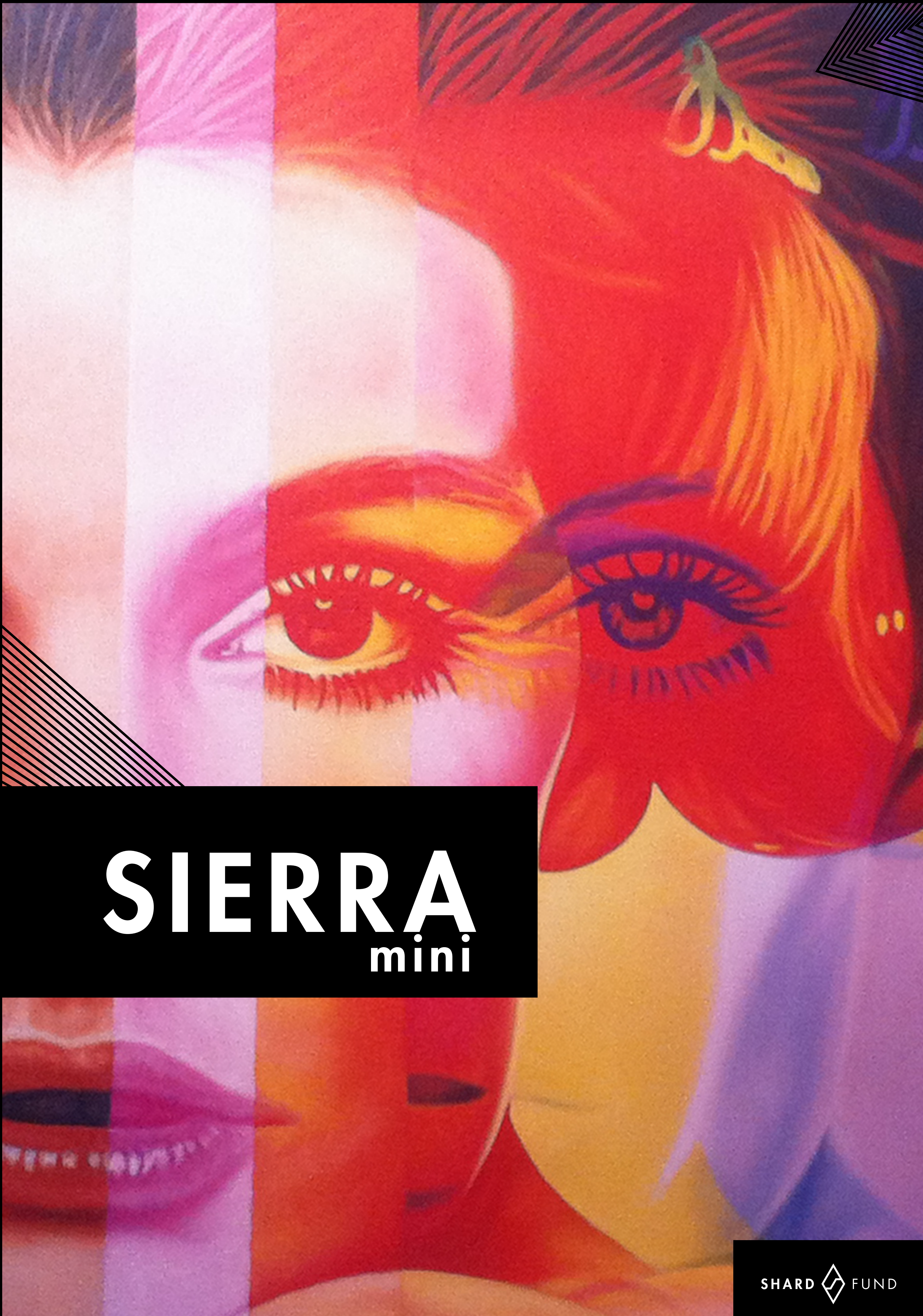

SIERRA
mini

SHARD FUND

A JOURNEY ACROSS OUR PORTFOLIO

October 4th - October 10th, 2014 | Issue 29

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 when we feel there's more exciting stuff going on in our portfolio then in the markets.

TEAM:

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SECTORS

USA

Sectors	5D	1M	3M	YTD
Healthcare	-2.24%	-2.31%	2.41%	13.58%
Utilities	0.92%	0.61%	-0.53%	13.06%
Technology	-3.87%	-5.58%	-1.73%	6.46%
Consumer Staples	0.37%	0.57%	0.91%	6.12%
Financials	-3.01%	-3.30%	-0.31%	3.29%
Materials	-4.42%	-7.49%	6.54%	0.17%
Consumer Discretionary	-3.58%	-5.79%	-3.90%	-3.41%
Industrials	-4.70%	-7.07%	-6.40%	-3.71%
Energy	-5.24%	-11.98%	-15.74%	-5.60%
Indices				
S&P 500	-3.14%	-4.49%	-2.98%	3.13%
Nasdaq	-4.44%	-6.38%	-3.15%	2.39%
Dow Jones Ind. Avg.	-2.73%	-2.61%	-2.36%	-0.20%
Russell 2000	-4.61%	-9.24%	-9.19%	-9.48%

Source: Sectorspdr.com

EUROPE

Indices	5D	1M	3M	YTD
STOXX Europe 600 Health Care	-4.63%	-3.23%	2.35%	13.94%
STOXX Europe 600 Real Estate Cap	-2.05%	-5.43%	-3.84%	9.07%
STOXX Europe 600 Food & Beverage	-1.78%	-4.56%	-1.75%	3.58%
STOXX Europe 600 Insurance	-2.85%	-3.37%	0.22%	0.39%
STOXX Europe 600 Personal & Household Goods	-2.27%	-4.98%	-5.07%	-1.20%
STOXX Europe 600	-4.05%	-6.70%	-4.39%	-2.02%
STOXX Europe 600 Banks	-3.86%	-5.96%	0.68%	-2.67%
STOXX Europe 600 Travel & Leisure	-6.97%	-6.72%	-5.53%	-3.16%
STOXX Europe 600 Telecommunications	-3.93%	-4.41%	-2.57%	-4.46%
STOXX Europe 600 Financial Services	-4.09%	-7.24%	-7.26%	-4.90%
STOXX Europe 600 Technology	-5.81%	-8.37%	-1.62%	-5.60%
STOXX Europe 600 Basic Resources	-2.63%	-10.34%	-10.73%	-5.66%
STOXX Europe 600 Media	-3.79%	-5.71%	-0.85%	-6.04%
STOXX Europe 600 Chemicals	-3.66%	-7.12%	-6.71%	-6.31%
STOXX Europe 600 Oil & Gas	-6.39%	-11.36%	-13.48%	-7.04%
STOXX Europe 600 Construction & Materials	-5.86%	-11.31%	-13.18%	-7.62%
STOXX Europe 600 Industrial Goods & Services	-5.33%	-8.95%	-7.21%	10.35%
STOXX Europe 600 Automobiles & Parts	-5.35%	-13.53%	-16.67%	12.82%
STOXX Europe 600 Retail	-2.52%	-10.47%	-11.29%	15.65%

Source: Stoxx; quoted in EUR

SECTORS / FX

ASIA & PACIFIC

Indices	5D	1M	3M	YTD
STOXX Asia/Pacific 600 Technology	-2.45%	-3.84%	1.92%	11.03%
STOXX Asia/Pacific 600 Health Care	-1.07%	-1.26%	6.01%	10.28%
STOXX Asia/Pacific 600 Food & Beverage	-0.91%	-0.69%	2.97%	9.08%
STOXX Asia/Pacific 600 Chemicals	-2.30%	-2.52%	4.63%	6.76%
STOXX Asia/Pacific 600 Construction & Materials	-3.42%	-7.78%	-3.07%	4.03%
STOXX Asia/Pacific 600 Personal & Household Goods	-1.07%	-3.46%	-1.27%	3.45%
STOXX Asia/Pacific 600 Industrial Goods & Services	-3.38%	-4.70%	0.54%	3.17%
STOXX Asia/Pacific 600 Utilities	-0.26%	-3.50%	1.47%	2.01%
STOXX Asia/Pacific 600 Insurance	-1.91%	-3.90%	4.23%	1.55%
STOXX Asia/Pacific 600 Real Estate	-0.07%	-4.83%	-0.16%	1.34%
STOXX Asia/Pacific 600 Oil & Gas	-4.52%	-9.71%	-6.37%	0.04%
STOXX Asia/Pacific 600 Index	-2.00%	-4.68%	-0.58%	-0.03%
STOXX Asia/Pacific 600 Telecommunications	-1.96%	-6.39%	-0.01%	-1.18%
STOXX Asia/Pacific 600 Automobile & Parts	-1.98%	-1.61%	1.69%	-2.88%
STOXX Asia/Pacific 600 Banks	-2.18%	-6.41%	-2.59%	-3.85%
STOXX Asia/Pacific 600 Media	-2.79%	-3.89%	-4.20%	-3.92%
STOXX Asia/Pacific 600 Retail	-1.64%	-2.69%	-2.01%	-4.84%
STOXX Asia/Pacific 600 Financial Services	-2.02%	-7.46%	-2.74%	-8.22%
STOXX Asia/Pacific 600 Basic Resources	-3.53%	-10.77%	-11.45%	-13.06%

Source: Stoxx; quoted in EUR

FX

Pair	Open	Close	Weekly %	Trend w/w	Monthly %	YTD
USD/CHF	0.9672	0.9573	-1.02%	1	6.96%	7.22%
USD/CAD	1.1249	1.1200	-0.44%	1	3.31%	5.46%
AUD/NZD	1.1164	1.1112	-0.47%	1	1.39%	2.37%
USD/JPY	109.78	107.49	-2.09%	1	5.68%	2.08%
EUR/JPY	137.40	135.69	-1.24%	3	-2.16%	1.53%
USD/CNY	6.1360	6.1311	-0.08%	1	-1.56%	1.28%
GBP/AUD	1.8404	1.8510	0.58%	1	2.92%	0.04%
GBP/JPY	175.29	172.74	-1.45%	3	1.37%	-0.86%
EUR/CHF	1.2106	1.2086	-0.17%	1	-0.93%	-1.84%
AUD/USD	0.8676	0.8684	0.09%	1	-6.68%	-2.57%
GBP/USD	1.5971	1.6067	0.60%	1	-4.06%	-2.95%
NZD/USD	0.7763	0.7814	0.66%	1	-7.86%	-4.78%
EUR/GBP	0.7836	0.7856	0.26%	2	-3.42%	-5.30%
EUR/AUD	1.4426	1.4539	0.78%	1	-0.49%	-6.09%
EUR/USD	1.2515	1.2624	0.87%	1	-7.38%	-8.16%

Source: Thomson Reuters

CALENDAR

Day	Country	Indicator	Actual	Forecast	Previous
USA					
Past week					
Thursday	United States	Initial Jobless Claims	287K	295K	287K
Next week					
Wednesday	United States	Core Retail Sales (MoM)		0.3%	0.3%
		PPI (MoM)		0.1%	0.0%
		Retail Sales (MoM)		-0.1%	0.6%
Thursday		Initial Jobless Claims		290K	287K
		Philadelphia Fed Manufacturing Index		19.9	22.5
Friday		Building Permits (September)		1.030M	1.003M
		Housing Starts (MoM)		4.8%	-14.4%
EU					
Past week					
Tuesday	United Kingdom	Manufacturing Production (MoM)	0.1%	0.1%	0.3%
Thursday	Germany	Trade Balance	17.5B	18.5B	22.2B
	United Kingdom	BoE QE Total	375B	375B	375B
		Interest Rate Decision	0.5%	0.5%	0.5%
Friday	United Kingdom	Trade Balance	-9.10B	-9.60B	-10.19B
Next week					
Tuesday	United Kingdom	CPI (YoY)		1.4%	1.5%
	Germany	ZEW Economic Sentiment		1.0	6.9
Wednesday	United Kingdom	Claimant Count Change		-35.0K	-37.2K
		Unemployment Rate		6.1%	6.2%
	Germany	CPI (MoM)		0.0%	0.0%
Thursday	EU	CPI (YoY)		0.3%	0.4%
		CPI (MoM)		0.3%	0.4%
Asia and Oceania					
Past week					
Monday	Australia	Interest Rate Decision	2.5%	2.5%	2.5%
Tuesday	China	HSBC Services PMI	53.5	54.1	53.8
Wednesday	Australia	Employment Change	-29.7K	-30.0K	121.0K
Sunday	China	Exports (YoY)	15.3%		9.4%
		Imports (YoY)	7.0%		-2.4%
		Trade Balance	31.00B		49.83B
Next week					
Tuesday	China	CPI (YoY)		1.7%	2.0%
		CPI (MoM)		0.4%	0.2%
		PPI (YoY)		-1.5%	-1.2%
Wednesday	Japan	Industrial Production (MoM)		-1.5%	-1.5%

Source: Thomson Reuters, ShardFund

PORTFOLIO

CORTEZ

				Price		Performance	
Security	Ticker	Entry date	Long/Short	Entry	Current	Weekly	Inception
Legg Mason Inc	LM	21.Jul.14	Long	50.4	49.3	-1.4%	6.0%
T.Rowe Price Group	TROW	21.Jul.14	Short	81.4	76.0		
Maxim Integrated Products Inc	MXIM	21.Jul.14	Long	34.2	27.9	-4.8%	-7.9%
Linear Technology Corp	LLTC	21.Jul.14	Short	47.3	41.3		
Lazard Ltd	LAZ	31.Jul.14	Long	53.2	49.3	-2.0%	-5.1%
SPDR KBW Regional Banking ETF	KRE	31.Jul.14	Short	38.6	36.8		
iShares STOXX EU600 Utilities (DE)	EXH9	31.Jul.14	Long	32.4	31.6	1.9%	6.1%
PowerShares DWA Developed Markets Momentum	PIZ	1.Aug.14	Short	25.2	23.2		
Wisdom Tree India Earnings ETF	EPI	4.Aug.14	Long	23.0	21.6	-1.1%	-5.8%
EURGBP	EURGBP	18.Aug.14	Short	0.8	0.8	-0.3%	1.9%
iPath S&P 500 VIX ST Futures ETN	VXX	22.Aug.14	Long	27.8	35.9	21.0%	28.9%
iShares US Home Construction ETF	ITB	8.Sep.14	Short	23.9	21.8	4.3%	9.6%
iShares Russell 2000 ETF	IWM	8.Sep.14	Short	115.9	104.7	4.5%	10.6%
iShares 20+ Year Treasury Bond ETF	TLT	23.Sep.14	Long	115.0	120.1	2.0%	4.4%

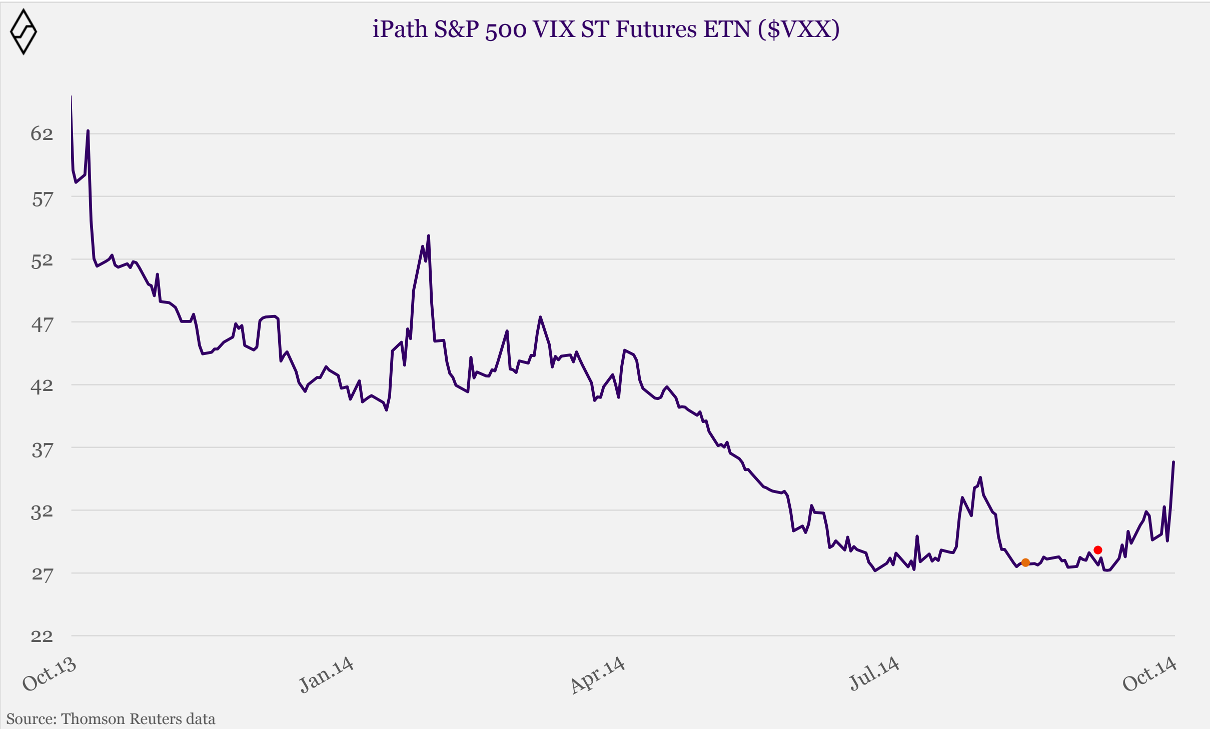
Source: Thomson Reuters as of 3.Oct.14 close prices

Long iPath S&P 500 VIX Short Term Futures TM ETN ($VXX)

The VIX has been a beauty ever since we bought it at the all-lows at the end of August. It was (and still is) just the type of position we love – small downside with a huge (literally) upside potential. It is a very volatile position so you don't need to go all-in on it.

The Fed minutes earlier in the week delivered the dovishness we expected and the market bounce was solid with expected dollar devaluation. However, it looks like more cash is not the answer anymore and bad news will actually become bad market outcomes. Despite a strong rebound on the day (1.7%), the S&P 500 dropped more than 3% for the week, which made it a total of 5.6% drop so far in this 3-week correction. The worst part is that this does not look like the typical corrections we saw so far this year, with key support levels broken and a generally bearish outlook. Only time will tell how much pain there will be and we will adjust our positions accordingly.

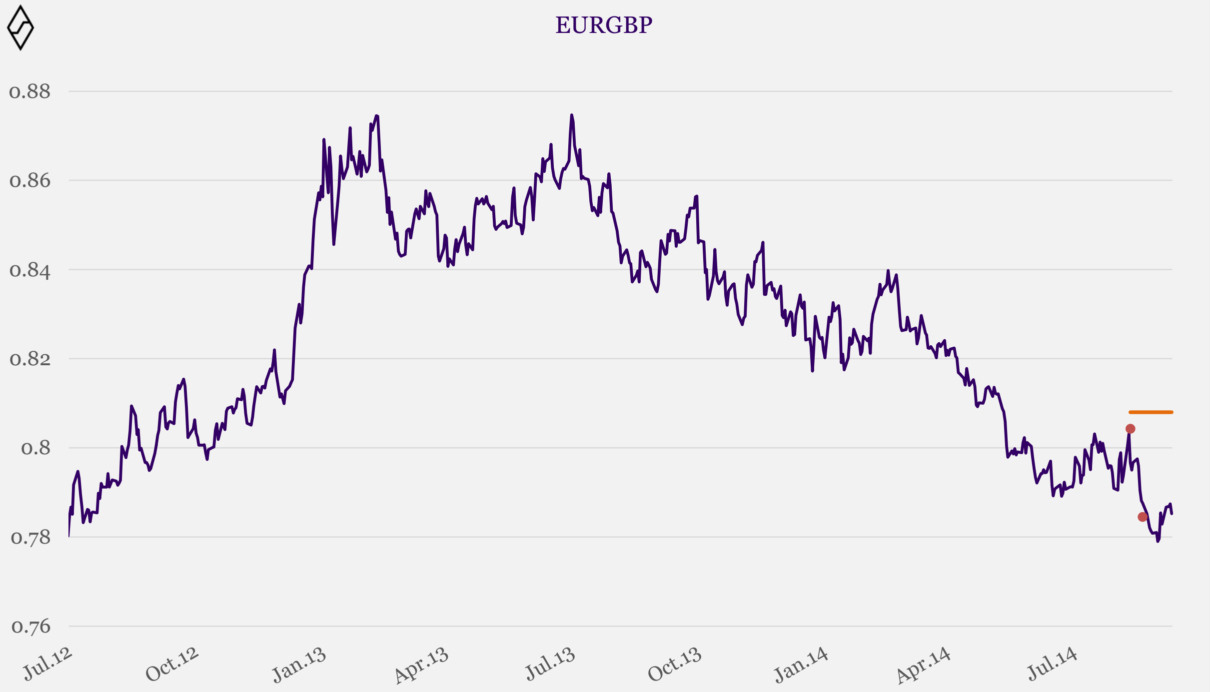
The orange dot shows our initial entry, and the red dot shows a partial exit we did.



Short EUR/GBP ($EURGBP)

The FX pair has been in some kind of a rebound so far this month, which is not surprising given the sharp recent declines. Mario Draghi did not deliver what was expected from him at the recent ECB conference, which pushed EUR slightly up. Also, recent marginally weaker data from UK supported this bounce, as questions were raised about BoE's willingness to raise rates in a marginally slowing economy.

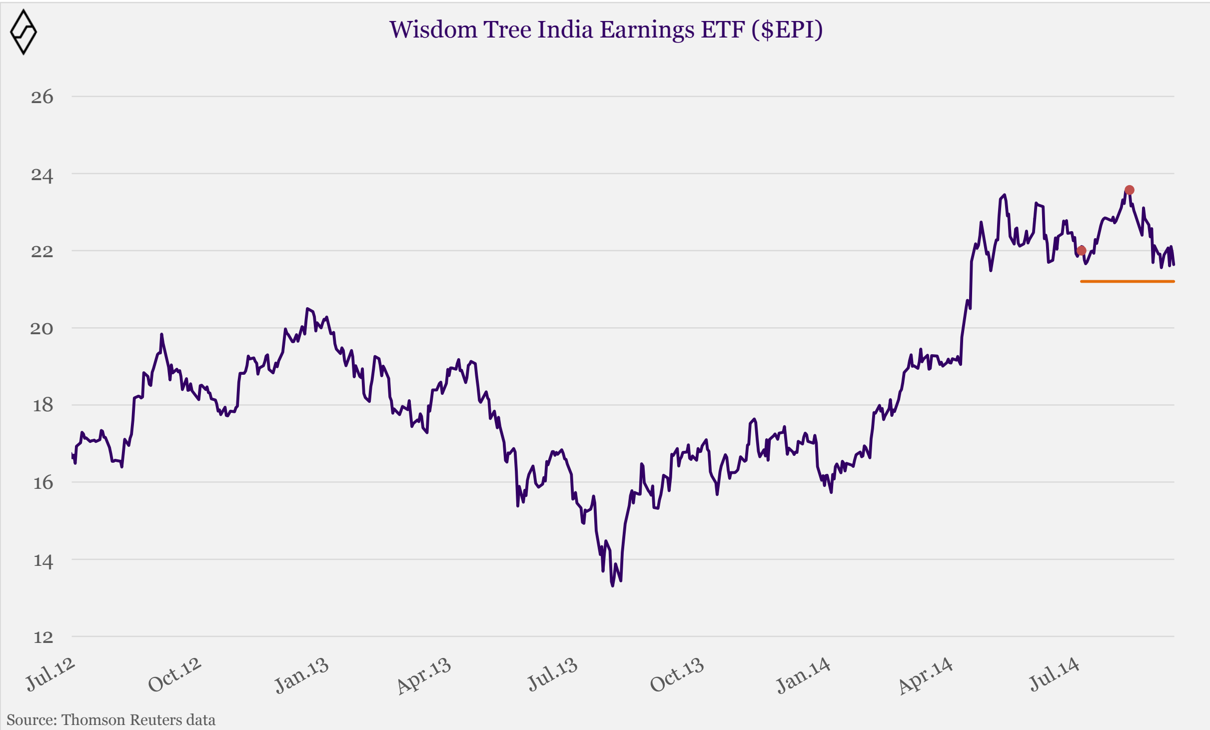
Having said all that, we do not see any significant factors to worry about, at least for now. The conservative party has been gaining ground in recent polls, which is always good for the strength of the pound. Also, Mr. Draghi's unwillingness to introduce QE might be criticised eventually, if the EU economy does not bounce back. However, even if QE is not implemented, the ECB will most certainly have to do more to support the economy, as current measures don't seem capable to do the job. Also, in the long run we expect EU interest rates to stay much lower than those in the UK, having in mind current fundamentals. Taking into account all that, we are looking to add to the current position if the right opportunity comes. However, if the market decides something else, we will be exiting the position on the orange line (our stop loss).



Source: Thomson Reuters data

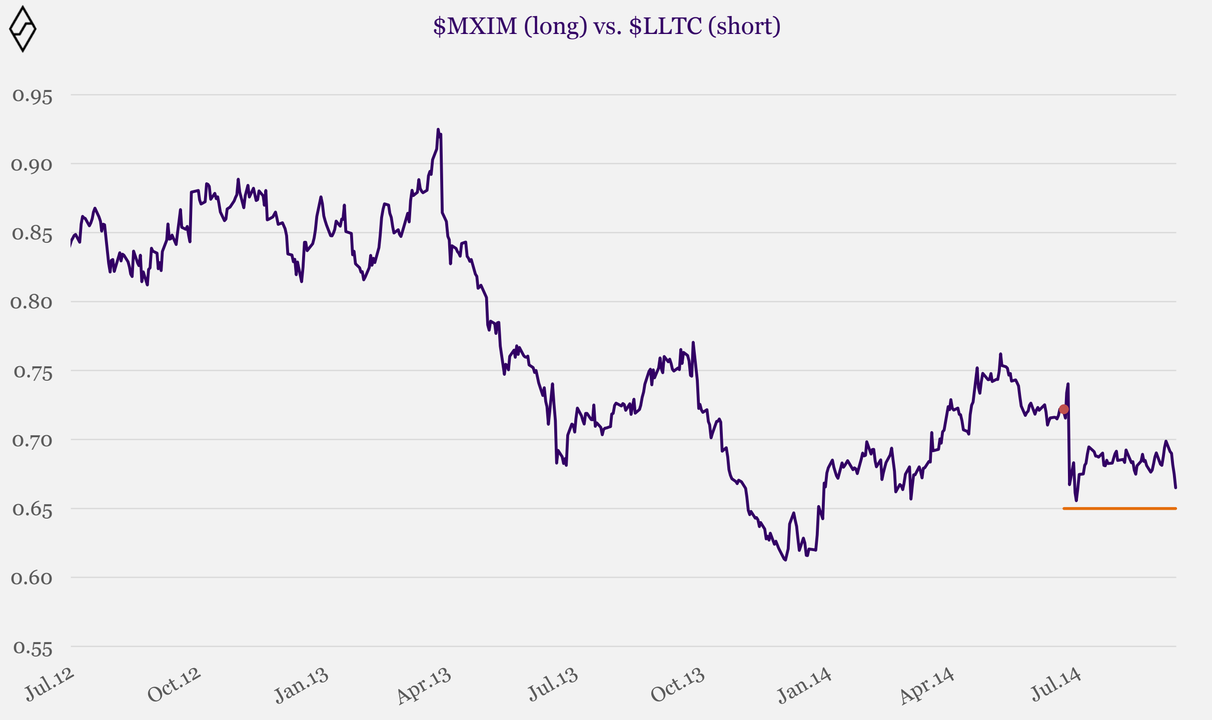
Long India ($EPI)

India has not performed well ever since we made the mistake to add more to the existing position at the top of the range. The negative correlation between USD and Gold and Emerging Markets (EM) has not helped this position, although it has performed much better than Gold itself and other EM.
In the long run our thesis is clear — complete transformation of India under the leadership the new Prime Minister Narendra Modi and the Governor of the Reserve Bank of India Raghuram Rajan. However, short-term headwinds like a strong USD and/or a global economic slowdown with a market correction will have a negative impact on our position and our stop loss might get hit.



Long ($MXIM) vs. Short ($LLTC)

So far this spread trade has not performed well and our overall thesis has not developed as expected. We will not keep our loss much longer and we will cut this loser as soon as the spread breaks 0.65.

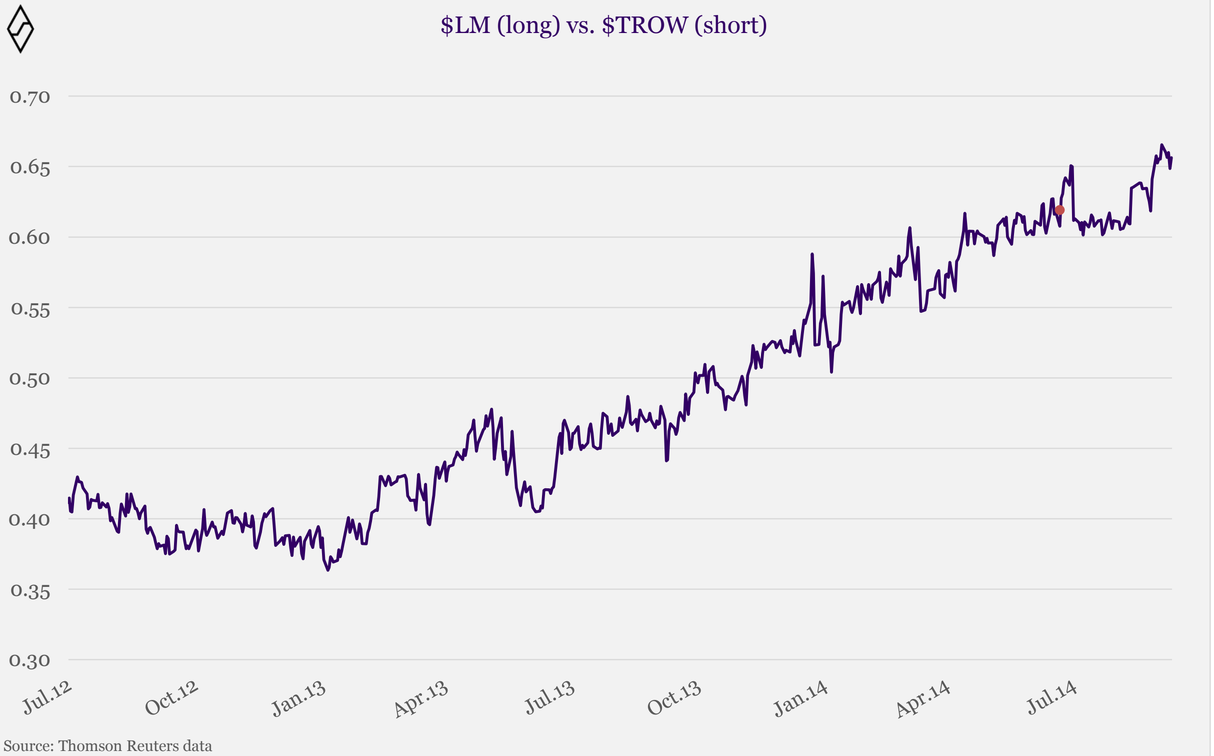


Source: Thomson Reuters data

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

We still like this position very much and the recently published data only supports our view. Legg Mason posted another very strong monthly report for Assets Under Management (AUM) with inflows in all 3 segments of its business. Meanwhile, recent data (ICI) confirmed that the inflows into strictly equity mutual funds in the 3Q 2014 have been the worst since 4Q 2012, driven by significant outflows from domestic equity mutual funds. T. Rowe Price Group has almost 50% of its AUM in equity investments (as opposed to less than 30% in $LM) and most of that is in domestic equity.

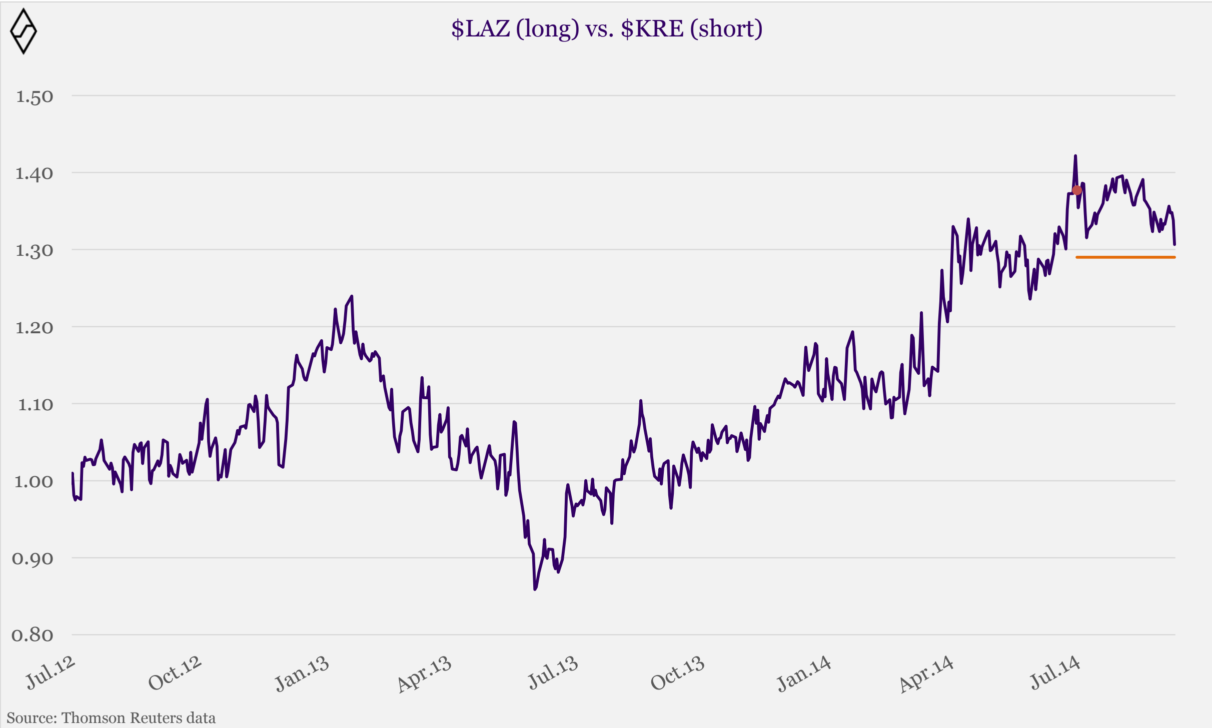
This data gives us confidence for the upcoming earnings season, although nothing is certain.



Source: Thomson Reuters data

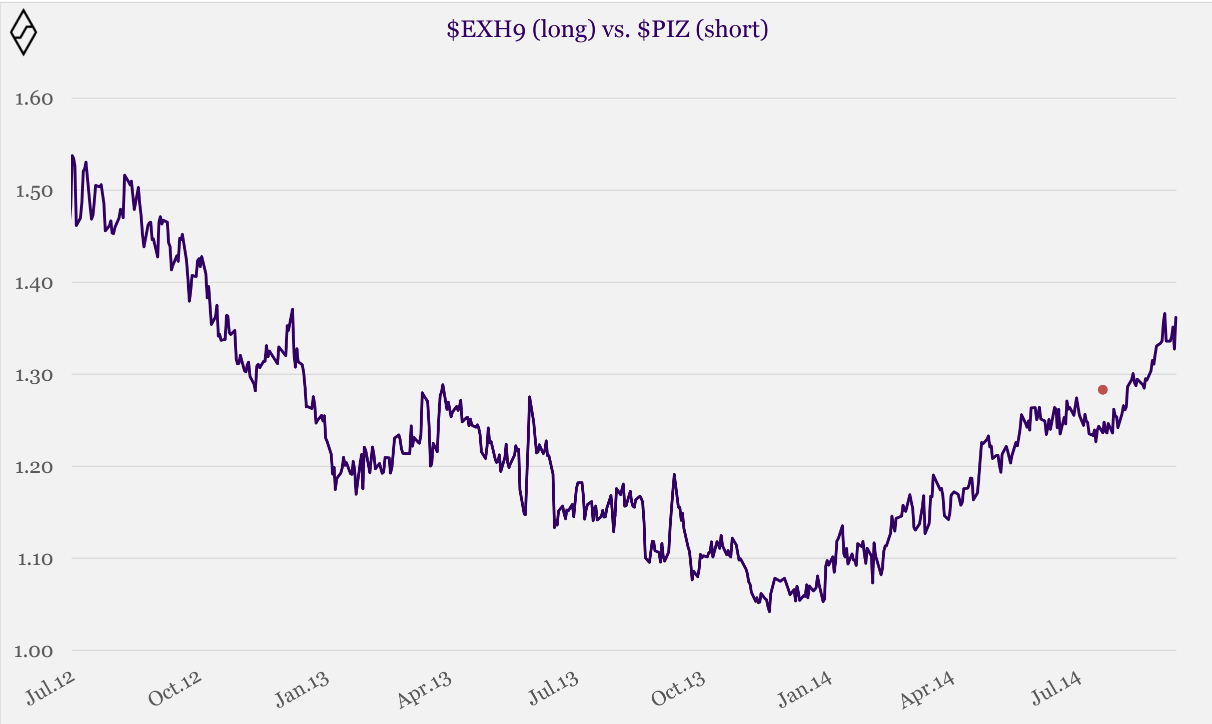
Long Lazard ($LAZ) vs. Short Regional Banks ($KRE)

Similar to $MXIM and $LLTC, this has also been a bad trade idea for us, which has not developed as well as we expected. Furthermore, after some evaluation we have discovered some notable mistakes in regards to timing, as well as general calculations and implementation of the whole spread trade. The latter is especially important, as it disrupted the market and sector risk hedging, which resulted in losses on days without any idiosyncratic (company specific) risk. Our stop loss for this spread is 1.29.



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

One of the best ways to express growth slowing in a region is to go long Utilities and short Discretionary stocks from that region. With that in mind we see that the spread we have chosen confirmed its upward trend in the beginning of 2014 — exactly when EU data started slowing on the margin. In the face of no QE (for now) EU markets refuse to pretend that everything is going to be alright and there simply is no significant bounce. In that environment (and the general lack of growth) discretionary stocks continue to get crushed, while utilities, which provide a solid yield, are the main beneficiaries.

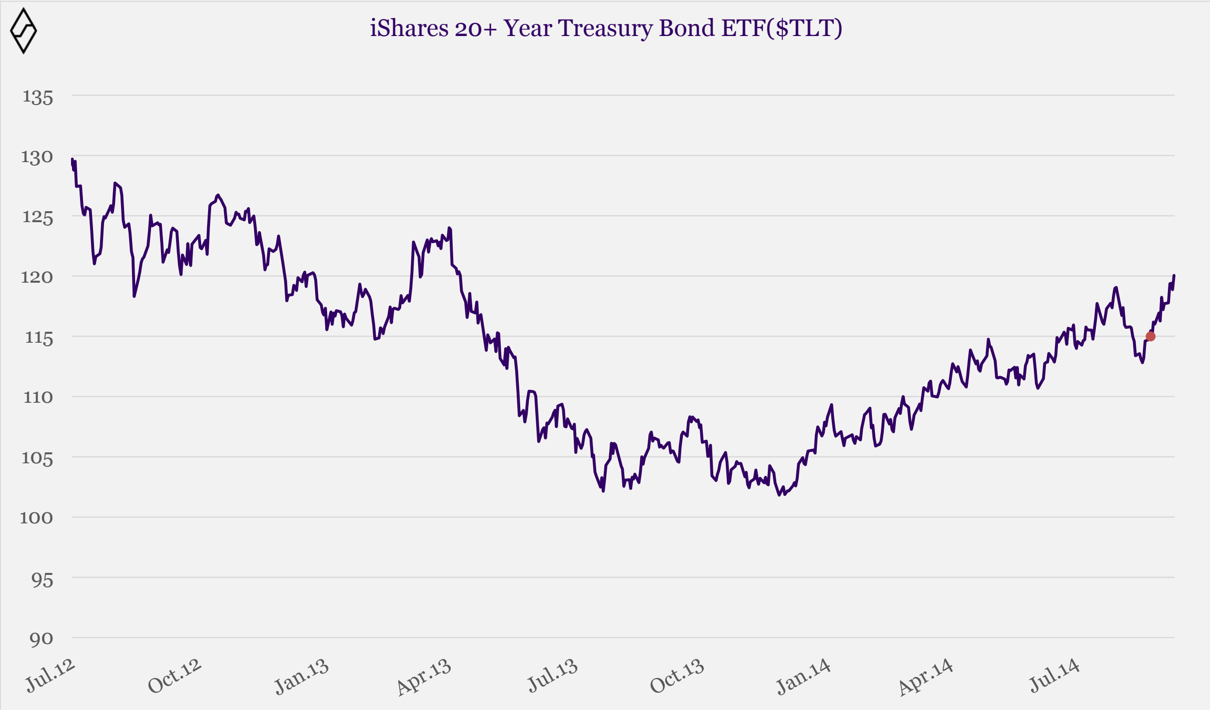


Source: Thomson Reuters data

Long iShares 20+ Year Treasury Bond ETF ($TLT)

After the horrible implementation of our last $TLT position, this time everything looks better. The bond is king in as slow-growth environment and we expect that to continue given the recent dovish Fed minutes, the 3Q GDP release, which we expect to be below the 3% consensus expectation, and the next Fed meeting at the end of October. The latter is very important because if we assume the sell-off continues and GDP misses expectations, the Fed will certainly have to say something at that meeting.

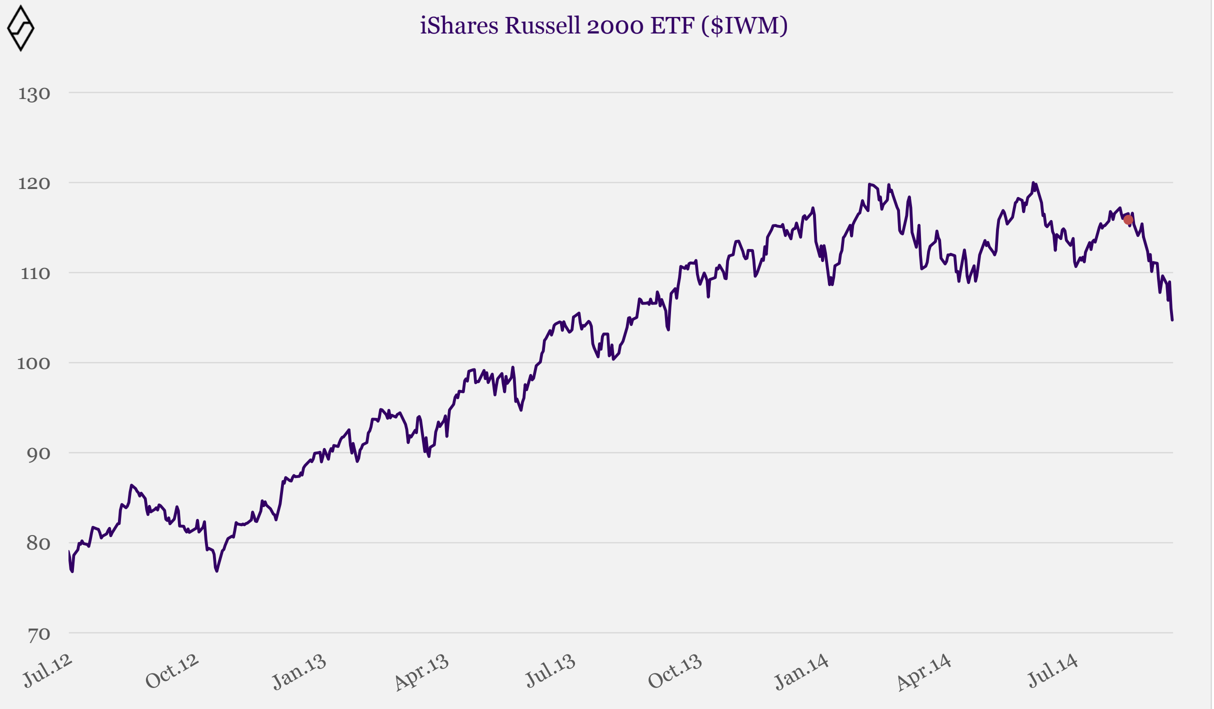
We are in the game of odds and right now those odds point to more upside for bonds. Of course we keep an open mind and our positioning changes with our outlook, which is based mostly on data.



Source: Thomson Reuters data

Short Russell 2000 ($IWM)

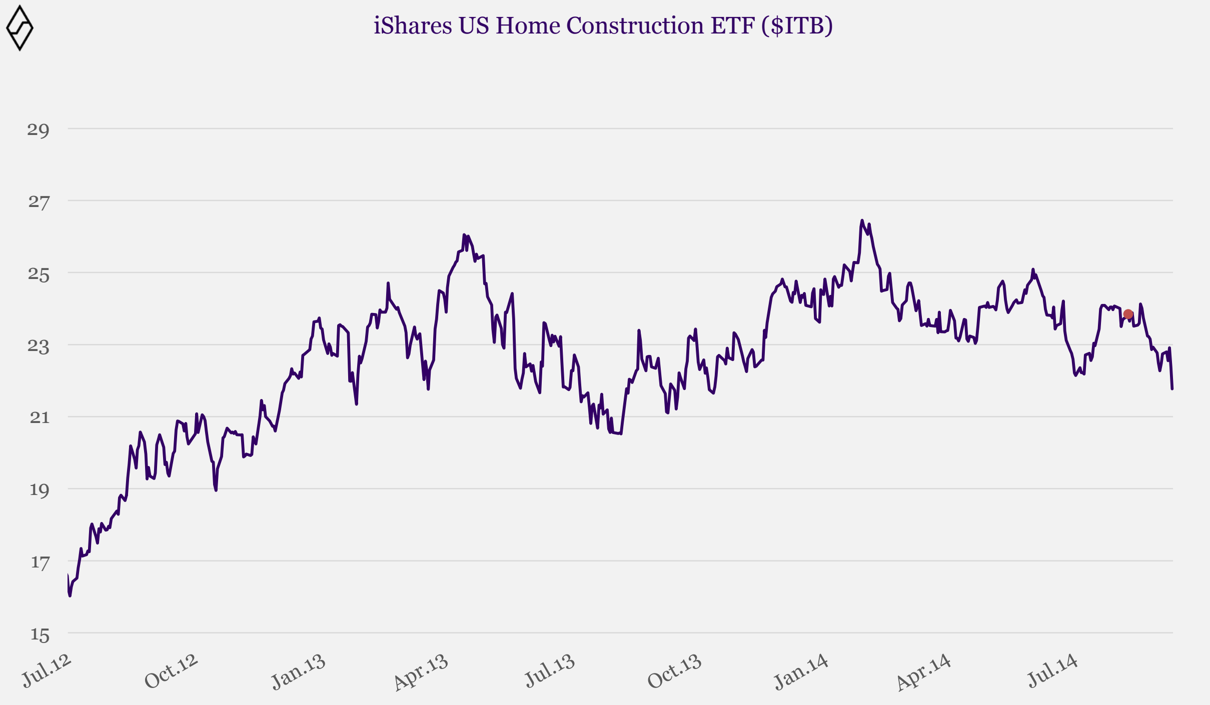
The Russell broke all of the supports made this year and is now headed towards USD 100 (in ETF terms). What was support at USD 109-110 might become a resistance for the dead-cat bounce that precedes a complete bubble implosion. For now this is just a correction (-11% since beginning of September), which might turn ugly quite fast if growth is actually slowing, because 80% of Revenues of Russell 2000 companies come from the US. Take also into account the overstretched multiples that many of the constituents still have and the lack of liquidity and the odds get quite rosy for people that have already shorted this market. Having said all that, we definitely want a slight bounce that will give us a perfect opportunity to add more to our existing position.



Source: Thomson Reuters data

Short iShares U.S. Home Construction ETF ($ITB)

There is not much new to say about this position. US housing has been slowing for a while and the home construction ETF is reflecting this perfectly. Similar to the Russell 2000, this ETF has also broke notable supports from this year and is now headed towards the USD 20-21 area. It is also worrisome that this ETF has performed negatively on positive market days, which further emphasises the weakness in the sector. With all this in mind, we are looking to add to this position when the timing is appropriate.



Source: Thomson Reuters data

REFERENCES

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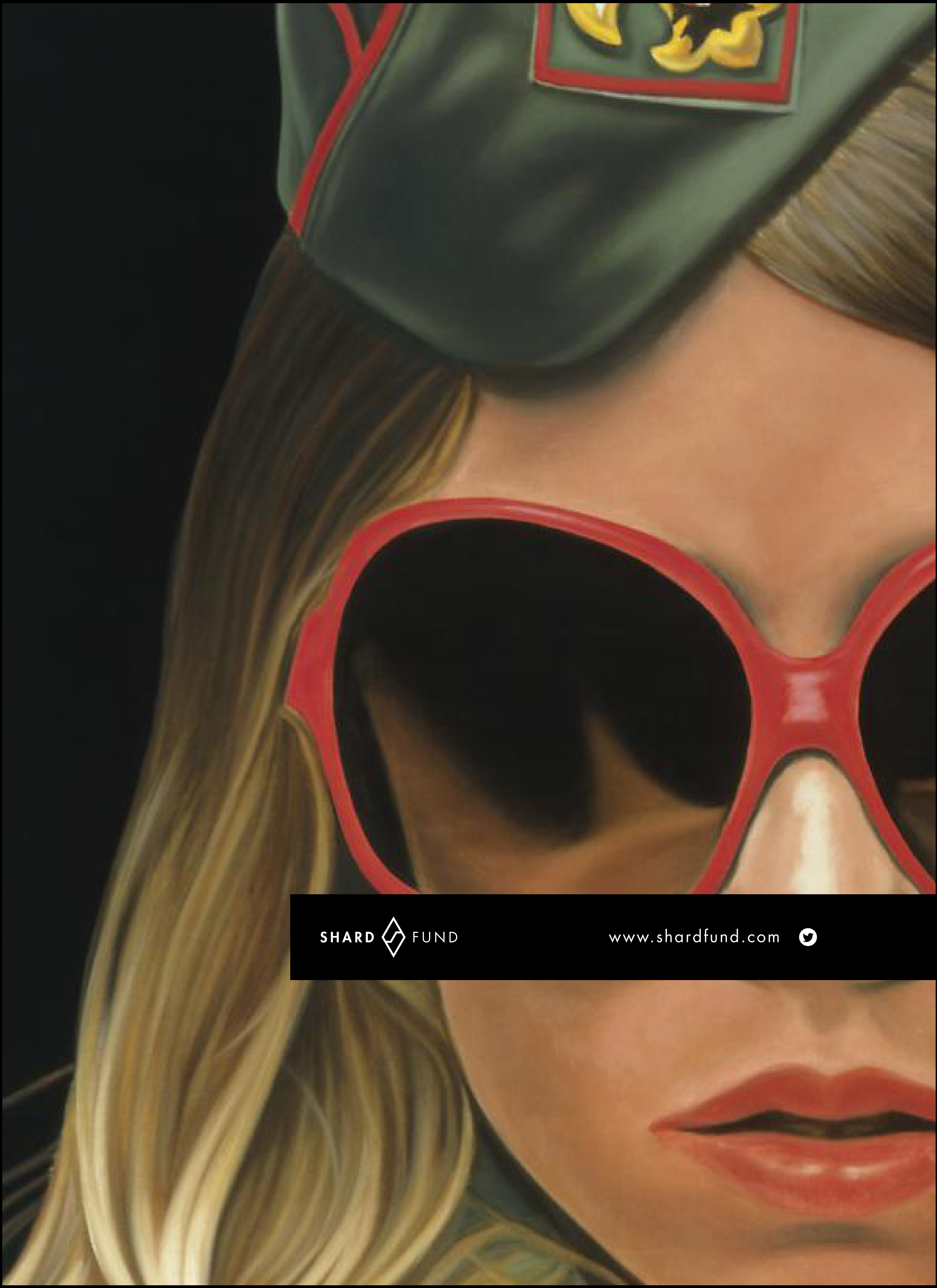
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