



Q2 2022

Commentary

It is not possible to put a positive spin on the equity markets during the first half of 2022. Throughout the second quarter we saw a continuation of economic themes from the beginning of the year. Inflationary headwinds from unprecedented stimulus, supply chain woes, rising interest rates, conflict in Ukraine, labor shortages, and wage increases, have caused almost every area of the market to suffer. These headwinds have caused economic growth in the U.S. to slow and prompted the Federal Reserve (The Fed) to implement the largest rate hike in 28 years, with the promise to continue to raise rates to curb inflation resulting in deeper recessionary concerns. During the quarter, consumer sentiment was at an all-time low as everyday necessities were at unsustainable prices for most of the population. Going forward, many investors will be keen to understand how The Fed plans to handle the July meeting and beyond in the face of these persistent inflationary pressures. As Investors our patience has been tested and will continue to be tested well into the future as we position ourselves for a landing that may not be as soft as we or The Fed would like. The longer that inflation stays elevated the more likely it becomes that The Fed will have to overtighten monetary policy causing deeper recessionary concerns.

Portfolio Review

The 2nd quarter of 2022 saw continued unrelenting selling pressure in what has turned out to be the worst first half of the year in 5 decades. The Sapphire Star Capital Small Cap Strategy declined by (18.91%) on a net basis versus a decline of (19.60%) for the Russell 2000 Growth Index and (16.92%) for the Russell 2000 Index. From an attribution standpoint, during the quarter the negative relative performance continued to be 100% attributable to sector allocation as stock selection aided relative performance. From a sector perspective finance, technology services and commercial services contributed positively to relative performance while non-energy minerals, transportation and energy minerals detracted from relative performance. From a holdings basis FTI consulting gained 15.03%, LPL Financial Holdings Inc. 1.11%, and Catalyst Pharmaceuticals 4.94%. Alaska Air Group (30.96%), Perion Network (19.16%) and Huntsman Corporation (23.89%) detracted the most from the portfolio during the tough quarter. The finance sector, electronic technology sector and the retail sectors continued to be the largest weighted sectors in the portfolio while the utilities, consumer durables and the health services were least weighted sectors represented in the portfolio.

7826 Leary Way NE
Suite 201
Redmond, WA 98052
Phone: 425.576.4083



Looking Forward

As we look to the second half of the year it seems clear that volatility, uncertainty, and further losses will continue through the end of 2022 and into 2023. It is important to remember that the inflation that caused the stock market to go down will be the same factor that will cause the market to go up. We believe that as soon as there is a feeling that inflation is under control investors will flock back into the market. As we mentioned in our last newsletter, we feel that a good mix of patience, stock selection and realistic expectations will be the key to navigating the market and protecting capital. As has been the case in the past, the markets begin to anticipate what is going to happen 6 to 9 months in the future and has been pricing in a recession that has yet to come to full blown fruition. We have been in a bear market now for 9 months a lot of liquidity needs to be taken out of the market. In our view, this recession is not all that different from others apart from the excess liquidity that has been provided in the last 4 years which needs to be wrung out. This excess liquidity has been and will continue hampering short term price appreciation in the equity markets. We believe that this will in the longer term, enhance the prospect for equity appreciation and once the excess is gone, we will get back to more rationale price levels in the equity markets at historic equity risk premiums.

As always, we welcome any questions or concerns that you have and thank you for your continued confidence in the Sapphire Star Capital Small Cap Strategy.

Regards,

Michael J. Borgen

Founder & CIO

Sapphire Star Capital LLC

Meghan N. Chicoine

COO & CCO

Sapphire Star Capital LLC

Important Disclosures:

Sapphire Star Capital LLC is a registered investment adviser and the information contained herein has been prepared by Sapphire Star Capital LLC. Such information is obtained from and based upon sources believed to be reliable, but accuracy cannot be guaranteed. Sapphire Star Capital LLC and its affiliates and representatives disclaim all liability for any inaccuracies and omissions contained in these materials. All opinions and estimates constitute Sapphire Star's judgement as of the date of the creation of these materials and are subject to change without notice. Information presented is not intended to be an offer of solicitation for the sale or purchase of any securities, investments involve risk and are not guaranteed. Any decision to purchase securities mentioned herein must consider existing public information on such security. Projections contained herein are based on a variety of estimates and assumptions and there can be no assurance that the assumptions made in connection with the projections will prove accurate, and actual results may differ materially. Past performance is not indicative of future results.

7826 Leary Way NE
Suite 201
Redmond, WA 98052
Phone: 425.576.4083