



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.

Fall 2020 — “Healthy Consolidation”

Dear Valued Clients and Friends,

MARKET PERSPECTIVE: The US stock market once again put in a fine performance in the third quarter particularly when you consider the news backdrop which is far from rosy, especially as it pertains to the current status of the Covid-19 Virus and its implications for the economy. The ability of the market to rise in the face of negative news suggests after a very meaningful move higher, we have entered into a healthy consolidation phase. There are two basic ways that the market can consolidate. The first is a sharp frightening price correction as we saw in early September with the NASDAQ Composite losing 10.60% in a matter of days. The second form is a time correction which has the same effect on investor sentiment as the stock market trades with increased volatility bound in a range between the recently established new high and the low end of the range. Both types effectively remove the bullish enthusiasm for the market. Typically, when the market breaks out of that range convincingly with increased volume it determines the direction of the new short-term trend.

The factors driving these outcomes include the anxiety and fear generated by the recent dramatic spike in Covid-19, not only here in the US but across the globe. Also, there is a continuing trend in the closing of retail and restaurant establishments and announcements of layoffs at large corporations. This does not even consider the unease created by the upcoming Presidential election. On the positive side, the Fed is on the record stating that it will do anything it takes to keep the economy afloat, corporate revenue and EPS announcements and forecasts have been better than expected and lastly there are many sectors of the economy that have not slowed down but actually have accelerated in the Covid-19 environment.

In terms of 3rd quarter performance, Rocket Small Cap Growth Composite handily outperformed the indices at +18.61%. Lagging behind were the NASDAQ up 11.02%, the S & P 500 plus 8.60%, and the Morningstar US Small Cap Growth up 7.49%. Rocket Small Cap also leads in Year to Date returns at 42.02% followed by the NASDAQ +24.46 %, Morningstar Small Cap up 12.08% and the S&P 500 at plus 3.41%. ALSO, PLEASE SEE OUR 3RD QUARTER FACT SHEET FOR OUR 1,3,5 & 10-YEAR RETURNS and comparisons.

TECHNICAL PERSPECTIVE: As we stated in our Summer Newsletter, we remain cautious on the short-term outlook for the stock market. As we seen many times in the past, when we mechanically trim stocks because they become overextended and we can't find new ones that fit our stringent criteria because they are also overextended, we end up with additional cash. After a very sharp move higher for most of the 2nd quarter the market reversed abruptly and corrected sharply. This followed by a move back up to the highs but not into new highs suggests that a short-term top is in for now. The most likely scenario looking forward is that the market trades in a range as charts continue to consolidate the massive gains from the March lows. The good news is that many market leaders have put in new highs, sold off, and are now quietly trading in tight ranges not far below the recent highs. This is quite bullish. Our current strategy remains to sit tight maintaining a conservative posture until the market itself dictates our next actions.

SECTOR COMMENT: While our sector analysis still suggests an overweight in the Computer Information Software & Hardware groups, they have lost some momentum recently which is understandable given the outsized gains they have experienced. The Healthcare group has also lost considerable strength over the last quarter which is notable. We would postpone new purchases in Biotech-Biomed, Medical Systems & Equipment while we continue to hold positions that are acting well. While industries which are most directly affected by a slowing economy continue to underperform, the Bank and Financial Service sectors are beginning to turn up. We are also starting to see some signs of life in the Retail/Restaurant groups. Be very selective here.

PORTFOLIO ADJUSTMENTS: In the 3rd quarter of 2020 we added just one new name, Growgeneration Corp (GRWG*19.09). We sold two stocks outright, Magnite (MGNI*9.51) and Health Equity(HQY*54.26), and trimmed the following positions, Cryoport Inc (CYRX*43.57), Digital Turbine(APPS*34.21), Growgeneration Corp(GRWG*19.09), Five9 Inc (FIVN*141.20), Fulgent Genetics Inc (FLGT*35.29), and Kornit Digital LTD(KRNT*67.22). These actions were taken for both technical and fundamental reasons.

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COMPANY HIGHLIGHT: Growgeneration(GRWG*19.09) is the largest hydroponics company in the US with 31 retail and distribution centers. Growgeneration carries thousands of products, such as organic nutrients and soils, advanced lighting technology and state of the art hydroponics equipment. Also, Growgeneraton.com operates as an Omni-Channel Ecommerce platform with over 10,000 products with available shipping around the country. Growgeneration provides its products and services to a very large and expanding addressable market which enables them to grow their top and bottom lines very rapidly. GRWG also features an excellent chart and extremely high relative strength.

In summary, it has been very gratifying for us at Rocket Capital to provide such outstanding returns for our investors in 2020 which most people would agree has been a particularly challenging year on all levels. While we are extremely pleased with those results, we are even more excited about how they were achieved. Our unique combination of technical and fundamental analysis has enabled us produce very meaningful results while reducing the risk and volatility in the portfolios. As always, your consideration of Rocket Capital Management is greatly appreciated.

Sincerely,

J.D. Hurd
President / Senior Portfolio Manager

Jim Nelson
Research Analyst / Operations

Ben J. Scheibe
Sr. Vice President