



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.

Fall 2018—Conflicting Signals

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: Despite no shortage of negative news to keep investors off balance, the stock market managed to put in a fine performance in the 3rd quarter with all major indexes advancing nicely. As has been the case for most of 2018, the small cap segment of the market led the charge with the Russell 2000 Growth Index up 5.52% for the quarter and 15.76% YTD. This compares with the gain in the S&P 500 index of 7.71% in Q3 and 10.56% YTD. Not to be outdone, the Rocket Capital Small Cap Growth composite returned 7.83% for the quarter, bringing the year to date total up to 25.04%.

Very little has changed since our summer comment regarding the market backdrop with many of the components necessary to propel stock prices higher still in place. These include the continuation of the robust expansion in economic growth and expectations of similar gains in the quarters ahead, low inflation rates and strong corporate revenue and earnings growth prospects.

As discussed, the small cap sector of the market continues to benefit from limited exposure to the potential threat of a trade war, real or perceived, the strength in the US Dollar, and the rising interest rate environment. This combination of factors has led to a steady flow of capital from the overly popular large capitalization companies; you know the names, into high quality, rapidly growing small companies which, for the reasons explained above, face meaningfully less headwinds than their larger brethren. Lastly, we attribute this year's strong outperformance for Rocket Capital investors to our pragmatic process with stock selection and sector weighting both contributing positively.

TECHNICAL PERSPECTIVE: While very little has changed on the fundamental side of the investment equation, much has changed from the technical side. The third quarter picked up where the 2nd quarter left off with most chart patterns in solid uptrends particularly in the small cap sector. As is typically the case after a meaningful move higher, many of the market leaders accelerated which left many stock charts extremely overextended. As in the past, our discipline is to take advantage of exuberant strength to trim overextended holdings which was the case late in the third quarter. Generally, this type of extreme action occurs late in a short-term trend and is reason for caution.

More recently and not coincidentally the market peaked on the last day of the quarter and reversed abruptly turning the short-term trend down. While this correction may be short and sweet like many others recently, we aren't assuming that because of the damage done to so many chart patterns, particularly the market leaders. These have been damaged more severely leaving many stocks and indexes below their 50 moving averages and in some cases below their 200 lines. This does not suggest that we expect a longer-term correction, only that it may take more time once the lows are in to repair the technical damage done. Also, should these stocks and sectors regain their 200 day moving averages over the near term, our outlook would improve dramatically.

For now, the short-term trend remains down until market signals confirm that the low is in. Due to our pragmatic selling strategies and our inability to find stocks with attractive charts, we have accumulated a meaningful cash position and we will opportunistically put this cash to work as the market dictates.

SECTOR COMMENT: Much like the technical outlook, we have seen a great deal of change in market leadership. Within the Information Technology sector, the market leading computer software industry has recently come under great selling pressure as investors aggressively took profits after a long period of outperformance. The computer hardware group also remains out of favor. The most improved sectors are from the Healthcare sector led by the resurgence of the Medical-Products, Medical-Biomed/Biotech, and the Medical Services subsectors. Lastly, much of the retail industry continues to gain momentum driven by very strong consumer spending.

Continued On Back

PORTFOLIO ADJUSTMENTS: In the third quarter we added three new positions including LivePerson Inc.(LPSN*22.13), CyberOptics Corp.(CYBE *17.90), and Quantenna Communications (QTNA *17.25), all having excellent charts and fundamentals. We trimmed Health Insurance Innovations (HIIQ, *50.52), Calavo Growers (CVGW* 99.32), and BioTelemetry (BEAT * 56.25) as they were overextended after large moves. We added to Adesto Technologies (IOTS * 4.55). We sold five positions entirely including Corcept Therapeutics (CORT *12.86), Model N Inc. (MODN *15.19), Calavo Growers (CVGW *99.32), Asure Software, (ASUR *12.00), and Cypress Semiconductor (CY * 13.88) because they broke down technically.

COMPANY HIGHLIGHT:

LivePerson (LPSN) offers, via a recurring revenue SaaS model, an enterprise class cloud-based platform which enables businesses to connect with consumers through in-app and mobile messaging, an increasingly preferred means of communication over phone calls. The platform uses artificial intelligence to automate a significant portion of conversations which in turn allows companies to scale up over many incoming messaging inquiries.



Messaging solutions deliver ROI to businesses by increasing customer satisfaction and decreasing operating costs in call centers. Consumers also benefit as messaging seeks to offer higher resolution rates and results in less wait time for customer service. The company has tremendous growth runway as it estimates there are 270 billion customer service calls, many of which it believes can be converted to messaging. Analysts that follow the company believe it has the leading technology and is thus well positioned to capture this largely untapped and emerging market opportunity.

We bought LivePerson breaking out of a solid base on expanded volume but, like most high quality rapidly growing companies, the stock recently has come back to an area of key support. Once we have confirmation that support has held at its current level we will likely be adding to our position opportunistically.

In summation, we are very pleased with our third quarter and year to date returns and while the short term direction of the stock market is impossible to predict we remain confident that our long term disciplined pragmatic approach to investing in stocks will serve us very well as it has in the past. Feel free to contact us at any time with any questions, comments or concerns that you might have. Your consideration of Rocket Capital Management is greatly appreciated.

Sincerely,

J.D. Hurd
President / Senior Portfolio Manager

Grant Larson
Operations Associate / Research Analyst

The use of the S&P 500 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 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. *Closing market price on 10/17/18.*