Fidelity Capital Management

September 2018 Investment Letter

August 31, 2018 YTD

Sparrowhawk Fund (EUR)	**15,55%**
Royal Albatross Portfolio (USD)	**3,24%**
Kingfisher Portfolio (EUR)	**-0,95 %**

DJ Industrial Index	5,04%
S/P 500 Index	8,50%
MSCI World Index	3,40%
Berkshire Hathaway	6,12%
Gold	-7,87%
EUR/USD	-3,28%
Oil WTI	15,51%

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.

"Bull markets don't die of old age, they die of fright.
What bull market are most afraid of is recession"

Once again equities, held for the long run with patience and conviction, has proven to generate positive returns. Sparrowhawk Fund, with its strategy of limited number of quality holdings has so far generated +15,55% upto August 31st.

The Dow Jones Index is + 5% and the MSCI World Index is + 3,40% YTD.

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 Albatross Portfolio is up 3,24% end August 2018 with 40% still in cash. The commodity part is + 4,63% and the US equity part is +10,16%.

Our FAANG stocks (we do not own FB) did well, but also our holdings in less popular companies did really well so far this yerar, such as, Microsoft +32%, Pfizer +20%, Activision +26%, Nike +35 Salesforce +49% and Visa +30%.

The trade war with China continues to move up and down. On the one hand, Trump is saying he may put tariffs on all Chinese imports into US, but then they say they may start over with fresh talks between the two countries. This would be good because everybody knows a trade war is the biggest risk to the global economy.

The Big Picture

The general global interest rate trend is up, but it is a gradual rise, with not much effect, mainly because interest rates have been rising from 0%. They are still low. But some emerging countries simply took on too much debt in US dollars. And as the dollar and the interest rates rose, it created a heavier dollar debt load in local terms.

Developed countries and emerging countries are going their separate ways. This is not good news. There are signs of stress in some emerging countries and if international interest rates keep rising, it will only make things worse.

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.

So, for now, the yield curve is fine, telling us no recession is in sight. But it’s getting too close for comfort and it’s yet something else we have to watch closely.

If rates keep rising and the mega trend clearly turns up, it will have several repercussions. It would be bad for the world economy, likely slowing it down. It would put pressure on the emerging countries, possibly resulting in a financial crisis and it would be a sign inflation is moving up.

It would be bad for stock and bonds. It would likely boost the US dollar, at least temporarily, which would keep pressure on gold.

However, if the 10 and 30 year yields stay below 3%, things will likely continue to plug along, like they have been doing. The economy would likely stay firm.

This in turn would be good for stocks. For now, it is interesting to note that the market is leaning toward lower interest rates. ??

A big problem not to forget.

As everybody know, mass migration is a major global problem. This has caused aggravation and tensions, resulting in more government turning to nationalism and isolationism.

Aside from Syrians pouring into Europe, many Africans are also leaving their nations and heading to Europe too. The Venezuelans are flooding into Colombia and other South American countries. At the same time, many Central Americans are moving out of their countries….and so it goes as the biggest global migration since WW2 continues. It is a huge problem worldwide, so while many countries are struggling with weak finances, they also have to deal with an overwhelming migration situation. This too will put more pressure on these countries.

What are the Markets telling us?

It was 10 years ago when Lehman Brothers collapsed, resulting in the biggest financial crisis since the Great Depression. The world economy was very close to the edge of a cliff and it would have been a mass chaos if it had slipped over. But it didn't. The world central banks came to rescue and did what they had to do to stop the inevitable train wreck that was just ahead.

The stock market liked the action. It started rising in March 2009 and hasn't looked back. The economy also started to pick up, all over the world. Thanks in part to the lowest interest rates ever, growth gained momentum and many now feel it is all well.

But is everything really ok? Many says the crisis never ended…it is just postponed. Starting in 2008 the Fed started buying assets from banks, injecting money out of thin air into the banking system to help boost the economy.

Before August 2008 total bank reserves rarely exceeded $10 billion. But by 2014 bank reserves had soared to $2,787 billion. Money supply has surged by over $10 trillion. This is an unseen growth in monetary inflation for any developed nation in modern times.

A lot of this money went into the stock market, driving prices higher. But a lot of it is still working its way into rising prices.

Meantime, debt soared across the globe. Total debt is now at $169 trillion, up from $97 trillion before the Great recession. Debt in emerging countries soared to massive levels due to the super low rates and relatively stable dollar.

The selloff in emerging market stocks, bonds and currencies is the longest since 2008 and it is causing concern that this could lead to contagion, fueling another financial crisis.

Why isn't inflation soaring as a result of the trade war and all the money that has been created?

Many feel it will come, but keep in mind the inflation has been rising for the past couple of years and it is now at 2,9%. This is still low, but will it soon pick up ?

Stock Market

The Sparrowhawk fund is momentarily keeping a cash position, while we wait for new good opportunities.

The stock market started the first half of the year on a down period. But the major trend is still up, a renewed rise is under way and this could end being the most profitable final phase of this bull market. So even if stocks are not at ideal low buying levels, they are not overvalued either and they do have room to rise further. And since our strategy is to stay invested, we feel it is still ok to buy some the strongest stocks at this time. But, of course with caution and with quality, knowing that stocks are probably due for a correction, but it could be tomorrow or in several years from now.

We are in one of the longest bull market rises in history. Some say it is the longest. But either way, what's most interesting is that the power behind this bull is gaining momentum.

Fueled by bullish sentiment and the best earnings in six years, the stock market is telling us the bull remains clearly in the driver's seat. Even though this bull market is getting old, that doesn't mean it's going to end soon.

The fundamentals for stocks remain positive…and that goes for the economy, earnings, the forward P/E ratio, technical indicators and more.

Even rising interest rates are not likely to derail the bull. Data shows that the S&P 500 typically notches gains during periods when rates are rising. For the simple reason, that if the Fed raises the rates, it must be an indication of a stronger economy. Missing for now are signs that the US economy is going toward a recession.

At this point, the usual indicators of a possible recession – big declines in US housing starts, consumer confidence and company earnings – are not flashing warning signs.

Most of the companies in the S&P 500 reported earnings and revenue this year that exceeded Wall Street's expectations. Analysts expect more of the same next quarter.

And despite the uncertainty over global trade tensions, the US economy is on solid ground. Helped by tax cuts, it clocked in at an annual pace of 4,1% growth from April through June, the fastest quarterly expansion since 2014.

The world markets are hurt by the trade war. Emerging stock markets are much weaker than the S/P 500 index. But it is not only the emerging markets. Many are struggling and turning down, look just at Germany, as an example.

Index	2018 Peak	YTD
BSE SENSEX	15.04%	11.16%
S&P 500	8.99%	8.05%
Nikkei 225	5.97%	1.45%
CAC 40	6.17%	0.68%
FTSE 100	2.47%	-5.02%
DAXK	4.96%	-8.99%
Hang Seng	10.81%	-9.98%
Shanghai	7.63%	-19.82%
As of Sep 17 2018		

Look at China as another example, China is the second largest economy in the world and it has a huge cash reserve surplus. Its stock fundamentals are very bullish, signaling it's one of the cheapest markets. But its stock market is weak. Eventually, the Chinese market will rise and when it does, it'll be a good buy with a lot of potential, but maybe not right now.

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. The Fund has a CAGR of +15% and is up 15,5% so far this year.

We think it is important to be selective and own the strongest companies. Amazon, Disney, Apple and some retail.

US Dollar

It is never boring on the world stage and with so much going on, you can see why the next direction for the dollar is so important and why it's going to have long lasting effects.

The dollar has been quiet lately. A weak dollar has its benefits, it'll help the trade imbalances by making US goods cheaper and more attractive to foreign buyers. It will help shrink the trade deficit, which recently had it largest deficit in over three years, thanks to declining exports and rising imports.

The stronger dollar this year is putting pressure on many emerging countries, because of the debt situation in US dollars. Aside from soaring interest rates, many of their currencies have also plunged.

That is the case in India, Turkey, Argentina, China, South Africa, Indonesia etc. Considering these countries have $2,7 trillion in debt coming due in the next seven years, it is cause for concern. At this point a stronger dollar would turn up the heat and monetary officials knows this. They also know that a weaker dollar would ease the pain.

Maybe the US will try to maneuver the dollar lower? But with the Fed raising the rates it is not immediate.

There is also an anti-dollar global sentiment. Trump's economic war against most of the world and 2 billion people in dozens of countries aren't happy about embargoes, sanctions and so on. So, they are starting to shun the dollar. The US has been putting more sanctions on Russia. So, in obvious retaliation, the Russian Deputy Foreign Minister recently said it's time to get rid of US dollars as a means of financial settlements and get other alternatives.

Russia recently sold nearly all of the US dollar reserves they had in the central bank. India is selling their US treasuries too and buying gold. China has a new payment system, sidestepping the dollar. And now Germany and France are doing the same. In this case, one of the main reasons why, is because they're going to keep trading with Iran. The US has threatened sanctions against countries who trade with Iran and some of these countries are looking for ways around this.

Gold and Natural Resources

Gold fell this year? Gold isn't immune to the low inflation and debt filled environment. It has been moving like a commodity and not like a monetary safe haven. The decline since April has been primarily due to trade tariff tensions. And if this continues it could put a continued pressure on precious metals, and especially the resource sector, which has been hit the hardest.

By the end of April, gold started slipping lower. The decline gained force when Trump went to Singapore to meet Kim. Gold fell further as tariff comments started spreading.

Gold's day will come, especially when you see how the world is shaping up. Its role as a safe haven in a time of stress will likely return to the front seat and this could happen sooner rather than later.

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 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.

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					**11,76%**	**15,55%**	**8,50%**

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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