



# GRAYCELL SMALL CAP™

PRUDENCE • PATIENCE • PERFORMANCE

JANUARY 2019

GraycellAdvisors.com

## Portfolio

	Name	Symbol	Added to Portfolio	Current Price	Action
1	Tandem Diabetes Care	<b>TNDM</b>	Aug-2018	\$37.97	Maintain
2	BioScrip	<b>BIOS</b>	Dec-2018	\$3.57	Maintain
3	Vericel Corp	<b>VCEL</b>	Dec-2018	\$17.40	Maintain
4	CareDx	<b>CDNA</b>	Dec-2018	\$25.14	Maintain
5	Xperi Corp	<b>XPER</b>	Jan-2019	\$18.39	New Buy
6	No Position				Cash
7	No Position				Cash
8	No Position				Cash
9	No Position				Cash
10	No Position				Cash

## Portfolio Performance

	2018	2017	2016	2015	2014	2013
Graycell Small Cap	+8%	37%	71%	15%	8%	97%
Russell 2000 ETF (IWM)	-11%	14%	19%	-6%	4%	37%
S&P 500 Index ETF (SPY)	-5%	21%	12%	1%	13%	32%

## Positions Closed This Month

	As of Dec 9 Update			As of Dec 19 Update			As of Jan 1	
1	Trivago NV	<b>TRVG</b>	1	Proqr	<b>PRQR</b>	1	Ren. Energy	<b>REGI</b>
2	Crocs	<b>CROX</b>	2	Veracyte	<b>VCYT</b>			

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## Portfolio Update

**U**ncertainty ruled in December, as a confluence of factors combined to create a vortex of volatility, deep enough to awaken the Bear. This was the worst December in stock market history since December 1931. The Bear took a big bite out of returns, pushing all major indexes into negative performance for 2018, with the S&P 500 down -6%, the Nasdaq down -4%, and the small cap Russell 2000 index down -11%. Doubts about the wisdom of the Federal Reserve's interest rate hike policy, trade tension with China, indiscreet comments by the Fed and White House, and a surprising government shutdown, all contributed to the fear of a recession. An economic growth moderation but not a recession is the more likely outlook for 2019, as discussed in the article, [\*Now Lets Go Find A Recession\*](#).

Thus, 2019 begins with a highly unsettled bearish backdrop, even though recession concerns for now appear overblown. The sentiment can improve on favorable comments from the Federal Reserve in January and a potential resolution of the trade conflict with China. To a smaller extent, the resolution of a government shutdown will assist; however, a prolonged shutdown beyond January will raise risk. We anticipate the major indexes to be positive for 2019, but the stock market will be more selective.

During December, the Graycell Small Cap Portfolio declined -7% and the benchmark Russell 2000 (IWM) index fell -12%. For the full year 2018, the model portfolio had a return of +8%, while the Russell index fell -11%. It is likely that the market will retest prior lows and consolidate. At this point, the portfolio remains 50% invested and further recalibration will be made based on market conditions.

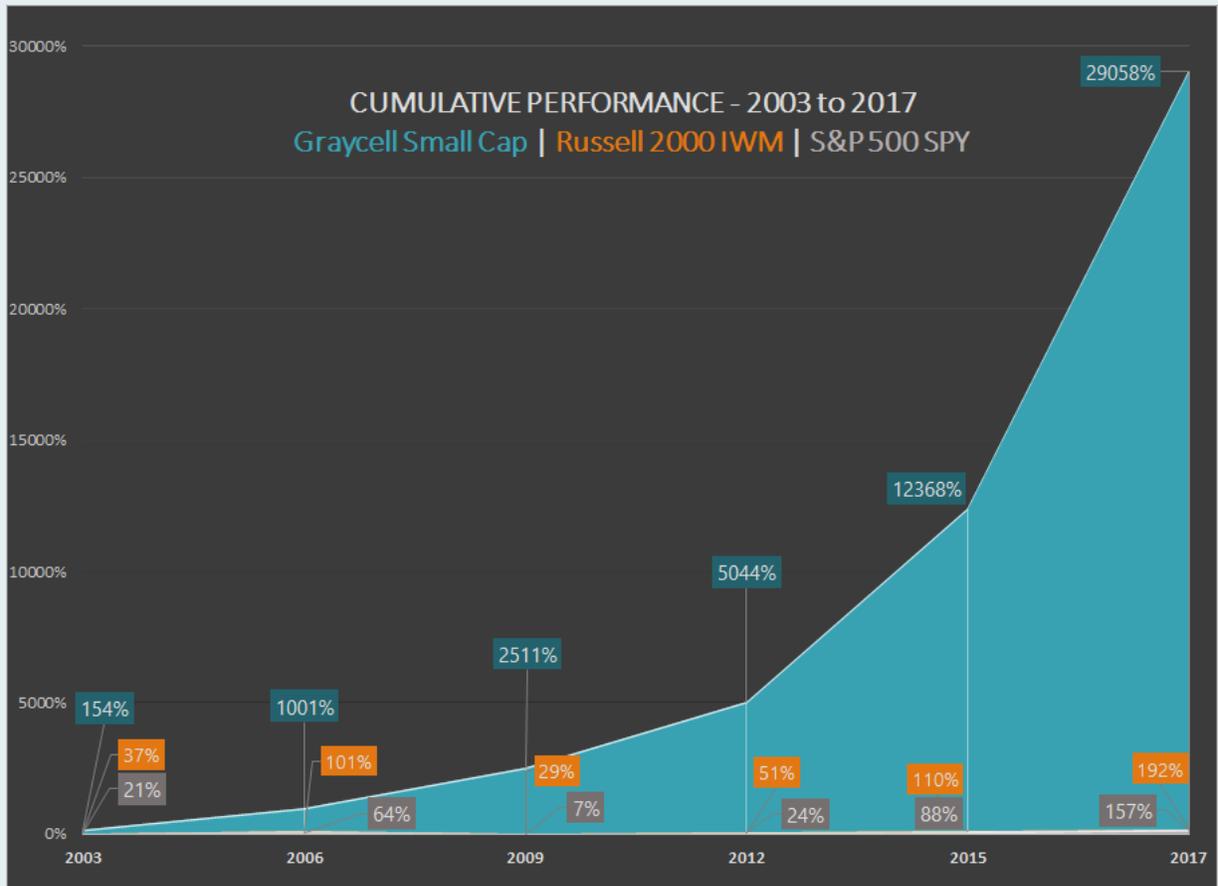
	Graycell Small Cap	Russell 2000 IWM	S&P 500 SPY
<b>3-Year (2015-17)</b>	168%	33%	38%
<b>\$10,000 Portfolio</b>	\$26,802	\$13,308	\$13,799
<b>5-Year (2013-17)</b>	467%	94%	107%
<b>\$10,000 Portfolio</b>	\$56,686	\$19,388	\$20,715
<b>12-Year (2003-17)</b>	29058%	192%	157%
<b>\$10,000 Portfolio</b>	\$2,915,800	\$29,224	\$25,661

"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

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During the period 2003 to 2017, the Graycell Small Cap portfolio was up over 29,000%, compared to its small cap benchmark Russell 2000 index performance of 192% 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 2017. A \$10,000 starting portfolio tracking the Graycell Small Cap model would have surged to over \$2.9 million over an actual period of less than 10 years. This compares to the same portfolio invested in the Russell 2000 growing to \$29,225, and when invested in S&P 500 growing even less to \$25,660.

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 model historical performance for all periods is hypothetical with no trades placed, unaudited, based on our past newsletters, will vary when we revise and change models without any notice, and is not indicative of future performance.

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## About

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

### Contact Us

support@GraycellAdvisors.com

[GraycellAdvisors.com](http://GraycellAdvisors.com)

*The issue is published during the first 3 business days of each month*

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