



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 2021 — “Mixed Signals”

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: In our Spring Newsletter we discussed the beginning of a correction in the growth stock sector of the market as investors rushed into the more cyclical value sectors to take advantage of the reacceleration of the US Economy. While I believe strongly that the economy is going to continue to expand nicely, the prices of many of the stocks and sectors that have been chased have gone up so rapidly they are no longer values. On the flip side growth stocks continued their corrective phase and are no longer richly priced. This action can be attributed to the major differences of opinion on where the economy is and where it is heading. Some indicators are surging including the widely watched Headline CPI reaching its highest level since 2007 at 4.9% and the recent GDP growth of 7.8%. This suggests the economy has a chance to overheat thus creating inflation fears which will force the FED to raise interest rates. Adding to the confusion are the red-hot cyclical value stocks which have done an about face and are now in a corrective phase and the out of favor growth stocks appear to have bottomed and are now in rally mode. No wonder investors are confused. In my opinion the outcome will be something in between with the economy slowing somewhat caused by a peak in the incredible demand created by a combination of historically low interest rates, stimulus checks and the improvement in supply chain shortages.

After a solid first quarter we are extremely pleased with our 2nd quarter and YTD results, especially in a challenging environment for growth stocks. Rocket Capital Small Cap Growth was up 9.18% for Q-2 and 14.14% YTD outpacing the Morningstar US Small Cap Growth up 3.42% for Q-2 and 2.44% YTD, the S&P 500 up 8.10%, YTD 14.49% and the NASDAQ Composite up 9.49% for Q-2 and 12.54% YTD.

TECHNICAL PERSPECTIVE: Looking at things from the perspective of technical analysis, what is notable is that in the second quarter, the major indices, the S&P 500 and the Dow Jones Industrial Average marched steadily into new highs giving the impression that the market was extremely healthy. In reality, the internals of the market did not confirm those highs. For example, the NASDAQ Composite also made new highs in early June, but the advance decline line peaked a month earlier and has been in a downtrend ever since. Also, at one point the S&P 500 had gone up for over 285 days without a correction of 5% or greater which is unusual. Another thing I find somewhat troublesome is the number of IPOs done in 2021, 410 in the first half is on pace to smash the record set in 2020. In addition, the rampant speculation we have in the so called “Meme” stocks is unprecedented in my career and cause for concern. Most importantly, after my weekly review of over 1000 chart patterns I found the number of charts that are in short term downtrends or losing momentum outnumber those which are in uptrends or breaking out of long bases. As we still believe that the intermediate and long-term trends are up, we expect any correction to be shallow in nature and short lived, not the beginning of a new bear market. Keeping this in mind, we are currently holding a 28% cash position.

SECTOR COMMENT: For the most part the sector leadership in the market hasn't changed a great deal over the last quarter with the majority of strong sectors coming from the most cyclical segments of the economy. This group includes Oil & Gas Exploration, Energy-Coal, Steel Producers, Retail, Leisure, Consumer Electronics and Restaurants. Another leading sector which is in the correction phase is the Financial Services Industry. Here we would focus on the Finance-Investment Management and Regional Bank sectors. In Information Technology the best sector is the Internet Content sector and many segments in Computer Software have bottomed and turned back up. The Healthcare Group is still very mixed as it was in our last newsletter. Here, we would continue to focus on the Medical Systems & Equipment sector and avoid Medical-Biotech-Biomed as it remains under extreme pressure and should be avoided for now.

PORTFOLIO ADJUSTMENTS: In the 2nd Quarter of 2021 we added three new positions, Emcore Corp (EMCR*8.63), Turtle Beach Corp (HEAR*30.05), and Echo Global Logistics (ECHO*26.71). We sold three companies outright, Veracyte (VCYT@38.35), Simulations Plus (SLP*47.02) and Vericel Corp (VCEL*52.34). These were sold because they had deteriorating charts, fundamentals or both.

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COMPANY HIGHLIGHT: EMCORE Corporation (EMKR*8.64) is a leading provider of advanced mixed-signal products that serve the aerospace & defense and broadband communications markets. Their best-in-class components and systems support a broad array of applications including navigation and inertial sensing, defense optoelectronics, broadband transport, 5G wireless infrastructure, optical sensing, and cloud data centers. We believe the company's focus on the Navigation Sensors segment of the market will enable them to grow their top and bottom very meaningfully over the next several years. Also EMKR features an excellent chart and relative strength ranking.



In summary, while our work suggests that we are due for a short-term correction we remain confident that our unique combination of technical and fundamental analysis will serve us very well as it has in the past. Your consideration of Rocket Capital is greatly appreciated.

Sincerely,

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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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