



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.

Dear valued investors and friends,

## MARKET COMMENTARY

As summer comes to an end the stock market has added nicely the gains made earlier in 2017. It did so in workman-like fashion moving higher, ever so slowly, but surely despite the very negative news backdrop. In addition to the on-going battle between the press and President Trump you have the constant rehashing of his connections in Russia, the inability of the GOP controlled House, Senate and Presidency to design and implement a plan to repeal and replace Obamacare, and more recently war of rhetoric between the president of the United States and Kim Jong Un. The stock market's ability to shrug this off is impressive as we saw a 8.3% gain in the S&P 500, a 5.31% gain in the Russell 2000 Growth index and not to be outdone, a 8.36% gain the Rocket Small Cap composite.

What has gone almost unnoticed is that recent economic data suggests that we are beginning to see positive effects of the removal of many of the policies and regulations which have inhibited the growth in the economy over the last several years. This coupled with belief that interest rates are projected to be raised slowly but surely over the next several years suggests that we will see meaningful outflows of assets from the bond market to the stock market at some point. History has shown us the stocks perform extremely well in a moderate growth, low interest rate environment which bodes well for the US stock market. Lastly, second quarter revenue, earnings, and forecasts were noticeably better than expected although the stock market reactions have been less than desirable suggesting that the market may be fully priced. (Read more details in the technical perspective).

## TECHNICAL PERSPECTIVE

At this point the technical outlook for the market is mixed with the intermediate and long term trends firmly in place leaving only the short term trend in question. While the stock market has worked itself higher over the last several months, more recently those gains have been more challenging to hold onto. As noted above, stock reaction to solid corporate reports and forecasts have been muted at best with many stocks reaching their highest trading levels of the day in the opening hours. This action is not particularly surprising when you factor in the gains they have made earlier in 2017. In addition, while many of the popular indexes have made new highs recently they have struggled to extend those gains on meaningful volume increases. Also note worthy is that the advance-decline line has been trending lower since late July although it appears to be turning back as of the writing of this letter. In summary after a very solid first half of 2017 the stock market is in a consolidation phase which could develop into a short term correction. In that I believe that this will be a correction in an ongoing bull market it may present an opportunity to add to existing or establish new positions. As always we will let the charts themselves dictate our action.

## SECTOR COMMENT

Sector leadership in the stock market looks much like it did in the spring although the leadership was swung at the top of the leader board. The Healthcare related groups such as Medical Products and Medical-Biomed/Biotech are now leading followed by the Information Technology hardware and software segments. This can be attributed to a consolidation in the InfoTech hardware group after the sensational returns earlier in the year. The financial services sector appears to be poised for higher

Prices led by strength in the Mortgage and related Services and Consumer Loans. As noted in our previous newsletter we would continue to underweight cyclical industries such as Energy, Chemicals and Steel. Also, consumer retail and restaurant groups have lost their momentum.

## PORTFOLIO ADJUSTMENTS

In the second quarter we added four new names to the portfolio as they featured the characteristics we look both technically and fundamentally. They included, Auxilio Inc, (AUXO\*3.35), Corcept Therapeutics,(CORT\*14.43), Zagg Inc. (ZAGG\*11.10), and The Trade Desk,(TTD\*51.00). We also trimmed Supernus Pharmaceuticals (SUPN\*45.00) because it was overextended technically and sold Barracuda Networks,(CUDA\*22.96), B O F Holding,(BOFI\*26.50), AMN Healthcare Services, (AMN\*37.65), and Inphi Corp,(IPHI\*38.03) out right because they had broken down technically, fundamentally or both.

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## COMPANY HIGHLIGHT

Zagg Inc. (ZAGG \*11.85), is the market share leading manufacturer of screen protection devices for the portable consumer products markets including cell phones and tablets with its award winning product, the invisibleSHIELD. Zagg,



while once known as a one product company, has gone through internal development and acquisition. This has resulted in growth over the last handful of years, into the market leader in the combined Cell Phone Accessories & Mobile Power Category with Zagg Folio keyboards, IFROGZ Stereo Headphones(In Ear/ Bud)most recently the mophie Battery Case and Portable Battery Pack lines. This combination of leading products in a growing category will enable Zagg to grow very meaningfully over the quarters, and years to come. In addition, Zagg has recently broken out of a long term base pattern, and has been trending higher ever since.

We were very pleased with our 2<sup>nd</sup> Quarter and YTD results, and remain confident that our disciplined, pragmatic approach to investing in the stock market will add value for our investors in the quarters and years to come.

As always, if you have any questions or comments do not hesitate to call our email at any time.

Sincerely,

**J.D. Hurd**

*President / Senior Portfolio Manager*

**Christian W. Even**

*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.*

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