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THERE IS LUCK.

AND THERE IS SCIENCE.

Investing is a science.

It requires a plan and

discipline to follow the plan.

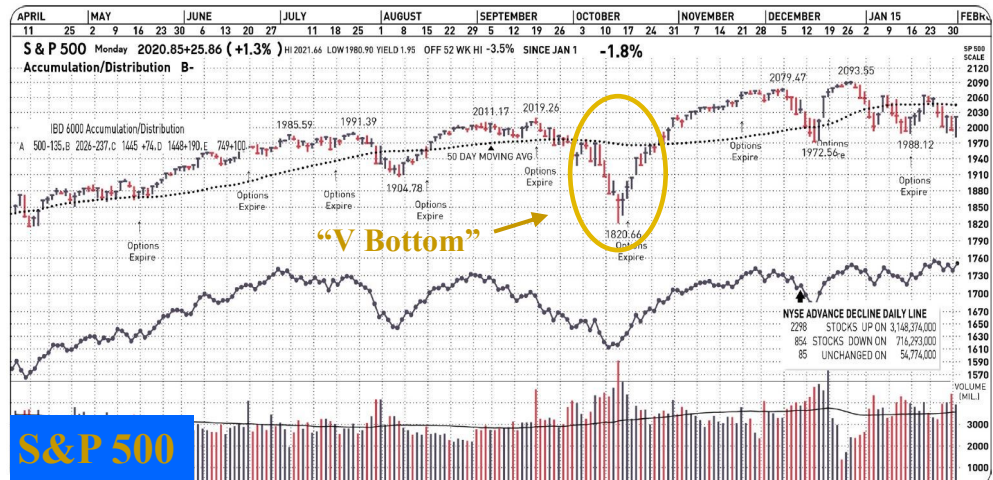
Anything short thereof is blind exploration.

## Winter 2014

Dear Valued Clients and Friends,

**MARKET PERSPECTIVE:** The underlying theme for the stock market action in the fourth quarter was “Manic”. Early in the quarter the down trend in the market accelerated, breaking one level of support after another and, just when it looked like we were destined for yet another October to forget, the market reversed sharply, exploded off the lows, and finished the quarter at new highs for the year. When the dust settled, the Russell 2000 Growth Index, our benchmark, was up 9.86% for the quarter and 4.94% for 2014. In comparison, the Rocket Capital Growth Composite was up a paltry 1.50% for quarter and down 7.31% for the year. Adding insult to injury, the S&P 500 finished the year 11.38% to the positive. Creating this dramatic period of humbling underperformance was the same pile of cash on the sideline of 35.9%, which enabled us to outperform smartly in quarter three. While at times it is very painful to be underinvested, we will wait patiently for the weight of technical evidence to improve before we make a significant change in our cash holding, as detailed in the Technical Perspective laid out below.

**TECHNICAL PERSPECTIVE:** From a technical standpoint the fourth quarter had a little something for everyone, a sharp downtrend, ending in a “V bottom”, followed by a sharp uptrend culminating in an extremely volatile range bound market. A “V bottom” occurs when you have a market closing sharply lower at the low end of its recent trading range, only to retest that low and trade immediately higher, retracing the decline in a very short period of time. While this technical pattern shows up infrequently, it typically signals an important low has been established and that the trend has reversed. Since this action in October, the market has remained locked in a trading range and a new trend will be determined when the market breaks significantly above or below the parameters that have been established. On the sentiment side, caution is advised as investors remain bullish with recent numbers for the American Association of Individual Investors showing 44% bulls to 22% bears and the Investor’s Intelligence Sentiment also featuring more bulls than bears, at 53.1% bulls and 16.3% bears. These sentiment numbers, coupled with the fact that you have to go all the way back to 2000 to find a year where more IPOs were completed than in 2014, give me pause. As I have mentioned in the past, this type of activity rarely happens during the early stages of a new bull market. Like always, we will rely on the stock charts themselves to dictate our next action.



Graph courtesy of Investors.com, powered by Investor’s Business Daily

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**SECTOR COMMENT:** As I noted in last quarter's newsletter, the sectors related to the healthcare industry have again moved into the leadership position which they have held for the last several years, led by the Biomed/Biotech group. One note on this group is that it produced a significant number of the 2014 class of IPOs, which is somewhat concerning. The Information Technology group also remained strong, led by continued strength in the semiconductor manufacturing sector in hardware and the computer security segment of software. Consumer driven sectors are also strong, being driven by an improving economy and the impact of lower prices at the pump. We continue to underweight sectors related to energy as oil continues to struggle to find a low.

**PORTFOLIO ADJUSTMENTS:** In the 4th quarter we added four new companies to our portfolio that passed our technical and fundamental screening criteria: Callidus Software (CALD), Qualys (QLYS), Profire Energy (PFIE), and Acacia Research (ACTG). We sold Novadaq Technologies (NVDQ), Trinity Biotech (TRIB), Emerald Oil (EOX) and Applied Optoelectronics (AAOI) because they broke down technically, fundamentally or both. We trimmed two positions: IGI Laboratories (IG) and MiMedix (MDXG) because they had grown to become too large a percentage of the portfolio.

**QUALYS INC (QLYS \$ 37.75\*):** Qualys Inc is a Leading Provider of Information Security and Compliance Cloud Solutions for over 6700 customers globally, including the majority of the Forbes Global 100 companies. The Qualys Cloud Platform services include: continuous monitoring, vulnerability management, and policy compliance in addition to web application screening, web application firewall, malware detection and SECURE seal for testing of web sites. This rapidly growing company has consistently and meaningfully grown its top and bottom line over the last several years and is projected to do so for the foreseeable future. This favorable outlook is driven by the ever increasing need for companies to continually invest in better cyber security solutions such as those offered by Qualys in order to reduce data-breach risk, a concern amplified by the chaos created during the recent Sony security breach.



First quarter 2015 action thus far has been extremely volatile and challenging to say the least. Keeping that in mind, as always we will rely heavily on what the charts tell us to determine our actions. So far so good and I am very encouraged by our recent performance.

As always, if you have any questions, comments or concerns do not hesitate to call or email us at any time and will get back to you promptly. Your continued confidence in Rocket Capital Management is greatly appreciated and we look forward to a long and meaningful relationship.

Sincerely,

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

**Andrew D. Walker**  
Operations / Portfolio Services Associate

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