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.

Summer - 2023 — "Return of the Small Caps"

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: Much like the first quarter of 2023, the large cap indexes led the charge driven by seven larger cap companies dubbed the "Magnificent 7", which collectively accounted for the vast majority of the S&P and NASDAQs gains. For example, the S&P 500 was up 15.91% at the end of Q-2-23 and the Unweighted S&P 500 Index was up only 6.20%. This illustrates just how narrow the stock market's gains were in the first half of the year. The good news is that since then, the advance decline lines on most major indexes have advanced nicely as more sectors and stocks are participating. Another recent development which is encouraging is that the small cap sector of the stock market, after a long hiatus, is beginning to outperform on a more consistent basis than we have seen in quite some time. In fact, the S&P 600 Small Cap index is trading at a 20% discount to the S&P 500, the largest discount since 2001. It appears that we are entering a new bull market in small cap stocks which history suggests that this asset class should outperform for quite some time.

The news backdrop has also improved as the banking industry is recovering very nicely from the scare earlier in the year with several prominent banks failing. Many regional banks have been reporting much better financial results than expected and are trading up smartly. On the interest rate front, it is virtually a lock the fed is going to raise ¼% in the July meeting with the wild card being what verbiage is present related to further rate hikes in 2023. Inflation measures continue to suggest that inflation has peaked and will likely continue to trend lower as the effect of the dramatic rate increases over the last year flows through the economy. The stock market has likely priced in most of the economic and inflation data over the last several quarters. Lastly, 80% of the S & P companies that have reported thus far have exceeded expectations for revenues and EPS. This bodes well for the future.

TECHNICAL PERSPECTIVE: My recent weekly review of the stock charts confirms the trend remains up with one important distinction. While the S&P 500 and NASDAQ Composite have experienced meaningful gains YTD and are overextended, the small cap indices such as the Russell 2000 Growth Index have recently broken out and turned up. Individual chart patterns suggest that we should expect some type of consolidation or correction as the large cap market segment digests recent gains. Keeping that in mind, the stock market remains in a solid uptrend until proven otherwise. We would look to take advantage of any short-term weakness to add new positions to our portfolios and initiate new positions as well.

SECTOR COMMENT: After a period of consolidation, the Oil & Gas Exploration & Production sector of the market has reaccelerated and is in a strong uptrend. Information Technology Hardware remains solid, led by continued strength in the Semiconductor, Computer Hardware, and the Telecom-Cable Equipment segments. Computer Software also appears ready to trend higher led by Computer Software Enterprise, Database and Education & Media. Internet Content is also strong. Most sectors driven by consumer spending remain out of favor with most retailing sectors under pressure except for the Restaurant group. The Healthcare group is fragmented and remains in a consolidation phase. The exception here is the Biotech-Biomed group.

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PORTFOLIO ADJUSTMENTS: In the 2nd quarter of 2023 we added 5 new positions, Fiscal Note (NOTE* 3.37), Array Technologies (ARRY*18.73), Evolve Technologies (EVLV*6.16), Asure Software (ASUR*13.56), and Alpha& Omega Semiconductor (AOSL*31.57). We trimmed Celsius Holdings (CELH*146.38). We also sold outright Digital Turbine (APPS*10.75) and High Peak Energy (HPK*13.84) because they had deteriorating charts, fundamentals, or both.

COMPANY HIGHLIGHT: Fiscal Note (NOTE*3.37) Fiscal Note is the rapidly growing leader in regulatory content aggregation and distribution. The Fiscal Note platform enables their customers to access political, legislative, and regulatory data to stay ahead of political and business risk. Their success is evidenced by their partnerships with both Open AI's ChatGPT and Googles Bard. Fiscal Note's platform features a very high barrier to entry, rapidly growing revenues, and a clear path to profitability. NOTE also features an excellent chart.

FiscalNote

In summary, while it has been a very challenging year thus far for small cap growth investors, I am very confident that we are in the early stages of a shift away from the overvalued large cap sector into the undervalued small cap sector and in particular, the portfolio of high quality, rapidly growing small companies held in the Rocket Capital accounts. Please reach out to us if you would like to review things in more detail.

Sincerely,

J.D. Hurd
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Ben J. Scheibe
Sr. Vice President

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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.

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