



## **Commentary and Looking Forward**

Q1 2019 was an incredible example of the stock market's fragility and tenacity. We saw an epic meltdown to end Q4 2018 on a lot of news that warranted quite frankly little to no reaction. All of 2018's progress suddenly up in smoke. Then, like a phoenix reborn from the ashes, January happened. The 10%+ gain we witnessed in January was impressive enough on its own, but it's made even more impressive based on the fact that we've not only held onto those gains but continued to see growth as the quarter has progressed.

Small caps as a whole have lagged a bit during the market momentum. This doesn't worry us, however; as we see potential. If you are going to have a meaningful move in the market, the financials have to catch up eventually which bodes well for small cap stocks. Additionally, we saw quite a few companies guide down to end 2018. We see this as a way for companies to get ahead of investor expectations. We expect to see quite a bit of outperformance this earnings season which could lead to a nice bump for a number of names.

Following Q1 2019, fears of recession and slowing economic growth have significantly diminished. After January's market pop, things have remained basically flat. Now that we have had a significant and steady increase in GDP it has given a more fundamental reason as to why this rally should continue and small caps should pick up steam. We believe that the markets will continue their trend up in Q2 due to the increased optimism around general economic growth. We believe that small caps, given their current starting point, have the most upside. We would like to see the markets continue to melt up as we don't believe that the economy is overheating yet. Inflation is non-existent and there is a lot of slack in the economy that is not being accounted for.

Overall, we are quite optimistic about the next year. We see quite a bit of opportunity as a result of the crazy volatility that troubled everyone last year. Our small caps are particularly exciting due to their potential to breakout which we expect to see from at least a few names in the upcoming year. Though it wasn't a smooth ride, the volatility and fear that plagued the market last year has left us in a place where somewhat smooth, continued growth, can occur for the foreseeable future.

## **Portfolio Review**

As the old saying goes "Success is not in never falling down, but in always rising again." By that standard the equity markets have achieved much success over the years. During the quarter the Small Cap Strategy gained an impressive 13.09% versus a rise of 14.54% for the Russell 2000 Index.

Technology services, health services, and process industries aided relative performance most, while holdings in the health technology, commercial services, and electronic technology constrained relative portfolio performance. At the end of the quarter, the portfolio was most overweight in the consumer services, retail, and utilities sectors. The Portfolio was most underweight in the health technology, technology services and producer manufacturing sectors relative to its benchmark.

From an individual holdings perspective, Paycom Software (PAYC), Novanta Industries (NOVT) and Mueller Industries (MLI) contributed most to positive performance, returning 54.45%, 34.49%, and 34.58%,



respectively, during the quarter. While SMART Global Holdings Inc. (SGH), Inogen Inc. (INGN), and Universal Insurance Holdings, Inc. (UVE) declined the most -35.35%, -23.19%, and -17.83%, respectively, during the quarter.

Regards,

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Founder & CIO

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