



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 2021 — “The Genius Factor”

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: The Genius Factor is the term I used back in the late 1990’s when it seemed like everyone I talked to in my daily routine had become a “Stock Market Genius” at the same time. This phenomenon occurred not because we were all stock market geniuses but because the stock market had gone up uninterrupted for so long, we all felt like geniuses. The reason that I bring this up is that I have not experienced that genius feeling since then until recently in late 2020 and into early 2021. What happened next was referred to as the “Tech Wreck” as the market-leading technology sector experienced a gut-wrenching correction. While I am not suggesting that the incredible move higher we have enjoyed for some time now will end in that fashion, it is a possibility. Keeping that in mind, there are many similarities to that era but there are also some differences, the most important of which is that there are many non-tech sectors that have also experienced sensational gains. In addition, after reviewing over 1400 stock charts on Monday the conclusion I come to is that the trend is still strongly up until proven otherwise.

What is a stock market investor to do you might ask? What we have been doing for some time now in the small cap stock portfolios that we manage has been to pragmatically trim the positions in stocks that we own which have gone up the most dramatically and resisted the temptation to chase other stocks which have also become extremely over extended. These actions have enabled us to continue to participate in whatever the future gains might be over the near term as we build our cash position. The effect of this is that regardless of the outcome, either higher or lower, we are in position to take full advantage of it.

As for performance in the 4th quarter, the market left little to be desired led by strength in the small cap segment of the market. The Russell 2000 Growth Index led Q-4 returns at plus 29.57% followed by Morningstar Small Cap 27.75%, Rocket Small Cap Growth 25.77%, and the S&P 500 at 12.12%. As for 2020, **Rocket Small Cap Growth annual return was an outstanding 78.64%!** This compares very favorably to the Morningstar Small Cap 43.21%, Russell 2000 Small Cap 33.83, and the S&P 500 at 18.33%.

TECHNICAL PERSPECTIVE: While the trend in the stock market is still without doubt up, the major question is how long can it continue? There is no clear answer however there are many things that suggest that the current uptrend which began in mid-November is getting long in the tooth. First of all, there are an unusually large number of stocks whose charts have become extremely overextended and significantly above the 50 day moving averages. While these averages are still moving higher it would not take much of a correction to turn them lower. Second, there appears to be rampant overspeculation in the market as evidenced by the action in the SPACS (Special Purpose Acquisition Company). These companies are formed to raise capital through an (IPO) for the purpose of acquiring an existing company. What is troublesome about this group is that speculators have chased these stocks up in many cases hundreds of percent before they even know what business they may acquire. Going forward we will continue to use strength to trim our holdings when they become overextended, hold the stocks that are building bases or just broken out, while we continue to search for new names which are not too high to buy.

SECTOR COMMENT: : Not unlike our 3rd Quarter assessment of sector strength we continue to see several sectors that are reliant on a robust economic recovery such as Retail-Department Stores, Building-Heavy Construction, Mining-Metal Ores, and Oil & Gas Exploration lead the way. For now, we will pass on these groups as their stock prices have already factored in a meaningful improvement. The strongest sector remains the Solar-Energy sector which has moved up so dramatically that the stocks we had on our radar have become extremely overbought. We will await a better opportunity to enter the sector after a pullback. Another strong sector has been the Regional Banks group, so we added a name there. We continue to be very comfortable with our overweighting in both the Computer Software and Hardware groups which are doing well. In healthcare we will be focusing on Medical Systems/ Equipment and Biotech-Biomed sectors which are emerging after consolidating meaningful gains made late last year.

PORTFOLIO ADJUSTMENTS: In the 4th Quarter we added three new positions to the portfolio, Celsius Holdings (CELH*62.92), Bankcorp Inc. (TBBK*17.17) and Velodyne Lidar Inc. (VLDR *23.53). We also sold outright Biodelivery Science Intl. (BDSI*4.20), Repro Med Systems (KRMD*5.19), and Limelight Networks (LLNW*4.62) because they failed technically, fundamentally, or both. We trimmed Kornit Digital (KRNT*96.90) and Digital Turbine Inc. (APPS*64.70) because they were overextended technically.

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COMPANY HIGHLIGHT: Celsius Holdings (CELH*62.92) competes in the Energy Drink Category against the likes of Monster Energy Drink and Red Bull. What differentiates their products is they aim to inspire those who want a sustained energy source that is specially formulated to work with your body to reach your goals. Celsius brands are made with healthier ingredients such as ginger, guarana, green tee, and seven essential vitamins. Celsius products are clinically proven to accelerate your metabolism and provide essential energy while burning fat. The stock itself has also accelerated driven by extremely rapid top and bottom growth and features an excellent chart.



It is hard to believe that in a year in which we have witnessed more uncertainty than we have seen in my lifetime that Rocket Capital Management would have our best performance since our inception in 2003. I am so grateful to the team that helped Rocket achieve those goals and as importantly to our wonderful clients who have endured the tough times as well as the good. While I am quite pleased with the results themselves, I am even more excited about the pragmatic, disciplined approach we used to achieve them. This greatly adds to my confidence about our prospects for the quarters and years to come.

Sincerely,

J.D. Hurd
President / Senior Portfolio Manager

Jim Nelson
Research Analyst / Operations

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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