

First Quarter ending March 31, 2010

To the Investment Clients of Sparrow Capital Management, Inc.

The first quarter of 2010 was a good one for investors. Our largest three holdings Coca-Cola, Inc., Eaton Vance Corp and McDonalds, Inc. continued to deliver solid earnings per share and high return on equity. For example, last year, the return on equity on these three companies averaged +35%. In addition to above average return on equity, these three business have a consistent track record of increasing shareholder value by growing earnings per share, book value and dividend payments.

When I was growing up my parents used to take me to the local McDonalds and we loved those burgers and fries. This goodwill has allowed McDonalds the ability to raise prices and sell billions of burgers worldwide. Their hamburgers sold for 15 cents in 1964 and today they sell for \$1.00, over 6 times higher! I would expect the same burger to sell for \$6 or more in 30 years from now. I continue to do my research on McDonalds about once a week and make sure the quality of the burgers and fries meet my high expectations.

Two investments that struggled (but we still have good expectations) include Dell Inc. and Monsanto Company. Dell was purchased as a turnaround and ran into trouble in the last reported quarter with lower margins. They have told us they expect to get higher margins over the next few quarters and so we wait and give them the benefit of the doubt. Monsanto has had similar issues but expects to have a strong selling season that ends in the May quarter. Historically, the economics for these businesses were exceptional with excess free cash flow used to reduce shares outstanding, buy similar businesses or pay dividends. We like these uses of cash and consider them shareholder friendly. If we don't get the results as promised, we will move on.

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 all 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:

The rate of return considers the following: a) All money flowing into or out of the account b) All realized gains losses c) All unrealized gains or losses d) All dividend and interest income. There is no statistical correlation between past performance and future results. As such, there is no assurance that results approximating these returns will continue in the future.

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. 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.