



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.

## Fall 2022 — “Don’t Fight the Fed”

**Dear Valued Clients and Friends,**

**MARKET PERSPECTIVE:** One of the few investment axioms we believe in at Rocket Capital is “Don’t Fight the Fed”. Keeping that in mind the Federal Reserve has raised the Federal Funds Rate twice by 75 basis points since our summer letter and is highly likely to raise it another .75% when they meet in November. This unprecedented increase in rates when coupled with the seemingly orchestrated barrage of hawkish statements from Fed officials, has made it extremely challenging for the stock market to mount a sustainable rally. As if the market didn’t have enough to worry about, the battle in the Ukraine intensifies with increased Russian shelling of major cities and infrastructure, not to mention the not so veiled nuclear threat. It should come as no surprise that the stock market is struggling. In our opinion, it is most impressive that the market has held up as well as it has over the last several weeks.

On the economic front, we are beginning to see a number of indicators suggesting the economy is slowing. However, inflation remains stubbornly high most likely due to the cost of labor created by the shortage of workers. Also, while there is much talk about consumers changing their ways out of fear of a recession, casual observations would suggest otherwise. Where I live, the restaurants are very busy, people are still buying new cars, and while home sales and prices have cooled down somewhat it doesn’t suggest to me that consumers have slowed spending. A concern that will impact the consumer is the dramatic drop in the “Wealth Effect” as people review statements from their investment accounts, 401K’s, and IRA’s due to meaningful losses in both their stock and fixed income holdings, which is rare.

As the third quarter 2022 revenue and earnings reports come out it would be naive to think that many companies were able to meet expectations for the quarter and maintain guidance looking forward. However, I believe that much of the bad news has been priced into stocks. Companies that do deliver will be rewarded with higher stock prices. Another headwind companies are facing is the strength of the US dollar which makes them less competitive doing business overseas. The good news is that most of the companies in our portfolio are not heavily dependent on revenues outside the US.

On the performance side the major indexes again fell in the 3rd quarter but very minor when compared to the second quarter’s dramatic losses. The S & P 500 posted a -5.32% loss for Q-3, and -24.80% YTD. The NASDAQ Composite was down 4.11% and -32.40% YTD. The Morningstar Small Cap Growth Index fell 1.87% for Q-3 and 30.81%YTD. Lastly the Rocket Small Cap Growth was down 2.79% in Q-3 bringing the YTD results to -32.89%. What is noteworthy is that this is the first quarter in 2022 where small caps outperformed. This bodes well for Rocket investors.

**TECHNICAL PERSPECTIVE:** The technical perspective on the stock market has changed since our last writing slightly in that while the intermediate and long-term trends remain down the short-term trend is now neutral as the market struggles to put in a bottom. The reason I say this is that even though the major indexes took out the lows established in June the downtrend didn’t accelerate as widely expected. They have now rallied modestly and are now trading sideways at slightly higher levels. One day recently, October 13th is particularly interesting in that many of the indexes had what is called in technical parlance, an outside day up. An outside day up occurs when an index trades below the previous day’s low and closes above the previous day’s high on a meaningful increase in volume. This in my opinion is very bullish. In addition, adding to my conviction, we also saw a substantial increase in participation with advancing stocks outnumbering declining stocks by a large margin. Lastly, and most importantly, my weekly reviews of over 1000 charts patterns show a noticeable improvement as I am seeing less charts in downtrends, more charts in the base building process and even some in early uptrends.

**SECTOR COMMENT:** As has been the case for most of the year the strongest sectors are related to the Oil & Gas Industry due to the massive disruption created by the conflict in Russia and the Ukraine. Other forms of renewable energy, in particular Solar have remained in favor. In the Information Technology group, the leading sectors are the Telecom Infrastructure, Wireless and Cable and Satellite Manufactures. These sectors benefit as the push continues to provide Broadband access to all homes and businesses across the United States. The Computer-Networking sector is also attractive. The Healthcare industry is mixed with tremendous strength in

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the Biotech-Biomed group and Services and Staffing. Lastly, Computer Software appears to have bottomed and is now in the base building process.

**COMPANY HIGHLIGHT:** Crocs, Inc. (NASDAQ: CROX \$70.18) is a world leader in innovative casual footwear for men, women and children. Crocs offers a broad portfolio of all-season products, while remaining true to its core molded footwear heritage. All Crocs™ shoes feature Croslite™ material, a proprietary, revolutionary technology that gives each pair of shoes the soft, comfortable, lightweight, qualities that Crocs fans know and love. Croc's recently closed acquisition of Hey Dude should significantly add to revenues and be accretive to earnings. Crocs also features an excellent chart.



In summary, while the third quarter of 2022 was less than desirable it was a far cry from the destruction we endured in the 1<sup>st</sup> half of the year. In addition, the market internals improved noticeably which by itself doesn't confirm that we have seen the low, it makes it less likely. This coupled with the week to week improvement in my chart reviews gives me reason for cautious optimism. Keeping this in mind over the next weeks or months we will pragmatically begin to invest portions of our significant cash position into new or existing positions as the charts dictate. We welcome any questions or concerns that you may have and look forward to speaking with you in the coming weeks.

Sincerely,

**J.D. Hurd**  
*President / Senior Portfolio Manager*

**Ben J. Scheibe**  
*Sr. Vice President*

**Jim Nelson**  
*Research Analyst / Operations*

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Model portfolio performance is shown net of the model advisory fee of 1.5% the highest fee charged by Rocket Capital and sample trading costs based on our Custodian TdAmeritrade's trading costs. Performance does not reflect the deduction of other fees or expenses, including but not limited to brokerage fees, custodial fees and fees and expenses charged by mutual funds and other investment companies. Performance results shown include the reinvestment of dividends and interest on cash balances where applicable. The data used to calculate the model performance was obtained from sources deemed reliable and then organized and presented by Rocket Capital.

The performance calculations have not been audited by any third party. Actual performance of client portfolios may differ materially due to the timing related to additional client deposits or withdrawals and the actual deployment and investment of a client portfolio, [optional -the reinvestment of dividends], the length of time various positions are held, the client's objectives and restrictions, and fees and expenses incurred by any specific individual portfolio.

**Benchmarks:** Rocket Capital performance results shown are compared to the performance of the Morningstar Small-Cap Growth Index. The index results do not reflect fees and expenses and you typically cannot invest in an index.

**Return Comparison:** The Morningstar Small-Cap Growth Index was chosen for comparison as it is generally well recognized as an indicator or representation of the small-cap stock market in general and includes a cross section of equity holdings.