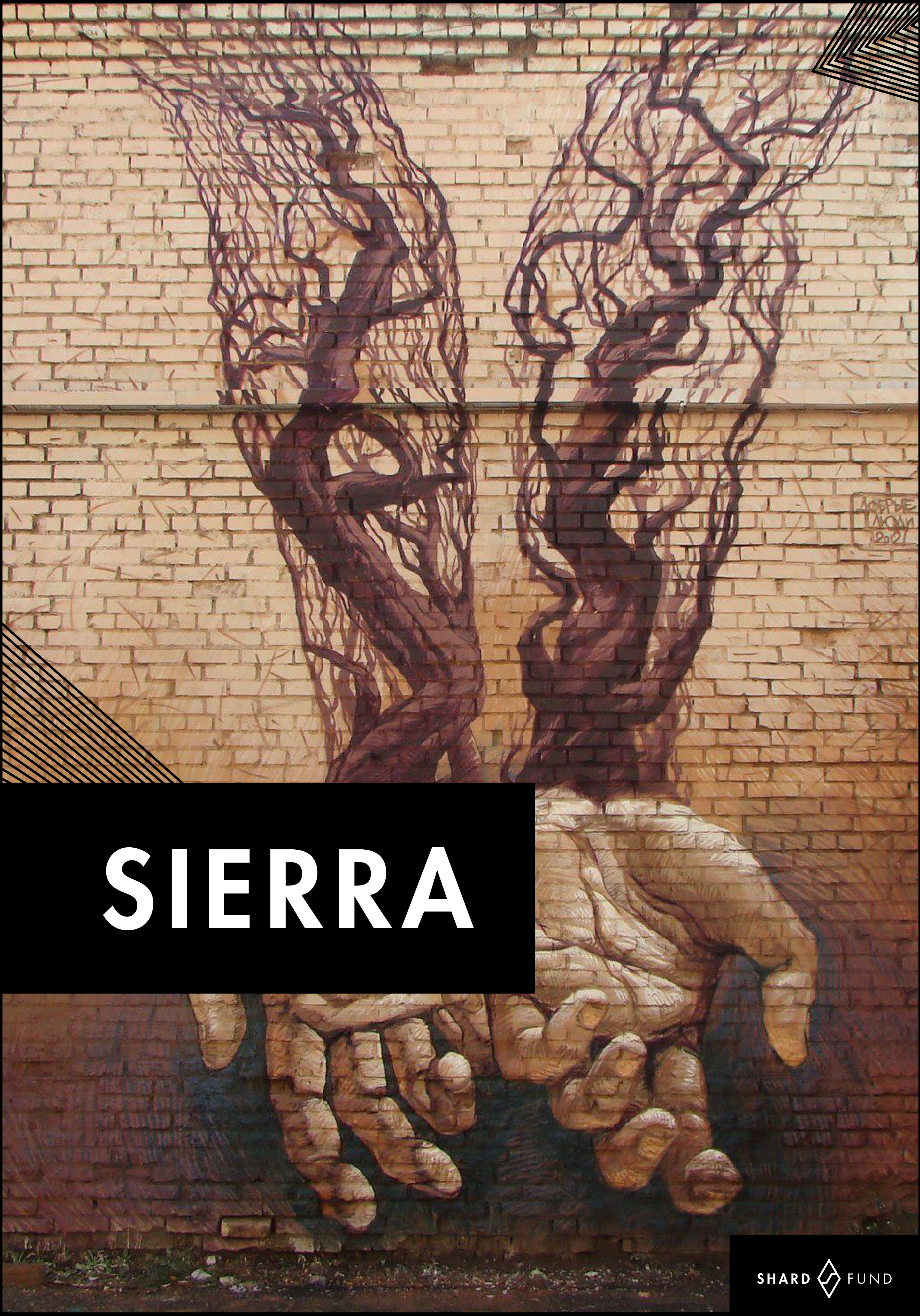

SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

February 22nd - February 28th, 2014 | Issue 9

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SPECIAL ANNOUNCEMENT

Cass Investments Conference 2014

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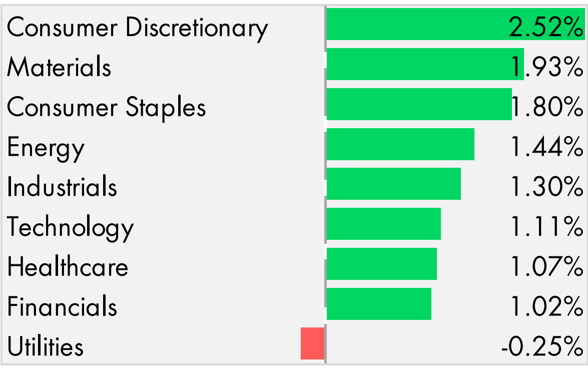
To register follow the link or the logo: **http://bit.ly/1hSACU8**

USA

Three mistakes currently being made

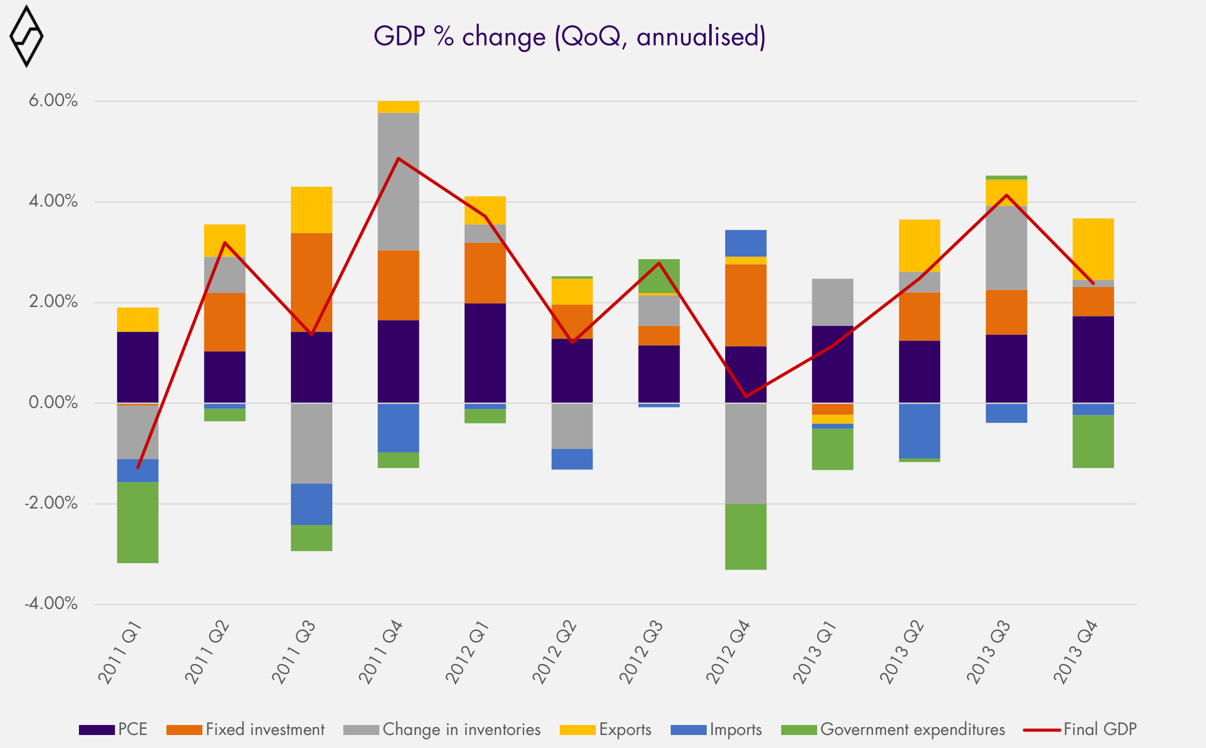
In the last week of February the S&P 500 finally went positive (YTD) after the slump that started at the end of January. The index increased 1.26% from the previous week and currently stands 0.6% higher than the close at the last trading day last year. The question, however, is if there are reasons for cheering or signs for worry? Additionally in the week, the Q4 GDP was revised significantly lower, as....as the economy slowed down in the final quarter (no excuses). Also new home sales surprised to the upside, even though the "bad weather" excuse continued to spread around the media and was also mentioned by Janet Yellen.



In this issue we will take a slightly different approach and look at the mistakes that financial media is currently making and how they could lead to a particularly ugly scenario. In that little game we will act only as 'referees' and try to present an unbiased analysis of their potential mistakes. First thing on the list (not ranked by importance) is the GDP number, which was neglected to some extent. The media mostly tried to find excuses for the weak number and immediately propose how things will be different in 2014. The problem with such attitude is that it fails to explain the threats to the economy. The decrease was mostly due to a downward revision in personal consumption expenditure (PCE), which is around 71% of the US economy, as well as higher GDP deflator. The strong momentum from the other quarters in 2013 has clearly been lost and this could also be seen as a drag. It is also worth noting that while PCE is still below all-time averages (in terms of growth and contribution), the PCE price index is quite low (1%). If that price index starts accelerating (as we expect) keeping everything else constant, real PCE and GDP will be much lower.

The strong momentum from the other quarters in 2013 has clearly been lost...

This brings us to the second mistake we saw, which was considering consumer sentiment for increasing. The Michigan consumer sentiment ticked slightly higher (81.6) than in January (81.2). In our view this change is too small and we consider the index being flat this year. It still hasn't reached even the low levels of December and moreover the CB consumer confidence measure (another index) actually went down this month. In other words the customer is in some kind of a passive, indecisive state and waits for



Source: Bureau of Economic Analysis

more information to assess the situation. The problem is that with the current high degree of excuses about the economy, once people actually start considering that things might not be the way they thought, it might be too late and we all know how that ends.

And this all sums up nicely to the final point that relates to the hottest topic in the media right now (or ytd) – the bad weather. Even Janet Yellen mentioned the weather during her testimony before the Senate Banking Committee. This gave a significant credibility to the excuse and pushed markets to new all-time highs. However, imagine what will happen, if investors wake up one day and realise the weather was not the main reason for bad data. In fact they should have realised that already as new home sales hit more than five year high in January. It is quite funny how the 'bad weather excuse' applies to bad data but it is not even mentioned when data surprises to the upside. It was definitely mentioned last week when existing home sales and housing starts slumped, but somehow new home sales escaped the plague. The question is, how many more data releases will it take for investors to stop considering the weather? The answer to that question gives a rough estimate about the time when things might go bad. And if that day comes, what will happen with 'tapering'? And if 'tapering' is paused, what does that mean? We have actually seen quite positive indicators for a worsening economy and a pause in the reduction of asset purchases. The USD, measured by the DXY index, went down by 2% in February, the 10 year treasury yield has dropped almost 40 basis points since its highs at the end of last year, and suddenly emerging markets are bag in the game. Oh, how ugly it might get…

Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	United States	CB Consumer Confidence	78.1	80.0	79.4
Wednesday		New Home Sales	468K	400K	427K
Thursday		Durable goods orders	-1.00%	-1.50%	-5.30%
Friday		Michigan Consumer Sentiment	81.6	81.3	81.2
		GDP QoQ (preliminary)	2.4%	2.5%	3.2%

EUROPE

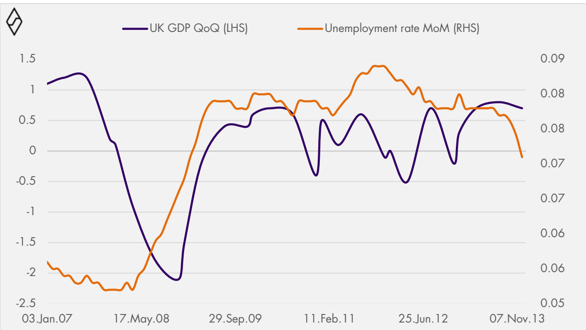
On the edge...

Eastern Europe is on the edge of new war. The question is: are we going to witness another military conflict or not and what consequences will this have for the European stock market? Civil seditions, a lot of death bodies, foreign military forces at Ukrainian territory... What's next? We believe that next week one might expect turbulence from European equities. For now the markets are convinced that Russia is not going to take a hard stance on the issue, but we aren't so certain, so let's wait next week to observe its full development.

However, for rest of the Continent, the week was full. The German DAX increased by 0.36%, FTSE 100 decreased by 0.41% and CAC 40 went up by 0.62%. From the macro side of the coin, we were once again backed up by positive economic figures. In Germany, the business confidence climbed to its strongest level in two and a half years. The Ifo institute's business climate index advanced to 111.3 in February from 110.6 in January. That's the highest since July 2011. The euro-area inflation rate grew an annual 0.8%, the same pace as in the previous two months, the European Union's statistics office revealed. That exceeds the median estimate of 0.7%. The unemployment rate held at 12% in January, just off the euro-area record of 12.1% last seen in September. Related to that, next week we are looking forward the Mario Draghi's speech, during which we might see further easing of monetary policy from the Union.

GDP SURGERY

U.K.'s gross domestic product rose 0.7 % in the fourth quarter from the previous three months, which matched up the economists' forecasts. In 2013, the economy grew a downwardly revised 1.8 %, the fastest since 2007. GDP in the fourth quarter was 1.4% below its pre-recession peak in the first quarter of 2008. Moreover, the UK recovery is broadening as rising confidence gets firms investing again. This is perhaps for an explanation why the last quarter GDP figure

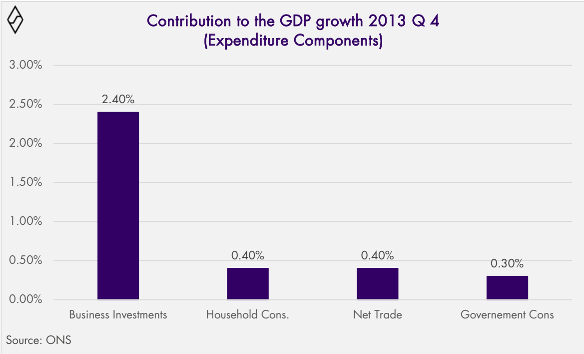


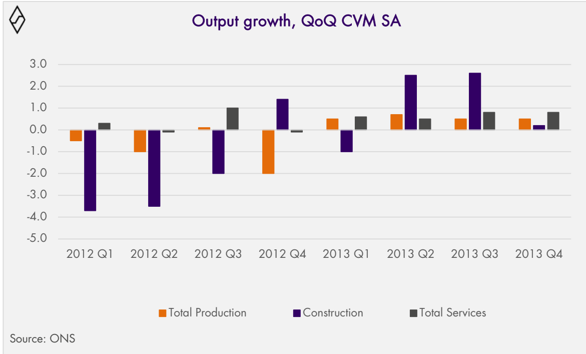
Source: ONS

the UK recovery is broadening as rising confidence gets firms investing again.

was boosted by business investment 2.4% QoQ. It means that the business investment is now estimated to have risen for four consecutive quarters and by more than 4% in the past six months.

On the other hand, looking at the U.K. output levels, it is is 1.4 % below its pre-recession peak in the first quarter of 2008, according to Bloomberg. Only Italy has performed worse among the G-7 countries.





So far, the UK recovery has been heavily driven by consumption, but surveys have for some months been signaling that it is broadening out into business investment. As uncertainty has fallen firms' investment intentions have risen. That is finally feeding through to the hard data.

The construction output is the big "looser" at that case. The big drop might be due to the seasonality, hence we do not believe that it is a long term trend. Having unemployment rates falling, business investments going up and the confidence rising, we expect the positive economic development to continue.

Day	Country	Indicator	Actual	Forecast	Previous
Monday	EU	CPI y/y	0.8%	0.7%	0.7%
Tuesday	Germany	Final GDP q/q	0.4%	0.4%	0.4%
	United Kingdom	BBA Mortgage Approvals	50.0K	47.9K	47.1K
Wednesday	United Kingdom	Second Estimate GDP q/q	0.7%	0.7%	0.7%
Thursday	Germany	Prelim CPI m/m	0.5%	0.6%	-0.6%
	EU	M3 Money Supply y/y	1.2%	1.1%	1.0%
Friday	EU	CPI Flash Estimate y/y	0.8%	0.7%	0.8%
		Unemployment Rate	12.0%	12.0%	12.0%

ASIA & OCEANIA

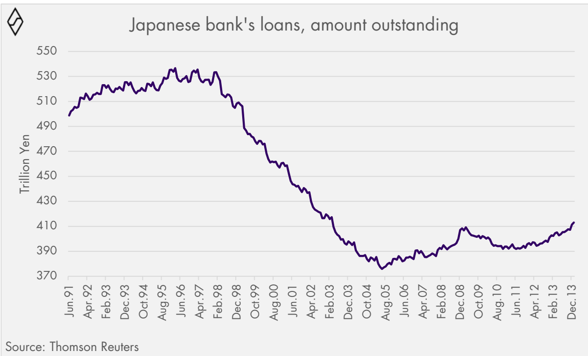
A Japanese focus...

JAPAN

Last week was somewhat worrying regarding Japan, as the worse than expected data (or as the top reporters like to call it – "numbers missed estimates"...) came for GDP, trade balance and industrial activity. Surprisingly enough, this led to the first positive week this year for the Nikkei 225. This leads us to ask two questions:

- Firstly, what is driving the stock prices in Japan?
- Secondly, is this a good time to be bullish?

The first question can be tricky to answer. However we do have an answer for the second one!



Starting with the negative trade balance and yet another wrong estimate, the Japanese trade deficit keeps widening, even though the yen keeps devaluing. For a novice economist, this makes no sense and is against theory. For an intermediate economist, it will be well known that this is nothing more than the J-curve effect and there are expectations for the trade deficit to shrink any-time now. Finally, advanced economists are wondering how long does it take for the economy to slide along the J-curve. We prefer having a view and risk-managing it according to how certain we are in it, instead of not having a view, so even though simplistic, we believe that as Japan has been in a 20 year economic struggle, it may take longer than usual to pass the J-curve. Therefore, our expectation (having in mind the current state) are for further yen devaluations and a slowdown in deficit increase, followed by a surplus at some point. We have held our long USD/JPY position throughout the though month of January, indicating our belief.

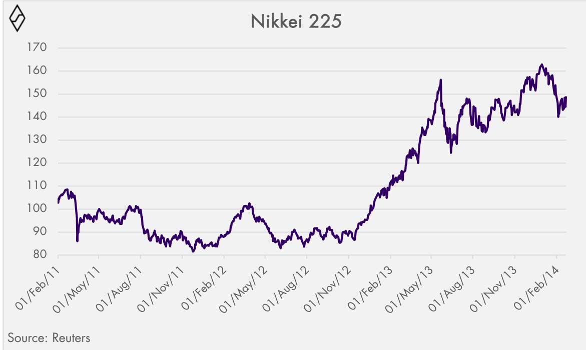
By now, we most likely all know that the BoJ has had a very (aggressively) accommodative monetary policy, maybe not many know however, that this has not lead to a large surge in lending. In order to amend this, Last week the BoJ has made an effort to potentially increase the velocity of money. This effort is outlined in its Statement of Monetary Policy (**view full**), where the central bank looks at:

- Stimulating Bank Lending Facility
- Growth-Supporting Funding Facility

The support provided is through extended deadlines and increased maximum fund-provision amounts. This supports our original view, as long as Abenomics is the dominant force in the Japanese government and more importantly – central bank.

To demonstrate some validity regarding our point, after the Statement of Monetary Policy was released by BoJ, the Yen devalued by 0.8% against the dollar and the Nikkei surged by it's biggest gain since September 2013.

Having said this, it makes sense to be bullish on Japan, and buying now with close exit points provides a good risk-return target.



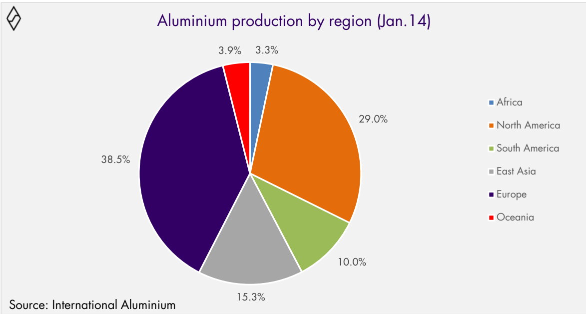
Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	New Zealand	Inflation Expectations q/q	2.3%		2.3%
Wednesday	New Zealand	Trade Balance	306M	230M	493M
Thursday	Australia	Private Capital Expenditure q/q	-5.20%	-1.00%	2.60%
Friday	Japan	Manufacturing PMI	55.5		56.6
		Tokyo Core CPI y/y	0.9%	0.8%	0.7%
		Retail Sales y/y	4.4%	3.9%	2.5%
	New Zealand	ANZ Business Confidence	70.8		64.1
	Australia	Private Sector Credit m/m	0.4%	0.5%	0.5%

COMMODITIES

The Hungry Caterpillar

METALS

The London Metal Exchange (LME) has voiced serious concerns over being able to maintain a well-ordered base-metal market if it's forced to repeat a consultation to reform its global warehouse network, due to the Russian aluminium giant Rusal seeking a judicial review. In brief, the reforms are due to come into effect April 1st and include measures such as: a proposal to affect all warehouses with queues of more than 50 days, the LME acting to prevent queue incentivisation, and the creation of a physical market committee.

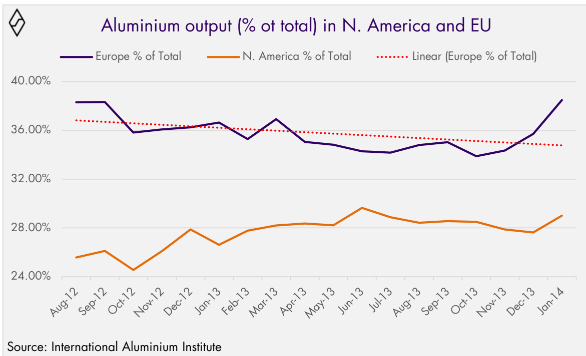


The proposal works by measuring all of the metal loaded into a warehouse over a three-month period. If there is a queue of more than 50 calendar days the affected warehouse is expected to deliver out additional metal based on a formula. United Company Rusal, the world's largest producer of aluminium is seeking court permission for a judicial review in hopes of completely suppressing the LME moves it says may undermine the price at which the company can sell its product. Rusal is arguing that the LME actions will harm its economic interests and that there were flaws in the consultation and inquiry process adopted by the exchange. The hearing marks the first legal hurdle confronting the LME over the reform.

As can be seen from the graph Europe

The world's largest gold ETF New York's SPDR Gold Shares is on track for its first monthly inflow in more than a year...

contributes the most to the total aluminium inventories, and for the past few months has been above the linear trend.



If Rusal's judicial review is declined and the reforms do go ahead then it is likely that the market is going to gain an influx of aluminium

liquidity, particularly from North America; where there is a serious issue of aluminium piling up in Detroit. Consequently, the 50 calendar day proposal would cause a lot of this surplus to finally leave the warehouses.
The world's largest gold ETF New York's SPDR Gold Shares is on track for its first monthly inflow in more than a year after a series of weak US data increased investor's interest in the metal as a safe haven asset. The SPDR fund, which issues securities backed by physical metal, added more than 10.5 tonnes to its reserves in the last month. This provided it with the first inflow since December 2012. Meanwhile, London copper steadied after comments by Janet Yellen eased market worries over the slowdown in the USA, but copper ended the month flat due to lingering concerns over the Chinese slowdown. Three-month Copper on the LME inched up 13bps to $7,034.25 a tonne whilst the most-traded May contract on the Shanghai futures exchange slipped by 12bps to 49,280 Yuan a tonne.

ENERGY

The Obama administration has started to lay out the framework for assessing the amount of crude off the Atlantic coast, another step towards possibly allowing oil production in an area that has been out of reach for decades. Drilling was banned off the Atlantic and Pacific coasts in the 1980s and remained off limits for over two decades. The plan was released as part of the Bureau of Ocean Energy Management's final environmental review of the possible impacts of seismic testing to gauge oil reserves in the Atlantic. If the proposal is approved then it will require measures aimed at avoiding vessel strikes of marine animals, closure of certain areas to protect the mitigation path of the endangered North Atlantic Right Whale, and the use of underwater microphones to improve detection of marine mammals during seismic airgun activity. Furthermore, if the plans are approved it will allow the US to increase its oil output even further. A recent report by the Energy Information Administration (EIA) showed that oil output in the US for 2013 reached 25 year highs due to a boom in the shale revolution, with production for the year increasing by almost 1 million bpd, its largest ever annual increase.
In other news, the Swiss oil trader Vitol is working with Sunoco Logistics Partners to expand pipeline capacity for shipping Permian Basin crude output to the Gulf Coast, growing its foothold in the West Texas supply chain.

oil output in the US for 2013 reached 25 year highs...

The two-companies formed a 50:50 venture called SunVit Pipelines in the third quarter last year to build a new crude oil pipeline from the Permian oil storage hub in Midland to Garden City, Texas where it will connect to Sunoco's Permian Express 2 line.
Finally, as a summary, some of the smaller prices movements that occurred this week were: Brent slipped down now that the cold weather is coming to an end implying a slow-down in demand. Brent futures slipped below $109 a barrel, but supply worries are keeping the losses in check for now. In the spot market, Brent dropped 17bps to $108.79, and US oil dropped 45bps to $101.94

AGRICULTURE

There has been no end to the pest pain cycle for Brazil since it started large-scale commercial agriculture. First it was silver leaf whitefly In the 1990s, followed by soy rust fungus a decade later; both still remain problems. Brazil was also the world's largest cocoa producer until the Witches Broom disease devastated the industry in the 1990's. Now, Brazilian farmers are facing a caterpillar that most likely came from Asia, challenging the agricultural superpower's 'mastery' of tropical farming just as it is on the verge of becoming the top soybean producer. The caterpillar, a variety known as helicoverpa armigera that thrives on dry heat, was spotted for the first time in 2012 on cotton farms in drought-prone Western Bahia. Whilst crop losses have so far been limited, Brazil is now on red alert over the nation's third major pest outbreak in 3 decades. Officials have stepped up port controls, farmers are rethinking planting patterns and the hardest hit are blaming the government's cumbersome bureaucracy for not allowing the import of pesticides that have helped control the bug in other nations. The Bahia state government announced that Emamectin Benzoate a substance manufactured by Swiss crop chemical maker Syngenta would be available by March 2013, however a year later there is still no access to it. The government created a series of rules and obstacles, making it difficult to obtain the chemical, but according to Lusis Rangel, the director of the sanitation department at Brazil's agricultural ministry- 'the bureaucratic hurdles have been overcome, and the substance would be available with special approval on an emergency basis'.

The incident has shown how Brazil's emergence as a top agricultural producer has made it one of the fastest growing markets for Biotech firms like Monsanto, which could benefit from the outbreak by selling its new caterpillar-resistant genetically modified soy and cotton seeds. The country's soy area expanded 40% in the past 5 years, meaning the helicoverpa armigera outbreak has had a more significant economic impact. Furthermore, the tendency of farmers to plant soy repeatedly instead of rotating their crops has made Brazil more vulnerable to pests. To prevent another outbreak the government is promoting "integrated agriculture", which involves monitoring pests, rotating crops and seed varieties, and using biological controls and natural enemies, with chemicals as a last resort.

Brazil is now on red alert over the nation's third major pest outbreak in 3 decades.

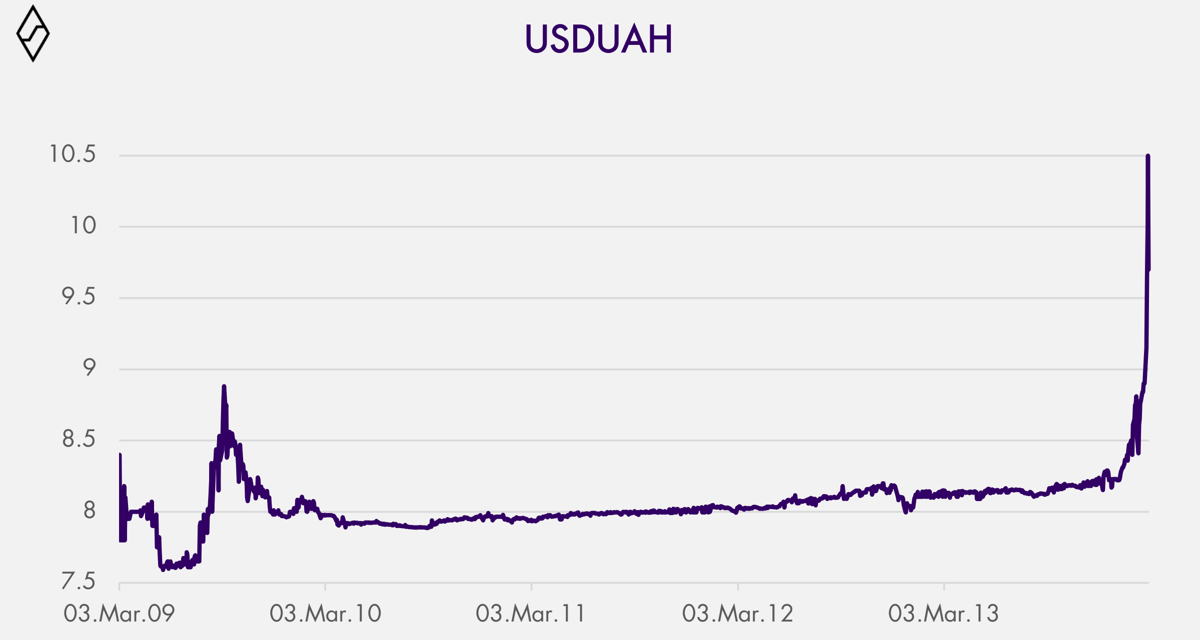
Due to the draught in Australia, farmers are being forced to slaughter their cattle early as pastures wither. This is causing processors to work flat out and is likely to push beef shipments to record highs. The slaughter rates have already hit 3 consecutive weekly highs, which could prompt the Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) to raise its forecasts in beef exports. In the longer term, this draught could result in beef shortages due to reduced breeding stock and result in fewer cattle being slaughtered. On a similar note, Russia is planning to resume pork imports from the USA around March 10th the Russian Veterinary and phytosanitary service (VPSS). Russia banned most meat imports from the United States early last year due to concerns over the food additive ractopaemine. Ractopaemine is a growth stimulant used to make meat leaner. It's banned in some countries over concerns that it could remain in the meat and cause health problems. Russia plans to allow imports, but from those companies that don't use Ractopaemine.

FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3736	1.3799	0.46%	2.33%	0.39%
USD/JPY	102.49	101.75	-0.72%	-0.29%	-3.37%
USD/CHF	0.8837	0.8793	-0.50%	-2.95%	-1.51%
USD/CAD	1.1113	1.1061	-0.47%	-0.60%	4.15%
AUD/USD	0.8986	0.8923	-0.70%	1.98%	0.11%
NZD/USD	0.8273	0.8378	1.27%	3.71%	2.10%
USD/CNY	6.0916	6.145	0.88%	1.39%	-1.49%
GBP/USD	1.6618	1.6737	0.72%	1.84%	1.09%

UAH

That's the reflection of the civil conflict in Ukraine on the market. Ukraine's currency - the Hryvnia, fell to a new record low against the dollar on Thursday. More action: next week...



Source: Reuters

PORTFOLIOS

MAVERICK

security	L/S	date
Tracker Fund of Hong Kong	Long	03.Sep.13
Corning Inc.	Short	23.Oct.13
CNY/USD	Long	04.Nov.13
ProShares UltraShort Lehman 20+ Yr(ETF)	Long	04.Nov.13

security	L/S	date
iShares MSCI Emerging Markets	Short	24.Jan.14
DBIQ Optimum Yield Diversified CI	Long	03.Feb.14
Wisdom Tree Europe Hedged Equite (ETF)	Long	10.Feb.14
iShares UK Gilts UCITS (ETF)	Long	10.Feb.14

CORTEZ

security	L/S	date
Pandora A/S	Long	03.Sep.13
Valeo SA	Long	03.Sep.13
Aspen Technology Inc	Long	03.Sep.13
USD/JPY	Long	07.Oct.13
Aeropostale Inc	Long	15.Oct.13
OZ Minerals	Long	15.Oct.13
Easyjet plc	Long	20.Oct.13
Chico FAS	Long	15.Oct.13

security	L/S	date
Claymore/AlphaShares China Real Est ETF	Short	04.Nov.13
Claymore/AlphaShares China Real Est ETF	Short	17.Dec.13
Royal Caribbean Cruises Ltd.	Long	13.Jan.14
Carnival Corp	Long	13.Jan.14
SPDR S&P Emerging Latin America	Short	24.Jan.14
Claymore/AlphaShares China Real Est ETF	Short	03.Feb.14
WisdomTree Europe	Long	10.Feb.14
Global IPO Plus Aftermarket (IPOSX)	Long	10.Feb.14

EVENTS

USA

- ISM Manufacturing
- ISM Non-Manufacturing
- ADP Nonfarm employment
- Nonfarm Payrolls
- Unemployment rate

EUROPE

- EU Markit PMI
- ECB President Draghi Speaks
- MPC Rate Statement

ASIA & OCEANIA

- China Manufacturing PMI
- Australia Building Approvals m/m
- Australia Trade Balance
- Australia Cash rate

REFERENCES

Reserve Bank of Australia, Bank of Japan, Bloomberg, Thomson Reuters, Markit ,Eurostat, ECB, Bloomberg, Reuters, Berenberg, ONS, http://bit.ly/1pON4dj

DISCLAIMER