SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

April 18th - May 1st, 2015 | Issue 5

TEAM:

Georgi Stanoev Positions
Ivan Natchev Positions
Stelian Nenkov Positions / Edit

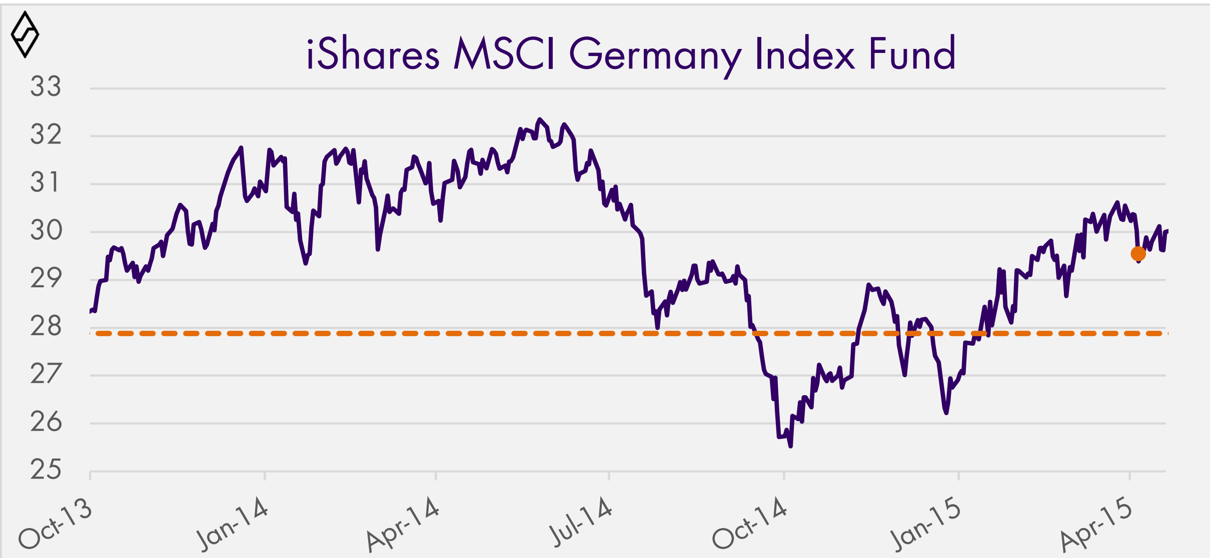
iShares MSCI Germany Index Fund ($EWG)

Direction: LONG
Open price: 29.54
Stop loss: 27.88 / -5.62%
Weekly performance: -0.10%

Date taken: 17 Apr 2015
Target 1: 32.4 / 9.69%
Target 2: 34.2 / 12.81%
Inception performance: 1.56%

Disappointing data from Germany brought some gloom to investors with retail sales coming at -2.3% and unemployment not dropping as much as usual. On the bright side, at least for this position, the EUR showed strength against the USD, which was positive for EWG (denominated in USD). Strong up moves in EUR meant strong down moves in the DAX (-3% on the week) and in German bunds, which rather luckily corrected several days after Bill Gross called them **'the short of a lifetime'**.

The fundamental case for Germany remains intact. The EUR still looks bearish and given that QE has just started, compared to a range of a passive Fed to a Fed that raises rates, the currency could weaken quite a lot more. Given the very strong correlation with the DAX and the composition of German economic growth (almost 50% exports), this should provide further upside for German companies. Potential risk (as pointed by Bill Gross and others) is the apparent lack of bonds to buy, given ECB's floor of -0.2% for the lowest yield on bonds they will buy. We are looking closely to see if this will change or they will think of some other mechanisms.



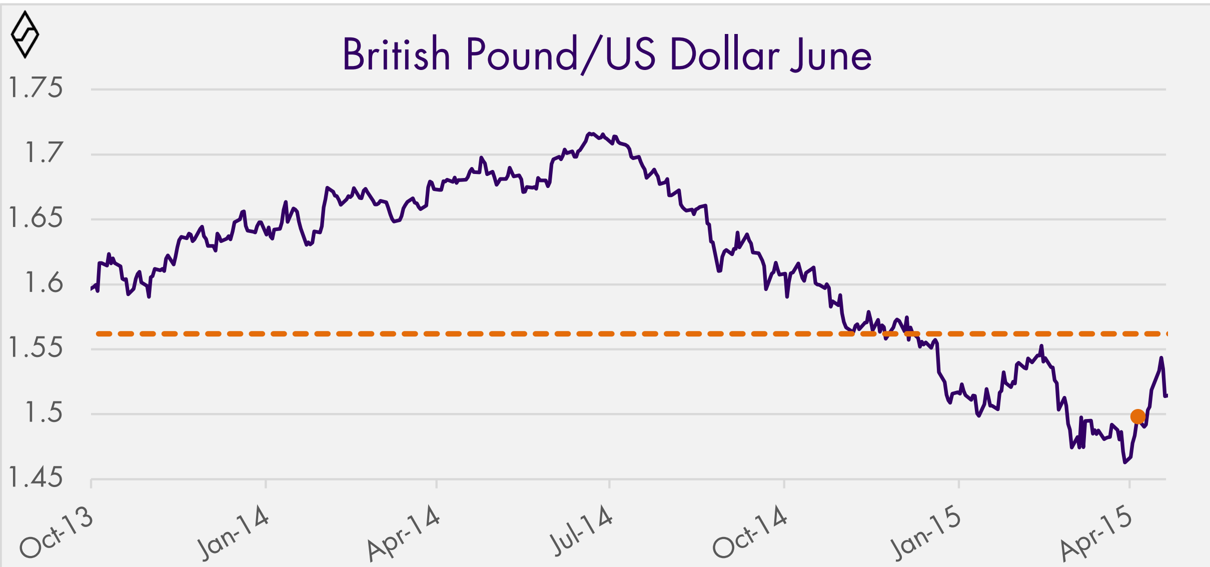
Source: Thomson Reuters data

British Pound/US Dollar June 2015 (GBPUSDBPJUN15)

Direction: SHORT
Open price: 1.4979
Stop loss: 1.5620 / -4.10%
Weekly performance: -1.20%

Date taken: 17 Apr 2015
Target 1: 1.4531 / 2.99%
Target 2: 1.4332 / 4.32%
Inception performance: -1.03%

Last week's strong negative moves in the dollar had little to do with data or some specific events. A counter-trend move (i.e. correction) transformed into panic when the EUR continued pushing violently up, hitting a great deal of stop losses around 1.104–1.106 against the dollar. This translated into a snowball effect that crushing most established correlation trades, one of which is the general dollar strength across pairs. The 'campaign' against the dollar was quite apparent when UK Q1 GDP decelerated to 2.4% (YoY) from 3% last quarter, which seemed to have no effect on the pound that day. Also, after a relatively dovish Fed and a disappointing US Q1 GDP (0.2% QoQ SAAR, 3.0% YoY) people simply did not want to hold anything with a US label on it and stocks, bonds and the dollar were all down on Wednesday and Thursday. On Friday, as the new month started and most events the dollar had been front-running were in the past, the FX market returned to fundamentals. GBP/USD down move was the strongest (-1.36%), with a potential explanation being the pricing in of the slowing UK economy in the face of a pretty fierce election.



Source: Thomson Reuters data

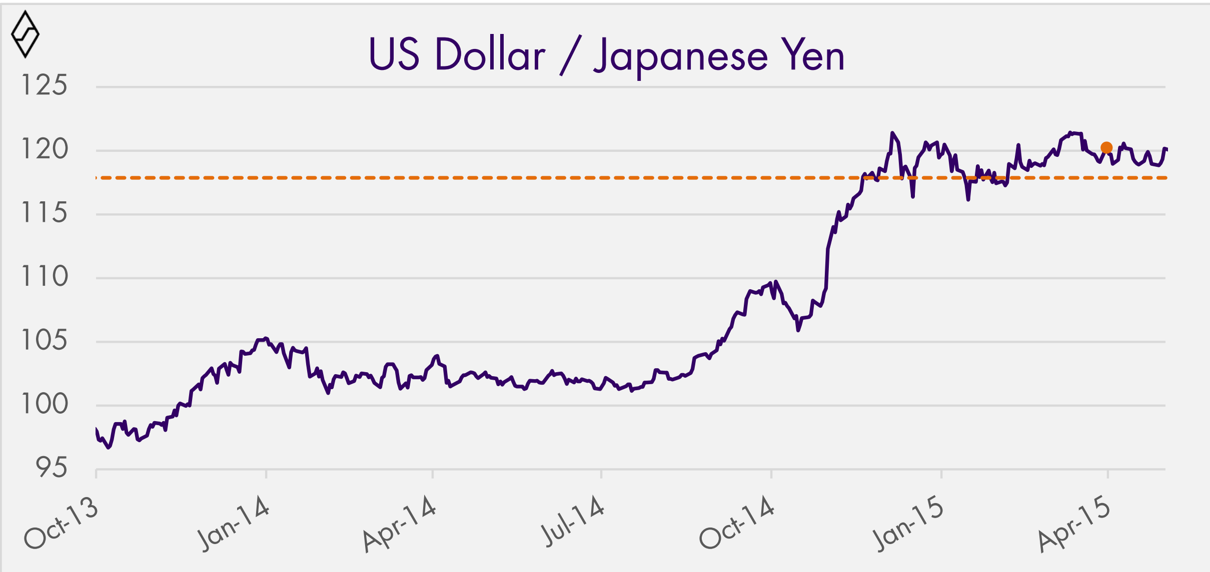
US Dollar /Japanese Yen (USDJPY)

Direction: LONG
Open price: 120.17
Stop loss: 117.86 / -1.92%
Weekly performance: 1.06%

Date taken: 31 Mar 2015
Target 1: 124.00 / 3.19%
Target 2: 135.00 / 12.34%
Inception performance: -0.05%

The past two weeks were not particularly positive for the dollar, but we remain with our bullish stance on the USD/JPY for now. Expectations for weak US data and dovish FED have been a major drag for the currency in recent weeks. We think that the dollar should show relative strength and that other central banks are marginally more dovish. The BoJ announced it is keeping its foot on the gas pedal and cut its outlook on the economy. National inflation came in at 2%, declining for 7 consecutive months. The Tokyo CPI, a leading indicator of inflation came down to 0.4% compared to 2.3% average for the past 6 months. After the BOJ announcement on Thursday. Similar to USD/GBP, USD/JPY bounced strongly on Friday as the new month started and investors began adjusting their positioning after several weeks of front-running and weak USD. Also, the negative announcement from the BoJ on Thursday could have helped further in that move.

The two main risks for us are the commitment of traders, which continues to diverge from the spot FX rate, as well as the next two quarters for the Japanese economy. Q2 and Q3 were particularity bad for the country, which entered a recession in Q3 after another quarter of negative growth. Well, now those data points go to the denominator in the year-over-year calculation and become easy comps for the data to accelerate against.



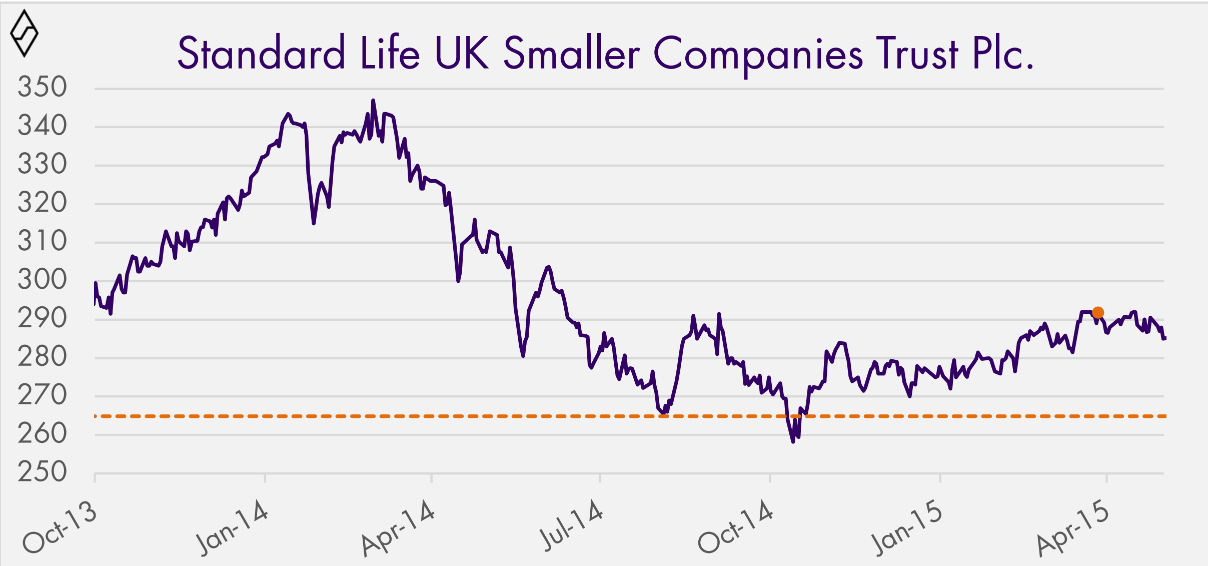
Source: Thomson Reuters data

Standard Life UK Smaller Companies Trust Plc (£SLS)

Direction: LONG
Open price: 291.75
Stop loss: 264.75 / -9.25%
Weekly performance: -1.26%

Date taken: 31 Mar 2015
Target 1: 310.00 / 6.26%
Target 2: 330.00 / 13.21%
Inception performance: -2.31%

Some of the important points for the UK economy are reflected in the update on the GBP/USD trade. It looks like the ESI indicator we presented in **Issue 3** was a great forward looking indicator for growth in this quarter. Q1 GDP decelerated by 0.6% (YoY, from 3.0%), which was the largest drop since Q2 2011. At least at this point, it looks like growth is stalling and given the potential uncertainty over the coming election, the economy might not accelerate significantly in the next 1-2 quarters. That is why we are short the pound against the dollar. As for this position of small-caps, the trend here seems to be moving into consolidation, at least based on the last week of performance. So far the trade has done almost nothing since bought and if that continues we might look to exit it to save up on fees and free up capital for opportunities elsewhere.



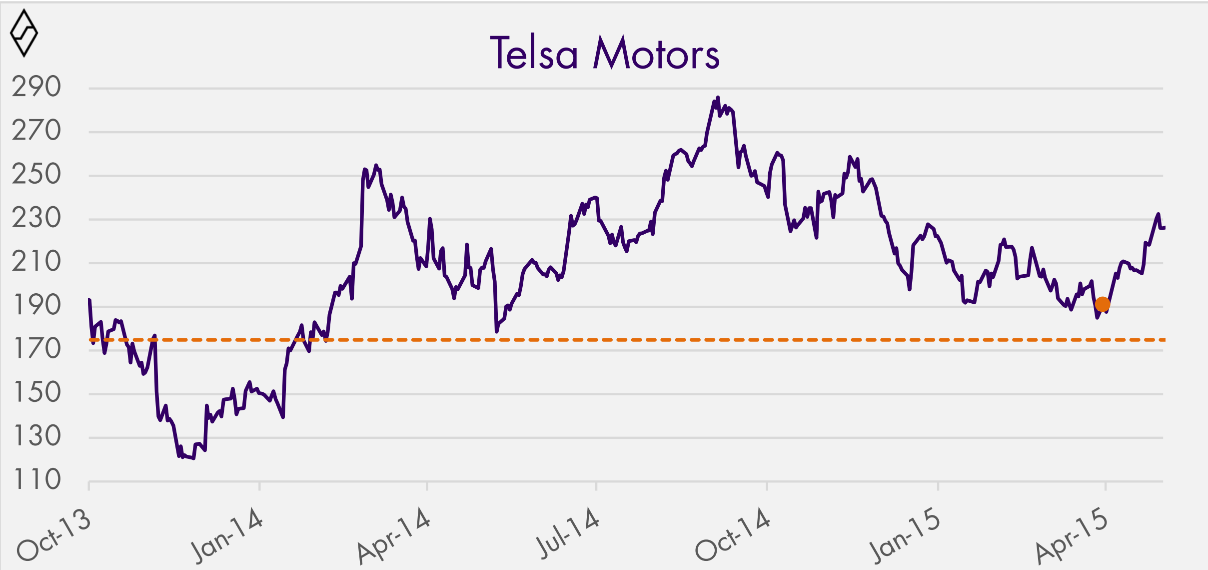
Source: Thomson Reuters data

Tesla Motors ($TSLA)

Direction: LONG
Open price: 191.75
Stop loss: 174.80 / -8.84%
Weekly performance: 9.30%

Date taken: 31 Mar 2015
Target 1: 220.00 / 14.73%
Target 2: 260.00 / 35.59%
Inception performance: 18.31%

Target 1 is reached. That's what's important here. The next significant resistance level is at 2050, so we have places our second target at 260 (the one after that), to be a bit more conservative.
Presumably, the reason for the jump was the announcement of **Tesla's Powerwall.** An energy storage for the home. Essentially people who have energy generators such as solar panels, can now sore their energy.
If that's confusingly obvious for some people, where is how this work so far:
Solar panels convert sunlight intro clean green DC (direct current) electricity
Then an inverter converts the DC electricity into usable AC (alternating current) electricity
This goes to an electrical switchboard with bi-directional metering installed (that's the important part)
The existing energy is used and the excess is exported for electricity credit, to the so called grid
Imagine now, the last part improved or gone. Now instead of exporting, you store for later use. Or even both, when the capacity is full, then you export.
I hope this illustrates the importance of Tesla's Powerwall. If you want to learn more, feel free to investigate non-storable electricity pricing (note it's for hard-core mathematicians only).



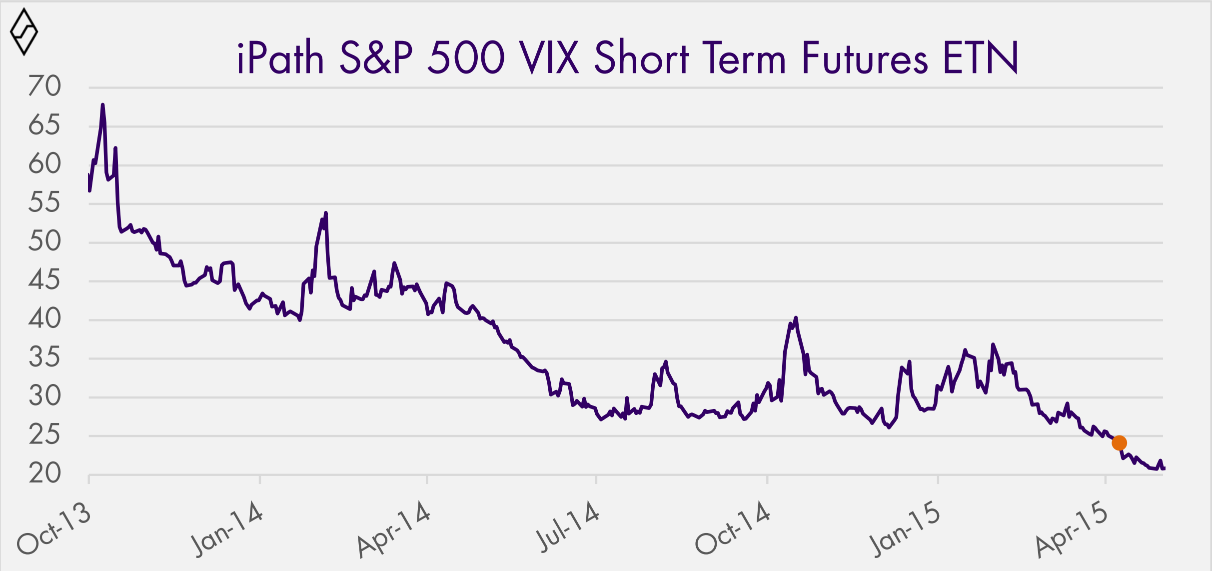
Source: Thomson Reuters data

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

Direction: LONG
Open price: 24.09
Stop loss: N/A
Weekly performance: -6.64%

Date taken: 8 Apr 2015
Target 1: 29.00 / 20.38%
Target 2: 34.00 / 41.14%
Inception performance: -13.60%

As mentioned earlier, it was a very interesting week across most major markets and asset classes, especially in the US. The S&P 500 made an all-time high on Monday (2,125.92) but then closed negative, which was the beginning of a volatile week. Similar to the move in the USD, Friday was also positive for the US stock market, however the consolidation is still there. On a short scale it is already a 2-month one, but some will argue that the S&P 500 is actually consolidating since January. Regardless, as the consolidation becomes longer, the probability of a strong move in either direction increases. We are looking for a negative move, hence our long volatility position, however that has not been successful so far. We have also had further complications with the downward drift in the instrument we had selected. All in all, given that we have no stop loss here, based on mean-reverting nature of volatility, we will wait more to see how the statistically negative month of May will develop.



Source: Thomson Reuters data

GoPro Inc. ($GPRO)

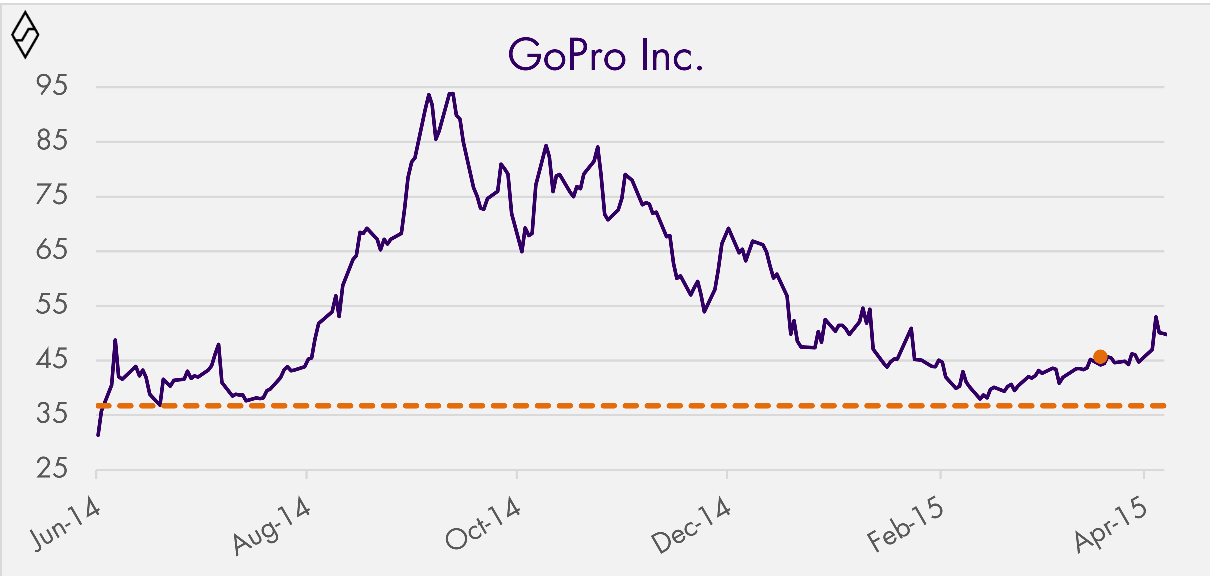
Direction: LONG
Open price: 45.67
Stop loss: 36.75 / -17.58%
Weekly performance: 12.01%

Date taken: 13 Apr 2015
Target 1: 55 / 20.43%
Target 2: 70 / 53.27%
Inception performance: 9.44%

Two important things about GoPro during the past two weeks:

1. It completely exploded, providing us with some very decent return
2. There is a skier on the **Q1 2015 Preliminary Earnings Results Summary** (i.e. the reason for the stock increase)

This was the second highest revenue quarter in GoPro's history with an almost double EBITDA vs. Q1 2014's results. The reason for the jump though was the above guidance results, meaning that what happened was actually above the expectations.
The company also shipped for a third consecutive quarter over 1 million units and its online presence is significantly improving - over 16 million mobile app downloads and a 50% increase in submitted photos and videos. The stock is still way below our Target 1, so we are holding tight. In the case of a down market, for sure this will be one of the first things that will be hit, however the stronger results are providing a somewhat stronger basis.



Source: Thomson Reuters data

CLOSED POSITIONS

Manitowoc Company Inc.	**Stopped out / 24 Apr 2015**
Euro/Japanese Yen June 2015	**Stopped out / 29 Apr 2015**
Vanguard REIT ETF	**Stopped out / 30 Apr 2015**

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