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THERE IS SCIENCE.

AND THERE IS LUCK.

Investing is a science.

It requires a plan and

discipline to follow the plan.

Anything short thereof is blind exploration.

Winter 2011

Dear Valued Clients and Friends:

MARKET PERSPECTIVE: The fourth quarter of 2010 was one of the best in Rocket Capital's history. The managed accounts returned 25.15% for the quarter and 30.33% for the year compared to the S&P 500's 10.80% for the quarter and 15.06% for the year and the NASDAQ's 12.00% for the quarter and 16.91% for the year. We attribute these results to a number of factors. First, the small cap sector of the market dramatically outperformed the large cap sector. Second, we benefited greatly from our stock selection process which kept us in very high quality stocks in the best sectors of the market. Third, a stronger focus on technical analysis helped us hold only the stocks that were performing well. And lastly, our companies' third quarter revenue and earnings comparisons were outstanding and many raised guidance and forecasts for the first quarter and beyond. While some of this growth can be attributed to a strengthening economy, most was driven by the fundamentals of the companies themselves.

Looking forward, we anticipate another good year for stocks in general and we do not see anything that makes us think small cap stocks will not continue to outperform. Over the near term however we are a little concerned with a number of the technical indicators. These concerns include the deterioration of the advance/decline line in the last several weeks, the number of stocks that are now becoming overextended and in need of consolidation, and the recent increase in bullishness exhibited in the sentiment numbers from not only the analytical community but also institutional and individual investors alike. We recently began taking profits in our overextended positions along with identifying new names to purchase which are breaking out of solid base patterns. We expect a correction that will look like the previous corrections experienced over the last couple of years. They have been short, sharp and violent in nature but have typically been limited to a range from 5% to 7%. This type of correction has a tendency to rapidly eliminate the overbought indicators and rebuild the wall of worry needed for the advance to continue.

TECHNICAL COMMENT: From a technical perspective most sectors and stocks remain in solid uptrends. The S&P 500 Index is getting close to the upper part of its rising channel range which could create some profit taking and perhaps a correction. While the market is overextended, it has been extremely resilient and able to shake off bad news as evidenced by its reaction to the rising tensions in the Middle East. Many groups and stocks are overbought and would benefit from a period of consolidation. The sentiment numbers we follow suggest institutional and retail investors are more optimistic than they have been in some time. While the numbers are not at extreme excesses yet, they certainly will be if the market continues its nonstop ascent. Keeping all of that in mind, *the trend is your friend*, so I recommend being fully invested but cautious. Use corrections to buy new names coming out of long bases while you trim overextended issues that had large fourth quarter gains.

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SECTOR COMMENT: The sectors to overweighted in are information technology, hardware, and software. Resource and energy related sectors are also good, however they have become over loved and are ripe for a pullback. Do not chase. After a long slumber, there appears to be a large number of medical technology sectors beginning to get traction. The financials have lagged for some time but they appear to be improving.

PORTFOLIO ADJUSTMENTS: Almost all our stocks performed extremely well in the fourth quarter. Nine of our thirty positions were up more than 40%! These include Acacia Research Corp., Akorn Inc., The Bancorp Inc., Compellent Technologies Inc., Constant Contact Inc., Entropic Communications Inc., IPC The Hospitalist Company Inc., Northern Oil and Gas Inc., and Zagg Inc. Normally we trim positions that reach 6% of the portfolio's total value. Because all the positions were moving up together, none reached that 6% proportion. Although it did not reach a 6% weight, we trimmed some of Acacia Research Corp. on October 22 because of its big upward move. We tendered Arcsight Inc., which was bought by Hewlett Packard. Due to deteriorating fundamentals and poor charts, we sold NuVasive Inc. and GSE Systems Inc.



ZAGG Inc. (ZAGG \$9.05*): The featured new addition to the portfolio this quarter is Zagg Inc. This rapidly growing Salt Lake City based company manufactures a variety of accessory products for the rapidly growing number of smart phones and appliances, including the iPhone and iPad. Their flagship product, the invisible SHIELD (seen below), is a

flexible, durable protective cover for most smart phones and tablets. While lower priced alternatives exist, Best Buy has decided to promote the invisible SHIELD because of the product's high quality and lifetime warrantee. In addition to Best Buy, Zagg is now found protecting the iPhone in AT&T Stores, RadioShack and most recently, Target. We expect Zagg to rapidly grow its top and bottom line driven not only by the rapid growth of the smart device industry, but also by expanding its presence in a number of leading consumer electronics stores. A near term catalyst may be the recent introduction of the iPhone in Verizon stores.



While we are extremely excited about our results in 2010 and the outlook for 2011, we are continuously striving to improve our performance on the upside with a strong focus on minimizing the downside risk. Your patience and trust through what has been one of the most challenging market environments in recorded history have been greatly appreciated. We remain confident your patience will be rewarded. As always any questions or comments you have would be greatly appreciated.

Sincerely,

J.D. Hurd

President / Senior Portfolio Manager

Jesse J. Nelson

Operations / Portfolio Services Associate

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