SIERRA
mini

SHARD FUND

A JOURNEY ACROSS OUR PORTFOLIO

August 9th - August 15th, 2014 | Issue 22

Sierra mini aims to focus primarily on our portfolio. Here we will be openly showing the reasoning behind our positions and analyse their development with time. This will be a temporary substitute of Sierra, which will merge with Sierra mini in a few weeks time to cover both the markets and our portfolio.

TEAM:

Georgi Stanoev
Ivan Natchev

SECTORS

USA

Sectors	5D	1M	3M	YTD
Healthcare	2.36%	1.09%	6.92%	11.76%
Utilities	1.28%	-1.39%	-0.10%	10.53%
Technology	1.60%	0.41%	7.79%	9.93%
Energy	-0.24%	-2.48%	2.92%	8.88%
Materials	1.08%	0.46%	4.19%	7.59%
Consumer Staples	1.48%	-1.11%	1.16%	3.58%
Financials	0.89%	-1.78%	3.96%	3.29%
Industrials	1.38%	-2.79%	-0.25%	1.21%
Consumer Discretionary	1.15%	-0.34%	6.07%	0.43%
Indices				
Nasdaq	2.15%	0.88%	9.15%	6.90%
S&P 500	1.22%	-0.92%	4.50%	5.77%
Dow Jones Ind. Avg.	0.66%	-2.77%	1.04%	0.52%
Russell 2000	0.91%	-0.86%	3.51%	-1.89%

EUROPE

Indices	5D	1M	3M	YTD
STOXX Europe 600 Real Estate Cap	3.63%	0.68%	2.27%	14.21%
STOXX Europe 600 Health Care	0.94%	-3.30%	-0.79%	8.68%
STOXX Europe 600 Basic Resources	0.45%	0.45%	2.49%	7.76%
STOXX Europe 600 Food & Beverage	1.82%	-1.76%	-1.47%	4.26%
STOXX Europe 600 Oil & Gas	0.13%	-5.05%	-4.89%	2.18%
STOXX Europe 600 Personal & Household Goods	2.44%	-3.06%	-2.51%	1.16%
STOXX Europe 600	1.48%	-2.64%	-2.66%	0.44%
STOXX Europe 600 Construction & Materials	2.11%	-6.41%	-9.08%	-0.18%
STOXX Europe 600 Travel & Leisure	2.38%	-3.47%	-3.47%	-0.48%
STOXX Europe 600 Financial Services	2.16%	-4.03%	-2.49%	-0.64%
STOXX Europe 600 Insurance	2.18%	-1.84%	0.78%	-0.67%
STOXX Europe 600 Banks	1.36%	-0.46%	-3.62%	-2.98%
STOXX Europe 600 Technology	0.77%	0.93%	2.25%	-3.62%
STOXX Europe 600 Media	1.59%	1.18%	2.36%	-3.63%
STOXX Europe 600 Telecommunications	1.45%	-2.75%	-5.64%	-3.70%
STOXX Europe 600 Chemicals	1.08%	-4.96%	-6.60%	-3.93%
STOXX Europe 600 Automobiles & Parts	0.46%	-11.21%	-9.07%	-4.84%
STOXX Europe 600 Industrial Goods & Services	1.93%	-2.43%	-5.09%	-5.29%
STOXX Europe 600 Retail	1.94%	-3.86%	-5.44%	-7.87%

SECTORS / FX

ASIA & PACIFIC

Indices	5D	1M	3M	YTD
STOXX Asia/Pacific 600 Technology	2.54%	0.76%	11.72%	12.30%
STOXX Asia/Pacific 600 Construction & Materials	3.83%	2.82%	11.47%	12.20%
STOXX Asia/Pacific 600 Food & Beverage	2.62%	3.03%	11.82%	10.08%
STOXX Asia/Pacific 600 Health Care	3.89%	2.62%	10.82%	8.92%
STOXX Asia/Pacific 600 Oil & Gas	1.64%	-0.24%	4.66%	8.73%
STOXX Asia/Pacific 600 Personal & Household Goods	4.15%	0.59%	11.15%	6.75%
STOXX Asia/Pacific 600 Industrial Goods & Services	2.94%	0.52%	9.08%	4.35%
STOXX Asia/Pacific 600 Real Estate	3.12%	1.19%	5.19%	4.13%
STOXX Asia/Pacific 600 Media	3.86%	2.86%	10.40%	3.32%
STOXX Asia/Pacific 600 Chemicals	2.42%	0.86%	9.96%	3.31%
STOXX Asia/Pacific 600 Index	2.90%	0.58%	7.90%	2.64%
STOXX Asia/Pacific 600 Utilities	2.62%	0.32%	5.80%	2.21%
STOXX Asia/Pacific 600 Basic Resources	3.41%	1.21%	6.69%	1.99%
STOXX Asia/Pacific 600 Insurance	4.23%	2.64%	6.79%	1.35%
STOXX Asia/Pacific 600 Telecommunications	2.68%	-1.89%	8.01%	-0.04%
STOXX Asia/Pacific 600 Banks	2.51%	0.03%	4.42%	-0.41%
STOXX Asia/Pacific 600 Retail	2.62%	0.71%	4.63%	-1.21%
STOXX Asia/Pacific 600 Financial Services	3.70%	1.85%	8.69%	-3.60%
STOXX Asia/Pacific 600 Automobile & Parts	1.43%	-1.32%	9.66%	-4.35%

Source: Stoxx; quoted in EUR

FX

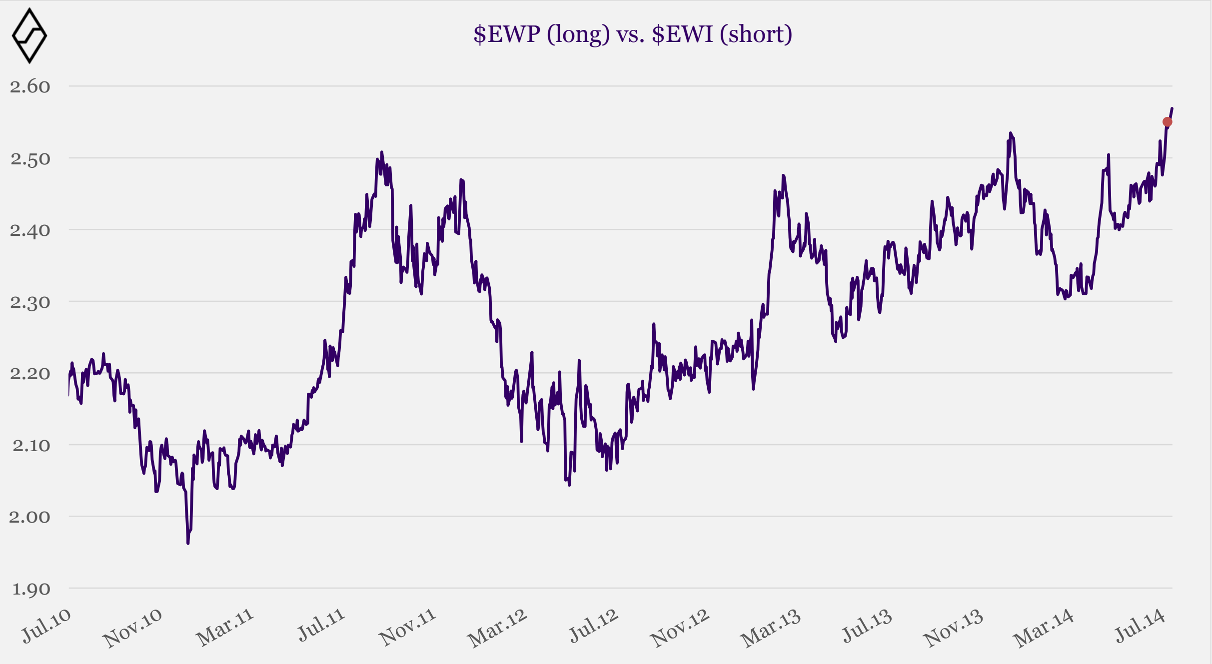
Pair	Open	Close	Weekly %	Trend w/w	Monthly %	YTD
EUR/USD	1.3408	1.3396	-0.09%	3	0.01%	-2.54%
GBP/USD	1.667	1.6676	0.04%	1	-1.39%	0.72%
USD/JPY	102	102.33	0.32%	2	-0.44%	-2.82%
USD/CHF	0.9051	0.9023	-0.31%	1	-0.69%	1.06%
USD/CAD	1.097	1.089	-0.73%	1	-0.12%	2.54%
AUD/USD	0.9273	0.9319	0.50%	1	0.27%	4.56%
NZD/USD	0.8457	0.8481	0.28%	1	-0.19%	3.35%
USD/CNY	6.1634	6.1472	-0.26%	1	-0.43%	1.54%
GBP/JPY	171.1	170.8	-0.18%	1	-1.58%	-1.97%
EUR/GBP	0.7991	0.8022	0.39%	2	1.19%	-3.30%
EUR/JPY	136.8	137.11	0.23%	1	-0.38%	2.60%
EUR/AUD	1.4517	1.4486	-0.21%	1	0.84%	-6.43%
GBP/AUD	1.80804	1.79104	-0.94%	1	-1.40%	-3.20%
AUD/NZD	1.096	1.0983	0.21%	2	-0.01%	1.18%
BTC/USD	584.09	490.32	-16.05%	N/A	-14.46%	-32.88%
EUR/CHF	1.2112	1.212	0.07%	N.A	-0.14%	-1.56%

CALENDAR

Day	Country	Indicator	Actual	Forecast	Previous
USA					
Tuesday	United States	Federal Budget Balance	-95.05B	-96.0B	71.0B
Wednesday		Retail Sales (MoM)	0.0%	0.3%	0.2%
		Core Retail Sales (MoM)	0.1%	0.4%	0.4%
Thursday		Initial Jobless Claims	311K	295K	289K
Friday		Core PPI (MoM)	0.2%	0.2%	0.2%
		PPI (MoM)	0.1%	0.1%	0.4%
		PPI (YoY)	1.7%	1.8%	1.9%
		Industrial Production (MoM)	0.4%	0.3%	0.2%
		Michigan Consumer Sentiment	79.2	82.5	81.8
		Upcoming events		Forecast	Previous
Tuesday	United States	Core CPI (YoY)		1.9%	1.9%
		Core CPI (MoM)		0.2%	0.1%
		Building Permits		1.000M	0.973M
		Housing Stats		0.970M	0.893M
Thursday		Philadelphia Fed Manufacturing Index		20.0	23.9
		Existing Home Sales		5.02M	5.04M
		Initial Jobless Claims		300K	311K
EU					
Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	Germany	German ZEW Econ. Sentiment	8.6	18.2	27.1
		German ZEW Current Cond.	44.3	55.0	61.8
	EU	ZEW Econ. Sentiment	23.7	41.3	48.1
Wednesday	United Kingdom	Claimant Count Change	-33.6K	-30.0K	-36.3K
		Unemployment Rate	6.4%	6.4%	6.5%
		BoE Inflation Report			
	Germany	CPI (MoM)	0.3%	0.3%	0.3%
	France	CPI (MoM)	0.8%	-0.4%	0.0%
	EU	Industrial Production (MoM)	-0.3%	0.3%	-1.1%
Thursday	EU	Core CPI (YoY)	0.8%		0.1%
		CPI (MoM)	-0.7%	-0.6%	0.1%
		CPI (YoY)	0.4%	0.4%	0.4%
		GDP (YoY)	0.7%	0.7%	0.9%
		GDP (QoQ)	0.0%	0.1%	0.2%
	Germany	GDP (QoQ)	-0.2%	-0.1%	0.0%
		GDP (YoY)	0.8%	1.5%	2.5%
	France	GDP (QoQ)	0.0%	0.1%	0.0%
		Non-Farm Payrolls (QoQ)	0.1%	-0.1%	-0.1%
Friday	United Kingdom	GDP (QoQ)	0.8%	0.8%	0.8%
		GDP (YoY)	3.2%	3.1%	3.1%
		Upcoming events		Forecast	Previous
Tuesday	United Kingdom	CPI (MoM)		-0.2%	0.2%
		CPI (YoY)		1.8%	1.9%
Thursday	Germany	Manufacturing PMI		51.7	52.4
		Services PMI		55.7	56.7
	EU	Manufacturing PMI		51.3	51.8
		Services PMI		53.5	54.2
	United Kingdom	Retail Sales (MoM)		0.4%	0.1%
	France	Manufacturing PMI		47.8	47.8
		Services PMI		50.0	50.4
Asia and Oceania					
Day	Country	Indicator	Actual	Forecast	Previous
Monday	Australia	House Price Index (QoQ)	1.8%	1.1%	1.7%
Tuesday	Japan	Industrial Production (MoM)	-3.4%	-3.30%	-3.3%
		GDP (YoY)	-6.8%	-7.1%	6.7%
		GDP (QoQ)	-1.7%	-1.8%	1.6%
	India	CPI (YoY)	8.0%	7.40%	7.3%
	China	New Loans	385B	780B	1,080B
Wednesday	China	Industrial Production (YoY)	9.0%	9.0%	9.2%
		Fixed Asset Investment (YoY)	17.0%	17.4%	17.3%
	New Zealand	Retail Sales (QoQ)	1.2%	1.00%	0.70%
		Business NZI PMI	53.0		53.3
		Upcoming events		Forecast	Previous
Wednesday	China	HSBC Manufacturing PMI			51.7

Long Spain ($EWP) vs. Short Italy ($EWI)

Our thesis here is that Spain's economy will be outperforming its Italian counterpart. As Europe's recovery is currently on hold (for now), we see Spain establishing itself as more stabilised and resilient than Italy. The two countries have been known as one of the most problematic in Europe since the recession, but from the beginning of 2012 Spain has been comparatively stronger. The chart below plots the relationship between the two ETFs representing the stock market indices in the countries. Data coming from Spain has been relatively stable and improving, whereas Italy has had major economic headwinds. The latest GDP figures are only the most recent indicator of that divergence. Spanish economy grew by 0.6% in the second quarter, while the Italian shrank by 0.2%. As the chart emphases, in periods of economic weakness in Europe, Spain outperforms Italy, or at least that has been the case since 2009.



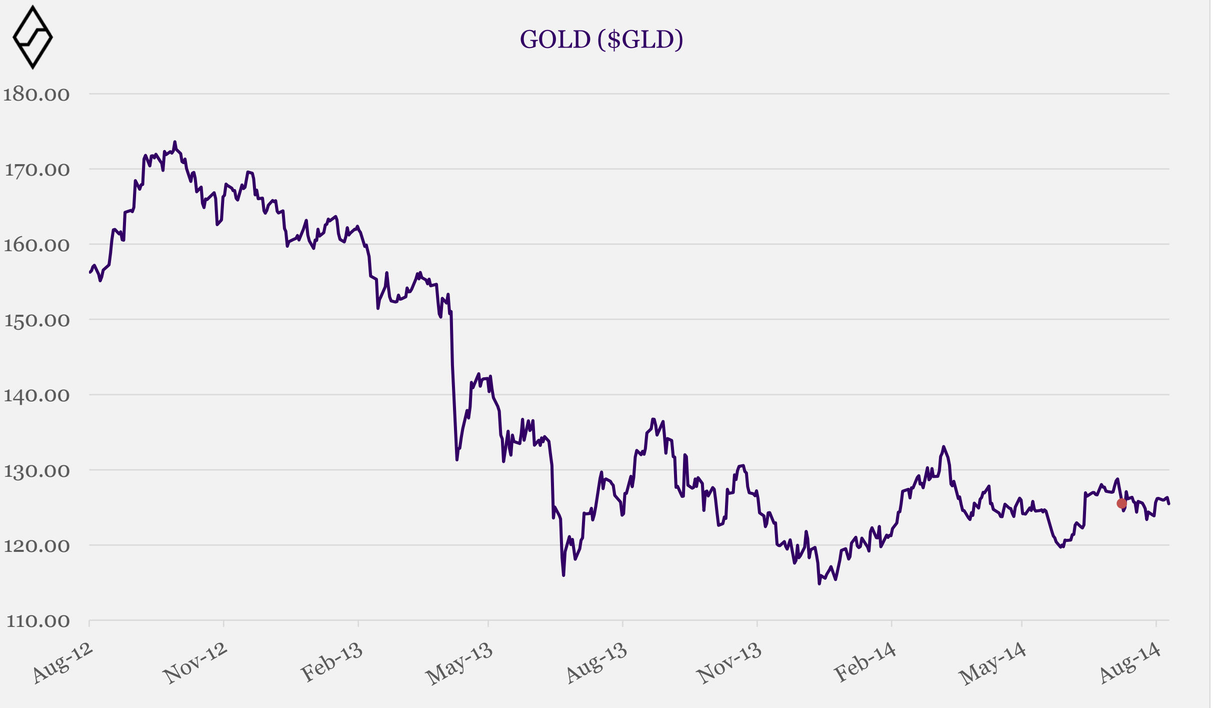
Source: Thomson Reuters data

Long Gold ($GLD)

Gold is a multi-functional asset in our portfolio. On the one hand the precious metal is a book hedge which aims to protect us from the geo-political volatility in recent months. As a safe haven, gold is one of the most demanded commodities in uncertain times, so its price theoretically goes up every time something happens in Ukraine or Israel.

On the other hand, our position in Gold is related to the US growth outlook. We are still not convinced that the economy is getting stronger and even without sophisticated economic modeling, leading indicators point to a below consensus Q3 GDP (where consensus is looking for around 3% SAAR). With the economy getting weaker as opposed to stronger, who knows what might come out of Janet Yellen's mouth, especially when the dollar is getting stronger and other commodities (i.e. inflation) are experiencing price declines.

The dollar is actually the major risk to our gold thesis. If it wasn't for the serious geo-political risk at the moment, the price of gold would have declined alongside the price of all other commodities (including oil). So, if the dollar keeps getting stronger and stronger, we will reassess our gold holdings, even though that strength is mainly coming from the devaluation of the Euro.

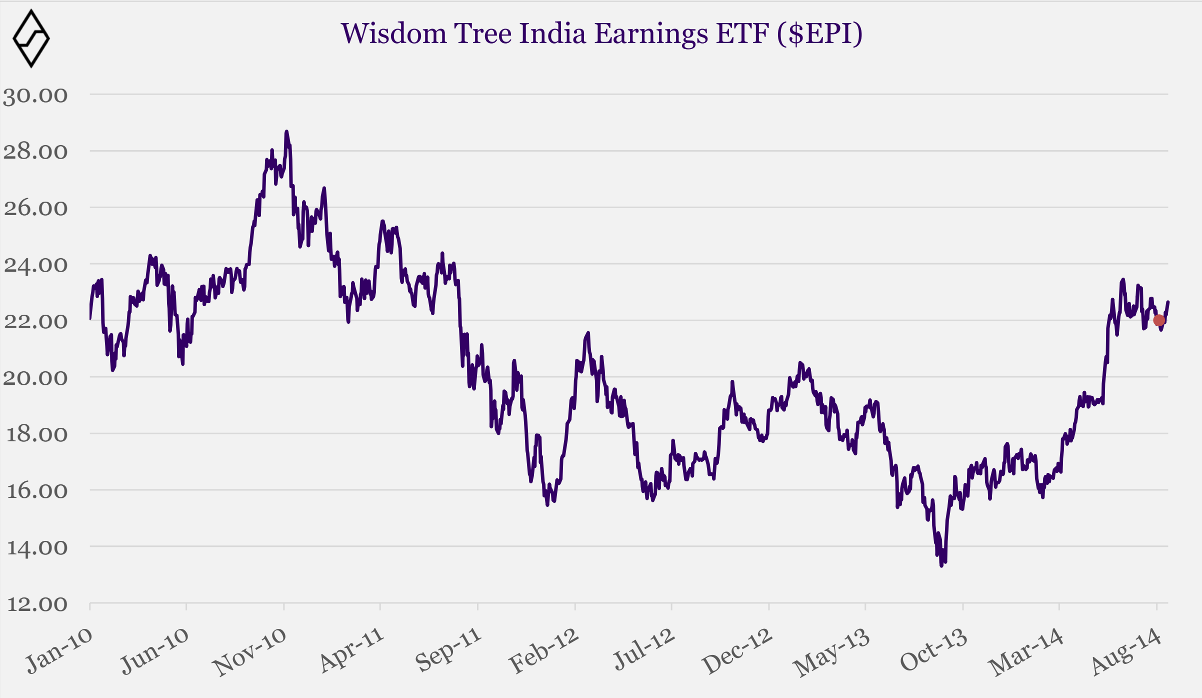


Source: Thomson Reuters data

Long India ($EPI)

We have outlined our bullish case on India in issue 17 (**Link**) a couple of weeks ago and this position only proves that our money goes where our mouths are. With two strong leaders in the face of Prime Minister Narendra Modi and Reserve Bank of India Governor Raghuram Rajan, we see a long but positive path for India towards a better economy. So far Mr. Rajan has delivered most of the 'goods', however he's held this position for the past 11 months now. In that time he has increased interest rates several times in the face of cash outflows from Emerging Markets as well as high domestic inflation. The results have been clear. Investors clearly see the turnaround story that India might prove to be and the stock market ($EPI) has rallied 37% after the slump at the end of January. Meanwhile Wholesale Price Inflation has decreased by roughly 1% since his appointment (to 5.19%) and by 2.3% since December. The guy is clearly determined to do his job, unlike his western 'colleagues'.

As for Mr. Modi himself, this article about his latest speech speaks for itself: **http://goo.gl/yWPL4B**

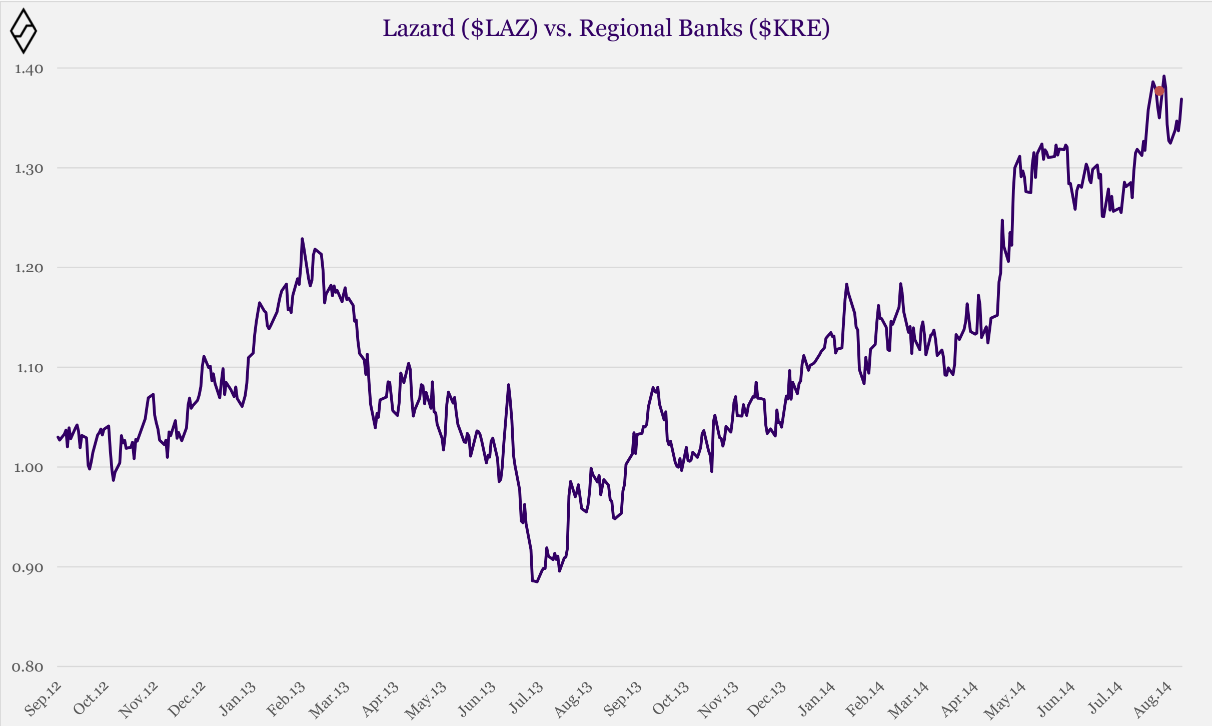


Source: Thomson Reuters data

Long Lazard ($LAZ) vs. Short Regional Banks ($KRE)

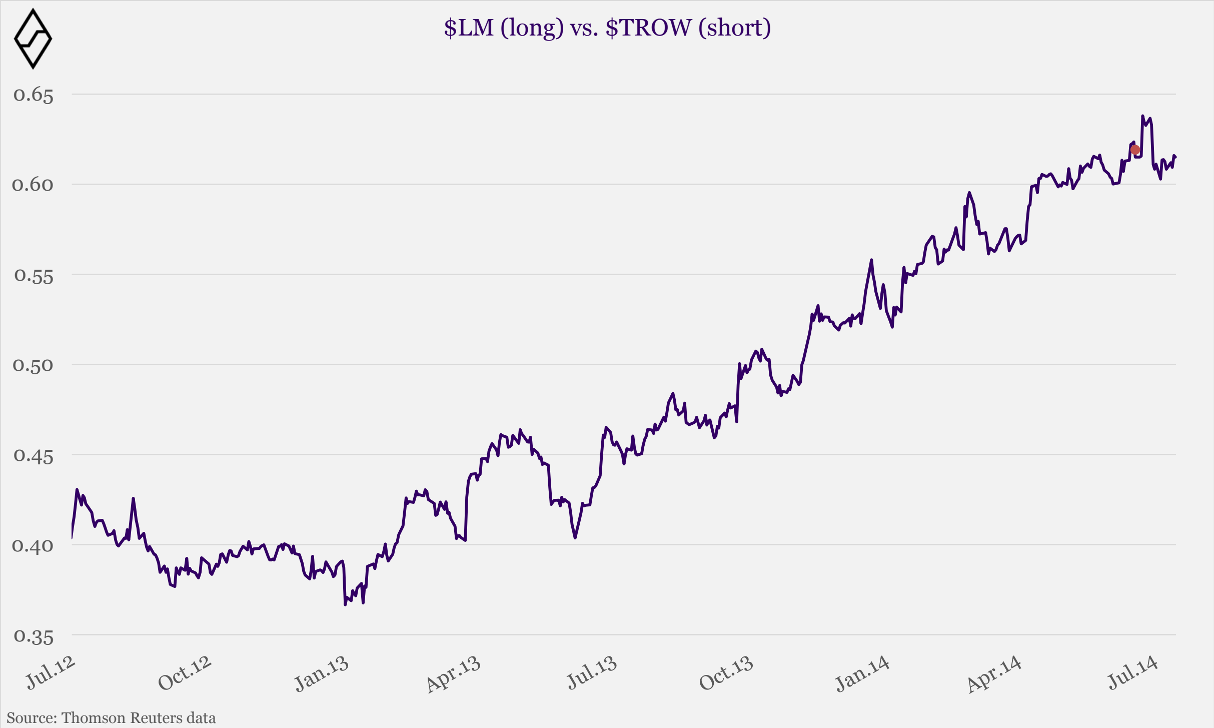
The thesis for this spread relies predominantly on the yield spread in the United States. The yield spread represents the difference between the long term (we use the 10 year Treasury yield) and the short term (2 year yield and below) interest rates, which we use as a proxy for the Net Interest Margin that banks make. Traditional banking relies heavily on that spread, thus seeing it decline and expecting further spread compression gives us a good opportunity for a short position in traditional banking. A proxy for that is the regional banking sector, which is comprised of relatively smaller (compared to Wall Street giants) banks, focused on lending (mortgage or other) in specific geographic area of the country. Given that most of the revenue comes from lending, it is right to assume that those entities will be hit harder by the yield spread compression as opposed to a well-diversified bank holding company (for instance).

On the long side of this spread trade we have Lazard Inc. — a leading financial advisory and asset management firm. We like two main things about the company — M&A and Assets Under Management. Half of the revenue comes from Advisory services (M&A, Capital markets etc.), which benefits from a strong M&A and IPO markets this year and this late in the business cycle. The other half of revenues comes from asset management, which we like because of low exposure to US and EU equities (US equity mutual fund flows have been negative almost every week this year) as opposed to bonds and international markets. Lastly, Lazard should not be much affected by the compression of the yield spread, given that most of its revenue comes from fees (advisory or asset management).



Long Legg Mason ($LM) vs. Short T. Rowe Price Group Inc.

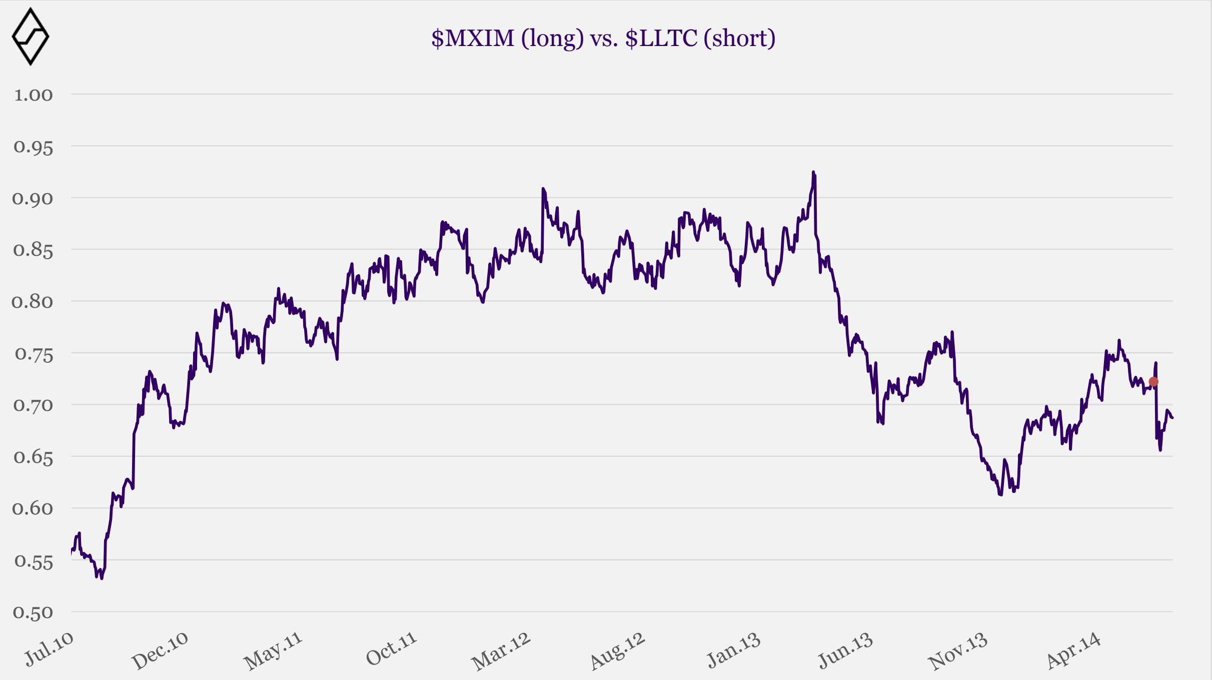
Our idea for this trade is fairly simple. We follow the mutual fund flows and see a significant rotation from equities to fixed income this year. Last year was extremely strong for the stock market and total yearly equity fund flows were USD 160 billion, while bond mutual funds experienced outflows of USD 80 billion. So far this year, total equity fund flows (at the end of July) have been around 50 billion, however US equities have seen USD 17 billion of outflows. Meanwhile, fixed income funds have attracted roughly USD 62 billion of AUM. Having those numbers in mind, we have picked Legg Mason because of its high exposure to fixed income (more than 50% of AUM) and the high ratings of most of its funds. The company has also acquired Martin Currie, an Edinburgh-based equity specialist, which could further boost its profile assuming positive synergies. On the other hand, T. Rowe has around 50% of its AUM in US equities (more than 75% of AUM in equities), which we see as a drag, given the ongoing outflows from the US stock market.



Source: Thomson Reuters data

Long Maxim Integrated Products Inc. ($MXIM) vs. Short Linear Technology Corp. ($LLTC)

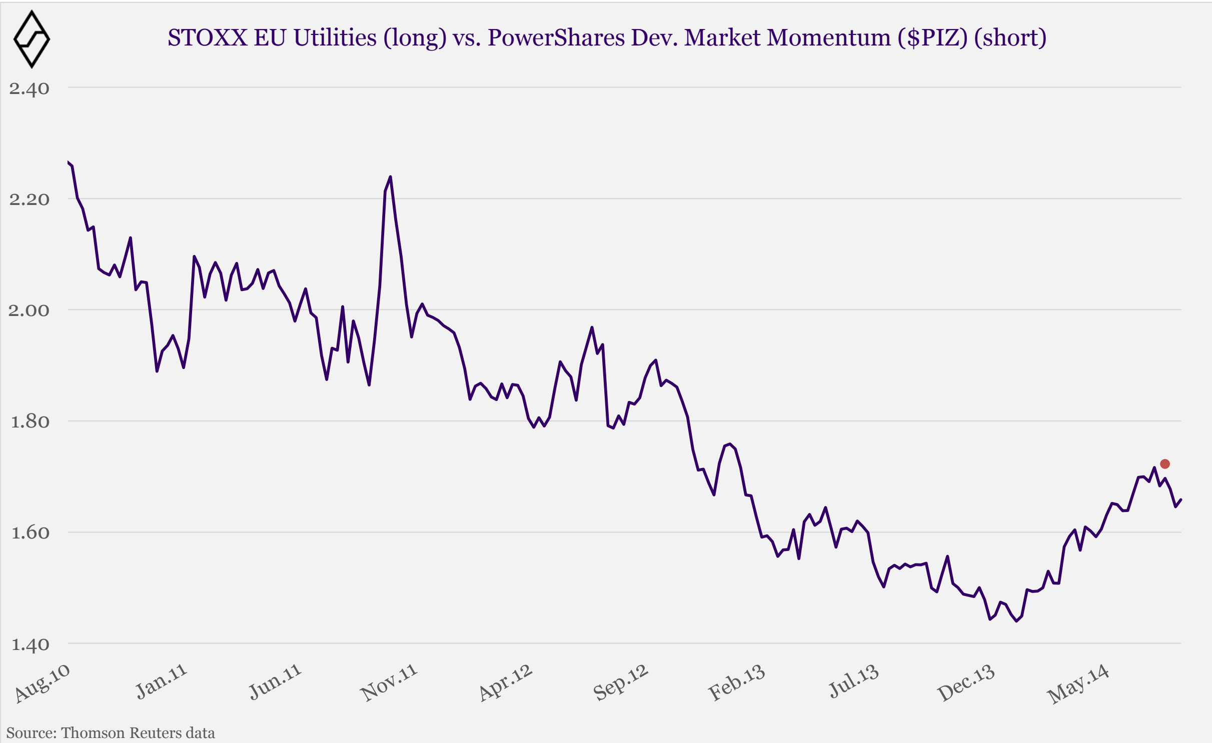
This idea appeared on our watchlist after reading a proprietary research from an independent research company, which we pay for some of the research we use in our idea generation process. Basically their theme is that there is a subset of semi-conductor stocks that have been returning cash to shareholders and will continue to aggressively do so. The decision to make it a spread trade as opposed to a single long position was strategic, as we acknowledged the odds for weakness in the sector given how well it has performed in the past 2 years and also how late in the business cycle we are. Of course, following the logic of the investment theme, $MXIM is the company that has been distributing a considerable amount of cash (not the highest though), while $LLTC has been far down that distribution list. Unfortunately, the trade is not performing as well as we expected due to idiosyncratic risk coming from $MXIM, however the short hedge have been protecting us during the current turbulence in the sector, which is at least one positive thing.



Source: Thomson Reuters data

Long STOXX Europe 600 Utilities UCITS ETF (EXH9) vs. Short PowerShares DWA Developed Markets Momentum Portfolio ($PIZ)

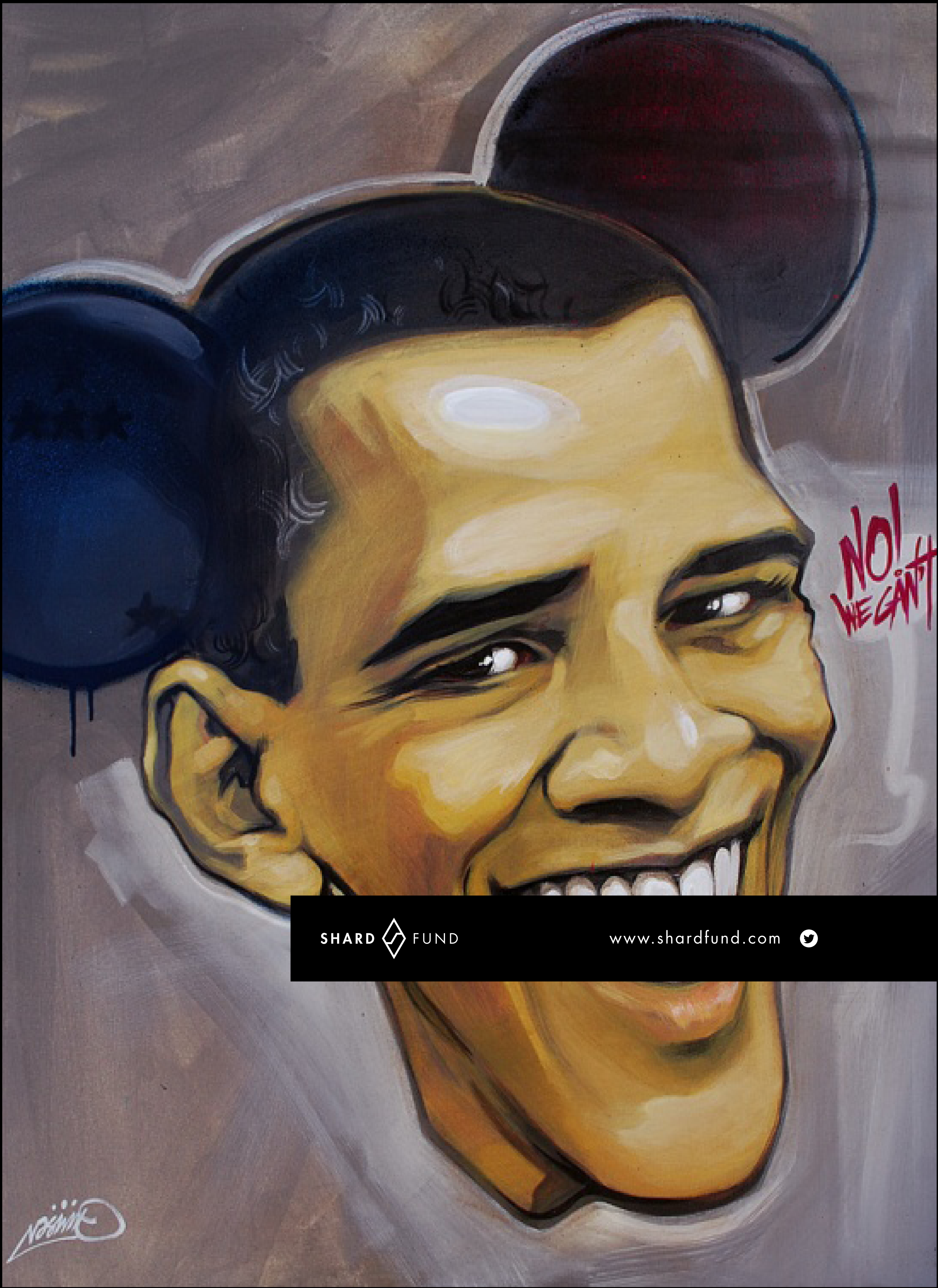
To put it simply, this spread represents our growth expectations for the EU economy. Initially we wanted to short the STOXX EU 600 personal & household goods supersector in order to reproduce the slow-growth spread trade that is long Utilities ($XLU) short Consumer Discretionary ($XLY) in the US. Unfortunately, our broker did not allow us to short this particular security, therefore we found the PowerShares ETF as a substitute. It has above 0.7 correlation with the personal & household goods supersector, as more than 70% of its holdings are in EU cyclicals.



REFERENCES

MXIM vs. LLTC source Hedgeye Risk Management

DISCLAIMER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