1492 CAPITAL MANAGEMENT

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1ST QUARTER 2019 UPDATE

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1492 Vantage Point – Mid-Quarter Update

Pass the Neck Brace and Enjoy the Whiplash

Before we begin, we are pleased to report that the 1492 Small Cap Growth strategy was recognized by Broadridge MarketPlace's Best Money Managers(1) for its performance generated over the 12 quarters ended December 31, 2018 as shown in the table below.

Period Ended 12/31/2018

Broadridge MarketPlace Best Money Managers

Product Name	Asset Class	Ranking	Quarters
1492 Small Cap Growth	U.S. Small-cap Equity	Ranked 10 out of 392	12 Quarters
1492 Small Cap Growth	U.S. Small-cap Growth Equity	Ranked 7 out of 120	12 Quarters
1492 Small Cap Growth	U.S. Growth Equity	Ranked 13 out of 473	12 Quarters
1492 Small Cap Growth	U.S. Equity (All Styles)	Ranked 19 out of 1490	12 Quarters

At the time of our November 15th 2018 update, the Russell 2000 Index had declined from over a +14.6% gain through August to a +0.32% gain in mid-November. It then plummeted for an additional five weeks to finish the year down -11.01%. However, year to date through February 15th, the index has now ricocheted to a whiplash inducing +16.52% gain, and you can almost hear *The Lego Movie* "Everything is Awesome" theme song playing down on Wall Street. As government shutdowns come and go and trade negotiations progress, the market has steamrolled back to a risk-on mentality in early 2019. While Technology is in the pole position for sector performance with +21.4% year to date and +12.7% three month returns, the 2018 worst performing sectors of Energy and Materials have come roaring back to life with year-to-date gains of 20.8% and 20.1%, respectively, for the second and third place finishes. Despite its recent gains, Energy is still the worst performing sector over the last three months with a -10.8% decline while Consumer Staples is down -2.9%. All Russell 2000 Index sectors are positive year to date, but the 2018 best performing sector Utilities has moved from first to worst in the risk-on melt up and resides at the bottom with a +7.1% gain thru February 15th.

As fourth quarter results have been reported for roughly 40% of our strategies' holdings thus far, 80%, 78%, 77% of the companies in the 1492 Small Cap Core Alpha, 1492 Small Cap Growth and 1492 Small Cap Value strategies, respectively, have met or exceeded consensus fourth quarter earnings expectations as provided by FactSet Analytics. All three strategies posted strong earnings performance within our healthcare, transportation, and technology holdings.

The question that is throbbing inside investors' heads is can this rally to start 2019 be sustained? As we mentioned in our fourth quarter 2018 newsletter, the average return for the following year has been a healthy 25.0% for small caps after a selloff of the December quarter's magnitude. This return level also coincides roughly with the historical expected 12 month return following November mid-term elections that we discussed in our last mid-quarter update. While we would anticipate some near term profit-taking after this quick advance, may the proverb of history repeating itself ring true in 2019 for strong small cap

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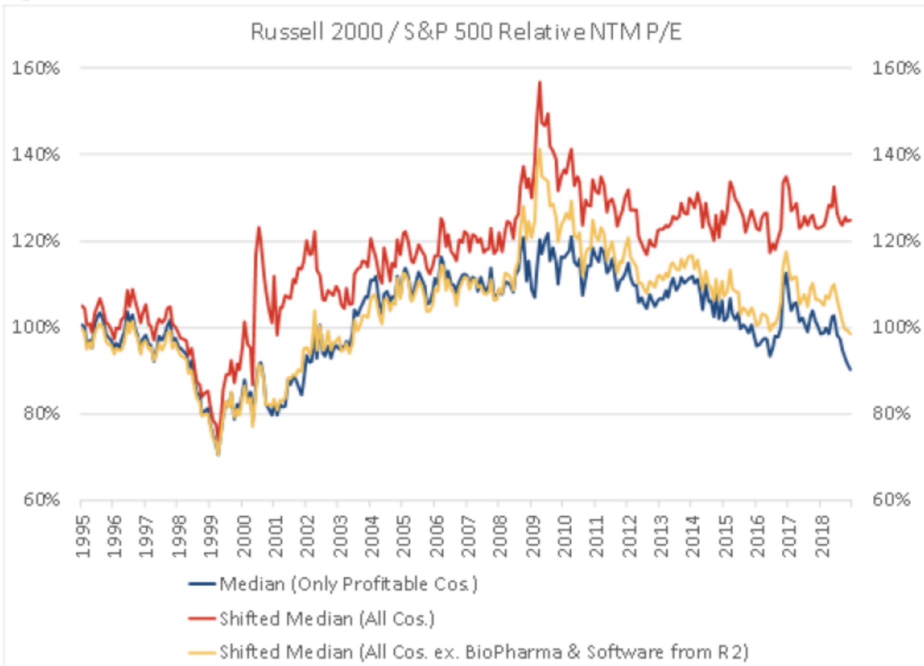
performance. With respect to relative valuation at year end 2018, small cap stocks were also posting their cheapest valuations relative to large caps since 2003 as seen in the chart below from Furey Research Partners. When you consider only profitable small cap companies in this analysis, the valuation is particularly attractive as shown by the blue line in this chart. While consensus Russell 2000 earnings growth of 13% in 2019 will most likely be revised down in the months ahead as it usually starts the year at its high, healthy earnings growth, compelling valuation, and market history allow us to remain positive on small cap performance in 2019.

Small Cap Relative Valuations Now At Fifteen Year Lows

Fig 79. **Relative valuation is at its lowest since 2003**



Source: FRP and FactSet; as of 12/31/18

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

Important Disclosures:

(1) 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.

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