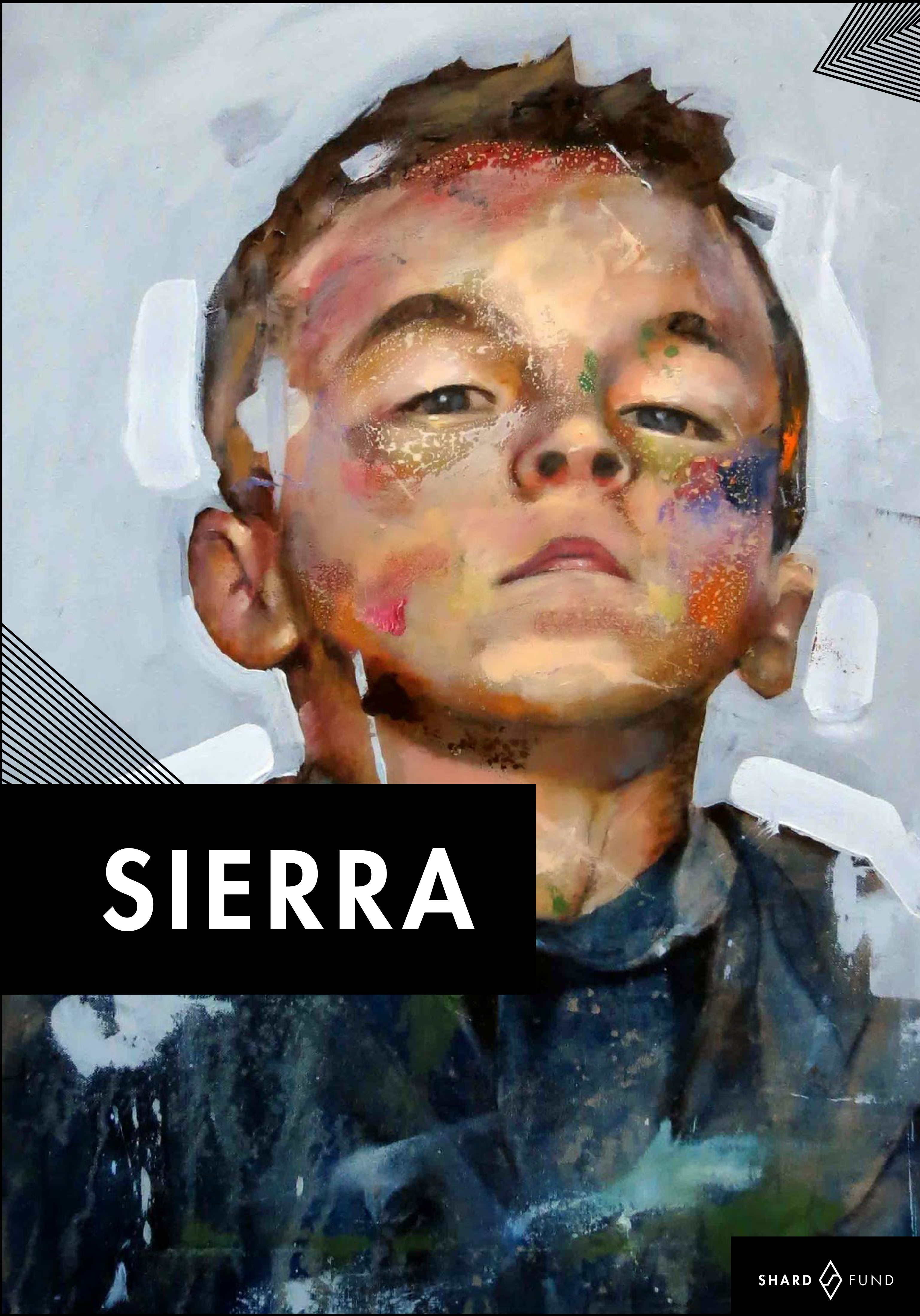


SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

November 8th - November 14th, 2014 | Issue 34

TEAM:

Georgi Stanoev USA

Angel Simbaev Europe

Stelian Nenkov Asia & Oceania: Japan

Harry Collins Commodities

David Twomey Editor

SPECIAL ANNOUNCEMENT

ShardFund is a keen supporter of this charity every year. We encourage you to join us and help change the face of men's health together.
To join our team / donate / or simply follow the growth of our moustaches, click the purple moustache on the right (or this link: **http://bit.ly/1CFzhta)**, then click *join team*. If you are not from the UK, make a team of your own and join the **Shard Mo** network at the following link: **http://bit.ly/ZB9bKN**

Movember is an annual month-long charity (during November) where men are growing moustaches and raising money for prostate cancer awareness.

MoBros & MoSistas:
Alexander Boradjiev
Alisa Simeonova
Angel Simbaev
Angel Vuchev
Anita Wei
Carlos Jo Loo
Christo Boykov
David 'Bale'
Dennis Iliev
Elizabeth Zh.
Fangzhou Ma
Evtim Chesnovski
Galin Nekov
Georg Tsvetanski
Georgi Shopov
Gian Seehra
Greta Grecmalova
Harry Collins
Hristo Mihaylov
Ivan Natchev
Jasiran Kaur
Milan Schmieger
Nikolay Penchev
Peter Tsachev
Plamen Popov
Stefan Sotirov
Stelian Nenkov
Svetla Nenkova
Zeshan Ahmad

HIGHLIGHTS

USA

The Russell 2000 is currently in its fifth round of getting pounded for the year. So far the index has had 4 corrections this year with an average drop of 9% and factors are slowly building up to a fifth knockdown or who knows, maybe the knockout is coming.

EUROPE

This week was the first to mark some positivity in the Euro zone. Germany steered clear of a recession and France (finally) managed to beat expectations after posting GDP (QoQ) at 0.3% (an increase from 0.1%), although it is still a preliminary calculation. By all means, this does not mean that our overview on Europe has changed.

ASIA & OCEANIA

Japan posted its balance of payments number and it was good. Most people seem to support the idea that this was largely due to the Yen deprecation however the Yen depreciated only in the last few weeks, before that the USD/JPY was relatively flat. Looking into the data, we come to a different conclusion

COMMODITIES

Despite the world looking to OPEC, it is beginning to seem it won't have as much an impact as previously thought even if it does cut production. Firstly accelerating non-OPEC growth outside of North America seems poised to outpace demand, and thus still leaving the market oversupplied.

Weekly Change

Indices	Weekly change	Current
Nikkei 225 (Japan)	3.62%	17,490.83
Shanghai (China)	2.48%	2,479.18
Hang Seng (Hong Kong)	2.28%	24,087.38
FTSE 100 (UK)	1.33%	6,654.37
BSE (India)	0.64%	28,046.66
S&P 500 (USA)	0.39%	2,039.82
CAC (France)	0.30%	4,202.46
IBEX (Spain)	0.21%	10,148.00
DAX (Germany)	-0.42%	9,252.94
FTSE MIB (Italy)	-0.68%	18,965.41
S&P/ASX (Australia)	-1.55%	5,454.30
Currencies	**Weekly change**	**Current**
EUR/JPY	2.05%	145.67
NZD/USD	1.96%	0.7906
EUR/GBP	1.85%	0.7994
USD/JPY	1.48%	116.29
AUD/USD	1.46%	0.8759
EUR/USD	0.58%	1.2527
GBP/JPY	0.19%	182.24
USD/CNY	0.11%	6.1295
EUR/CHF	-0.20%	1.2013
USD/CAD	-0.36%	1.1287
AUD/NZD	-0.65%	1.1068
USD/CHF	-0.72%	0.9590
EUR/AUD	-0.86%	1.4301
GBP/USD	-1.27%	1.5672
GBP/AUD	-2.60%	1.7900
Commodities	**Weekly change**	**Current**
Silver	3.29%	16.28
Gold	0.90%	1,188.00
Copper	0.43%	3.044
WTI Crude Oil	-3.50%	75.82
Brent Crude Oil	-4.23%	79.60
Rates	**Weekly change[1]**	**Current**
US 10Y	2 bps	2.319%
Japan 10Y	0 bps	0.484%
Germany 10Y	-3 bps	0.785%
Italy 10Y	-4 bps	2.341%
Spain 10Y	-4 bps	2.124%
France 10Y	-4 bps	1.144%
UK 10Y	-10 bps	2.113%

Source: Thomson Reuters   Note: [1] in basis points (bps)

CALENDAR

Day	Country	Indicator	Actual	Forecast	Previous
USA					
Past week (9-16 Nov. 2014)					
Thursday	United States	Initial Jobless Claims	290K	282K	278K
Friday	United States	Core Retail Sales (MoM)	0.3%	0.2%	-0.2%
		Import Prices (MoM)	-1.0%	-1.7%	-0.5%
Next week (16-23 Nov. 2014)					
Tuesday	United States	PPI (MoM)		-0.1%	-0.1%
Wednesday		Building Permits (Oct)		1.040M	1.018M
Thursday		Core CPI (MoM)		0.2%	0.1%
		Philadelphia Fed Manufacturing Index		18.5	20.7
EU					
Past week (9-16 Nov. 2014)					
Wednesday	United Kingdom	Unemployment rate	6.0%	5.9%	6.0%
	EU	Industrial Production (MoM)	60%	0.6%	-1.4%
Thursday	Germany	Final CPI (MoM)	-0.3%	-0.3%	-0.3%
Friday	France	Prelim GDP (QoQ)	0.3%	0.1%	0.0%
	Germany	Prelim GDP (QoQ)	0.1%	0.1%	-0.2%
	EU	Final CPI (YoY)	0.4%	0.4%	0.4%
		Flash GDP (YoY)	0.8%	0.7%	0.7%
Next week (16-23 Nov. 2014)					
Tuesday	United Kingdom	CPI (YoY)		1.2%	1.2%
	Germany	ZEW Economic Sentiment (Nov)		0.9	-3.6
Thursday	Germany	Manufacturing PMI		51.5	51.4
		Services PMI		54.5	54.4
	EU	Markit Composite PMI		52.3	52.1
	France	Services PMI		48.6	48.3
		Manufacturing PMI		48.9	48.5
	United Kingdom	Retail Sales (MoM)		0.4%	-0.3%
Asia and Oceania					
Past week (9-16 Nov. 2014)					
Sunday	Australia	Home Loans (MoM)	-0.7%	-0.3%	-0.9%
	China	CPI (YoY)	1.6%	1.6%	1.6%
	China	PPI (YoY)	-2.2%	-1.9%	-1.8%
Monday	Japan	Current Account	0.963T	0.3T	0.13T
Thursday	China	Industrial Production (YoY)	7.7%	8.0%	8.0%
		Fixed Asset Investment (YoY)	15.9%	15.9%	16.1%
Next week (16-23 Nov. 2014)					
Sunday	Japan	GDP (QoQ)		0.5%	-1.8%
		GDP (YoY)		2.1%	-7.1%
Wednesday	China	HSBC Manufacturing PMI		50.2	50.4

Source: Thomson Reuters, ShardFund

USA

Round #5

Sectors	5D	1M	3M	YTD
Healthcare	0.33%	10.21%	8.64%	21.30%
Utilities	-2.83%	3.84%	7.49%	18.36%
Technology	1.89%	10.40%	5.90%	16.42%
Consumer Staples	0.04%	6.23%	7.42%	11.12%
Financials	-0.37%	7.08%	6.04%	10.06%
Industrials	0.36%	12.10%	6.25%	7.75%
Materials	1.34%	8.93%	-0.58%	6.64%
Consumer Discretionary	1.87%	8.76%	3.02%	3.67%
Energy	-1.80%	7.83%	-9.88%	-2.60%
Indices				
Nasdaq	1.21%	11.23%	5.01%	12.26%
S&P 500	0.39%	8.63%	4.33%	10.36%
Dow Jones Ind. Avg.	0.36%	9.25%	5.83%	6.38%
Russell 2000	0.04%	9.45%	2.82%	0.87%

Source: Sectorspdr.com

I am not a boxing fan but I decided to watch Saturday's big match as one of the players was a Bulgarian. World heavyweight champion Wladimir Klitschko took on the Bulgarian Kubrat Pulev, in what some people later characterised as a thrilling fight. From my point of view the fight proved once and for all that boxing did not entertain me unless of course, as I commented after the fight, it is narrated by Mike Tyson circling the ring on the back of his tiger. Now that would be something, wouldn't it?! However, that is not really the point. The key takeaway from this intro is that Kubrat Pulev was knocked out in the fifth round.

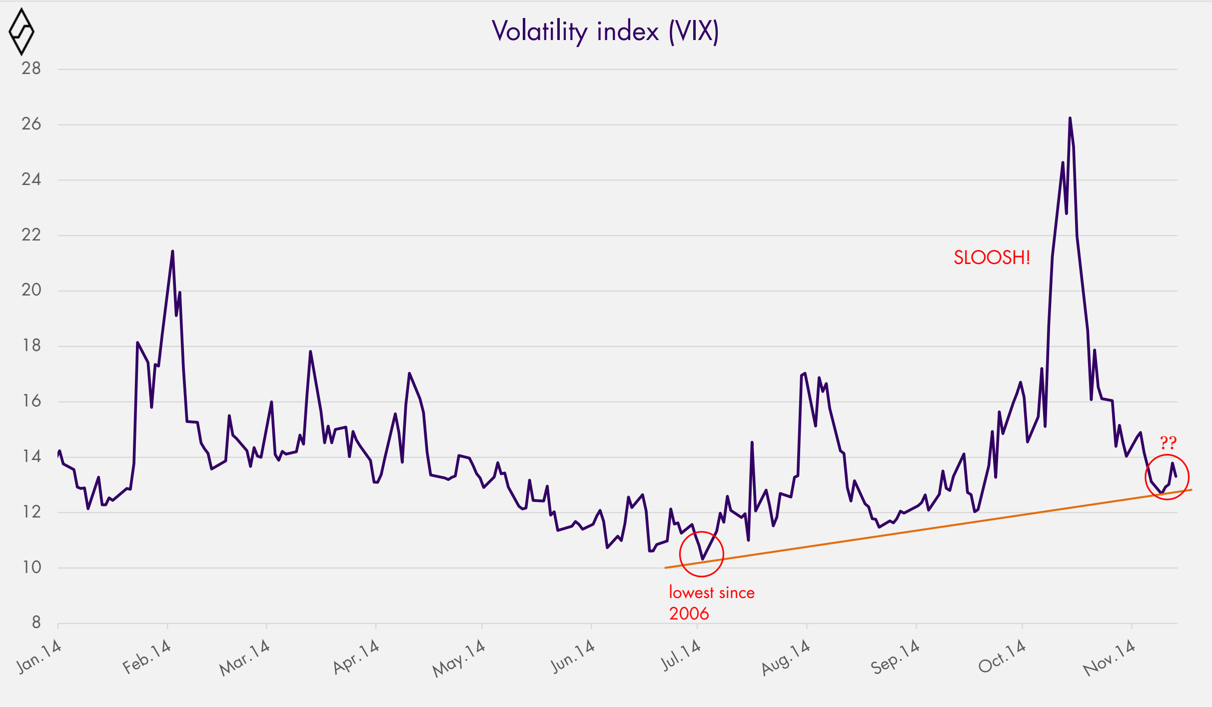
Similar to the fight last night, the Russell 2000 is currently in its fifth round of getting pounded for the year. So far the index has had 4 corrections this year with an average drop of 9% and factors are slowly building up to a fifth knockdown or who knows, maybe the knockout is coming. Be careful with the words I am using here. "Factors are slowly building up to" does not mean that I am calling a market top or that I am trying to foresee the future, it means that we have already seen such a build up several times this year.

I have heard some people say that the Russell 2000 had been lagging the rally this year (+0.87% YTD) so it seemed like a good investment now. This stems from the flawed notion that price chases fundamentals. Price is forward looking and while the S&P 500,

... a main characteristic of volatility is that it builds up and then pours all over the market at once.

with its multinational corporations, is not representative of the US economy, the Russell 2000 with 80% of constituents' revenues coming from the US (Bloomberg) is a strong indicator. In Q1 2013 the Russell 2000 was up roughly 15% before the preliminary GDP results showed the economy is picking up. Then the index finished the year up 40% with an average correction of less than 5% to conclude a strong 12 months in economic terms for the US. That's called front running the economic releases.

This year has been the complete opposite. One does not have to be a chartered market technician (CMT) to see that the chart just looks sad. In fact, as mentioned before, we are once again witnessing the scenario that preceded most of the previous drops this year. After bouncing back, the slope of the price is again starting to flatten and the performance of the index in November is +0.03%. Quite impressive. In fact the S&P 500 is almost flat only for the past week, so in a way the Russell 2000 is leading the S&P 500 by 1 week, which is also similar to previous occasions this year. Lastly, just so we are not starring blindly at a price, we will look at volatility illustrated by the VIX. Since its 3 July multi-year low of 10.28 the VIX has been making higher lows. It's hard to talk about patterns and support/resistance levels for a mean-reverting volatility index, but a main characteristic of volatility is that it builds up and then pours all over the market at once. Since June we have had 2 build ups and 2 bursts in volatility (the second stronger than the first) and now, since hitting another higher low of 12,38 on 10 November, the VIX has started to build up once more (at least for now). Only time will tell what will happen next. Until then, we wait, observe and look for other opportunities.



Source: Thomson Reuters

EUROPE

Reflections

Indices	5D	1M	3M	YTD
STOXX Europe 600 Health Care	0.99%	3.61%	7.11%	17.29%
STOXX Europe 600 Real Estate Cap	0.38%	7.72%	2.06%	16.73%
STOXX Europe 600 Travel & Leisure	2.02%	13.08%	9.62%	9.30%
STOXX Europe 600 Food & Beverage	1.16%	6.11%	4.84%	9.28%
STOXX Europe 600 Personal & Household Goods	1.54%	8.42%	4.90%	6.10%
STOXX Europe 600 Insurance	0.39%	5.34%	5.69%	5.47%
STOXX Europe 600 Telecommunications	3.24%	9.95%	8.88%	4.73%
STOXX Europe 600 Financial Services	-0.04%	10.39%	4.55%	4.18%
STOXX Europe 600	0.11%	4.39%	1.39%	2.25%
STOXX Europe 600 Media	1.27%	8.82%	6.12%	1.34%
STOXX Europe 600 Chemicals	0.20%	6.22%	2.50%	-0.16%
STOXX Europe 600 Construction & Materials	-2.09%	5.39%	-1.39%	-0.74%
STOXX Europe 600 Technology	0.34%	4.07%	1.78%	-1.19%
STOXX Europe 600 Basic Resources	-1.43%	-0.97%	-9.75%	-2.87%
STOXX Europe 600 Banks	-0.73%	-0.97%	-1.18%	-3.56%
STOXX Europe 600 Automobiles & Parts	-0.44%	6.40%	-1.43%	-4.55%
STOXX Europe 600 Industrial Goods & Services	-0.45%	5.68%	0.18%	-4.78%
STOXX Europe 600 Oil & Gas	-2.22%	0.48%	-9.49%	-7.28%
STOXX Europe 600 Retail	1.56%	9.10%	-0.85%	-8.94%

Source: Stoxx; quoted in EUR

This week was the first to mark some positivity in the Euro zone. Germany steered clear of a recession and France (finally) managed to beat expectations after posting GDP (QoQ) at 0.3% (an increase from 0.1%), although it is still a preliminary calculation. By all means, this does not mean that our overview on Europe has changed, however, we do acknowledge the fact that the downturn and all the negativity surrounding the EU has depressed asset valuations and there definitely are some interesting opportunities, especially since corporations in Europe (at least the ones deriving the majority of their profits from outside the continent) are stable and have large amounts of cash available to them. Anyway, Europe is still not a good place to invest, in general, given the weakness shown by the core countries that we have written about in previous issues.

What is more important is that this week I had the opportunity to listen to a speech by one of the most influential women in finance (according to Forbes) – Lucy Baldwin. As a managing director at Goldman Sachs and one of the 30 under 30 in finance in the Forbes' list, it was definitely something I

France (finally) managed to beat expectations after posting GDP (QoQ) at 0.3%

was looking forward to, especially as she was going to speak about the future of the European corporate sector. The crucial points that were emphasized by her presentation were surprisingly similar to our thoughts and analysis. She talked about the general fundamental problems surrounding the European markets. Problems that can be summarized in a single word: slack. Nothing new so far. As we at Shard have already written about the lack of genuine factors of growth within the EU, it wasn't something radically new to hear. She also spoke about some of the challenges facing Europe, which I believe is important to mention. Challenges like China "moving up the value chain", which might prove to be detrimental for European companies. Also, the problems surrounding regulation as globalisation has increased corporate presence throughout the world and has decreased countries' abilities to limit certain corporate actions. Lastly, the competitive threat from tech companies that seem to be entering every possible market, revolutionising and radically changing the way business is made (just look at all the fuss around Uber, for example). However, the most interesting part of her presentation, I believe, was when she spoke about the responses that Europe has given to all those threats that it seems to be facing. It was interesting mainly because it outlined the problems and opportunities in decision making (both on a corporate and a political level) and the need of genuinely new ideas. The need of new ideas is, of course, something that would require more than a single page, but briefly, it is the need of ideas in the improvement of integration, decision making, investments, proper "marketing" of Europe, and making the most of the existing strengths, such as the highly educated and well prepared workforce, as well as the overall quality of European assets. All in all, her short presentation revolved around the fact that Europe currently isn't the place to invest in, which resonates with our view.

ASIA & OCEANIA

In search for truth

Indices	5D	1M	3M	YTD
STOXX Asia/Pacific 600 Health Care	-4.17%	-4.58%	-0.37%	5.67%
STOXX Asia/Pacific 600 Food & Beverage	-3.31%	-2.34%	-1.20%	5.47%
STOXX Asia/Pacific 600 Technology	-5.06%	-7.65%	-5.42%	5.41%
STOXX Asia/Pacific 600 Chemicals	-4.57%	-5.80%	-2.32%	1.88%
STOXX Asia/Pacific 600 Construction & Materials	-4.00%	-8.15%	-8.40%	-0.13%
STOXX Asia/Pacific 600 Utilities	-2.26%	-4.01%	-2.13%	-0.29%
STOXX Asia/Pacific 600 Real Estate	-2.11%	-3.85%	-3.59%	-0.80%
STOXX Asia/Pacific 600 Industrial Goods & Services	-4.01%	-6.88%	-4.59%	-0.97%
STOXX Asia/Pacific 600 Personal & Household Goods	-4.84%	-6.89%	-7.23%	-1.56%
STOXX Asia/Pacific 600 Insurance	-3.11%	-4.88%	-0.29%	-1.61%
STOXX Asia/Pacific 600 Oil & Gas	-2.17%	-8.88%	-10.20%	-2.13%
STOXX Asia/Pacific 600 Index	-3.38%	-5.96%	-5.35%	-3.41%
STOXX Asia/Pacific 600 Telecommunications	-3.12%	-9.25%	-6.00%	-4.27%
STOXX Asia/Pacific 600 Banks	-1.79%	-4.11%	-5.17%	-5.57%
STOXX Asia/Pacific 600 Retail	-2.59%	-2.96%	-5.49%	-7.30%
STOXX Asia/Pacific 600 Media	-5.22%	-8.05%	-9.26%	-8.94%
STOXX Asia/Pacific 600 Automobile & Parts	-6.55%	-7.89%	-6.35%	-9.25%
STOXX Asia/Pacific 600 Financial Services	-3.18%	-8.45%	-6.15%	-11.14%
STOXX Asia/Pacific 600 Basic Resources	-0.06%	-9.66%	-13.76%	-13.11%

Source: Stoxx; quoted in EUR

JAPAN

Japan drew some attention to itself this week, after posting the highest **balance of payments (BoP) monthly number** for the past 15 months. After the BoJ decided to expand its purchases (discussed in Sierra XX) and after the strong BoP number in September, the general crowd seems to agree BoP's significant improvement is due to the depreciating Yen. Digging just slightly into the numbers, the balance of trade's (BoT) deficit (exports-imports) decreased by 9.6% from previous month on a seasonally adjusted basis and **40.2% from Sep 2013**. This is great and surely it's to a large extent a result of the depreciating Yen. It's worth noting though that it's not been even a month since BoJ increased the purchases and as we know, speculation prices prior to the real economic data (whether priced correctly or not is another topic).The biggest contributing factor in the BoP from last month seems to be Primary income, which increased by some 33.9% on a non-seasonally adjusted basis since last month (primary income takes into account loans and investments). Having noted this, it's clear that over the long run, there is a strong improvement in the BoT, however in the short run, it's the JGB yield (assuming that's what's incentivising loans and investments) is what is pushing the BoP number. A conclusion out of this may be that exporters are surely benefiting over the long run, however banks may be the real winners in such months. Whether or not that's true, we need to see what price investors have put historically during such events. To be continued...

COMMODITIES

I need a meeting to bring me back to life

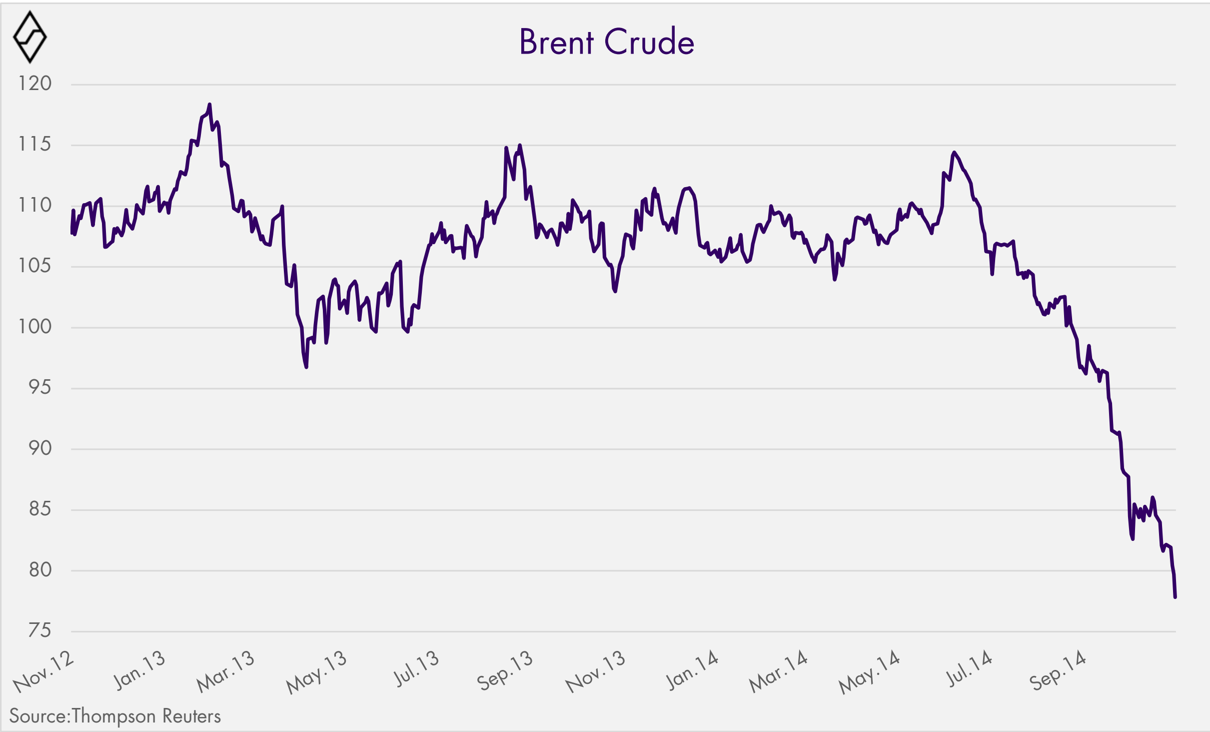
METALS

China's daily crude steel output fell 3.3% to 2.18 million tonnes. Thus demand is still remaining fairly sluggish and is being exacerbated by the weakness in the crucial sectors such as property. In addition the CISA reported a 7.5% decline in daily production rates; largely due to measures aimed at cutting smog in northern China begin to take effect.

ENERGY

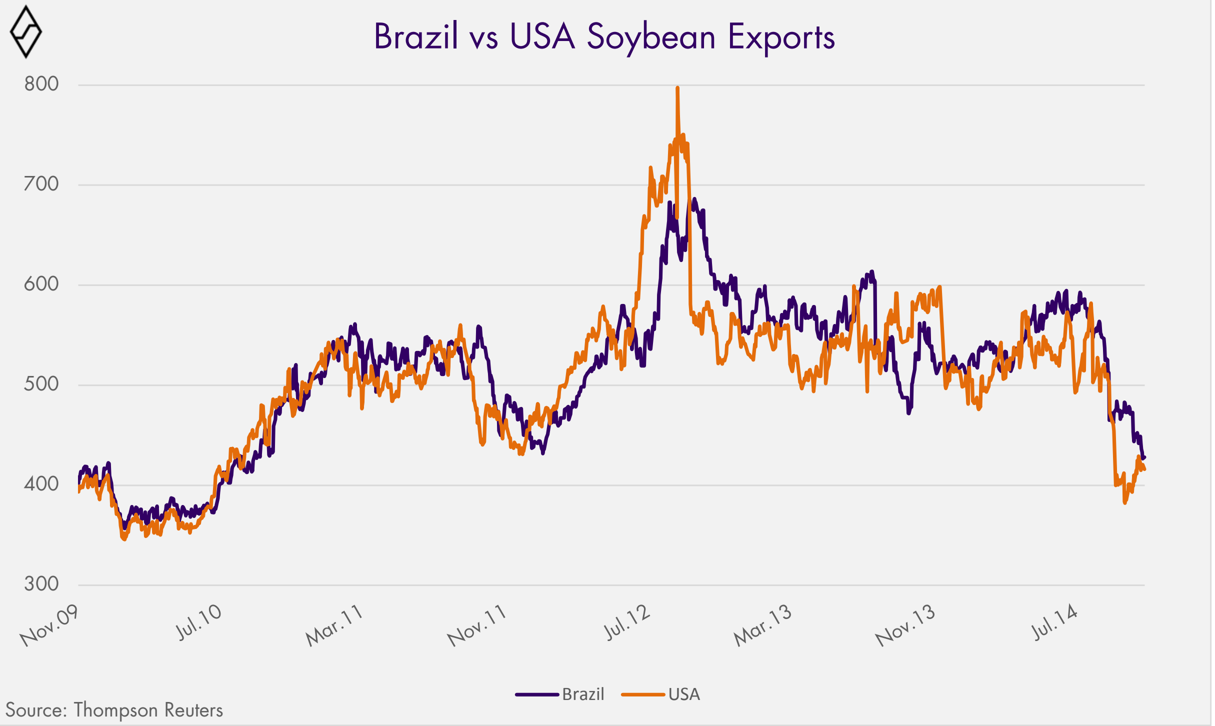
The second half of the year hasn't been a pleasant one for Brent crude, with prices falling under $80.00 and many looking desperately to OPEC to stabilise prices. The recent sell-off being attributed to "negative gamma".

Despite the world looking to OPEC, it is beginning to seem it won't have as much impact as previously thought even if it does cut production. Firstly accelerating non-OPEC growth outside of North America seems poised to outpace demand, and thus still leaving the market oversupplied. Secondly, and perhaps most importantly, the "shale boom" in the USA is driving the global cost curve down and thus helping to sustain cost deflation. As a result, OPEC seems likely to no longer be the dominant driving force behind the oil markets, being replaced by the marginal cost of US shale oil production as the dynamic market force.



AGRICULTURE

The spread between Brazilian and US soybean exports is tightening and relative to the USA, expected El Nino conditions in South America indicate probable gains in world soybean production through early 2015. Indeed, soybean yield in southern Brazil is likely to reach 6% above trend with a 70% probability [source: Thompson Reuters]. The spread has largely been driven by the excess supply in the US weighing on prices.



Source: Thompson Reuters

PORTFOLIO

CORTEZ

				Price		Performance	
Security	Ticker	Entry date	Long/Short	Entry	Current	Weekly	Inception
Legg Mason Inc	LM	21.Jul.14	Long	50.4	55.1	2.9%	8.3%
T.Rowe Price Group	TROW	21.Jul.14	Short	81.4	82.7		
iShares STOXX EU600 Utilities (DE)	EXH9	31.Jul.14	Long	32.4	31.2	-2.2%	-1.4%
PowerShares DWA Developed Markets Momentum	PIZ	1.Aug.14	Short	25.2	24.5		
iPath S&P 500 VIX ST Futures ETN	VXX	22.Aug.14	Long	27.8	28.7	-1.3%	3.0%
iShares 20+ Year Treasury Bond ETF	TLT	23.Sep.14	Long	115.0	119.5	-0.2%	3.9%
Valeo SA	VLOF	12.Nov.14	Short	89.6	91.0		

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

OUT

Short iShares Russell 2000 index ($IWM)

Performance: -1.8%

Being stopped out of the Russell 2000 was definitely annoying and disappointing. We continue to like the position on the short side and given our analysis in this week' US section, we will probably we-enter the position soon. The experience with the stop loss seems similar to the one with the first bonds positions ($TLT), where we were stopped out only to see the ETF start rebounding 24 cents below our stop. After breaking our 118 stop loss, $IWM reached USD 118.25 and since then has retracted to USD 116.7. So, technically we seem to establish good stop loss ranges, however, the exact position of the stop loss appears to be slightly wrong.

Short EUR/GBP

Performance: +2.0%

We decided to cash in on that position purely due to uncertainty about the upcoming week. There were a lot of events like a speech by BoE Governor Mark Carney as well as EU GDP and CPI so we chose to book a solid gain here and re-enter at a future date. The decision proved to be a world class and maybe the best one we have made so far as the pair increased by more than 2% due to better than expected GDP and dovish comments by Mr. Carney.
We still have strongly bearish view about the Euro, however, recent decelerating UK data plus comments by BoE might persuade us to be more cautious in regards to the EUR/GBP

pair. However, for now there is no reason to completely forget about the pair and we still might re-enter it at a better spot, but our confidence level has decreased, which is important for the risk management process. Alternatively, there might be better ways to play a EUR weakness like EUR/USD or other.

IN

Short Valeo SA ($EPA)

This was a position discussed in the previous issue and we decided the timing was right so we took it. While the company is still in a relatively strong position, one does not have to look hard to find a lot of headwinds. Global economies are slowing and specifically in Europe (accounting for more than 50% of sales) automobiles & parts as an industry has been slowing since March and has been the worst performer for the past 3 months (Markit). This is evident from the Q2 2014 results of the company, which are still positive, however the rate of change in growth per segment has deteriorated significantly.
On top of all, we really don't like France as an economy, and if we are right, this will be a further negative catalyst for the high-beta stock.

FOREX

Pair	Open	Close	Weekly %	Trend w/w	Monthly %	YTD
USD/JPY	114.5900	116.2900	1.48%	4	6.05%	10.44%
EUR/JPY	142.7500	145.6700	2.05%	2	5.16%	9.00%
USD/CHF	0.9660	0.9590	-0.72%	1	0.40%	7.41%
USD/CAD	1.1328	1.1287	-0.36%	1	0.79%	6.28%
GBP/JPY	181.9000	182.2400	0.19%	4	2.50%	4.59%
AUD/NZD	1.11	1.11	-0.65%	2	-1.19%	1.96%
USD/CNY	6.1128	6.1295	0.27%	1	-0.15%	1.25%
AUD/USD	0.8633	0.8759	1.46%	1	0.15%	-1.73%
EUR/CHF	1.20	1.20	-0.20%	6	-0.45%	-2.43%
GBP/AUD	1.8378	1.7900	-2.60%	1	-3.36%	-3.26%
EUR/GBP	0.7849	0.7994	1.85%	2	2.61%	-3.64%
NZD/USD	0.7754	0.7906	1.96%	1	1.26%	-3.66%
GBP/USD	1.5873	1.5672	-1.27%	4	-3.34%	-5.34%
EUR/AUD	1.4425	1.4301	-0.86%	1	-1.01%	-7.63%
EUR/USD	1.25	1.25	0.58%	1	-0.83%	-8.86%

Source: Thomson Reuters

DISCLAIMER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