



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 2020 — “Irrational Exuberance”

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: For those of you that have been around long enough, you may recall the term “irrational exuberance” that was used by Fed Chairman Allan Greenspan to describe stock market conditions in late 1996. Irrational exuberance is unfounded stock market optimism that lacks a real foundation of fundamental valuation, but instead rests on psychological factors. Although Greenspan’s comments were several years premature, when the market did peak, it traded down with a vengeance. Do not get me wrong, I am not suggesting the stock market is about to experience a major correction. Rather, to point out that there are numerous similarities to suggest that over speculation has become rampant. This rarely happens in the earlier stages of a strong uptrend. Seldom have we seen such action in a long list of low priced, low quality stocks moving dramatically higher on massive volume. In some cases, these stocks have increased hundreds of percent in just days.

There are many things to be optimistic about regarding the stock market. This optimism is based on the massive amount of liquidity injected into the system by the US Fed as well as the EU, the anticipated opening of the US economy and the potential for an effective vaccine that may be developed much sooner than expected. While some of these things may or may not happen, it remains hard for me to believe that things will go as smoothly as the stock market has priced in. Like everyone else, I would be more than excited by a timely resolution to our issues, yet I remain somewhat skeptical.

The stock market second quarter performance was sensational with the S & P 500 up 19.64 %, the Nasdaq plus 30.63 %, and our benchmark, the Morningstar Small Cap Growth index up 32.95%. **Rocket Capital investors fared better, posting a 38.49% return in the second quarter.** Year to date the S&P was down 4.19%, the Nasdaq up 12.12%, the Morningstar Small Cap Growth up 4.27% and lastly **Rocket Capital up 19.75%.**

TECHNICAL PERSPECTIVE: The charts suggest that while we are still in an uptrend, we are beginning to see signs that we are in the later stages as referenced above. We see an inordinate number of stocks going straight up in smaller and smaller number of sectors on massive volume. In addition, we have recently seen a dramatic increase in public stock offerings, both initial and secondary, which affect the supply vs demand economics of stocks negatively. Furthermore, many of the stocks which were on our buy list have advanced so rapidly it would no longer be prudent to buy them. This coupled with our strategy to trim stocks when they become overextended has put us in the **enviable position of raising cash while still outperforming our benchmark.** Lastly, having reviewed over 1400 stock charts my assessment indicates that we have many stocks that are very overextended, a large number that have lost their momentum and are now turning lower, and not many in between. Based on this review, my conviction is that the correct strategy now is to sell overextended stocks into this strength while we exercise a high-level of caution in buying new ones.

SECTOR COMMENT: Very little has changed since our Spring Newsletter as the leading sectors continue to come from the Information Technology Sector which includes both Software and Hardware, and the Healthcare sector, that includes the red hot Biotech-Biomed Sector and Medical-Research Equipment & Services group. While those sectors most affected by the economic shutdown will have a sharp oversold bounce, we will continue to avoid them for now. The financial services industry, including the banks and brokerage, appears to have bottomed and are consolidating at lower levels.

PORTFOLIO ADJUSTMENTS: In the 2nd quarter of 2020, we added 3 new holdings to the portfolio, Limelight Networks Inc. (LLNW*7.36), Repro Med Systems Inc. (KRMD*8.98) and Simulations Plus Inc. (SLP*59.82). We also sold out SPS Commerce Inc. (SPSC *75.12) and trimmed The Trade Desk (*406.50) for fundamental or technical reasons.

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COMPANY HIGHLIGHT: Limelight Networks (LLNW*7.36) is a small technology company that has developed an innovative solution which provides sub-second live video streaming to viewers, wherever they are located. This process is called Limelight Realtime Streaming. The company's customer list includes Amazon's Prime Video, Disney + and the recently launched NBC Peacock. Limelight features rapidly growing top and bottom lines which should accelerate due to the new demand created by the Covid-19 Virus and the return of live sports streaming.

In summary, while we are extremely pleased by our 2nd quarter and YTD results, we are even more excited about our pragmatic, disciplined review process that enables us to achieve positive outcomes. While over the near term our work suggests that this is a time to be particularly cautious, we remain confident that our use of both technical and fundamental analysis will serve us very well over the long term. As always, your consideration and confidence in Rocket Capital is greatly appreciated.

Sincerely,

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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