

THERE IS LUCK.

AND THERE IS SCIENCE.

Investing is a science.

It requires a plan and

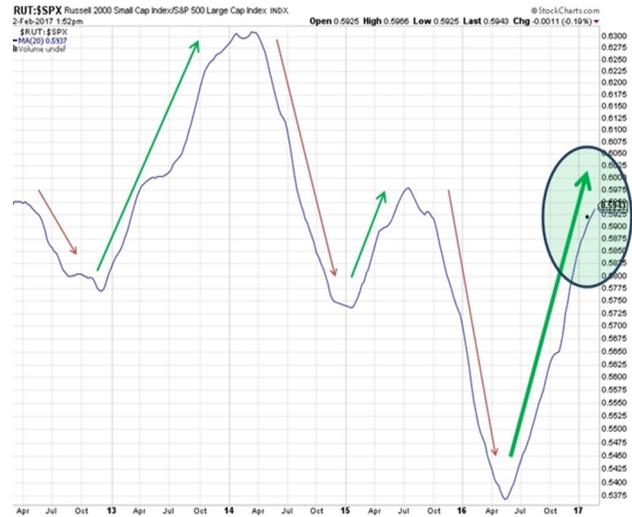
discipline to follow the plan.

Anything short thereof is blind exploration.

## Winter 2017—Too Late to Sell, Too Early to Buy?

Dear Valued Clients and Friends,

**MARKET PERSPECTIVE:** The fourth quarter of 2016 enjoyed one of the most robust rallies we have seen in quite some time. It was led by the strength in the Russell 2000 Growth Index which was up 8.43%, the S&P 500 up 3.25%, and the Nasdaq Composite up 1.3%. Early in the quarter the stock market was dealing with great uncertainty facing the 2016 Presidential Election. What has happened since has been an enormous year end rally which caught most investors by surprise and led to an explosion of asset flows from the bond market into the US stock market due to anticipation of a stronger economic environment and higher interest rates. Evidence of this is supported by the sectors that were featured in the rally, the financial service sector and also the cyclical groups that benefit most from a stronger economy. In addition almost all registers of consumer, investor, and small business optimism moved sharply higher and continue to do so as of the writing of this letter. One of the most telling of these measures is the National Federation of Independent Business Optimism Index, which reached 105.8 in December, this is the largest month over month increase in 30 years. Recently confirming this, the Philadelphia Fed's business outlook came in at 43.3, it's highest level since November of 1983. In my opinion, the stage is set for higher stock prices over the intermediate and long term, with only the short term in question, as the market may need to consolidate recent gains



**TECHNICAL PERSPECTIVE:** The technical action in the stock market in the fourth quarter of 2016 was less than desirable, featuring a lack of quality leadership, very few sectors participating, and less than impressive volume, with the exception of the day following the election. This was illustrated by the strong out performance of the Dow Jones Industrial average which we haven't seen in quite some time. While most of the major indexes made new all time highs during this run, they should be viewed with caution considering the lack of quality internals. The good news is that since the first of the year the leadership has improved greatly and list of sectors has expanded greatly, in particular in the small cap sector.

The Q4-2016 earnings release season in company stocks has been very strong with many positions breaking out with meaningful volume after announcing better than expected revenues and earnings, and or increased guidance. The one technical consideration to be concerned about is the Investor Intelligence percentages are currently 61.80% bullish vs. 17.60% bearish which is troublesome. The long and short of it is that the stock market remains in a solid intermediate and long term uptrend with only the short term outlook in question. At Rocket Capital it always comes down to the charts, so we will let chart patterns dictate our next course of action. We will take advantage of any short term correction to add to our long positions.

**SECTOR COMMENT:** The sector which currently features the most momentum is the Financial Service Sector lead by the strength in the Regional and Money Center Banks. This group has had a huge move and is in need of a consolidation. This was also the case in our 3<sup>rd</sup> quarter newsletter. The area that we are focusing on is the Information Technology Hardware group. This group is lead by the Electronic-Semiconductor Equipment & Manufacturing subsectors along with the Computer Data Storage and Telecom –Fiber Optics groups. The Healthcare industry has improved modestly as of late lead by Medical-Biomed/Biotech's and Medical Systems and Equipment.

*Continued On Back*

While the deeply cyclical industries such as Energy, Chemicals, Steel, and Real estate have been very strong, they are also very overextended and are in need of a correction. We will avoid these for now.

**PORTFOLIO ADJUSTMENTS:** : Our portfolio activity in the fourth quarter consisted of 6 buys and 3 sells. The 6 companies that we added to our portfolio include Barracuda Networks Inc, (CUDA), Teligent Inc. (TLGT), Tower Semiconductor (TSEM), Biotelemetry Inc. (BEAT), Bofi Holding Inc. (BOFI), and Mindbody Inc. (MB). The 3 companies we sold were Lumentum Holdings Inc. (LITE), Ligand Pharmaceuticals Inc. (LGND), and Orbcomm Inc. (ORBC). They were sold because they had poor charts, poor fundamentals, or both.

**Company Highlight:** Q2 Holdings Inc. (QTWO\*36.05), Q2 is a leading provider of secure, cloud based banking solutions. It enables Regional Banks and Community Financial Institutions to deliver virtual banking services online. Q2 also enables its customers to engage more effectively with their retail and commercial account holders who expect to bank, anytime, anywhere and on any device. Q2 solutions are often the most frequent point of interaction between its customers and their account holders. In addition Q2 has an estimated 3.5 billion dollar market opportunity; Q2 has seen consistent 30% quarterly year over year revenue growth, and is rapidly approaching profitability. It features a Software as a Service business model which we have had great success with in the past. Most importantly Q2 has an outstanding chart pattern and has recently broken out of a lengthy base pattern.



In summary, 2016 was a solid year for Rocket Capital Management but I would be less than honest if I said I was pleased with our fourth quarter performance. It could have been just the Russell 2000 Growth index catching up in performance as we had a meaningful lead at the end of Q3 or just a tough period. In either case, there are times in the market where things make very little sense and are hard to explain. I believe this was one of those. The good news is that small caps and our performance in particular have been outstanding in 2017 and I look for this trend to continue.

As always, please reach to us if you would like to discuss this in greater detail.

Sincerely,

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

**Andrew Hagberg**  
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.*

*The information concerning the stocks contained herein should not be construed as a recommendation to buy or sell them in your individual investment accounts. The opinions expressed are those solely of Rocket Capital Management, LLC and are subject to change. Accounts at Rocket Capital Management, LLC may hold long or short positions of the stocks mentioned in this publication. In addition, employees, members, or other affiliates of Rocket Capital Management, LLC may hold long or short positions of the stocks mentioned in this publication, which may be inconsistent with the information contained herein. Rocket Capital Managed Accounts performance is net of management fees and transaction fees. Sources: www.horizonpharma.com. \*Closing market price on 02/09/2016.*

319 Barry Avenue, Suite 210  
Wayzata, MN 55391  
Toll Free: (877) 264-3615  
Fax: (952) 404-5079

info@rocketcapital.com  
www.rocketcapital.com