



THERE IS LUCK.

AND THERE IS SCIENCE.

Investing is a science.

It requires a plan and

discipline to follow the plan.

Anything short thereof is blind exploration.

Winter 2016—The November Effect

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: The stock market finished the year with mixed results. During the fourth quarter, the NASDAQ 100 led the charge with a whopping 9.86% gain, ending the year up 8.43%. The NADSAQ Composite rallied 8.83%, posting a 5.73% gain for 2015. Unfortunately, these performance numbers are further evidence of the somewhat disturbing trend established earlier in the year that the market is being led by a small number of overly popular companies, such as AAPL, GOOG, FB, AMZN, PCLN and MSFT. As for the other major indexes, while the fourth quarter allowed them to recoup some of the dramatic losses incurred in the third quarter meltdown, they still finished mildly lower for the year with the DJIA, S&P 500 and the Russell 2000 Growth indexes down -2.23%, -0.73% and -2.05%, respectively. This type of action was not particularly unexpected after the August meltdown in which the damage was significantly greater in the smaller cap stocks as apposed to larger cap ones. In retrospect, what we have learned early in 2016 is that this was part of a topping process that began in mid-July in most of the major indexes. While there have been a myriad of theories on what may have caused these declines (weakness in the Chinese Economy, sharply lower commodity prices, an impending slow down in the US economy, etc), it might just be as simple as the fact that US stocks, in general, have been highly priced without a major corrections for the last several years and that revenues and earnings may have peaked.

Early reports and conference calls thus far in the first quarter of 2016 suggest that the strong dollar has had a meaningful impact on quarterly results and caused forward guidance to have little conviction. What is more astonishing is the negative reaction seen in the stocks that have actually reported solid results and upbeat forecasts. Bearing all of this in mind, we will continue to be opportunistic sellers of stocks while we build a list of potential buy candidates to be prepared for better days ahead.

TECHNICAL PERSPECTIVE: After months of back and forth action in a wide trading range, the stock market turned decisively lower very early in January, ultimately turning the trend down in a convincing fashion. The ensuing decline has been one of the most relentless selloffs we have experienced in quite some time. Our weekly review of individual chart patterns confirms that short and intermediate term trends are now down and any new purchases would be ill advised until a low has been established. Many of the major indexes still remain above their wash out lows established in August, with the exception of the Russell 2000 Growth index. Once a low has been established, we will likely take our time putting our cash back to work.

SECTOR COMMENT: Our recent sector analysis suggests that the top 10 sectors can be found in the area of Utilities, Food, and Mining-Gold/Silver. This is not exactly the type of leadership we would associate with a healthy market. Have said that, there are a few sectors which have held up relatively well over the last several weeks. These include Electronic–Semiconductor Equipment and Manufacturing, Internet Content, and some of the regional bank sectors. Looking at some of the lagging areas of the market, it is quite clear that many of the sectors which have fallen out of favor were the one that have led the market higher over the last several years. Most of the sectors related to healthcare, biomed/biotech, generic drugs, and medical products and services, and even computer software, have turned lower after leading the market for many years. Our sector outlook as a whole adds to our conviction that caution in this market is warranted.

PORTFOLIO ADJUSTMENTS: Our portfolio activity in the fourth quarter consisted of 5 sells and 4 buys. The 4 companies that we added to our portfolio include Inphi Corporation (IPHI), Zeltiq Aesthetics, Inc. (ZLTQ), USA Technologies, Inc. (USAT), and PowerSecure International, Inc. (POWR). These purchases were made after

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screening for our technical and fundamental criteria. We sold MiMedx Group, Inc (MDXG), Horizon Pharma, plc. (HZNP), Lannett Company, Inc. (LCI), On Track Innovations, Ltd., and Profire Energy, Inc. (PFIE) because they broke down technically, fundamentally, or both.

ORBCOMM, Inc. (ORBC* \$7.16) ORBCOMM is a leading global provider of Machine-to-Machine (M2M) communication solutions and operates the only commercial satellite network dedicated to M2M. ORBCOMM's unique combination of global satellite, cellular and dual-mode network connectivity, hardware, web reporting applications and software is the M2M industry's most complete service offering. Their solutions are designed to remotely track, monitor, and control fixed and mobile assets in core vertical markets including transportation and distribution, heavy equipment, industrial fixed assets, oil and gas, maritime and government. With the successful launch their remaining 11 OG2 satellites in December, the company's capex should drop significantly allowing them to grow free cash flow meaningfully and predictably for years to come. Most importantly, this stock has a relative strength rating of 96 and an excellent chart pattern, both of which are hard to come by these days.



At times managing a portfolio of stocks can be very rewarding. At other times, it can be an extremely humbling experience. Obviously the last year falls clearly into the later category. While the current environment is as challenging as any time in recent memory, I remain confident that sticking to our disciplined, pragmatic approach will be rewarded over time. We are currently holding more cash in our portfolios than at any other time in Rocket history and we are looking forward to putting that cash back to work when charts dictate that we do so.

As always, if you have any questions, comments, or concerns, please do not hesitate to call or email us at any time and we will get back to you promptly. Your continued confidence in Rocket Capital Management is greatly appreciated and we look forward to a long and meaningful relationship.

Sincerely,

J.D. Hurd

President / Senior Portfolio Manager

Andrew D. Walker

Operations / Portfolio Services Associate

The use of the S&P 500 and the Russell 2000 Growth plus indexes is to compare the Rocket Capital Small Cap composite to a large capitalization stock index as a general market proxy and use The Russell 2000 Growth Plus as an index more comparable to the portfolio make up of the Rocket Capital Small Cap composite. All indexes and our composite are reflective of dividend reinvestment. Our composite does not represent all accounts of Rocket Capital Management, just those invested in that strategy. Past performance is not an indication of future returns. Individual investment returns may be different than the composite returns presented.

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