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.

Spring 2016—Spring Thaw

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: As the ice went out on the 2nd earliest date on record in the first quarter, the chill that set into the markets early in the first couple of months of Q1 is just now beginning to thaw. The stock market began 2016 much as it ended in December, in a sharp downtrend with the S&P 500, Nasdaq Composite, and Russell 2000 Growth Indexes down, 5.07%, 7.86%, and 10.87%, respectively. Many of the reasons for this weakness can be attributed to the usual suspects - a faltering Chinese economy and the prospect of a global recession, theoretically fueled by a new low in energy prices and already low corporate revenues and earnings forecasts being slashed by the strength in the US dollar. While these factors played a part in the softness, the real culprit, in my opinion, was the Fed's decision at its December meeting to raise short-term US interest rates on a quarterly basis for the foreseeable future. This theory, if correct, represented the worst case scenario for stock prices going forward, factoring in an already anemic economy with anticipated restraints expected as a result of higher interest rates. It's no wonder the markets came unglued.

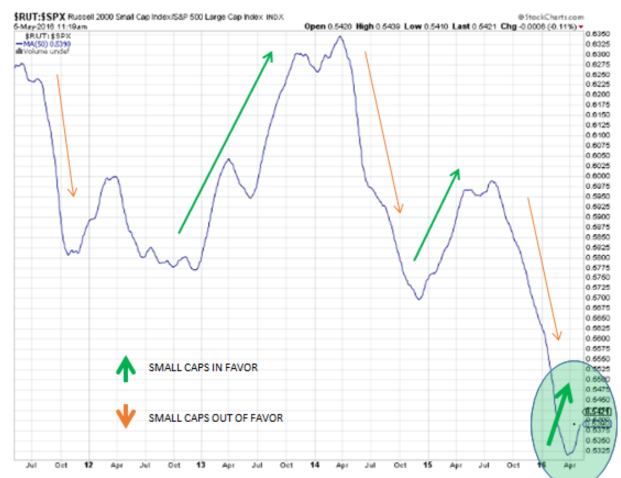

Chart Courtesy of Stockcharts.com

Disclaimer: Any graph presented cannot in and of itself be used as the sole determinant in making an investment decision. Graphs are historical depictions and have inherent limitations in making investment decisions and cannot predict the future results of any investment.

What has happened since the aforementioned events suggests that many of the above concerns are somewhat overblown. The weakness in the Chinese economy, while partly true, has not resulted in global contagion. Similarly, the weakness in energy prices appears to have bottomed and has even shown some sharp rallies. Lastly, the US dollar appears to have peaked and the likelihood of any further US rate increases appears to be on hold for now. If these concerns continue to prove themselves overblown, things will bode well for the US stock market. As the chart to the right suggests, it appears that small-cap stocks might be the place to be after two years of underperformance.

TECHNICAL PERSPECTIVE: The trend in the stock market immediately turned negative when January hit, selling off very sharply and ultimately taking out the August 2015 lows. This action suggested significantly lower lows were to follow. Instead, the market had a sharp, albeit brief, rally followed by a successful retest of the previous low and the formation of a "W" bottom. Since the February low, the stock market has marched slowly but steadily higher and has recently trended around the 2100-level on the S&P 500 index, a level which has acted as meaningful resistance since the middle of 2015. After failing to make a new high, the market entered a corrective phase, which was to be expected after the upside move we experienced after the low. Recently, the 50 day moving average on the S&P 500 index has crossed bullishly above the 200 day moving average, which is promising. Our short-term strategy is to put new purchases on hold and to sell holdings which didn't participate in the recent rally. On a positive note, many stocks that recently broke out have rallied sharply from the break-out point and, for the most part, have held those gains for now. Also, after my weekly review of 1400 charts a few days ago, my conclusion is that a major correction from these levels is unlikely. All things considered, this is no time to be bold on the buy or the sell side. There is meaningful support on the S&P 500 at the 2000 level and, if broken, the intermediate trend will turn down.

SECTOR COMMENT: The leader board sector-wise is a bit of a hodgepodge right now, with many of the leading sectors and industries being in non-growth categories such as precocious metals, wood products, and chemicals—this is not ideal. While not leaders, the sectors in technology that currently show the most promise are telecommunications-fiber

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optics and electronic semiconductor manufactures and equipment on the information technology hardware side and financial service and enterprise on the software side. One industry group that appears to be improving nicely after several quarters of underperformance is that of healthcare, led by strength in medical products and services. The financials, led by regional banks, have also gained some momentum.

PORTFOLIO ADJUSTMENTS: Our portfolio activity in the first quarter was one of the most active in our history. It consisted of 7 sells and 8 buys. The 8 companies that we added to our portfolio include Lumentum Holdings, Inc. (LITE), MeetMe, Inc. (MEET), SolarEdge Technologies, Inc. (SEDG), Chuy's Holdings, Inc. (CHUY), Vocera Communications, Inc. (VCRA), the Rubicon Project, Inc. (RUBI), Ligand Pharmaceuticals Incorporated (LGND), and Primo Water Corporation (PRMW). These purchases were made after screening for our technical and fundamental criteria. We sold Qualys, Inc. (QLYS), Akorn, Inc. (AKRX), Healthstream, Inc. (HSTM), Applied Optoelectronics, Inc. (AAOI), Attunity Ltd. (ATTU), Zeltiq Aesthetics, Inc. (ZLTQ), and Cross Country Healthcare, Inc. (CCRN) because they broke down technically, fundamentally, or both.

ORBCOMM™

ORBCOMM, Inc. (ORBC* $9.30) After reviewing a number of companies to feature in the letter this quarter, I have chosen to once again feature Orbcomm because it represents what we look for in a company better than many other stocks. 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 of 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.

In summary, after a very challenging start to 2016, we have made significant progress on the plus side. After we complete the necessary "pause to refresh", I anticipate the stock market to trade much better than expected over the near term, which, in turn, drag the enormous cash glut off the sidelines, setting the stage for a strong finish to the year. We will continue to opportunistically put our cash to work as the charts dictate. Lastly, history has shown that the combination of our work turning positive and nobody else caring about stocks has been powerful. We shall see.

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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