WTI	21,00%

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.

“A very busy time, but not unusual”.
“Bull markets don’t die of old age, they die of fright.”
“This is a terrible day for stocks !” “Not for buyers”. (1929)

The big news this month was the surge in interest rates and the plunge in stock prices. It took many investors by surprise and it affected most markets. Even though interest rates

have been rising for a while, the rise has been gradual, which was fine for most investors. But the sudden steep interest rate hike this month really rocked the markets.
What happens next?

Should we sell or keep holding for the long-term? Being a long-term investor, which in my opinion is the only serious approach, doesn't mean you never sell your stocks. But it does mean adjusting your stock positions based on what is happening in the economy and on the global scene.

Since stocks generally rise over the long-term, you should ride through periods of weakness, knowing stocks will eventually hit bottom and resume their rise.

The Sparrowhawk Fund has been following this approach since 1980 and has been exposed to 1987, 1998, 2000 and 2008 crashes fully invested, and is still making a compounded average annual return (CAGR) of + 16%. Just as long as you know what you own in your portfolio and why you own it.

Even though interest rates are rising, rates are still at low levels and they are unlikely to soar. Instead, rates are more likely to rise gradually and that should generally keep the markets stable, at least for the time being.

If you want to play it safe, have a look at the Royal Albatross Portfolio, which is diversified in five different asset classes and cash. This strategy has only lost money once since 1973 and that was -2% in 2015.

There are times when you have more in one sector than the other. But the overall diversification is a good strategy during these volatile times.

The Royal Albatross Portfolio is up 3,81% with 40% in cash. There is a great probability to raise the cash to 60% in November.

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 3% interest rate level was the line in the sand for both the 10 and 30 year yields. Well, both of these rates surged way above 3% and interest rates could move higher.

If so, this will mean lower bond prices. So avoid bonds. It will likely slow the global economy and it'll especially put pressure on the emerging markets, who are already feeling the heat due to their US dollar debts. It will make it more difficult to pay these debts. Some experts feel this could lead to a contagion, eventually trigger another financial crisis.

The stock market doesn't like higher rates, especially sharp moves as we have seen this month. This rate rise was the primary factor driving stocks lower. But rates are still low and at these levels they may not keep spooking the stock market.

The 2 year yield is at a 10 year high and it has now surpassed the S&P 500 dividend yield for the first time since 2008. This alone makes investors nervous.

So far, this is not a big deal, but it could become one. If short-term rates rise above long-term rates, we will have an inverted yield curve. This would be a strong sign that a recession is coming about a year later. At least that's what the historical record is telling us.

Trump is doing all he can to "talk down" interest rates. He has made it very clear he doesn't want rates to rise further and he is putting pressure on the Fed to not raise rates because it could hurt the economy.

Anyway the Fed raised rates again and forecast that the US economy would enjoy at least three more years of growth. They foresee another hike in December and three more next year.

Let's hope they know what they are doing. They, however, are independent and they will do what they feel they have to do. Trump's pressure could influence the Fed to perhaps postpone their next rate hike, scheduled for December, which would be the ninth rate rise since 2015.

The inflation is still relatively low. It appears to be bottoming, but it hasn't yet become a problem. But if it does, the higher rates would be warranted.

What are the Markets telling us?

Financial news can make things even more confusing for investors. The same goes for exaggerated news. Basically, it makes it difficult to know what's important and what is not. We are constantly bombarded by opposing and sometimes misleading bits and pieces of information on TV, newspapers, blogs, forums and twitter. This can be confusing and it is very difficult to make an educated investment decision when you get in this situation.

In a nutshell, what we feel is important is to listen to the company calls and transcripts, the calls from certain CEO's and management's long-term outlook. This gets you a view of global demand/supply situation, geopolitics, global economy, currency risk and events that could affect the company.

The Index of Leading Economic Indicators keeps rising. This tells us the economy is good and there's no recession on the horizon. That is positive for stocks.

The same is true of strong Consumer Confidence and the mid-term elections, which tend to boost the market regardless of who wins.

In addition, the Advance/Decline line also remains bullish. This means more stocks are rising than declining. That too is bullish.

Stock Market

After hitting record highs, the markets fell sharply, thanks primarily to ongoing trade tensions and rising interest rates. Now stocks are consolidating.

Positive is that this bull market never had a final speculative phase, which almost always happens at the end of long-term bull markets. This is when the public pours in, driving stocks up sharply. History says that in the last 18 bull markets, the average return over the final six months of the bull market was about 20%.

Index	2018 Peak	YTD
BSE SENSEX	15.04%	0.75%
S&P 500	9.62%	-1.21%
CAC 40	6.17%	-6.08%
Nikkei 225	6.61%	-7.09%
FTSE 100	2.47%	-8.60%
DAXK	4.96%	-14.71%
Hang Seng	10.81%	-17.07%
Shanghai	7.63%	-23.13%
As of Oct 29 2018		

Not all is rosy. Investors are growing more pessimistic about the outlook for the economy, the most in 10 years. Many experts are also warning of an upcoming crisis in the next year or so. And 2/3 of economists believe a US recession will occur in 2020.

If so, we will see it in the stock market first because it leads the economy.

Interest rates are also an important concern. Not only because they are rising, which hasn't been a problem until just recently, but also because the 2 year interest rate is now higher than the S&P's dividend yield.

The action in the international stock market. As a rule of thumb, the world stock markets generally move together. This is a healthy sign. But this year the emerging stock markets have been under downward pressure. This has spilled over to some of the developed world markets, like Germany, which have been rolling over.

So overall, the stock market picture is bullish but it's flashing yellow caution signals.

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 dollar is benefitting on its safe haven status right now and the fact that US interest rates are rising. Also, the economy in the US is showing positive indications compared to the rest of the world.
This could be temporary. Russia is moving ahead with its plan to de-dollarize its economy. China is doing the same, and so is Europe. Many countries agrees that the status quo is outdated. These changes will take a long time, but they are moving forward and eventually this is going to mean less global demand for US dollars, both for trade and as central bank reserves.

The euro is under pressure because of concerns over Italy's debt problems. The Japanese yen has received a slight boost due to its safe haven status.

Gold and Natural Resources

Central banks are taking the advantage of lower gold prices and they have been buying a lot of gold in recent months. Hungary was the latest country to announce a 10 fold jump in its gold reserves. They know the power of holding gold.

The Sparrowhawk Fund, which has hold gold for many years before, will buy gold soonest it reaches a certain level, not to miss a large upmove in gold.

Demand for gold has been growing due to Italy’s budget deficit, global growth fears, geopolitical tensions and trade disputes.

Note the impressive relationship gold has had with the Chinese yuan. They fell together strongly during the tariff tensions. The Chinese were controlling the price of gold...”with the blessing of the US…otherwise it would be illegal to do what was being done” Chuck Butler.

The bottom line here is, the Chinese will continue to pay the same for gold as they did the tariffs. You can say the same about the resource sector as well. They are protecting themselves with a lower yuan.

This is one reason why Trump wants a weaker dollar and ongoing lower interest rates. It makes his goal and plan easier. So, the competitive devaluations will likely continue.

Commodities are bombed out, especially the resource sector. Energy has been rising and it looks like it’s leading the way up for the rest of the group. The upside is wide open for a solid rise in commodities and they could outperform the stock market in the years ahead.

The Sparrowhawk Fund has no position in gold, but we are watching it closely and if it climbs back up to approximately $1275, we would take a decision again.

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).

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.

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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%				**12,71%**	**17,46%**	**8,99%**

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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