



## 1492 Vantage Point – Mid-Quarter Update

We are again pleased to announce that 1492 Capital Management has been named a Top Gun<sup>(1)</sup> by Informa Investment Solutions' PSN manager database, North America's longest running database of investment managers. With our long-term, thematic investing focus, we are excited that the 1492 Small Cap Core Alpha strategy achieved a 3 Star rating as the eighth best performing strategy in their Small-Mid Core Universe for the three year period ended June 30, 2019.

At the time of our last update on May 15<sup>th</sup>, the Russell 2000 Index had spent the previous three months retreating by a little over a percentage point. As we discussed then, we expected and received a sideways market due to profit taking after a great start to 2019 and due to Chinese trade talk concerns. However, over the last three months, the index has surrendered roughly 40% of its year-to-date through May 15<sup>th</sup> advance of +15.35%, landing at a +9.30% gain year-to-date through August 15<sup>th</sup>. Most of this damage has occurred in the first two weeks of August as fear of a lengthy trade battle with China has once again spooked investors. In fact, only one sector has posted marginally positive performance over the last three months with our top two performing sectors of Utilities and Healthcare up +0.8% and down -2.6%, respectively. Needless to say, this sector leadership is reflective of defensive investing as investors wait out the trade uncertainty and its earnings impact. Our two worst performing sectors are Energy and Consumer Discretionary which recorded declines of -29.0% and -9.0%, respectively, over the last three months. On a year-to-date basis for the Russell 2000 Index, Technology and now Utilities occupy the top two positions with +17.9% and +12.5% gains, respectively, and Energy and Consumer Staples are the worst performers with a -17.5% decrease and a +3.7% increase, respectively. Energy has plummeted from the second best performer year-to-date to the worst performer during the last three months due to global oil demand concerns and continued U.S production growth.

With second quarter results recorded for roughly 80 % of our strategies' holdings thus far, 76%, 79%, 70% 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 second quarter earnings expectations as provided by FactSet Analytics. The Value and Growth strategies saw much improved meet or beat earnings performance when compared to the first quarter 2019 results, and the Core Alpha strategy was basically flat sequentially. Technology and Financials holdings recorded strong performances across the strategies, but Consumer Discretionary was a weak spot in the 1492 Small Cap Core Alpha and 1492 Small Cap Value portfolios.

Interestingly, Wall Street has labelled the Fed's recent and expected interest rate cuts as "insurance" cuts that are occurring while the U.S. economy is still performing reasonably well. This type of interest rate cut was also witnessed in 1995 and 1998, which were periods of 75 basis point rate reductions over seven and two months, respectively. With all of the concerns around trade, multi-year low U.S. treasury yields, turmoil in Argentina and Hong Kong, and strong performance from perceived safe havens of gold and gold stocks in 2019, our wheelbarrow full of worries is no doubt getting heavy. Nevertheless, if history can repeat itself or at least rhyme like author Mark Twain suggested, we should be well positioned for attractive

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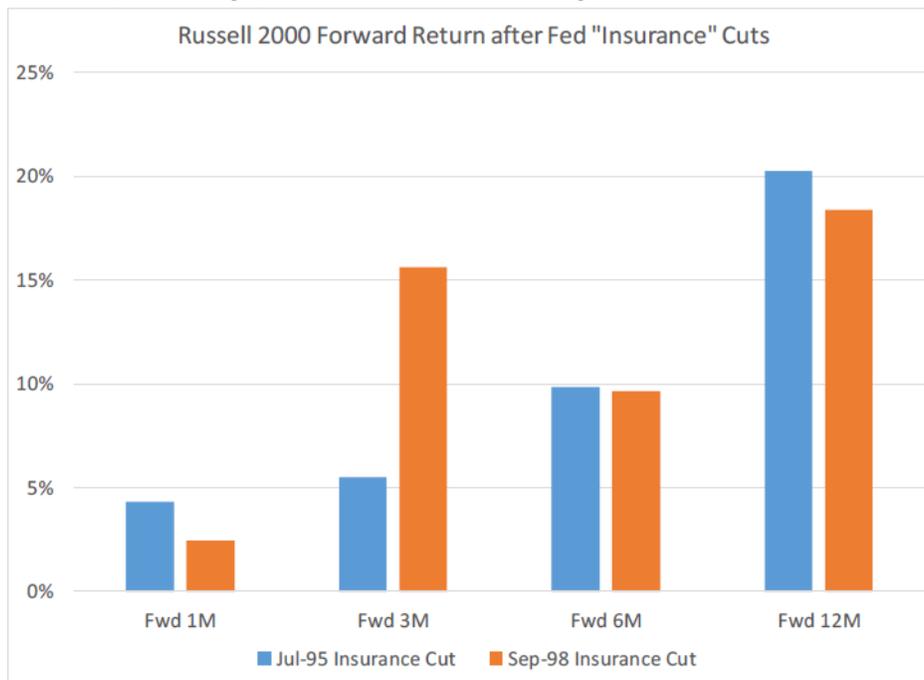
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small cap stock returns over the next six to twelve months. As seen in the chart below from Furey Research, the Russell 2000 Index recorded over 19% returns, on average, in the 12 months following the first “insurance” rate cut.



Source: FRP, FactSet; as of 8/12/19

In addition and as we mentioned in our second quarter 2019 newsletter, there remains a cruise ship-sized 12 month outperformance gap between the S&P 500 index's return of +3.1% and the Russell 2000 Index's return of -11.3% though August 15<sup>th</sup> that historically results in small cap relative outperformance over the following 12 months. Here's hoping for these small cap rhymes to be realized. Lastly, median earnings growth in 2020 is expected to be noticeably stronger in the Russell 2000 Index vs the S&P 500 at 13.9% vs 9.1% after 4.8% vs 5.8% median earnings growth in 2019, respectively.

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](http://www.1492capitalmanagement.com)

### Important Disclosures:

(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, earning a 3 Star rating for the Small Cap Core Alpha as the eighth best performing strategy in their Small-Mid Core Universe for the three year period ended June 30, 2019.

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](mailto: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>

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