



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.

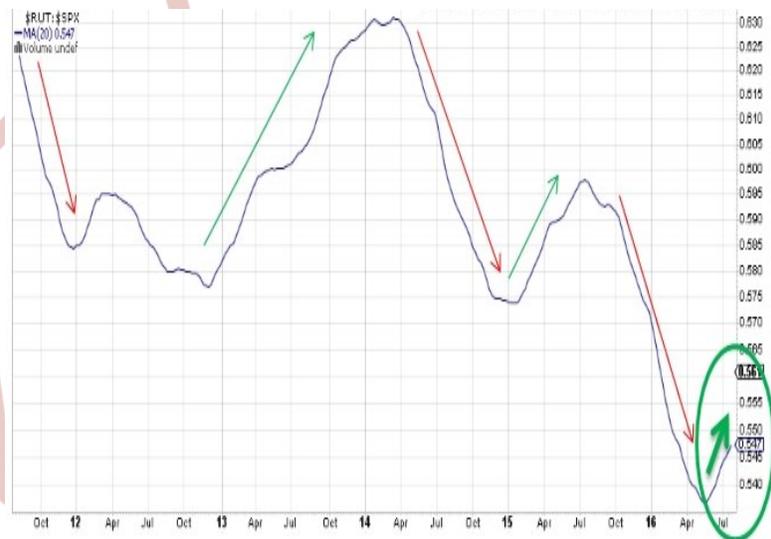
## Second Quarter 2016

### Summer Doldrums? I Think Not!

Dear Valued Clients and Friends,

**MARKET PERSPECTIVE:** After a very challenging first quarter in 2016 the negativity surrounding the US stock market in Q2 was so thick you could cut it with a knife. There is a lengthy list of items which have rightfully caused worry: the global slowdown leading to a global recession; the theory that the Fed would raise interest rates despite the fact that GDP growth in the United States has been mediocre at best; US corporate revenue and earnings expectations set low due to the strength of the US Dollar; lastly the uncertainty created by the upcoming presidential election, featuring the two least trusted candidates of all time. Despite this onerous backdrop the stock market was able to trudge steadily higher, climbing the proverbial wall of worry. This is evident by the very solid investment returns for the Rocket Small Cap Composite, which is up roughly 7.0% for the second quarter and 4.6% YTD. In comparison the S&P 500 is up 2% for the second quarter, and 2.7% YTD; while the Russell 2000 Growth index is up 3% for the second quarter but remains down for the year by 2%. The chart on this page, also featured in our Spring Newsletter, graphically depicts that we are likely in an early cycle of small cap outperformance, which bodes extremely well for small caps, particularly Rocket Small Cap investors. Historically the stock market generally does not accommodate the masses, so if there is a major surprise in stock prices over the next several months it will most likely be a strong move to higher levels.

**TECHNICAL PERSPECTIVE:** For those of you that know me, or have read my newsletter over the years, it always gets back to the charts. Having recently looked at over 1000 individual chart patterns, my conclusion is that we are in the midst of a powerful new uptrend; although over the short term a correction is likely, if not necessary, and welcome. This uptrend should take the stock market to meaningfully higher levels over the coming months and quarters. It is also very encouraging that just by looking at the action in our portfolio, that we have the perfect combination of stocks which have broken out and have moved sharply upward and are consolidating those gains, stocks that are just breaking out of lengthy bases and are beginning to accelerate on the upside, and stocks that have been in bases for some time that appear to be poised to break out of constructive base patterns. The end result is a portfolio which will move consistently higher with manageable draw downs in a decent market backdrop. Many of the major stock indices have also recently broken into new high ground and followed through nicely with the exception of the Russell 2000 Growth index. I look for it to join that list in the near future. Key support found at the 2100 level on the S & P 500, and 5000 on the NASDAQ Composite should provide solid short term support. All in all, the entire technical outlook remains very constructive, and we will be opportunistic buyers in periods of weakness while trimming positions which have become extremely overextended.



**SECTOR COMMENT:** Many of the strongest sectors currently come from the commodity, energy, and mining industries, as these sectors have had huge short term moves after a long period of stagnation. We currently would favor sectors related to the information technology group led by the continued strength in the Telecom-Fiber Optics and Infrastructure, Semiconductor Manufacturing, Internet-Network Solutions, and most segments of Computer Software. We are currently over weighted here. Also, after being out of favor for roughly a year the healthcare related sectors are showing signs of life including Medical Products, Medical Systems & Equipment and Biotech/Biomed. We will look to add to our allocation in this group.

*Continued On Back*

**PORTFOLIO ADJUSTMENTS:** Our portfolio activity in the second quarter consisted of 6 buys and 4 sells. The 6 companies that we added to our portfolio include Alarm.com (ALRM), Q2 Holdings Inc. (QTWO), AMN Healthcare Services Inc. (AHS), Gigamon Inc. (GIMO), Neogenomics (NEO), and Stratasys Ltd. (SSYS) These purchases were made after screening for our technical and fundamental criteria. We sold Solar Edge Technologies Inc. (SEDG), Rubicon Project Inc. (RUBI), Proto Labs Inc. (PRLB), and PowerSecure International Inc. (POWR). They were sold because they had poor charts, poor fundamentals, or both.

**Alarm.com Holdings (ALRM\* \$27.82)** Alarm.com combines their award winning technology and cloud services to power Smart Security & Home solutions. These solutions include; Inter-active Security, Energy Management, Video Monitoring, Intelligent Automation, and Wellness. Alarm.com enables families and businesses to connect to a wide array of smart devices making it easy to connect and control this wide variety of functions through a single intuitive mobile app. In addition Alarm.com has an extremely large addressable market with over 115 million households and another 28 million small businesses. Oh this market they currently have penetrated less than 2%. Lastly, with revenue and earnings per share expected to grow at over 20% for the foreseeable future, the company features very strong EPS and Relative Strength rankings.



Sincerely,

**J.D. Hurd**

*President / Senior Portfolio Manager*

**Andrew H. Hagberg**

*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.*

*The information concerning the stocks contained herein should not be construed as a recommendation to buy or sell them in your individual investment accounts. The opinions expressed are those solely of Rocket Capital Management, LLC and are subject to change. Accounts at Rocket Capital Management, LLC may hold long or short positions of the stocks mentioned in this publication. In addition, employees, members, or other affiliates of Rocket Capital Management, LLC may hold long or short positions of the stocks mentioned in this publication, which may be inconsistent with the information contained herein. Rocket Capital Managed Accounts performance is net of management fees and transaction fees. Sources: [www.horizonpharma.com](http://www.horizonpharma.com). \*Closing market price on 05/06/2016.*

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