

Second Quarter ending June 30, 2010

To the Investment Clients of Sparrow Capital Management, Inc.

If you view the price change for the Dow Jones Industrial Average over the prior 90 days you may become disappointed. On the surface, the second quarter of 2010 was not good for investors. However, when you take a longer-term view of things and compare the valuations of equities on a price-to-book, price-to-sales and price-to-cash flow basis you get a different picture. For example, the Global markets, which includes Europe, Asia, North and South America, are now selling at 1.66 times book value compared to a 10 year average of 2.24 times book value, 0.96 times sales compared to a 10 year average of 1.09 times sales and 7.00 times cash flow compared to a 10 year average of 9.98 times cash flow. Based on these 10 year averages the discount on stocks to the average valuation over the last decade is now 31%. In other words, stocks would have to rise 31% from today's price just to average what they have been selling for over the last 10 years. The timing of the closing of this gap between price and value is not knowable and it could widen further, but we believe it is inevitable that the gap will close. The only action we can recommend at this time for investors who are patient and have a long-term time horizon is to sit tight, be patient, accumulate equities and begin to dollar cost average.

Let me give you an example, my wife has a 401(k) and always seems to do very well in the markets because she regularly adds to her account every month come rain or shine. Her account automatically buys every month and when prices go down she gets more shares at lower prices. What a deal! And that is what I am recommending to you too.

Now let me turn to one of our largest holding, Altria Group Incorporated. (623% of total assets). This is the old Phillip Morris and they have been in business for over 100 years and have a market cap of \$47,000,000,000. Altria Group Incorporated has raised its dividend for at least the last 10 years and their free cash flow last year alone was \$3,100,000,000. Our investment process and philosophy lead us to this company because of its historic track record of high return-on-equity, consistent earning power and shareholder friendly management.

As a reminder, our investment approach is to buy companies with consistent earning power, high return-on-equity while employing little or no long-term debt and to purchase at reasonable prices with a high margin of safety. As always, I have a large portion of my net worth invested in the stocks that are in your portfolios, this does not guarantee a return, but it does focus my attention on things that matter to you as a shareholder. Thank you for your continued confidence.

Feel free to forward to a friend who invests, they may find this useful.

Gerald R. Sparrow, MBA,
Registered Investment Advisor

Disclosure:

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The Sparrow Growth Fund is offered by prospectus only. A prospectus contains more complete information on investment objectives, risks, advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. A prospectus may be obtained or by calling Sparrow Capital at 314-725-6161. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate. NAV (Net Asset Value) does not include sales charges or contingent deferred sales. Performance data quoted represents past performance. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please call 314-725-6161 to obtain performance data current to the most recent month-end. The annual expense ratio of the Fund is 1.76%.

Sparrow Capital Management, Inc. is a Registered Investment Advisor, established by Gerald Sparrow in 1988. A list of all past specific recommendations is available upon request. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.