



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 2020—Great Uncertainty Creates Great Opportunity

**Dear Valued Clients and Friends,**

**MARKET PERSPECTIVE:** The first quarter of 2020 started out much like 2019 in a strong uptrend with the market being led by the strength of the same list of NASDAQ Mega Cap Stocks. This changed abruptly when the Covid 19 Virus spread dramatically across the globe, ushering in a new bear market. All three of the major stock indexes, the S&P 500, NASDAQ Composite, and the Dow Jones Industrial fell more than 30% at a record setting in pace. Because of our pragmatic, disciplined approach to investing in stocks featuring both technical and fundamental analysis, we had begun selling stocks into this early strength, not because we anticipated the Covid 19 Pandemic, but because many of our holdings had become overextended technically, overly expensive, or both. This left us in the enviable position of having roughly 25% cash in our portfolios. Not only did this help mitigate the damage done during the collapse but also left us with dry powder to take advantage of significantly lower stock prices.

Since then we have seen an extremely powerful relief rally which appears to be losing its momentum as of this writing. When the dust settled at the end of the quarter the NASDAQ Composite was down 15.13%, the S&P500 off 20.17%, the Morningstar US Small Growth Index minus 21.57% and lastly the Rocket Small Cap Growth Index only down 13.53%. **So much for passive investing.**

While nobody can predict what may happen next historically, odds heavily favor another down leg and perhaps even a new low. I believe the more likely scenario is a very volatile trading range between the recent highs registered in the indexes and the lows established in late February.

**TECHNICAL PERSPECTIVE:** The technical outlook for stocks is mixed as some indicators have improved very nicely over the last several weeks while others have not. On the chart side, after one of the most vicious stock market collapses of all time the market reversed in extraordinary fashion. After a massive capitulation day on the S&P 500 Index on March 23<sup>rd</sup>, the index hit an intraday low of 2191. The following day the S&P 500 gapped higher and closed on the high of the day, up 9.38% on significant volume. Since then the S&P regained over 55% of its loss in just 22 days. More recently the market appears to be struggling as it consolidates those remarkable gains. Furthermore, the sentiment indicators (the VIX, the Investors Intelligence Bulls- Bear Ratio, and the Put Call Ratio) hit extremely oversold levels and are no longer oversold. History suggests that at some point we should see a retest of the recent lows, however at this point, every day and week we get further away from the March low, and the more people expect it, the less likely it is to happen. As always, we will let the charts dictate our next action.

**SECTOR COMMENT:** Sector weighting has rarely been more valuable as it has been lately. This is illustrated by our excellent recent results. In addition to the meaningful cash position we held in the portfolios coming into the “Covid Crash”, we also had zero exposure to those sectors that were most impacted by the sudden shut down in the US economy. These include, Consumer Discretionary, Financial Services, Basic Materials and Energy. Looking forward we see no reason for that to change. We continue to focus on Information Technology, both hardware and software. In healthcare, we are focused on Biotech-Biomed, Medical Systems & Equipment and Medical Research. We will continue to avoid those sectors that are directly impacted by the economy.

**PORTFOLIO ADJUSTMENTS:** In the 1<sup>st</sup> quarter we added just two new holdings to the portfolio, Cloudera (CLDR\*7.57), and Fulgent Genetics (FLGT\*16.55). We also sold Adesto Technologies (IOTS\*12.03) because it was going to be acquired, trimmed Inseego Corp (INSG\*14.07) because it was very overextended technically and sold Liqtech International (LIQT\*4.37) because it broke down fundamentally and technically.

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**COMPANY HIGHLIGHT:** Fulgent Genetics, (FLGT\*16.45). Fulgent Genetics offers genetic testing which provides doctors with clinically actionable diagnostic info. Genetic testing offers the possibility of early identification of disease and enhanced prognosis and treatment. It launched its first genetic test in 2013 and now has 18,000 tests and panels. The company's revenues and EPS are growing at a very rapid rate and are expected to do so for the foreseeable future. The stock chart is excellent and has an extraordinarily strong relative strength of 98.



In summary, we are extremely pleased with how the Rocket Capital Small Cap accounts held up through one of the most challenging times in stock market history. More importantly, I believe very strongly that the same disciplined, pragmatic approach which has served us so well in these very challenging times will put us in a position to take full advantage of a new bull market when it begins, and it will. We remain extremely optimistic. Please contact us if you would like to discuss things in more detail.

Stay safe,

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

**Jim Nelson**  
*Research Analyst / Operations*

**Ben J. Scheibe**  
*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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