



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 2019—A Stock Picker's Market

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: As winter turns to spring (well, we hope one of these days), we look back at the first quarter stock market performance and can only be amazed with the gains that were posted. The advance was led by the strength in the small caps, with the Morningstar US Small Growth Index up 19.43%, followed by the NASDAQ Composite Index up 16.81%, and the S&P 500 up 13.65%. As for Rocket Capital, our small cap growth composite was up 20.85% net of fees. We are pleased with the performance, which follows a strong 2018 and which we were able to accomplish despite starting the quarter with 30% cash. After bottoming in late December, the stock market steadily advanced throughout Q1 with only one modest correction. Throughout the quarter, as the charts improved, we pragmatically invested new capital, adding seven new positions to the portfolio.

The factors which led to the selloff in Q4, including the threat of a long-lasting trade war, a continued hawkish Fed despite a fading economy, and an inverted yield curve, have mostly failed to materialize. The trade war seems less likely as both parties have realized that neither party would benefit from it. The Fed changed its outlook in late December and recently confirmed that it will remain neutral for the foreseeable future. The economy has slowed as the tax cut benefits have faded, but not to levels that suggest a recession is imminent. While the 10-year/3-month yield curve inverted for a couple days, the 10-year/2-year has not. Even if it does, surprisingly, the median S&P 500 gain from inversion to peak is 21%, and recession began a median 19 months after inversion¹. Lastly, at 16.4x forward earnings on the S&P 500, we don't believe the market is expensive, as the historical average going back to 1994 is 16.2x².

We believe this market backdrop, in which major risks have largely been alleviated, and also in which the bull market easy money has likely already been made, will be conducive to stock pickers. The past decade has awarded investors for being allocated to equities, and we believe it is likely that returns for the next couple years will be increasingly driven by stock selection.

TECHNICAL PERSPECTIVE: The majority of chart patterns remain in solid uptrends, but many are also consolidating after outsized gains in Q1. Some of those in downtrends have been extremely weak, likely due to internal events at the companies, not the market in general. It also appears that many of the indexes are losing momentum as they near previous areas of resistance or the highs established in early October. This is to be expected after the nearly vertical move we experienced thus far in 2019.

Also somewhat concerning is the recent Investors Intelligence survey which shows 53.9% Bulls to 19.2% Bears. However, these numbers are not atypical after a large move up. The 50-day moving average on nearly every major US stock index recently crossed above the 200-day moving average and are trending up. This is a bullish occurrence and adds to my conviction that the next major move in stock prices will be up.

SECTOR COMMENT: Very little has changed since our winter newsletter with the leaderboard dominated by the Information Technology sector, both hardware and software. The strongest sub-sectors are Enterprise & Security Software and Semiconductor Manufacturing & Equipment. In Healthcare, many industries have faded over the last several months except for the Medical-Biomed/Biotech segment. We look to add to Biomed-Biotech but are monitoring the other industries until they show signs of improvement. The Financial sector is beginning to attract more attention recently led by renewed interest in the Money Center Banks.

PORTFOLIO ADJUSTMENTS: In the first quarter we added seven new positions including Tandem Diabetes Care (TNDM *63.50), OptimizeRx (OPRX *12.72), Pareteum (TEUM *4.55), nLight (LASR *22.28), Kornit Digital (KRNT *23.80), Vericel (VCEL *17.51), and HyreCar (HYRE *5.03), all having excellent charts and fundamentals. We sold three positions entirely including Carbonite (CARB *24.81), USA Technologies (USAT *4.15), and Quantenna Communications (QTNA *24.33), because they broke down technically, or, in the case of QTNA, due to acquisition. We trimmed our position in The Trade Desk (TTD *197.95) as it grew into too large a position.

Continued On Back

COMPANY HIGHLIGHT:

Kornit Digital is disrupting the global textile industry with its digital printers, which have numerous advantages over traditional analog textile printers. Analog printers have longer production set-up and run times, less design flexibility, and greater inventory risk due to the requirement for large production runs.

Digital printers improve upon all these issues and allows textile manufacturers to produce smaller batches, respond more quickly to changing customer preferences, and improve lead times. It also sells inks that offer a predictable high-margin recurring revenue stream.

Kornit benefits from numerous current consumer trends, including the shift to online retail, demand for complexity, customization, and a variety of designs, and demand for faster delivery times.

The tailwinds for digital printers and the launch of new products in 2019 should both serve as catalysts for continued rapid revenue growth. It benefits from economies of scale in its printer manufacturing and should gain further margin benefits as ink sales grow into a larger portion of revenue. It is already profitable and has a stellar balance sheet.

We purchased the stock after it broke out of a 7-month long base on twice average daily volume.

In summary, we are very pleased with our results thus far in 2019 and feel confident there will be ample opportunities to add to these gains over the next several quarters. Also, we strongly believe that our unique combination of technical, sector and fundamental analysis positions us well for what we believe is a shift to a stock picker's market. As always, we welcome your questions or comments and look forward to speaking with you soon.

Sincerely,

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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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1. Tony Dwyer, Canaccord Genuity US Equity Research. April 8th, 2019.
2. J.P. Morgan Guide to the Markets, 2Q 2019

