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 2019—A Giant Slide

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: As people keep asking how we held up in the rollercoaster market, I suggest that the fourth quarter wasn't a roller coaster ride filled with ups and downs, but a giant slide which began on the first day of October. Although the market began to show signs of fatigue late in Q3, it was as though someone flipped a switch and all stocks were for sale—large, small, growth or value—it didn't matter. Fortunately for Rocket Capital investors, we came into the quarter with a very meaningful cash position driven by our disciplined approach featuring the trimming of positions which had become overextended technically and selling stocks that failed to perform in the solid up-trend. The end result was that our benchmark, the Morningstar US Small Growth Index, was down 21.44% for the 4th quarter and -5.68% for the year while the Rocket Capital Small Cap Growth composite was down 16.02% for the quarter and up 5.01% for the year after fees.

After a couple failed rally attempts in November, the decline accelerated dramatically which led to one of the worst Decembers in stock market history with most of the major indexes entering bear market territory for the first time in many years. What made the sell-off confusing was that there was little or no evidence that the US economy was nearing a recession. Fear was driven by a number of factors causing enormous uncertainty including the potential for an ongoing trade war between the US and China, an overzealous Fed seemingly hell-bent on raising interest rates despite slower but still positive growth in the US economy, and the potential for an inverted yield curve which has been a precursor to several recessions in the past.

In my estimation, these fears will prove to be unjustified as there are early signs that the US and China will reach an agreement, the Fed has observed the damage done to the stock market and potentially the economy and has softened its verbiage regarding future rate hikes, and the yield curve still has not inverted. As to what happens next, your guess is as good as mine, but the market action early in the New Year suggests there are brighter days ahead.

TECHNICAL PERSPECTIVE: The short term trend turned down late in the third quarter and is now in an intermediate term downtrend. The damage done to most chart patterns over the past several months has been severe and while December may prove to be the low, there remains a very real possibility that those lows will be retested before a meaningful new uptrend can begin.

On the flip side, it would be foolish to assume that the sharp market advance we have experienced thus far in 2019 is sustainable. In my opinion, the most likely outcome is that the market is likely to soon put in a short-term top and trade in a volatile fashion in a range bound by the December low and the short-term high. The short-term trend is currently up but the intermediate term trend remains down until proven otherwise.

On a more upbeat note, the Investors Intelligence Bulls vs Bears survey on 1/4/2019 showed the number of bearish writers outnumbered the bullish news writers by a margin of 34.60% bearish to 29.90% bullish, the most pessimistic survey since 2008. This contrary sentiment indicator has confirmed numerous past bottoms.

Lastly, my recent review of over 1,000 charts suggests there is a meaningful number of stocks that are already well into the base building process which may be candidates for purchase when the overall market resumes its uptrend.

SECTOR COMMENT: Sector leadership remains in the Information Technology sector led by the Wireless Telecom Services, Telecom-Fiber Optics, and Computer Services industries. We are also are seeing renewed strength in the software segment of technology featuring Computer Software-Enterprise & Database. In Healthcare, the Healthcare Services industry continues to remain in favor followed by Medical Systems and Equipment. Consumer sectors are a mixed bag with some sectors doing well and others not. The best group here is the Discount & Variety Retailers.

Continued On Back

PORTFOLIO ADJUSTMENTS: In the fourth quarter we added three new positions including CareDx (CDNA*25.14), ShotSpotter (SSTI *31.18), and BioLife Solutions (BLFS *12.03), all having excellent charts and fundamentals. We sold five positions entirely including Equity Bancshares (EQBK *35.25), Mindbody (MB *36.40), Supernus Pharmaceuticals (SUPN *33.22), Health Insurance Innovations, (HIIQ *26.73), and Envestnet (ENV *49.19) because they broke down technically.

COMPANY HIGHLIGHT:

BioLife Solutions (BLFS) produces cryopreservation products that mitigate temperature-induced molecular damage from the deep freezing and re-thawing of biologics during storage and shipping. Its primary application is regenerative medicine, in which tissue and organs damaged by disease or trauma are replaced or regenerated as opposed to traditional methods that focus on treating symptoms.

Biolife's products have been shown to improve cell yield and recovery over its primary competition, "home-brew" formulations, in which raw ingredients are manually mixed together to form a solution. Its revenue has ramped recently as it has grown its customer base, and it has a strong pipeline of customers with therapies in clinical trials which could generate significant revenue if they reach commercial stage. It has significant potential to expand margins as it fills out capacity in its manufacturing facilities, has recently turned profitable, and has a stellar balance sheet with over 10% of its market cap in cash.

The BLFS chart broke down sharply in the 4th quarter of 2018, as was the case with most other charts. It built a new base in a lower trading range and broke out of that range on strong volume in late December. BLFS also features very strong relative strength which suggests it has dramatically outperformed most stocks over the past 12 months.

In closing, we are very pleased to have rewarded our investors with a positive annual return in a year when many others lost money. We are very confident that our pragmatic and disciplined approach coupled with a meaningful cash position has placed us in a very enviable position to deploy capital in an opportunistic manner when the market itself dictates that action.

On a corporate note we are very pleased to announce that Ben Scheibe has joined the Rocket team in the position of Sr. Vice President. He will play a vital role in growing awareness for Rocket as a solutions provider for prospective clients and to manage ongoing relationships. Ben worked with me in the late 90's in a similar role and has extensive knowledge of market dynamics using both technical and fundamental analysis. We are thrilled to have Ben as part of the team as we move into the next phase of our firm's growth.

Sincerely,

J.D. Hurd
President / Senior Portfolio Manager

Grant Larson
Operations Associate / Sr. Research Analyst

Ben J. Scheibe
Sr. Vice President

The Morningstar US Small Growth 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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