SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

April 4th - April 10th, 2015 | Issue 2

TEAM:

Georgi Stanoev Intro / positions
Angel Simbaev Positions
Stelian Nenkov Positions / Edit
David Twomey Editor

GENERAL

Following the conversation from last week, let's take a look at our current views. The important thing to know is that our views are not plants growing in a vacuum. In other words, they are updated as new information becomes available. This is a lesson from last year, when the first 5-6 months were quite dollar bearish with commodity reflation, while the second half of the year was the absolute and complete opposite – a self-reinforcing rally in the dollar and slump in commodities drove many people and companies to their knees (as usual).

So far this year the picture hasn't changed much. Dollar is still king, however, unless you expect a complete meltdown and everyone to go in dollars, a big part of the trade might be over. Still, nothing can stop the fanatics from ECB and BoJ to squeeze some more juice, which is what we rely on. However, while the USD is the preferred currency, the same cannot be said about the US market. It is essential to consider events in perspective. For a significant period of time since the crises in 2007-2008 the Fed was the easiest central bank out there. Dollar was kept low and multiple expansion was relentless in the US, reaching highest acceleration in 2013, when the S&P 500 had more than 30% return. All this is now in the rear-view mirror and the Fed has become much less accommodative than the ECB, BoJ and other central banks, regardless of whether Fed raises rates this year or not. Consequently, money has gone in other equity markets to chase price (for performance measures look at our VIX thesis further below).

Establishing the above has been step 1 in our top-down global macro process. Now, the question is where has the money gone and is there something in the US still working? Of course, there are still money to be made in the US, but opportunities are getting increasingly fewer. We like the late cycle sectors such as Healthcare and maybe some part of the consumer, although how long will this post Oil crash effect last is questionable. Also, housing is attractive due to accelerating demand, supply and price. Then there are bonds. Many people say US bonds are overvalued, a bubble and so on, which fundamentally is true. However, when a 10-year government bond pays less than 0.5% in Germany, France and Japan, while those in Italy, Spain and Portugal yield less than 1.6% (yes, Portugal), 1.95% for a US 10-year treasury note doesn't sound that bad regardless of any bubbles. With a risk of repeating myself several times in this issue, markets don't operate in a vacuum. Everything is dynamic and relative.

Looking across the ocean, it's all about accepting the QE game no matter how much you don't like it. We are looking at an attractive way to short EUR (probably not against the USD) as well as to buy something European (index or a fund) that still has good risk/reward parameters. We played GBP's strength versus EUR last year but that might have materialised already and we have actually been getting bearish on the pound as of late. Yet, the UK stock market and economy still looks healthy for the near future and hopefully the elections won't cause a lot of chaos.

Elsewhere around the world, most Emerging markets are on our stay away or bearish lists (except India, China and 1-2 more) for now due to their sensitivity to the dollar. Japanese stocks are attractive due to the easy monetary policy in the country, which, of course, makes us generally bearish on the Yen.

That is the general outlook we have for the year. It is the most basic framework that puts our focus on the appropriate places and events and yet, we are not attached to any of those themes. If some factors change, we change with them and always stay alert for further changes.

Speaking of so much global macro, here is an interview (not conducted by us) of Mr. Macro himself, Stanley Druckenmiller, and his more long term (bearish) views. If you don't know who he is, I am certain you will have an idea after you read **this**.

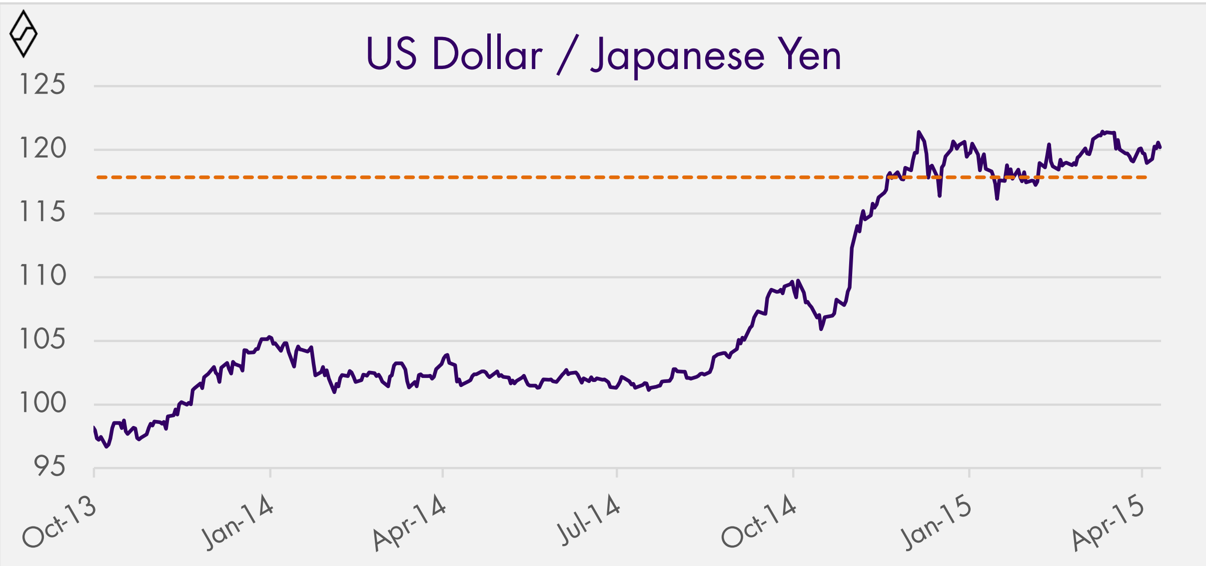
IN

US Dollar /Japanese Yen (USDJPY)

Direction: LONG
Open price: 120.17
Stop loss: 117.86 / 1.92%
Weekly performance: 1.05%

Date taken: 31 Mar 2015
Target 1: 124.00 / 3.19%
Target 2: 135.00 / 12.34%
Inception performance: 0.00%

Nothing significant from the BoJ meeting this week, however, something quite interesting is happening with the behavior of this FX cross. While the dollar basket (DXY) has appreciated more than 3% this week with big moves in EUR/USD and GBP/USD, the yen cross has increased by only 1%. In fact, so far this year the yen has been the best performing major currency against the dollar after the Swiss franc. Moreover, throughout 2014 the correlation between USD/JPY and the Nikkei was almost a perfect 1, meaning that as the yen was depreciating the Japanese market was soaring. Yet, it looks like the correlation has been broken this year and USD/JPY is only 0.4% up while the Nikkei is shooting for the stars with 14.1% return.
Some people might say that the yen has some catching up to do with other currencies and the Nikkei. However, do you really think that one of the top major currencies is overlooked to such an extent?



Source: Thomson Reuters data

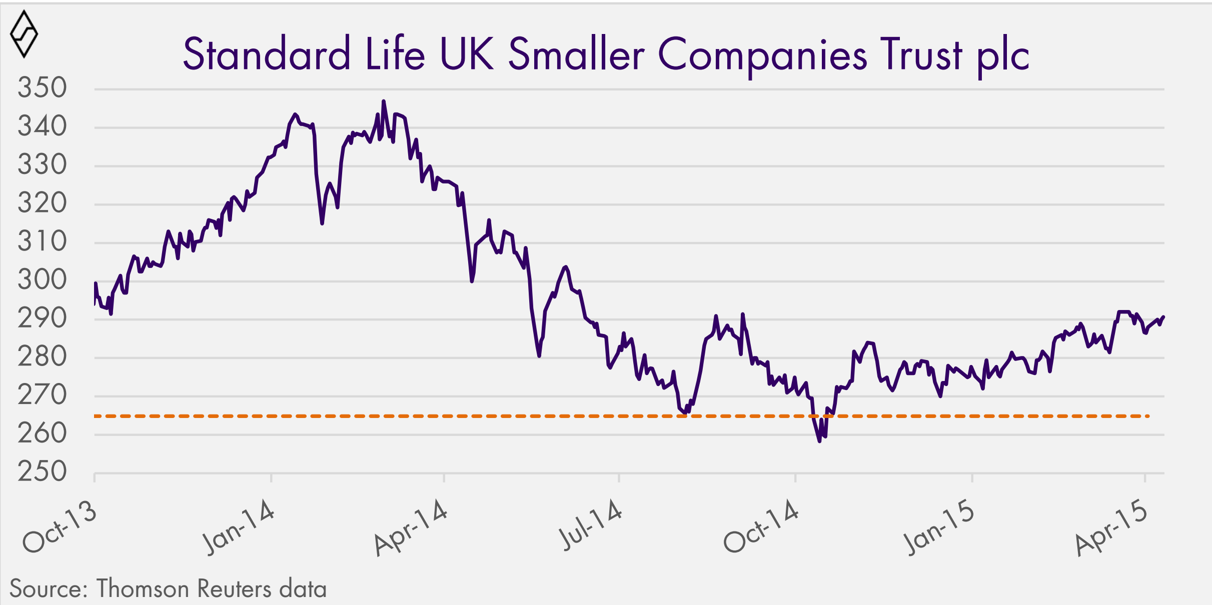
It sounds preposterous to me. I remember a paragraph from the interview of Scott Ramsey in Hedge Fund Market Wizards, who mentions that markets that were the strongest during a negative move are 'likely to be the leaders when the pressure is off'. While this is a risk to our position, once again nothing is in a vacuum and I am quite certain Mr. Abe is not pleased to see his currency staying still while the Europeans are partying like it's 1999. What is left for us is to wait and observe.

Standard Life UK Smaller Companies Trust Plc (£SLS)

Direction: LONG
Open price: 291.75
Stop loss: 264.75 / 9.25%
Weekly performance: 0.95%

Date taken: 31 Mar 2015
Target 1: 310.00 / 6.26%
Target 2: 330.00 / 13.21%
Inception performance: -0.09%

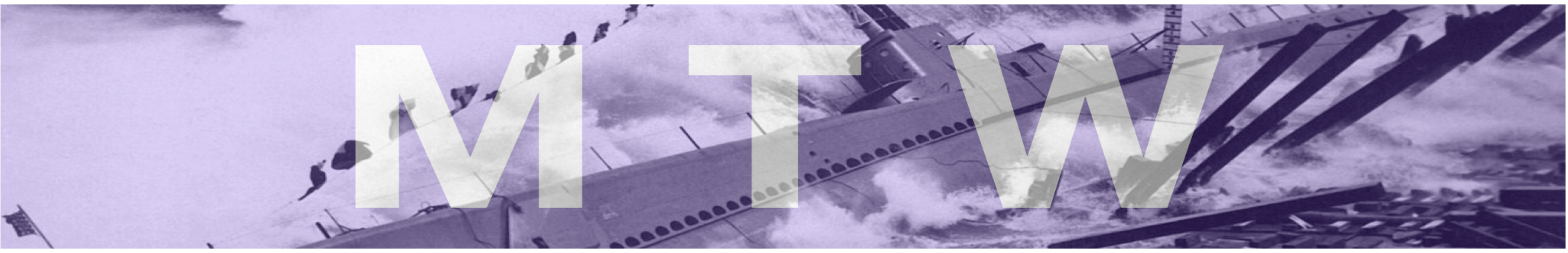
Several indicators illustrated a mixed view on the UK economy this week. While manufacturing and industrial production are clearly losing pace on a sequential and year-on-year basis, services (Markit Services PMI) have re-accelerated this year and are very close to the 60 level, indicating a very strong growth. Given the fund exposure (discussed in **Issue 1**) and the multi-year breakout in the FTSE 100, there is no reason for concern



Source: Thomson Reuters data

at the moment and the trust is slowly grinding higher. One interesting thing to test would be the effect of weaker GBP on companies in the fund. We are becoming significantly bearish on the pound and might soon enter a short position in GBP/USD.

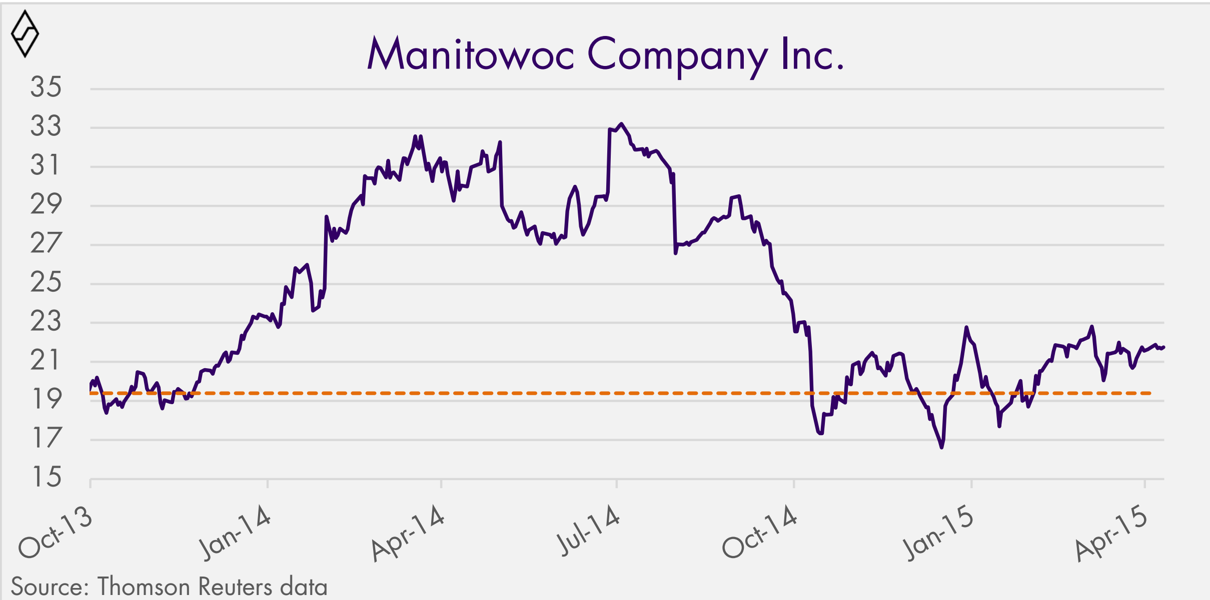
Manitowoc Company Inc. ($MTW)



Direction: LONG
Open price: 21.55
Stop loss: 19.40 / 9.98%
Weekly performance: 0.55%

Date taken: 31 Mar 2015
Target 1: 25.75 / 19.49%
Target 2: 33.78 / 56.75%
Inception performance: 0.01%

There is no material update for Manitowoc this week.



Source: Thomson Reuters data

Tesla Motors ($TSLA)

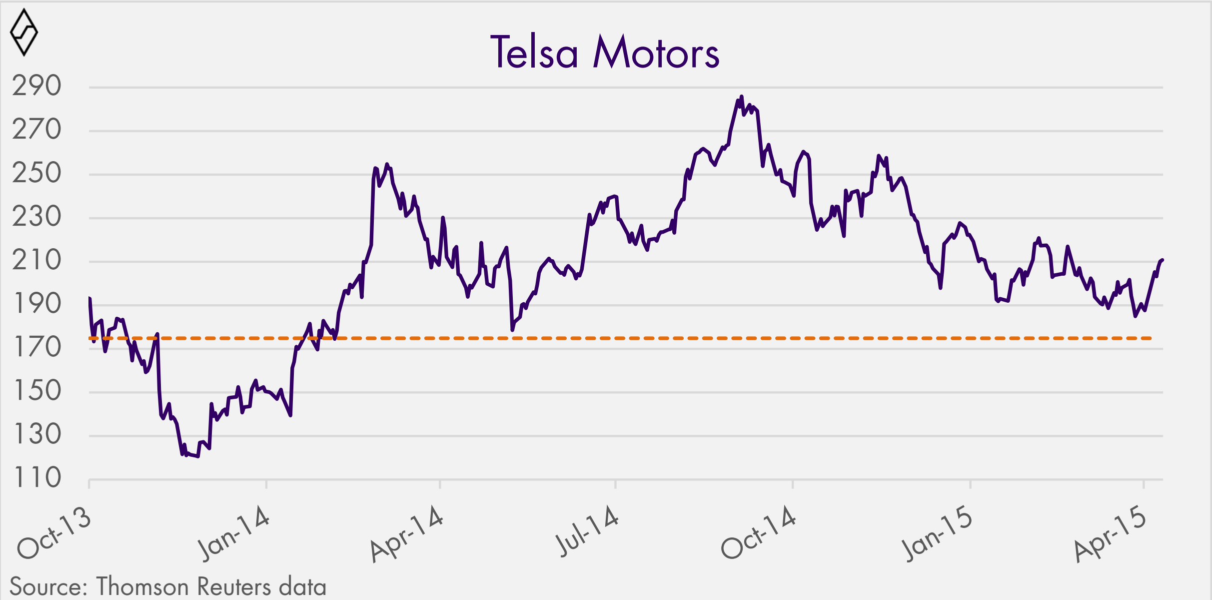
Direction: LONG
Open price: 191.75
Stop loss: 174.80 / 8.84%
Weekly performance: 10.42%

Date taken: 31 Mar 2015
Target 1: 220.00 / 14.73%
Target 2: 260.00 / 35.59%
Inception performance: 9.99%

Mr. Musk must have been happy from last week. The top performer in our portfolio posted it's Q1 sales: 10,300 cars delivered; up 55% from Q1 2014 and a new record for the electric car manufacturer. The company expects to deliver about 55,000 cars in total for 2015 (74% rise from 2014).

Apart from that, on Wednesday **Tesla Motors announces the roll-out on a new model**: S 70D. The new lowest-price model is targeted to compete against auto-makes such as BMW and Mercedes Benz.

Essentially these two stories drove the share price up. We expect that there has been some hold up in sales due to the expected launch of Model X (even though not a huge one).



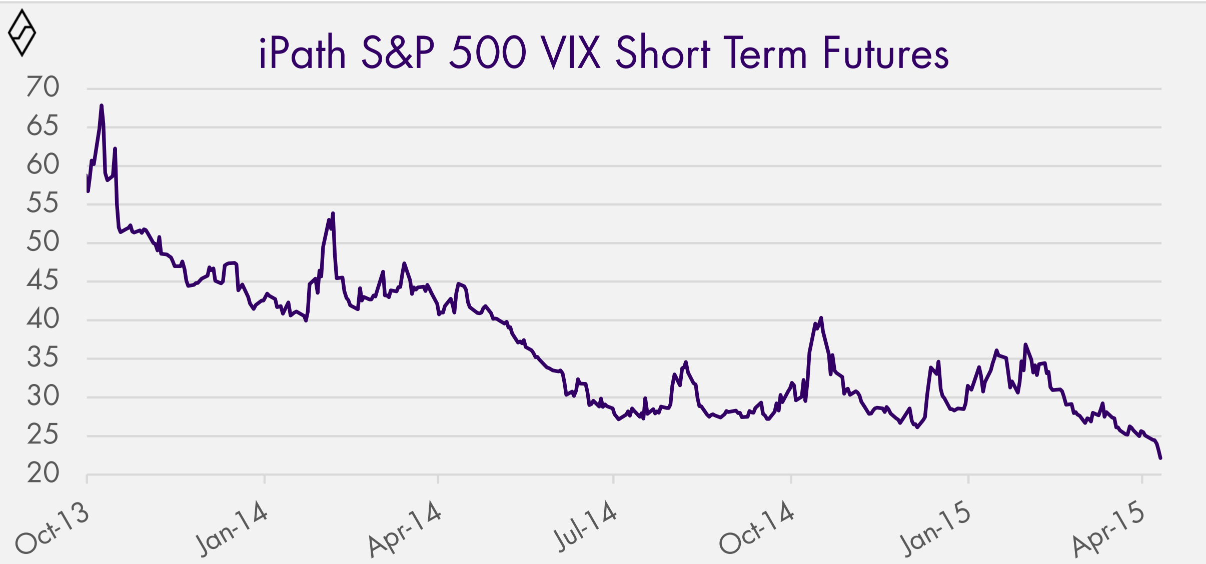
Source: Thomson Reuters data

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

Direction: LONG
Open price: 24.09
Stop loss: N/A
Weekly performance: -11.68%

Date taken: 8 Apr 2015
Target 1: 29.00 / 20.38%
Target 2: 34.00 / 41.14%
Inception performance: -8.12%

We bought the volatility index (VIX) on Wednesday before the close and it has not been a pleasant ride so far but it is hard to time volatility perfectly. However, we don't plan on closing the position on red as volatility is mean reverting and could breakout any time given that it is approaching its lowest levels in almost a year.
The reasoning is simple. We believe that market action will be mostly outside of the US this year, so we expect more volatility in the S&P 500. This is even evident from the performance of world indices so far this year. While some (most) European and some Asian indices have had strong double digit percentage growth (Germany's DAX +26.2%, Italy's FTSE MIB +25.60%, Shanghai Composite +24.74% etc.), the S&P 500 has returned only 2.1%. We expect that divergence to continue and we look forward to trading the VIX accordingly.



Source: Thomson Reuters data

DISCLAIMER

Interview: The views expressed in this interview are purely those of the author; they do not pretend to reflect any views that may prevail at Sussex University nor should they be taken as investment advice.

ShardFund is not a registered entity, it's a project. This report expresses the opinion of ShardFund's team and is not a solicitation to buy or sell any security. The writing represents our best judgment as of the date of preparation, and is subject to change without notice. Before making any investment decision you should always consult your personal financial advisor and conduct your own due diligence. The recipient of this report should also assess his own financial situation, goals, and sophistication prior to making any investment. All views expressed, implied, or otherwise are solely derived by Shard Fund's team members. The information herein was obtained from sources believed to be reliable, but has not been independently verified by ShardFund. Therefore, we do not guarantee its accuracy.


93 000 000
bwin
SHARD FUND
www.shardfund.com