



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 2018—Cross Currents

Dear Valued Clients and Friends,

**MARKET PERSPECTIVE:** After a rocky start to 2018 the major indexes managed to finish the quarter with modest losses or modest gains depending on the index. While the stock market has clearly been more challenging than in 2017, a year in which the S&P 500 didn't have a single 3% correction, action in the first quarter suggests that generating positive returns can still be achieved. The Nasdaq Composite, Russell 2000 Growth Index, and Rocket Capital Small Cap Growth Composite ended up 2.59%, 2.30%, and 4.41% respectively.

In early February the market corrected suddenly and seemingly out of nowhere as the S&P 500 moved 10% lower in just 9 market days. At the time, this gut-wrenching decline was viewed by many to be beginning of a meaningful correction, if not a bear market. To the surprise of many, us included, the market turned abruptly, and some indexes even moved to marginal new highs. We believe the brief downturn was driven by fear that the Fed may over-tighten in response to better than expected economic numbers. We believe this fear is overblown and that the Fed is likely to maintain its current rate hike schedule. Shortly thereafter, the focus turned to the improved outlook for corporate revenues and earnings driven by an expanding economy. Since then, stocks have traded in a broad range between February's low and March's high. We believe the market is likely to remain in a relatively narrow range over the near term as the market digests the outsized gains of 2017.

Lastly, as we noted in our last newsletter, it appears that we are in the early stages of a shift away from a small number of mega cap stocks which dominated the action in 2017 into a large number of high quality and rapidly growing small companies, which would be a positive development for small cap investors.

**TECHNICAL PERSPECTIVE:** We noted in our winter newsletter that the market appeared to be losing momentum and that a correction was potentially looming. We did in fact get a correction, albeit one that was much shorter, sharper, and more damaging than we had envisioned. In a matter of days, the market, in our view, flipped from over-bought to over-sold with the near-term low being marked by a capitulation day, in which the market opened sharply lower but then rallied sharply and closed near the top of the daily range on massive volume. Since then, the market staged a powerful rally and more recently has been in a broad trading range.

We believe it is most likely that we have seen the near term low and that the next meaningful trend will be higher. This is supported by recent sentiment indicators with the Investors Intelligence Bullish vs. Bearish Survey reflecting investor caution with a reading of Bulls 43.60% and Bears 19.80%. Individual chart patterns are not as conclusive. While many stocks remain in solid uptrends and in long bases, there are also many stocks and sectors that have lost momentum. Most major indexes have been trading below their 50 day moving averages and are setting up a test of their 200-day lines. We're watching this closely as it will provide more clarity on the near-term trend. A break below the 200-day line would be bearish while a strong bounce off the 200-day line would be bullish. Interestingly, the Russell 2000 Growth Index has remained above its 50-day line which is bullish for Rocket as investors continue to have a strong appetite for small cap growth stocks.

**SECTOR COMMENT:** Many of the sectors which led the market in 2017 came from the information technology hardware group lead by the terrific gains made in the Semiconductor Manufacturing and Equipment sectors. These groups are now in a corrective phase and it remains to be seen if this is a short-term phenomenon or something more meaningful. The Computer Software group remains in favor. Health care continues to gain momentum with pronounced strength in the Biotech-Biomed group. The banks, brokers and financial service companies also remain in solid up trends. Lastly, after beginning to show signs of strength late last year the energy sector has continued to gain investor interest and now appears to be emerging. As such, we are looking to add exposure to this group.

**PORTFOLIO ADJUSTMENTS:** In the first quarter of 2018 we added three new positions including Asure Software Inc (ASUR\*15.15), Model N Inc (MODN \*17.15), and Envestnet (ENV \*54.40) because they have great charts and fundamentals. We trimmed RingCentral (RNG \*65.90) as it was overextended technically, sold Callidus Software (CALD \*delisted) as it was acquired, and exited Zagg Inc (ZAGG \*11.45) and Lumentum Holdings (LITE \*55.45) because they broke down technically.

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**COMPANY HIGHLIGHT:** Investnet Inc (ENV \*54.40) is a leading provider of web-based investment solutions and services to investment advisors. By integrating a wide range of investment solutions and services, its technology platform provides financial advisors with the tools and flexibility to better address their clients' needs. The addressable market for its wealth management platform is extremely large and growing. One of the key drivers of that growth is the dramatic growth in Fee-Based Assets as more financial advisors transition from traditional commission-based accounts to fee-based accounts. The combination of these factors has enabled Investnet to grow its top and bottom line very consistently and meaningfully over the past several years. Lastly, Investnet has strong EPS growth projections, excellent relative strength, and is in a leading sector.



In summary, we are quite pleased with our results in the first quarter especially considering the challenging market environment. More exciting is the fact that we achieved strong returns with larger cash balances than is typical for us which allowed us to generate better than benchmark returns with less volatility. As always, we remain confident that our pragmatic and disciplined approach to investing in stocks will serve us well, regardless of the existing market conditions. Feel free to call or email us at any with any questions, comments or concerns that you may have. Your consideration of Rocket Capital Management is greatly appreciated.

Sincerely,

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

**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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