



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 2022 — “The Fed’s High Stakes Game of Chicken”

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: In the 2nd quarter of 2022, the stock market picked up exactly where it left off by resuming the downtrend which began in late 2021. The sharp, but brief rally late in March was enough to entice investors back into the market thinking that the carnage was over. Unfortunately, the downtrend accelerated dramatically and for all practical purposes we have been in a downtrend ever since. The scenario we described in our Spring Newsletter unfolded with inflation numbers moving meaningfully higher while economic growth began to slow down, thus stagflation, the worst of both worlds.

In our opinion, the leading cause of this decline is that the Federal Reserve Board raised the fed funds rate a record 75 basis points at their last meeting. In addition, they have been in the news, in what appears an orchestrated fashion, emphasizing they will raise rates even if it comes at the expense of the US economy. The affect of this has been extremely impactful as we have seen many statistics related to US economic growth suggesting the economy has begun to slow down significantly over the last couple of weeks. With the Fed expected to raise rates again at its July meeting by 75bp, the language in their statement will be extremely important as to what the next trend in the economy and the stock market will be. Our thought is that they will soon soften their stance.

As the 2nd quarter revenue and earnings season begins to unfold, we have not seen nearly as many negative preannouncements as I would expect if indeed, we are headed towards a recession. However, I fully expect many companies in many sectors to trim guidance for the remainder of 2022 and likely for 2023. Also, valuations which peaked in November at extremely high levels have now fallen sharply to extremely under valued levels which suggests the stock market may have already priced in the worst-case scenario.

As you would expect the 2nd quarter and YTD performance numbers for the stock market reflect the pessimism noted above turning in one of the worst quarters in recent memory with the S & P 500 posting a -16.47% loss for the quarter and -20.57% YTD, the NASDAQ Composite -22.44% for Q-2 and -29.51% YTD, the Morningstar Small Cap Growth index Q-2 -20.07% and -28.83% YTD, and lastly Rocket Small Cap Growth -22.89% for Q-2 and -30.93% YTD.

TECHNICAL PERSPECTIVE: Our technical perspective is little changed from our Spring Newsletter with one major exception, in the spring we acknowledged that the short and intermediate term trends were down, but the long term was in question. That is no longer the case as the long-term trend is now down. The bear market which began in mid-November 2021 remains intact which is evidenced by the lack of sectors and individual stocks which have made their lows, built new bases and turned back up. While it is my contention that we are in the bottoming process, it is challenging to determine whether the recent low registered in mid-June will prove to be the ultimate low or just another false bottom. While a retest of this low is likely it is not a given, so our strategy is to sit tight with our outsized cash position, roughly 40%, and let the charts themselves dictate our next action. In the meantime, we will be building our list of stocks of new names which meet our fundamental and technical criteria to buy when a new bull market begins, and it will. For now, market rallies should be treated as suspect.

SECTOR COMMENT: The leading sectors of the market featured on our last newsletter, Cyclical, Oil & Gas, Steel, Mineral & Metals etc. continued their uptrends but more recently experienced meaningful sharp corrections and are now consolidating at higher levels. Watch these for now. Previous market leader, Information Technology (both Hardware and Software), has suffered a severe correction and Computer Software in particular, appears to have bottomed and is in the base building phase. We will be watching these closely for new entry points. The Health Care group is beginning to show signs of strength after a lengthy stretch of underperformance and now appears to be turning back up led by incredible strength in the red-hot Biotech sector.

PORTFOLIO ADJUSTMENTS: In the 2nd Quarter of 2022 we added two new positions, High Peak Energy (HPK*23.75) and Zynex Inc (ZYXI* 7.62). We also trimmed Banc Inc. (TBBK*23.75), Avid Technology (AVID*) and Earthstone Energy (ESTE*12.41) because they were overbought technically. Lastly, we sold outright Turtle Beach Inc (HEAR*13.76).

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COMPANY HIGHLIGHT: Celsius Holdings (CELH*74.94) 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. Celsius is growing both top and bottom lines at better than 100% and has an excellent chart.



In closing we remain cautiously optimistic that if we haven't already seen the low in the stock market, we are close. We will continue to reinvest our significant cash position very deliberately and opportunistically over the weeks and months to come. Due to the high levels of uncertainty and volatility in the markets recently I think it is more important than ever that we communicate so we will be reaching out to you in the near future to discuss things in more detail. In the interim, feel free to call or email at any time.

Sincerely,

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President / Senior Portfolio Manager

Ben J. Scheibe
Sr. Vice President

Jim Nelson
Research Analyst / Operations

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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.