



Fourth Quarter ending December 31, 2010

To the Investment Clients of Sparrow Capital Management, Inc.

In the last three months equity markets continued to rally around the world. The markets in Europe, Asia, North and South America increased on average nine percent. I believe low interest rates and positive expectations by consumers and businesses may continue to move economic growth upward in the coming year.

On the valuation front, global markets, which includes Europe, Asia, North and South America, are now selling at 2.04 times book value compared to a 10 year average of 2.19 times book value, 1.22 times sales compared to a 10 year average of 1.08 times sales and 8.96 times cash flow compared to a 10 year average of 9.69 times cash flow. Based on these ten year averages the discount on stocks to the average valuation over the last decade is now 1%. Since stocks may be fairly valued, we need to see companies do well on sales and earnings growth and our first glimpse will come soon as companies report first quarter earnings this month. Our expectation is for a fairly good reporting season with most of the surprises on the upside with technology, basic materials and energy, financial and consumer cyclical leading the way.

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

WWW.SPARROWCAPITAL.COM

11330 Olive Boulevard, Suite 230
St. Louis, Missouri 63141
888-569-6161

Disclosure:

PLEASE READ THIS WARNING: All e-mail sent to or from this address will be received or otherwise recorded by the Sparrow Capital Management corporate e-mail system and is subject to archival, monitoring and/or review, by and/or disclosure to, someone other than the recipient. This message is intended only for the use of the person(s) ("intended recipient") to whom it is addressed. It may contain information that is privileged and confidential. If you are not the intended recipient, please contact the sender as soon as possible and delete the message without reading it or making a copy. Any dissemination, distribution, copying, or other use of this message or any of its content by any person other than the intended recipient is strictly prohibited. Sparrow Capital Management has taken precautions to screen this message for viruses, but we cannot guarantee that it is virus free nor are we responsible for any damage that may be caused by this message.

Sparrow Capital Management only transacts business in states where it is properly registered or notice filed, or excluded or exempted from registration requirements. Follow-up and individualized responses that involve either the effecting or attempting to effect transactions in securities, or the rendering of personalized investment advice for compensation, as the case may be, will not be made absent compliance with state investment adviser and investment adviser representative registration requirements, or an applicable exemption or exclusion.

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.