



THERE IS LUCK.

AND THERE IS SCIENCE.

Investing is a science.

It requires a plan and

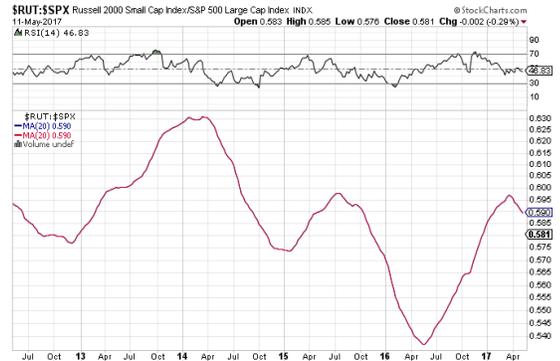
discipline to follow the plan.

Anything short thereof is blind exploration.

## Spring 2017—Buy In May, Go Away?

Dear Valued Clients and Friends,

**MARKET PERSPECTIVE:** The U S stock market picked where it left off 2016 with solid gains in all of the major indexes led by the NASDAQ Composite up 10% for the 1<sup>st</sup> quarter, the Russell 2000 Growth Index up 7.04% followed by the S & P 500 plus 6.04%. Much like the action in late 2016 the market moved higher slowly but surely without a great deal of volatility. The rally which began in earnest in early November, affectionately known as the "Trump Rally" lost some of its momentum in the first quarter as it became obvious that no matter who is in power in Washington, passing new, or in this case, repealing existing regulations takes much longer than anticipated. The affect on the stock market is that many of significant changes in regulations that would positively affect America's corporations, such as lowering the corporate tax rates, repealing the Afford Care Act, and reducing regulations in general, appear to be months if not quarters away causing investors to pull some chips back off the table. With earnings season well underway both top and bottom line growth has been better than expected with 78% of companies reporting better numbers than consensus estimates which is great news. What is not great news however that is the price action of stocks prices after EPS releases has been far from impressive. Companies which reported significant increases in revenues and EPS and increased guidance have enjoyed single digit gains in the next session, those that were able beat expectations modestly, experienced single were flat, and those that just met expectations were of slightly, or heaven forbid, missed consensus estimates, which were treated harshly. What this suggests to me is that perhaps the stock market has built in a premium in stock pricing anticipating the benefit of a stronger US economy which has yet to materialize. Everything I read suggests that stage is set for a more an improvement in growth in the second half.



**TECHNICAL PERSPECTIVE:** The technical action in the stock market thus far in 2017 has been very encouraging with all of the major indexes making new all time highs with including the NASDAQ Composite which registered its first all time new high since March of 2000. A number of the technical considerations that concerned me in our Winter Newsletter such as, low quality leadership, a lack of broad based sector participation and, a lagging advance decline line have improved nicely which suggests that the intermediate and long term trends remain very much intact. More recently most indexes have been churning in relatively tight trading ranges not far from the recent highs with the exception of the NASDAQ which is blasting into new high ground led by the mega-caps, GOOGL, APPL, AMZN, MSFT and FB. While this is high quality leadership we will need to see the other indexes break out into new highs to add to our conviction that the short term trend is up. Also of short term concern is the large number failed breakouts and breakdowns related to earnings reporting season as discussed above. The sentiment indicators also suggest that is very little fear in the market which is suggests a little caution. Lastly, the majority of individual chart patterns remain positive even though many have had meaningful moves higher and are in need of rest. All things considered, I remain confident that more gains are in store for the markets for the remainder of 2017 and it would be foolish to think they will do so without a correction at some point in time. I would bet sooner rather than later. Only time will tell.

*Continued On Back*

**SECTOR COMMENT:** Clearly, the information technology hardware group has dominated the leader board thus far in 2017 led by the Semiconductor Equipment Manufacturers, Computer Data Storage, Computer Networking, and Semiconductor Manufacturing. The information technology software group has also been strong led by Computer Software-Enterprise and Medical. Some sectors of the healthcare industry have improved nicely since 2016 led by Medical Systems/Equipment, and Medical Product segments and has gained momentum recently. The leading sector in 4<sup>th</sup> quarter of 2016, the Financial Service Sector has also done well this year and is now consolidating the impressive gains. As noted in our Winter Newsletter, we would continue to underweight deeply cyclical industries such as the Energy, Chemicals and Steel groups.

**PORTFOLIO ADJUSTMENTS:** Our portfolio activity in the first quarter was low on a relative basis. We added three new names to the portfolio which featured great chart patterns and fundamentals including, Glaukos Inc,( GKOS), Carbonite Inc,(CARB), and Hudson Technology,( HDSN). We also sold three positions in the period. They were, Gigamon Inc, (GIMO), NeoGenomics,( NEO), and (SPSC). They were sold because they had inferior chart patterns, inferior fundamentals, or both.



**COMPANY HIGHLIGHT:** Carbonite Inc. (CARB\*18.90), is a leading provider of online personal computer backup solutions for consumers and small businesses. The online cloud based- back up storage market is extremely large, underpenetrated, and growing steadily. The need for such storage is growing dramatically as more and more of our personal and business lives are moving to digital. Recent purchases of EVault and Double-Take Software are both expected to be accretive and will help drive the top and bottom line going forward. Most importantly, CARB is expected to grow top and bottom line 20% plus for the foreseeable future, has a relative strength ranking of 90, and an excellent chart pattern. As always, we are very grateful for the confidence that our investors, industry partners and friends have shown in Rocket Capital and feel strongly that that our results going forward will justify that confidence.

Please feel free to contact us to discuss things in greater detail or ask any questions that you may have.

Sincerely,

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

**Christian W. Even**  
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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