SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

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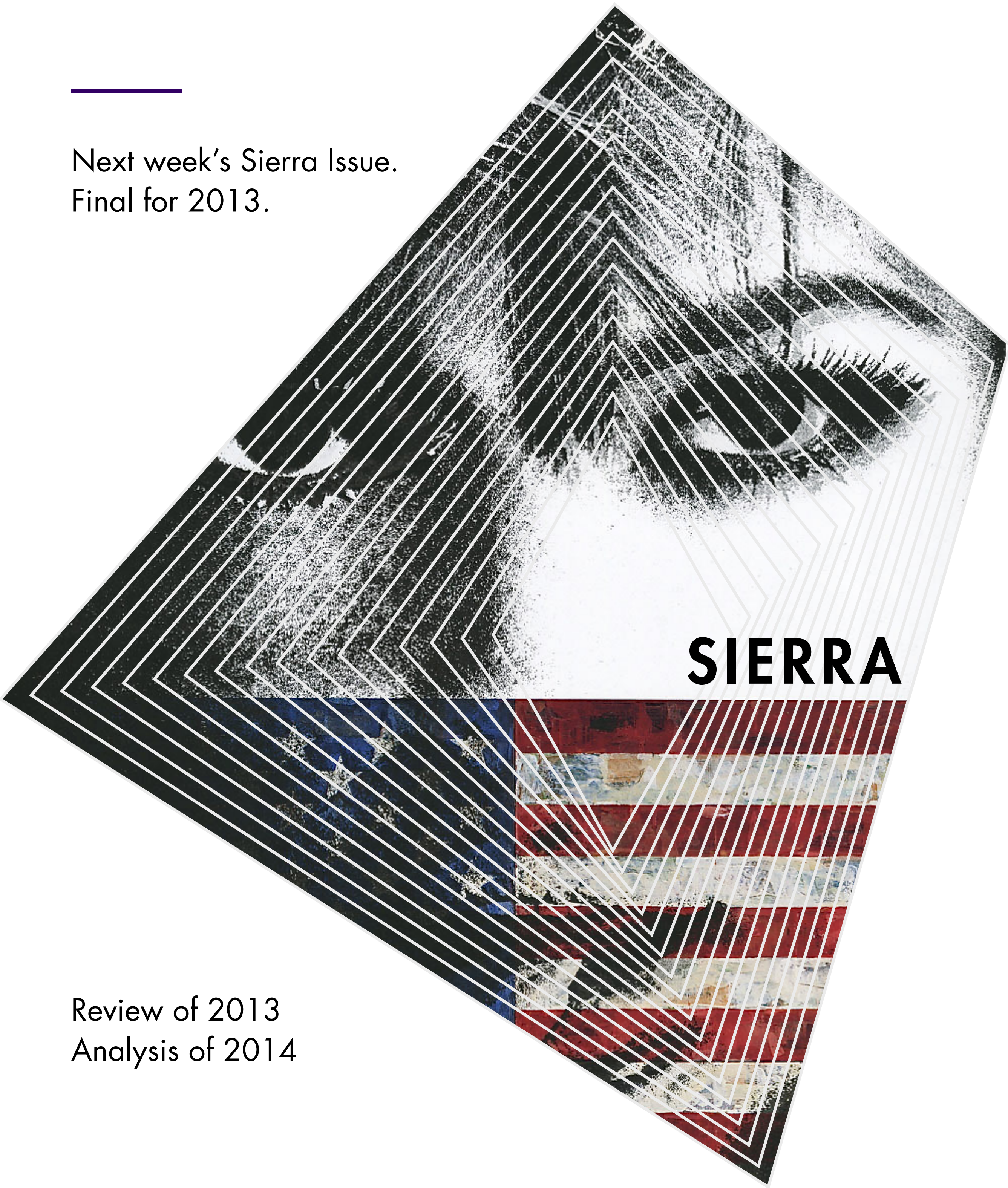
TEAM:

Stelian Nenkov
Georgi Stanoev
Petar Tsachev

CONTRIBUTORS: David Twomey; Editor

SPECIAL ANNOUNCEMENT

Next week's Sierra Issue.
Final for 2013.



Review of 2013
Analysis of 2014

USA

Early Christmas in DC…(kind of, sort of)

It's been one of those weeks that we don't particularly like — filled mostly with speeches from Fed and/or Congress officials and lacking a good amount of relevant economic data. This being said, the past week has actually been quite interesting, as democrats and republicans came up with a budget deal that will make another government shutdown unlikely (if passed in Congress). On the other hand, retail sales in November increased at a faster pace (0.7%) and supported the 'crazy' idea that many people don't want to accept — US growth is a real thing. While both events told a good story about US economics, market participants saw that as yet another factor that might persuade the Fed to taper sooner rather than later ('god forbid' it's done in December). So logically (is it?), US (and foreign) indices sold off, with the S&P 500 down -1.65%. Despite that greed-dictated correction, the sector performance shows us that the 'growth trade' is still on. Cyclical (growth) sectors were the best performers (in the 'negative performance realm'), while you could see defensives down at the bottom of the table.

Materials	-0.63%
Consumer Discretionary	-1.00%
Industrials	-1.13%
Financials	-1.22%
Energy	-1.48%
Technology	-1.78%
Consumer Staples	-1.88%
Utilities	-2.42%
Healthcare	-2.55%

We finished the US section of our last issue by expressing an opinion about the future of economic growth in the country. Our thesis for continued recovery included a long-term (more than 1 year) budget deal, which would give confidence to consumers and businesses. So, we were quite fortunate and pleasantly surprised this week, when Democratic Senator Patty Murray and Republican Congressman Paul Ryan announced they had reached a budget deal. It passed the vote in the republican-ruled House of Representatives and now awaits a vote in the democratic Senate.

Probabilistically speaking, the odds for tapering in December are higher than those in September

The deal itself is nothing sophisticated. If passed, it would raise spending by a total of USD 63 billion in the next two years (FY 2014 and 2015), divided equally between defence and non-defence, and reduce the net deficit by USD 23 billion over the next ten years. The latter would be supported by an airlines' fee increases (carefully called a 'fee', not a 'tax'). But those are just the main tangible features. More importantly, the deal would reduce political risk that weighs on stock returns and economic output. Current estimates for 2014

GDP are calculated with the risk of another government shutdown taken into account. By reducing the uncertainty that comes from Washington, the plan would probably raise confidence in investment and spending planning of the private sector. Same goes for consumers.

As mentioned before, the deal is nothing extraordinary. It avoids a lot of the complicated topics that caused arguments in Congress, like the future of the government social insurance programs (Medicare, Medicaid etc.) and the debt ceiling. However, it is a very important step forward, proving that officials from the two parties are capable of compromise. Republicans were particularly criticised for the agreement by their influential outside groups (Heritage action, Americans for prosperity and more). But for once the party stood strong and decided to govern, instead of satisfy the interest of specific groups. Therefore the deal was seen as a very positive news that could potentially persuade the FOMC to target sooner. The five–month high in the growth of retails sales exacerbated the situation and pushed markets in further decline. Once again economic gravity was put into the bin. Currently, close to 40% of the surveyed Bloomberg economists think that the Fed will taper in its meeting on the 17th and 18th of December. However, market dynamics tell us quite a different story, with Gold, treasuries and the dollar index (DXY) all down since the beginning of December. Our view stays the same. Probabilistically speaking, the odds for tapering in December are higher than those in September, considering the solid consistent data in the past 3-4 months. Yet, we believe that there will be no reduction in asset purchases in few days, although our analysis says it is time for such.

Day	Country	Indicator	Actual	Forecast	Previous
Wednesday	United States	MBA Mortgage Applications (WoW)	1.0%		-12.8%
Thursday		Retail Sales (MoM)	0.7%	0.6%	0.6%
		Core Retails Sales (MoM)	0.4%	0.2%	0.5%
		Initial Jobless Claims	368K	320K	300K
		Continuing Jobless Claims	2,791K	2,850K	2,751K
Friday		PPI (MoM)	-0.1%	-0.1%	-0.2%
		PPI (YoY)	0.7%	0.8%	0.3%
		Core PPI (MoM)	0.1%	0.1%	0.2%
		Core PPI (YoY)	1.3%	1.4%	1.4%

EUROPE

Down, down, down

European stocks marked a second week in red territory. On Friday, they inched lower in light volumes, adding to a near 5 percent pullback in two weeks, as investors remained on edge before next week's U.S. Federal Reserve policy meeting. The US budget talk was the event that pushed the equity market down. The DAX decreased by 1.81%, the FTSE went down by 1.71% and the French CAC 30 devalue by 1.69%. Despite the broad pull-back in European stocks in December, the asset class continued to see strong investment inflows. According to Thomson Reuters' Lipper data, European equities enjoyed a 24th straight week of inflows from U.S. investors in the seven days to Dec. 12.

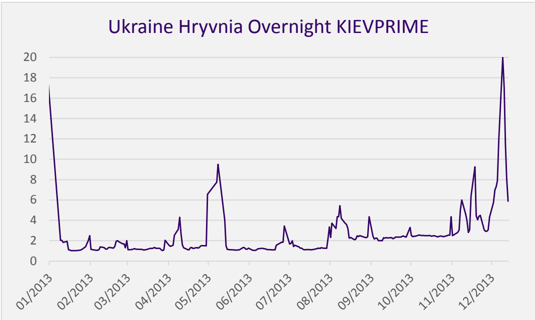
In terms of macro data, the week was poor. The positive news came from Germany and United Kingdom. U.K. industrial production rose for a second month in October and the housing price hit new highs. The Royal Institution of Chartered Surveyors' house price index increased to 58, the highest since June 2002, from 57 in October. A three-month price-expectations measure advanced to 59, the most in 14 years.

On the flip side, the French country ship kept on sinking. France's industrial production fell 0.3 % in October and French non-farm payrolls declined 0.1 % in the third quarter.

UKRAINE

The situation in Ukraine is far from stable. That could be stated for the financial market, as well. Nervous investors are punishing Ukrainian assets as popular unrest continues to roil the country.

- Ukrainian interbank lending rates soared as policy makers' bid to prop up the currency amid street protests. The Kiev Prime overnight index rose to 20 % from 12 % on Dec. 6 and 4.32 % on Nov. 29.



- Credit-default swaps—a form of insurance that pays out if a bond defaults—blew up for Ukrainian government bonds recently, with spreads that now suggest the country is twice as likely to default as Greece.

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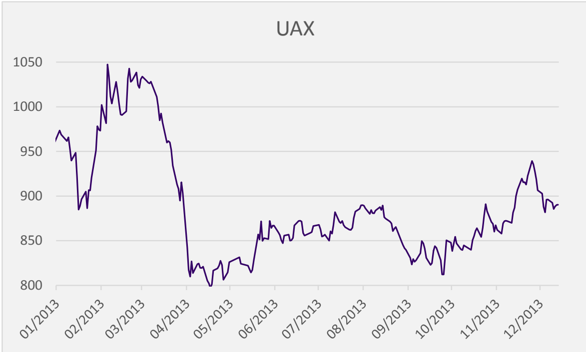
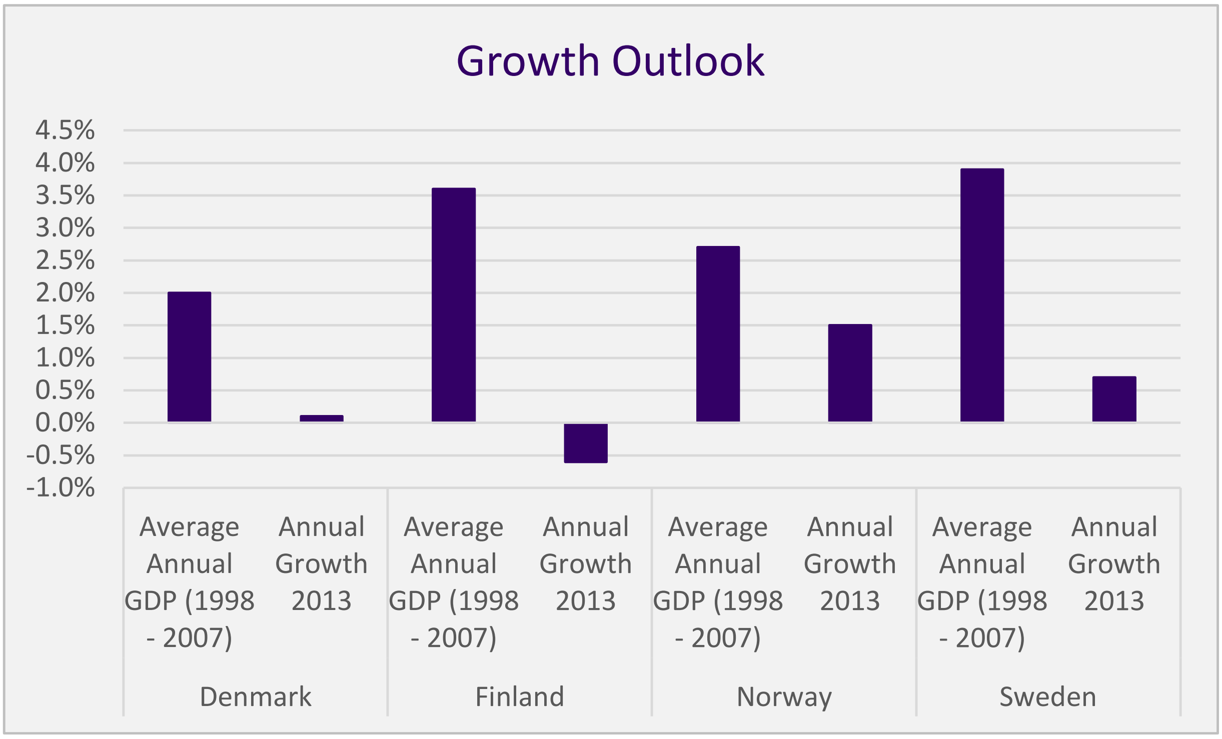
- Ukraine imports far more than it exports, and around half of its government debt is denominated in foreign currencies (mostly dollars). This means that the country needs a lot of dollars, euros and the like to pay for imports and interest on its debt. This puts downward pressure on the local currency, the Hryvnia. To counteract the fall, Ukraine's central bank has been selling down its stock of dollars. There are now only enough reserves to cover around two months of imports.
- All that is driving the stock market mad.



NORDIC COUNTRIES

The IMF warned that the safe-haven status of Denmark, Finland, Norway and Sweden may come under pressure. The high household debt and property prices may pose a financial risk across the Nordic region. Restrained consumption and a drop in competitiveness may constrain future economic growth. The IMF calculated house prices were as much as 40 % too high in Norway and overinflated by more than 15 % in Sweden. Norwegian home values are 46 % above their level at the end of 2008. The Swedish Riksbank and Norges Bank have resisted calls to ease policy to boost growth, on concern loosening would encourage households to borrow and reflate house prices.

Norges Bank estimates Norway's household debt will reach a record 200 % of disposable income this year.



Finland's debt-to-GDP ratio will almost double to 60.5 % by 2015 from 33.9 % in 2008, the IMF forecasts. Household debt and austerity measures are deterring consumers from spending.

DNB forecasts Norway will be the only European nation, of the 15 the bank tracks, in which economic growth will fail to accelerate next year. The IMF forecasts Finland's economy will contract 0.65 % this year.

Moreover, the Danish competitiveness has dropped to 15th place globally, from third in 2008. Labor costs increased 9.1 % between 2008 and 2012, compared with an EU average of 8.6 % in the same period. Norway has the highest labor costs in Europe at 48.3 euros per hour last year, compared with 30.4 euros in Germany, Eurostat data show.

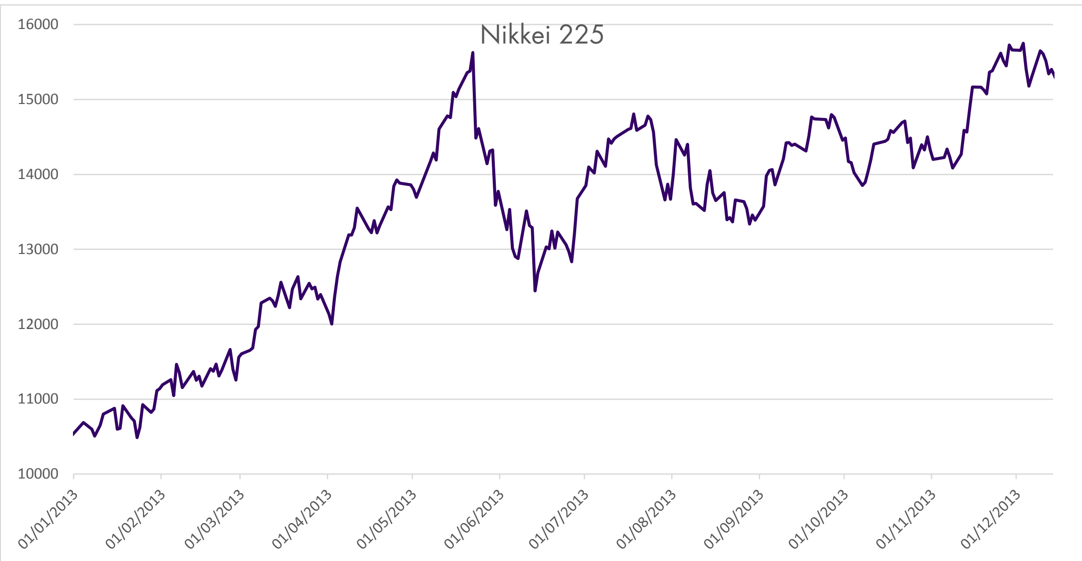
Day	Country	Indicator	Actual	Forecast	Previous
Monday	Germany	Industrial Production m/m	-1.2%	0.8%	-0.7%
Tuesday	France	Industrial Production m/m	-0.3%	0.2%	-0.3%
	United Kingdom	Manufacturing Production m/m	0.4%	0.4%	1.2%
Wednesday	Germany	Final CPI m/m	0.2%	0.2%	0.2%
Thursday	EU	Industrial Production m/m	-1.1%	0.4%	-0.2%
Friday	EU	Employment Change q/q	0.0%	0.0%	0.0%

ASIA & OCEANIA

The surplus is strong with this one

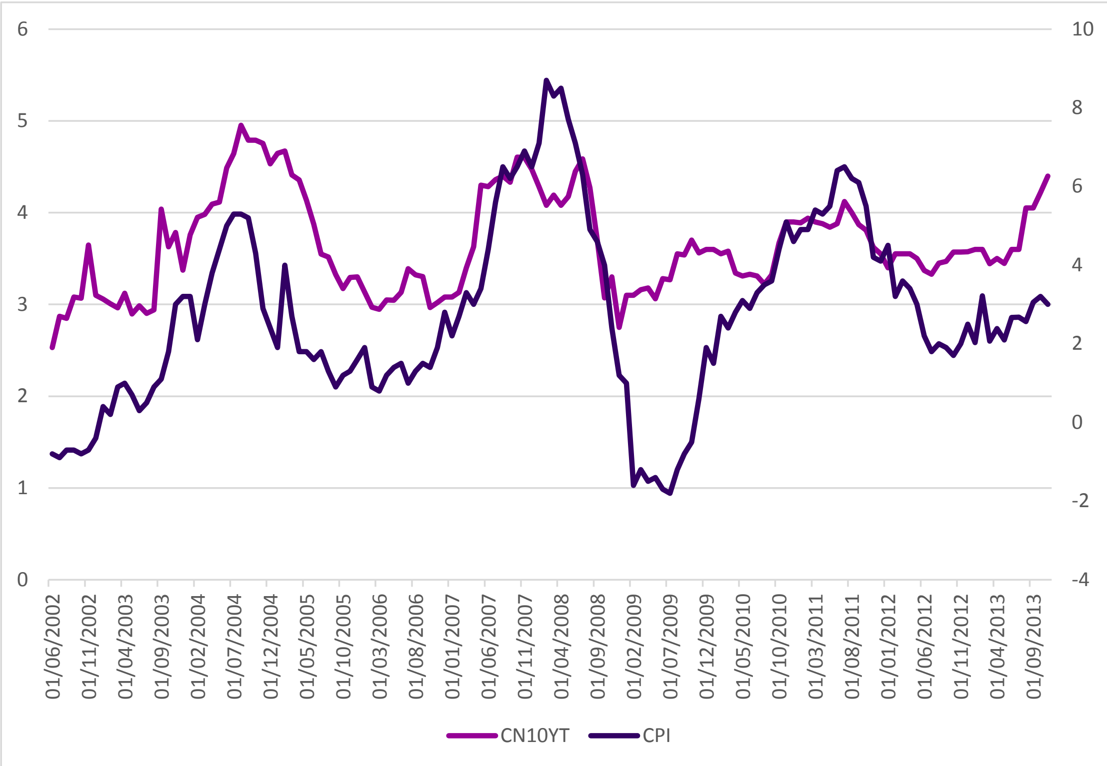
JAPAN

The week started with the Nikkei 225 opening with a huge positive gap – 1.62%, rallying towards the recent strong resistance level of about 16 000. Coincidentally with the level, came the final GDP result, which disappointed everybody. The initial annual percentage growth forecast for the economy was 1.9% and now the figure has fallen to 1.1%...a considerably strong hit that puts a fair amount of pressure to policymakers. The current account also fell into deficit, which, considering the current USD/JPY rally, was quite an unexpected event. The numbers however, are for October and the rally re-started in November, as a result (and considering our bullish view for the currency pair), we are not worried about the current account deficit of Japan.
Both those events however led to the fall of the Nikkei for the rest of the week. As the short term trend may be changing for Japan (5%-10% drop may be possible) either because of the uncertainty around the upcoming fiscal tightening via taxation, along with not that great GDP data or maybe some profit taking from fund managers, the bigger question for us is whether now is the time to worry about the success of Abenomics. In our view, as investors have increased their sensitivity to macroeconomic policy changes in recent years, this has given more influential power to central banks and governments (or vice versa). Either way, as long as the determination of Mr Abe is intact, there will be enough stimulus for equities to keep their current trend. Yes, indeed history has shown that policy makers can be completely powerless against investors (e.g. 16 September 1992, GBP collapse and G.Soros' Olympic moment), however in Japan's case (just like with the QEs in US), investors are enjoying the modern aggressive policies that are being implemented.



CHINA

The forecasts for Chinese exports (and therefore the economy's trade balance), undershot the actual data released this week. The $33.8B surplus was generated from a 12.7% increase in outbound shipments and 5.3% increase in imports, thus showing that global demand is strengthening. We see this as a great sign for China, because this allows the country to focus better on using the money for becoming less dependent on exports (as strongly as that may sound). The rising CNY (+2.52%YTD) has definitely not benefitted exporters and yet again...the surplus is strong with this one.
China's new yuan loans also exceeded expectations this week by 44.6B yuan. On the other side, we see that the 10 year government bonds have been decreasing sharply in value and their correlation with the CPI (that came in line with expectations), has been decreasing. We interpret that this decrease is due to some extent to the rise in CPI, however to a large extent in other factors too, that can be worrying for the PBOC.
The Asian Development Bank raised its 2013 Chinese GDP growth froecast to 7.7% from 7.6% in October and increased its 2014 estimates by 10bps as well.
None of the good news for China managed to push its stock market up from the US pressures around the FOMC meeting this upcoming week.



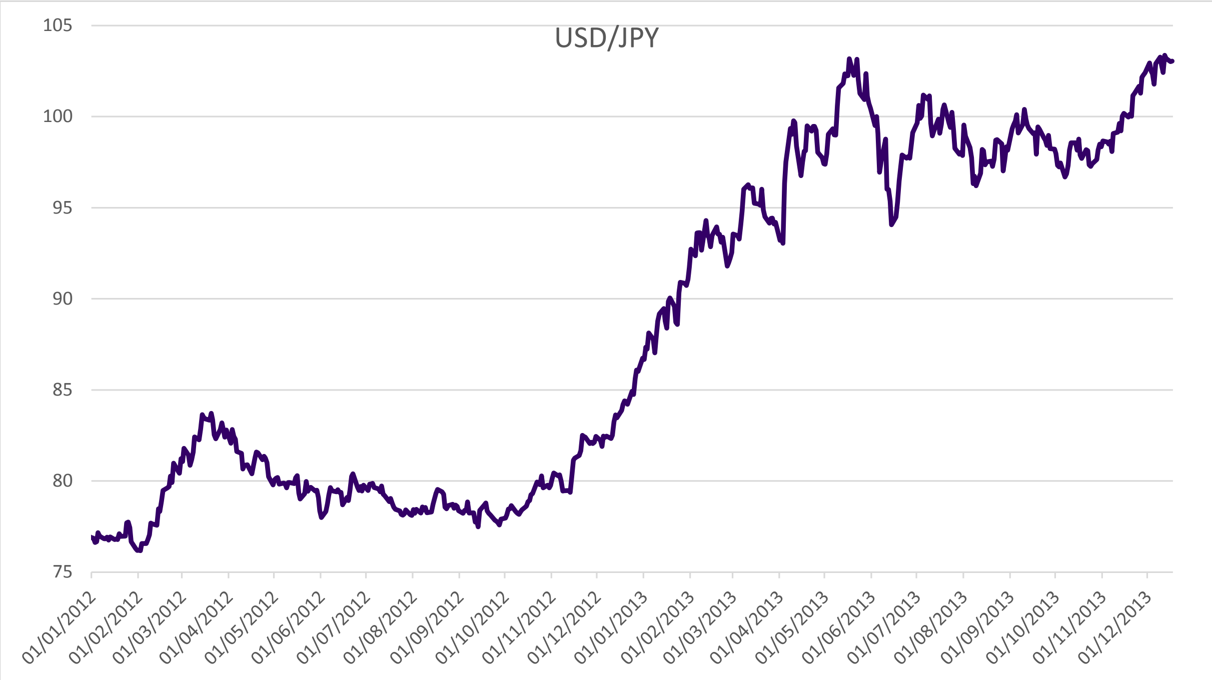
Day	Country	Indicator	Actual	Forecast	Previous
Sunday	China	Trade Balance	33.8B	21.3B	31.1B
	Japan	Final GDP q/q	0.3%	0.4%	0.5%
Monday	China	CPI y/y	3.0%	3.0%	3.2%
	Japan	BSI Manufacturing Index	9.7	17.2	15.2
Tuesday	China	Industrial Production y/y	10.0%	10.2%	10.3%

FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3702	1.3738	0.26%	1.12%	5.17%
USD/JPY	102.87	103.2	0.32%	0.78%	17.06%
USD/CHF	0.8981	0.8891	-1.00%	-1.87%	-3.83%
USD/CAD	1.0638	1.0583	-0.52%	-0.26%	7.25%
AUD/USD	0.91	0.896	-1.54%	-1.61%	-14.54%
NZD/USD	0.8276	0.826	-0.19%	1.72%	-0.66%
USD/CNY	6.0817	6.0712	-0.17%	-0.36%	-1.49%
GBP/USD	1.6343	1.6294	-0.30%	-0.42%	1.46%

JPY

As suggested by us last week, USD/JPY broke its 5 year high of 103.73 made in the beginning of May this year and reached 103.92 on Friday, after stronger than expected US retail sales. At the end, the pair closed at 103.2 or 0.32% up for the week. The movement was also supported by a downward revision in Japan's Q3 GDP and , which supported speculations for increased stimulus in the country.



PORTFOLIOS

MAVERICK

security	L/S	date
Volkswagen AG	Long	03/09/2013
Starbucks Corp	Long	03/09/2013
Roche Holding AG	Long	03/09/2013
Datang International Power Generation Co. Ltd	Long	03/09/2013
ENN Energy Holdings Ltd	Long	03/09/2013
China Longyuan Power Group Corp. Ltd	Long	03/09/2013
Tracker Fund of Hong Kong	Short	03/09/2013
Microsoft Corporation	Long	15/10/2013

security	L/S	date
Nike Inc	Long	15/10/2013
SPDR Financials Sector	Short	28/10/2013
Corning Inc.	Long	23/10/2013
INR/USD	Long	04/11/2013
CNY/USD	Long	04/11/2013
BMW	Long	07/11/2013
ProShares UltraShort Lehman 20+ Yr(ETF)	Long	04/11/2013

CORTEZ

security	L/S	date
Pandora A/S	Long	03/09/2013
Aviva PLC	Long	03/09/2013
Valeo SA	Long	03/09/2013
Furmanite Corp	Long	03/09/2013
Aspen Technology Inc	Long	03/09/2013
China Suntien Green Energy Corp Ltd	Long	03/09/2013
Beijing Enterprises Water Group Ltd	Short	03/09/2013
Prudential Plc	Long	30/09/2013
USD/JPY	Long	07/10/2013
Dixons Retail Plc	Long	15/10/2013
Standard Chartered	Short	15/10/2013
Lloyds Banking Group	Long	15/10/2013
Chico FAS	Long	15/10/2013
OZ Minerals	Long	15/10/2013
Aeropostale Inc	Long	15/10/2013

security	L/S	date
H&M	Long	15/10/2013
Restoration Hardware	Long	23/10/2013
Greenhill and Co. Inc.	Long	20/10/2013
Crest Nicholson Holdings plc	Long	20/10/2013
Foxtons Group plc	Long	20/10/2013
Countrywide plc	Long	20/10/2013
Bellway plc	Long	20/10/2013
Easyjet plc	Long	20/10/2013
Chuy's Holdings Inc	Short	28/10/2013
magicJack VocalTec Ltd	Short	28/10/2013
Claymore/AlphaShares China Real Est ETF	Short	04/11/2013
GBP/USD	Long	04/11/2013
PDR Barclays High Yield Bond ETF	Short	18/11/2013
Distribuidora Internacional de Alimentacion SA	Long	19/11/2013

EVENTS

USA

- Nonfarm productivity (QoQ)
- CPI (MoM, YoY)
- Building permits
- Housing starts
- FOMC meeting and statement

EUROPE

- UK CPI y/y
- UK Final GDP q/q
- ECB President Draghi Speaks
- EU Flash Services PMI

ASIA & OCEANIA

- China: HSBC Flash Manuf. PMI
- Japan: Trade Balance
- New Zealand: GDP q/q
- Japan: Monetary Policy Statement

REFERENCES

Reserve Bank of Australia, Bank of Japan, Bloomberg, Reuters, Seeking Alpha , National Bureau of Statistics,

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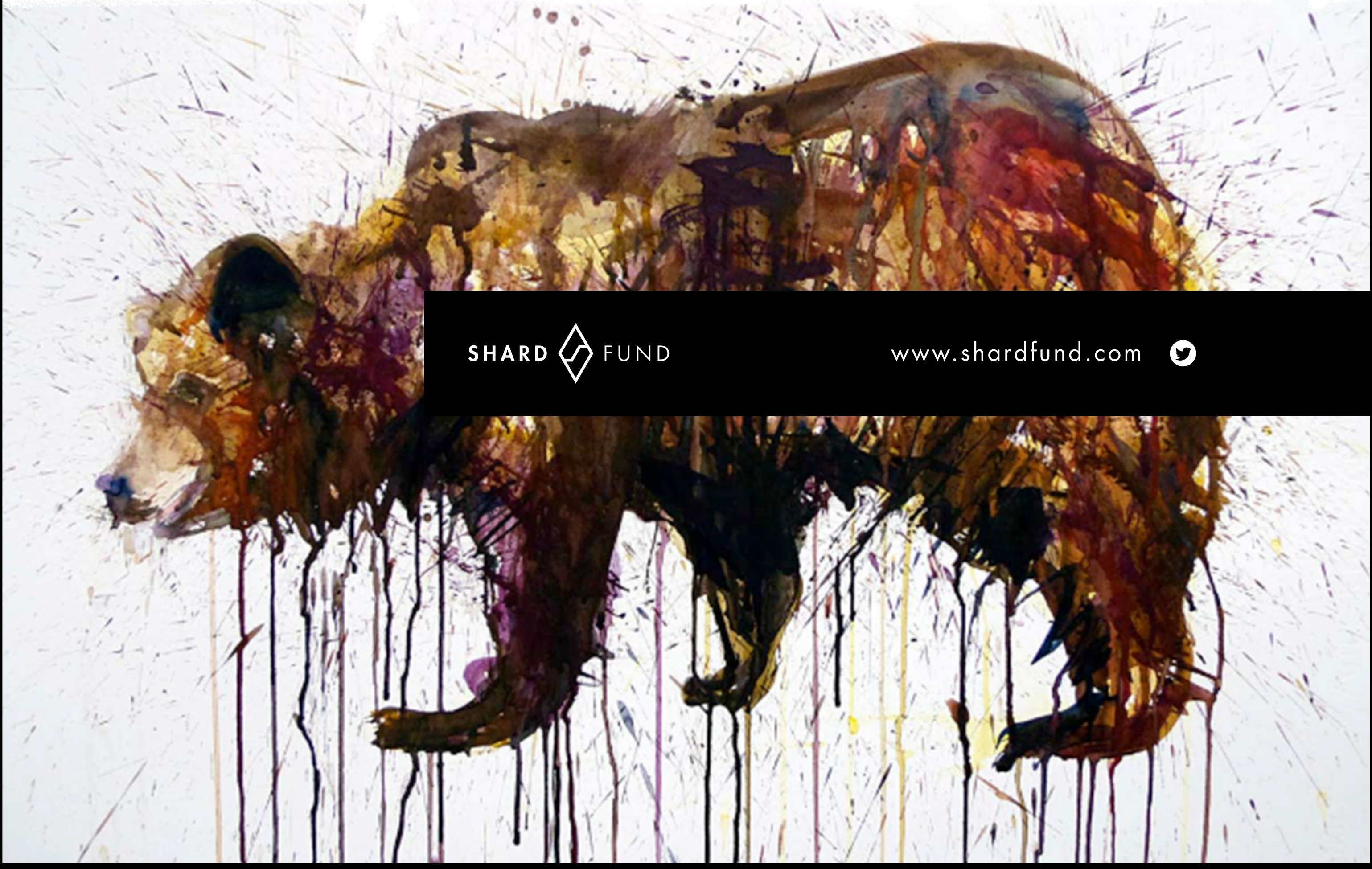
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