



# GRAYCELL SMALL CAP™

PRUDENCE • PATIENCE • PERFORMANCE

APRIL 2017

www.GraycellAdvisors.com

## Portfolio

|    | Name                    | Symbol      | Added In | Current Price | Action   |
|----|-------------------------|-------------|----------|---------------|----------|
| 1  | Kronos Worldwide Inc    | <b>KRO</b>  | Dec-2016 | \$16.43       | Maintain |
| 2  | Achaogen Inc            | <b>AKAO</b> | Jan-2017 | \$25.23       | Maintain |
| 3  | Portola Pharmaceuticals | <b>PTLA</b> | Feb-2017 | \$39.19       | Maintain |
| 4  | Esperion Therapeutics   | <b>ESPR</b> | Mar-2017 | \$35.31       | Maintain |
| 5  | TG Therapeutics         | <b>TGTX</b> | Apr-2017 | \$11.65       | New Buy  |
| 6  | Restoration Hardware    | <b>RH</b>   | Apr-2017 | \$46.26       | New Buy  |
| 7  | Applied Optoelectronics | <b>AAOI</b> | Apr-2017 | \$56.15       | New Buy  |
| 8  | Nutrisystem Inc         | <b>NTRI</b> | Apr-2017 | \$55.50       | New Buy  |
| 9  | Kemet Corp              | <b>KEM</b>  | Apr-2017 | \$12.00       | New Buy  |
| 10 | Arcos Dorados           | <b>ARCO</b> | Apr-2017 | \$8.05        | New Buy  |

## Portfolio Performance

|                               | YTD 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|-------------------------------|----------|------|------|------|------|------|
| <b>Graycell Small Cap</b>     | +12%     | 71%  | 15%  | 8%   | 97%  | 96%  |
| <b>Russell 2000 Index ETF</b> | +2%      | 19%  | -6%  | 4%   | 37%  | 15%  |
| <b>S&amp;P 500 Index ETF</b>  | +5%      | 12%  | 1%   | 13%  | 32%  | 16%  |

## Positions Closed this Month

|   | Name                 | Symbol      |
|---|----------------------|-------------|
| 1 | Array Biopharma Inc  | <b>ARRY</b> |
| 2 | Resolute Energy Corp | <b>REN</b>  |

|   | Name                   | Symbol      |
|---|------------------------|-------------|
| 3 | Century Aluminum       | <b>CENX</b> |
| 4 | Allegheny Technologies | <b>ATI</b>  |

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## Portfolio Update

Last month, the market broadly consolidated, pulling back to key support levels and thereafter edging higher. The small cap stocks, represented by the Russell 2000 index, pulled back more than the larger-cap indexes. The decline and consolidation action in the small caps is more reflective of a normal market reaction, after a relentless rise since November 2016, rather than a change of market trend.

As highlighted in our recent posting, [The Relentless Stock Market](#), the valuations have been significantly assisted by fundamentals, as well as anticipation of a more pro-growth policy agenda, particularly corporate tax cuts. After the on-and-off health care repeal, the administration may just clear the desk for an all-hands focus on corporate tax breaks, and even set aside, for now, an earlier goal of tax reform, which can be a lengthier and trickier issue.

We believe April has the potential to be a stronger month as the market begins to reflect on first quarter earnings in about a week's time. We believe the earnings will continue to demonstrate strong momentum. At the same time, we also foresee two imminent risk points—uncertainty on a timely expansion of the budget ceiling, expected to be reached by April 28, to avoid a government shut-down, and expectation of policy clarity on reducing prescription drug prices which will have an out-sized favorable or adverse impact on biotechnology and health care stocks.

The Graycell Small Cap Portfolio inched up +2% during March compared to an unchanged Russell 2000 index. For the year the Small Cap portfolio is up +12% compared to benchmark Russell performance of +2%. At this time we are again fully invested, up from our 80% exposure last month.

|                           | Graycell<br>Small Cap | Russell<br>2000 Index | S&P 500<br>Index |
|---------------------------|-----------------------|-----------------------|------------------|
| <b>3-Year (2014-16)</b>   | 111%                  | 22%                   | 29%              |
| <b>\$10,000 Portfolio</b> | \$21,074              | \$12,200              | \$12,864         |
| <b>5-Year (2012-16)</b>   | 716%                  | 197%                  | 97%              |
| <b>\$10,000 Portfolio</b> | \$81,602              | \$29,747              | \$19,742         |
| <b>11-Year (2003-16)</b>  | 21203%                | 155%                  | 111%             |
| <b>\$10,000 Portfolio</b> | \$2,130,342           | \$25,505              | \$21,084         |

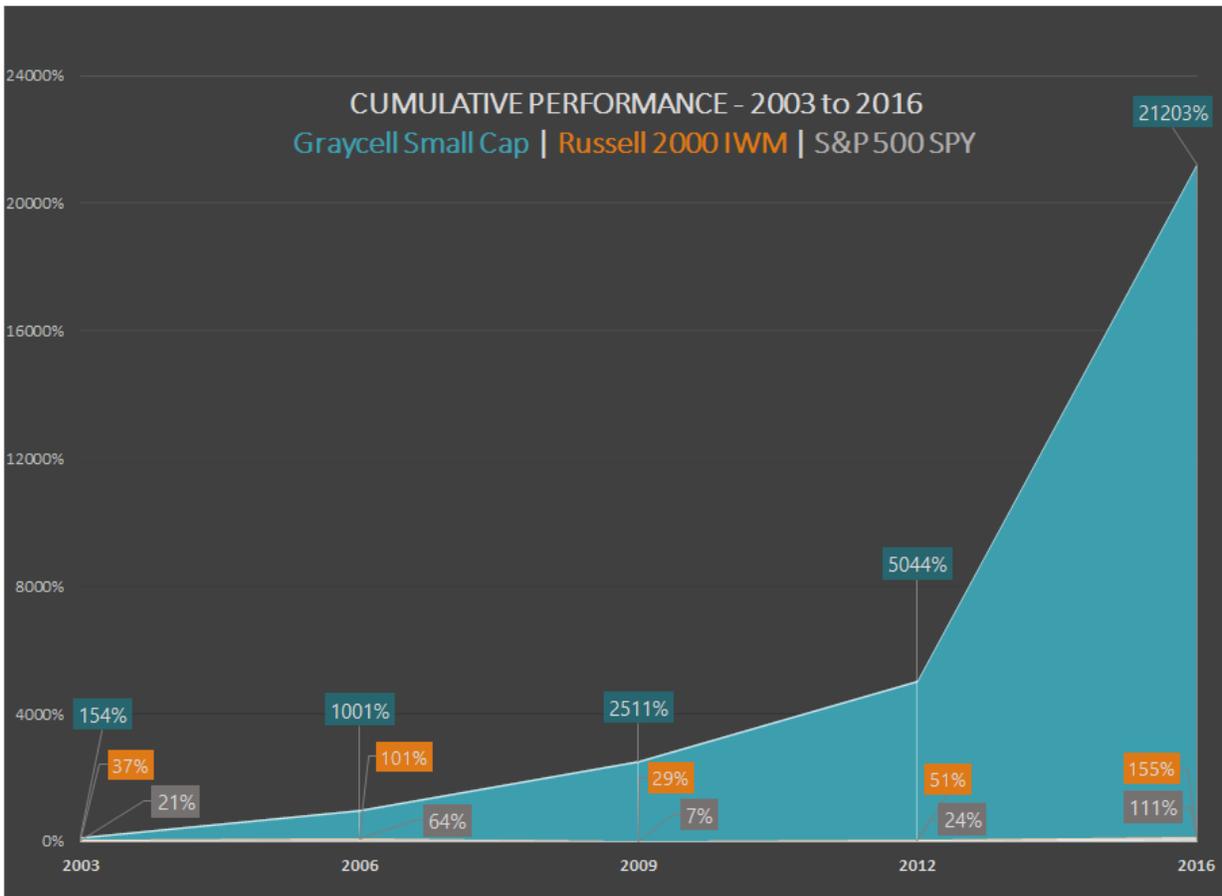
"If you do fundamental trading, one morning you feel like a genius, the next day you feel like an idiot...by 1998 I decided we would go 100% models...we slavishly follow the model...and that turned out to be a wonderful business."

Jim Simons, Founder of hedge fund, Renaissance Technologies

\* May 2003 - May 2009 & 2012 - 2016 | Smallcaps are \$200 million - \$3 billion marketcap | SPY & IWM for indexes

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During the period 2003 to 2016, the Graycell Small Cap portfolio was up over 21,000%, compared to its small cap benchmark Russell 2000 index performance of 155% over the same period, and the other major benchmark index S&P 500 also trailing heavily at 111%. The performance period is from May 2003 to May 2009, and thereafter from 2012 to 2016. A \$10,000 starting portfolio tracking the Graycell Small Cap model would have surged to \$2.1 million over an actual period of less than 10 years. This compares to the same portfolio invested in the Russell 2000, growing to ~\$25,000, and when invested in S&P 500 growing even less to ~\$17,000.

How did it happen? We follow our quantitative system, and stick to it. Discipline, Patience and Consistency are important keys towards building Wealth.

Please note that model historical performance for all periods is hypothetical and unaudited, and will vary when we revise and change models without any notice.

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## About

We use disciplined systematic investing using quantitative models, aiming to outperform the market. My name is Tarun Chandra, and I'm the Editor of our model portfolio service. I was an Analyst on Wall Street on the Buyside & Sellside for 8 years. Thereafter, I worked with technology companies in a Strategy/Finance role. For many years I've been working on quant models, and believe this targeted product can tap into the potential of the Small Cap segment while managing and surviving its volatility.

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