

1492 Vantage Point – Mid-Quarter Update

Easy Earnings Comparisons to Drive Small Cap Stocks in 2017

Before we begin our discussion on small cap stocks, we are pleased to announce that our 1492 Small Cap Core Alpha strategy has been recognized with Top Guns⁽¹⁾ status by Informa Investment Solutions' PSN manager database as a top ten performing strategy in their Small-Mid Core, Small-Mid Cap, Small Cap Core Equity, and US Core Universes for the fourth quarter ended December 30, 2016. The 1492 Small Cap Core Alpha strategy was also recognized with Top Guns⁽¹⁾ status as a top ten performing strategy in their Small-Mid Core Universe for the full year ended December 30, 2016. In addition, the 1492 Small Cap Core Alpha strategy also ranked 1 out of 592 in Lipper Marketplace's Best Money Managers⁽²⁾ U.S. Growth & Value Equity universe and 1 out of 174 in their U.S. Small-cap Growth & Value Equity universe for the fourth quarter ended December 31, 2016. Our 1492 Small Cap Value strategy has been recognized with Top Guns⁽¹⁾ status as a top ten performing strategy in their Small-Mid Cap and Small-Mid Value Universes for the fourth quarter ended December 30, 2016.

After the excellent fourth quarter 2016 performance for the small cap market, we believed that we would enter a digestion period for those gains as the new administration is broken in at our nation's capital. The Russell 2000 Index, nevertheless, continues its gains thus far in 2017 with a 3.58% advance through February 15th. What is interesting is the change in sector leadership thus far with Healthcare shaking off a difficult 2016 to post a healthy 10.5% gain thru February 15th as the top performing sector. As it did in the fourth quarter 2016, Technology continues to shine and is up 6.9% year to date through February 15th. The only other sector that is ahead of the Russell 2000 Index year to date through February 15th is Materials which has advanced 5.4% and continues its strong performance as well from 2016. To date, Consumer Staples sits at the bottom with a 3.4% decline and continues its weak performance from last year. Joining this sector at the bottom is Energy which is cooling off from its post-OPEC supply cut announcement year-end rally and is down 1.5% year to date through February 15th. Other than the rotation of Energy and Healthcare, the year-to-date performance continues to support our thesis of a leadership change to more traditional cyclical sectors.

With roughly 50% of our strategies' holdings having reported their fourth quarter results, 74%, 64%, and 81% of the companies in the 1492 Small Cap Growth, 1492 Small Cap Value and 1492 Small Cap Core Alpha strategies, respectively, have met or exceeded consensus fourth quarter earnings expectations as provided by FactSet Analytics. These percentages are about flat with third quarter levels for the 1492 Small Cap Growth and 1492 Small cap Core Alpha strategies, and the 1492 Small Cap Value strategy has advanced five points versus the previous quarter's level. Technology and Finance earnings within our holdings posted healthy beats versus consensus quarterly earnings expectations.

IN THIS ISSUE:

Easy Comparisons to Aid Small Cap Stocks.....P. 1

Important Disclosures...P. 2

CONTACT US

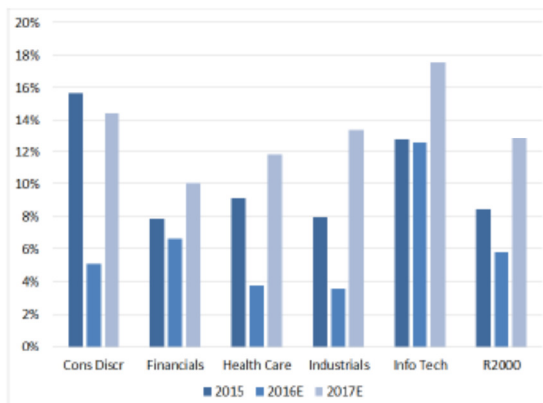
1492 CAPITAL MANAGEMENT
309 North Water St. Suite 505
Milwaukee, WI 53202
Main: 414-276-1492

www.1492CapitalManagement.com

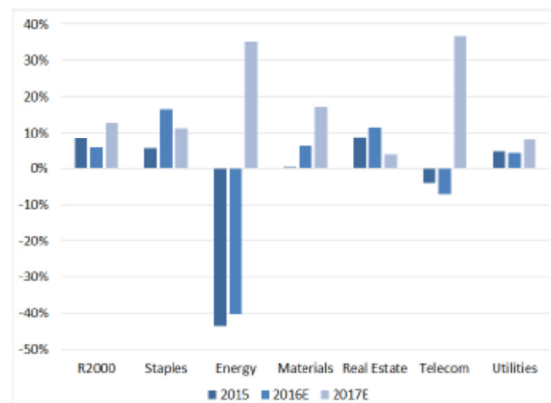
One of the reasons that we remain bullish on small cap stocks as we start 2017 is the simple fact that earnings were decelerating for the Russell 2000 Index and most sectors outside of Real Estate, Materials and Consumer Staples during 2016 as seen in the charts below from Furey Research Partners. As we mentioned in our year end newsletter, the net margins for the Russell 2000 Index have been declining in recent years and a less regulation, more business focused presidential administration should help to fuel a reacceleration of profits, excluding Consumer Staples and Real Estate, in 2017 versus the prior year. It's just not that high a bar to get over mathematically this year versus 2016, particularly if tax cuts are realized for the domestic focused small cap stocks. Our strategies remain positioned to benefit from this reacceleration with overweight positions, in general, in the cyclical sectors and little to no exposure in Consumer Staples or Utilities.

'16 Was a Poor Year for Small-Cap Earnings

Higher confidence, fiscal spending, tax cuts, ending Paradox of Thrift drags boost forward growth.



Source: Furey Research Partners and StockCharts.com. Data as of Dec. 2nd, 2016



Source: Furey Research Partners and StockCharts.com. Data as of Dec. 2nd, 2016

The flow of money into small cap ETFs seems to support a healthy small cap market as well. Based on research from Jefferies, small cap growth and value ETF money flows are witnessing some of the best percentage gains year to date. Overall small cap ETFs have seen nearly a 50% increase in assets year over year as money can always smell an opportunity.

Thank you, as always, for your time and interest, and we hope that you enjoyed our discussion of our strategies and the market in this mid-quarter update. Call Tim Stracka at 414-238-3398 with questions or to discuss any of our strategies and please visit us at www.1492capitalmanagement.com

⁽¹⁾ Utilizing a proprietary blend of Informa Investment Solutions' top priority performance screens, PSN Top Guns ranks products in six proprietary star categories in over 50 universes. This is a highly anticipated quarterly ranking and is widely used by institutional asset managers and investors. Top Guns receive a star rating in the range from one to six. The stars indicate the continued performance over a length of time. 1492 Capital Management was named a Top Gun with a star rating of 1-Star for its 1492 Small Cap Core Alpha strategy as a top ten performer within the Small-Mid Core, Small-Mid Cap, Small Cap Core Equity, and US Core Universes universes, based on returns from the most recent quarter ended December 31, 2016. This same strategy also was named a Top Gun with a 2-Star rating in the Small-Mid Core universe as a top ten performer based on returns for the year ended December 31, 2016. 1492 Capital Management also was named a Top Gun with a star rating of 1-Star for its 1492 Small Cap Value strategy as a top ten performer within the Small-Mid Cap and Small-Mid Value universes based on returns from the most recent quarter ended December 31, 2016.

The complete list of PSN Top Guns and an overview of the methodology can be located on <http://www.informais.com/resources/psn-top-guns>. For more details on the methodology behind the PSN Top Guns Rankings or to purchase PSN Top Guns Reports, contact Ruth Calderon at ruth.calderon@informais.com. **About Informa Investment Solutions:** A market leader in intelligence and software solutions for investment professionals and financial institutions of all sizes, Informa Investment Solutions offers a robust set of analytics and tools to help you grow and retain your business. With a nearly 40-year history, Informa Investment Solutions is part of Informa PLC, a leading business-to-business

knowledge provider serving International markets. Informa Investment Solutions has set the standard for providing turnkey and customizable applications for performing manager searches, building wealth plans, and producing client reports and investment marketing materials for companies worldwide. For more information, please visit <http://www.informais.com/> and follow <https://twitter.com/InformalInvest>

(2) The minimum criteria for inclusion in **Best Money Managers**: Performance must be calculated "net" of all fees and brokerage commissions. This means after all fees have been deducted. This standard is somewhat controversial, as the SEC requires that only "net" of fees numbers be presented publicly, while GIPS (Global Investment Performance Standards) prefers that "gross" numbers be presented along with a fee schedule. Since the SEC is a regulatory authority, and since complete fee schedule presentation would be impractical in this "ranking" format, we require "net" numbers. Performance must be calculated inclusive of all cash reserves. To explain, any given investment portfolio will hold some level of cash over a particular reporting period. Even equity portfolios which specifically seek to be fully invested in the market at all times will temporarily have dividend payments and other ordinary cash flows which cannot instantaneously be invested in the market. These cash holdings obviously will have an effect on the performance of the overall portfolio – negative when cash returns are low relative to returns of the asset class, and positive if the opposite is true. While presentation of "equity-only" (for example) returns may provide a valuable insight into the security selection skills of the manager, we require for comparability's sake that performance results be inclusive of cash reserves for consideration in the rankings. Performance results must be calculated in U.S. dollars, that is, from the perspective of a U.S.-based investor. Currency holdings can have a very significant impact on the performance of a portfolio with international holdings. While this will always be the case (as we do not make distinctions between hedged and unhedged portfolios), we require that performance must be translated into U.S. dollars to ensure comparability to the point where these are all returns that would be seen by a U.S.-based investor. Performance results must be calculated on an asset base which is at least \$10 million in size for "traditional" U.S. asset classes (equity, fixed income, and balanced accounts) or at least \$1 million in the case of international and "alternative" U.S. asset classes. This minimum ensures that the firm and product are somewhat established. The goal is to not taint the rankings with "flashes in the pan" while also not excluding promising emerging managers. The minimum asset base requirement, therefore, is set at a level which balances these objectives. The classification of the product must fall into one of the categories which we rank. We only publish rankings for categories/time period combinations for which we have at least 20 contenders.

Past performance does not guarantee future results. No investment firm, including 1492 Capital Management, guarantees gains or that losses will not occur from the strategies applied to managed portfolios.

Comments and opinions expressed in this document regarding individual securities, markets, strategies and case studies are not recommendations or predictions, and thus should not be acted upon. They are based only upon the judgments and opinions of 1492's professional staff. The use of any investment strategy does not guarantee that an investment return will be achieved, or that a loss will not occur from the advice provided. You are encouraged to contact us with your questions. Please [click here](#) to view 1492 Capital Management's Disclosure.

1492 CAPITAL MANAGEMENT *309 North Water St., Suite 505 * Milwaukee, WI 53202 * Main: 414-276-1492 * Fax: 414-224-9158