



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 2018—Fake News?

Dear Valued Clients and Friends,

**MARKET PERSPECTIVE:** Despite the onslaught of negative news, whether “fake” or real, the stock market has not been convinced that things are as bad as portrayed and pushed small cap growth stocks into new highs in the second quarter of 2018. For the quarter, the S&P 500 returned 3.43%, the Russell 2000 Growth Index returned 7.23%, and the Rocket Small Cap Growth Composite returned 10.99% net of fees.

The resiliency of the market shows that what institutional investors care about most is the continued increasing momentum in the US economy by most measures and more importantly the impact it has had on corporate revenue and earnings per share growth. More important are the upbeat forecasts for solid growth going forward. To highlight this, the chart on the right shows S&P 500 earnings per share since 2002 which shows the recent trend in accelerating earnings per share and expectations for the next four quarters<sup>1</sup>.

The leading performance has thus far been the small cap sector, likely driven by the theory that they have less exposure to a long-lasting trade war, will benefit more than large caps from tax reform, and are less likely than larger multinationals to be hurt from the recent strengthening of the US dollar. The graph below<sup>2</sup> shows that small caps have recently gained momentum, and we believe many of the tailwinds discussed above can power that trend going forward.

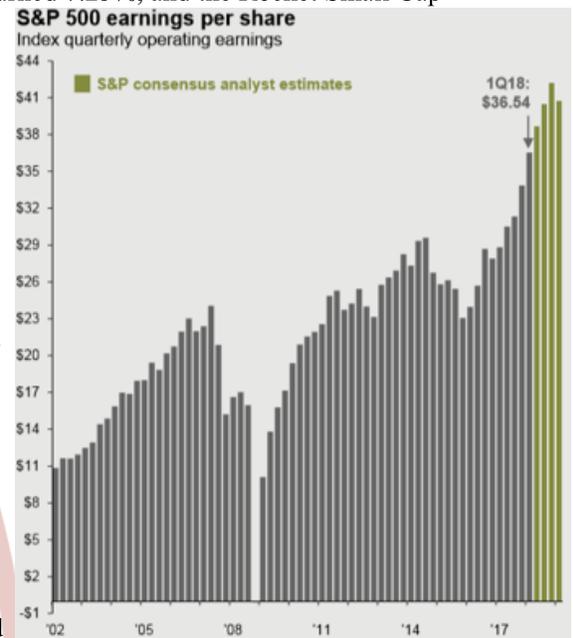
Another positive indicator is that, despite the market’s strong run, we are not having difficulty finding attractive investments which fit both the technical and fundamental criteria we look for. All things considered, it appears that the strong economic and earnings environment is providing a strong backdrop for continued strong gains in the stock market in the second half of the year despite the seeming endless amount of bad headline news, real or not, climbing the proverbial wall of worry.

### TECHNICAL PERSPECTIVE:

Though the small cap index has only mustered marginal new highs in Q2, we have observed and been encouraged by the fact that many individual stocks have made new highs. In addition, many of those new highs have occurred after periods of consolidation, meaning that most bears who wanted to sell have already done so, and that primarily buyers remain, a bullish near-term signal.

Insights from our weekly review of 1,000+ charts tell us that the uptrend remains very much intact. Positive charts widely outnumber negative charts and this divergence is growing. Furthermore, most stocks and indexes are comfortably above their 50 & 200 day moving averages which implies the market still has strong momentum. Lastly, the advance/decline line, an indicator used to confirm the strength of a trend, continues to march upward even on some recent down days. Sentiment measures are largely neutral despite an extended period of higher prices which is interesting because it suggests the market isn’t overly exuberant.

We are concerned about the significant number of financings, particularly new equity issuance, that has occurred in the first half of 2018. Our portfolio alone has had 10 financings through the 2<sup>nd</sup> quarter, more than any other six-month period I can remember. This is troublesome for two reasons. First, companies prefer to sell stock when prices are higher, and thus equity issuance tends to increase later in the cycle, not earlier. Second, new issuance means there is a larger supply of stock which pressures prices downward.



Russell 2000 / S&P 500 Relative Performance



*Continued On Back*

At present, we believe the stock market is in a short, intermediate, and long-term uptrend until proven otherwise. It would not be unusual, however, to have a sharp, sudden correction, seemingly out of now where at any time.

### SECTOR COMMENT:

The majority of sectors we follow remain generally positive, with information technology having the largest number of leading industries. Within this group, the Computer Software industry remains in a strong uptrend led by Computer Software Enterprise and Database subindustries. Many hardware industries have lost momentum and some are on the verge of turning lower, including Electronic Semiconductor Manufacturing and Semiconductor Equipment. In healthcare we continue to like the Medical Products & Research and Medical Biotech/Biomed. The most interesting development in our sector analysis is the resurgence of consumer related segments including Retail Internet, Retail Apparel, and Leisure Services. Lastly, the strong financial services sector has just recently begun to lose momentum and should be watched closely for further signs of deterioration.

### PORTFOLIO ADJUSTMENTS:

In the second quarter of 2018 we added six new positions including SPS Commerce (SPSC \*73.48), Extreme Networks (EXTR \*7.96), Profire Energy (PFIE \*3.38), Adesto Technologies (IOTS \*8.40), CryoPort (CYRX \*15.78), and Health Insurance Innovations (HIQ \*32.35) as each had great charts and fundamentals. We trimmed Healthequity (HQY \*75.10) as it became overextended technically after a strong run. We sold Tower Semiconductor (TSEM \*22.01), Extreme Networks (EXTR \*7.96), and Hudson Technologies (HDSN \*2.01) because they broke down technically.

### COMPANY HIGHLIGHT:

CryoPort (CYRX) is a leading provider of temperature-controlled logistics solutions for the life sciences industry with a focus on the emerging regenerate therapeutic market. Its shipping containers can maintain -150°C for up to ten days and, perhaps even more valuable, the company offers 24/7/365 tracking and monitoring to ensure therapies are delivered on time and without any loss of quality.



CryoPort has a rapidly growing list of 236 biopharmaceutical clinical trials for which it provides logistics services to, 31 of which are phase III. Though minimal during the trial stage, revenue is expected to ramp significantly and to provide a recurring stream as drugs move to commercial stage. To date, only 2 therapies have been commercialized, providing CryoPort with a tremendous growth runway.

The company reported 48% revenue growth in the first quarter of 2018 and gained more than 8 percentage points in gross margin. In addition, it has a stellar balance sheet with a healthy cash balance and zero debt. Technically speaking CYRX is consolidating its recent gains in a tight trading which typically suggests that higher prices lay ahead. It also features a relative strength rank of 99 which is as good as it gets.

To sum up, we are very pleased with our second quarter and YTD returns and more importantly we believe the stage is set for additional gains in the small cap growth sector and in particular the Rocket Small Cap Growth portfolios for the remainder of 2018 and beyond. Feel free to contact us at any time with any comments, questions or concerns you may have. Your consideration of Rocket Capital Management is greatly appreciated.

Sincerely,

A handwritten signature in blue ink, appearing to read "J.D. Hurd".

**J.D. Hurd**  
President / Senior Portfolio Manager

A handwritten signature in blue ink, appearing to read "Grant Larson".

**Grant Larson**  
Operations Associate / Research Analyst

*The use of the S&P 500, Nasdaq Composite Index, and the Russell 2000 Growth 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 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. JP Morgan Guide to the Markets, 3Q18. Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.. Earnings estimates are Standard & Poor's consensus analyst expectations. Past performance is not indicative of future returns.
2. Source: Yahoo Finance