



GRAYCELL SMALL CAP™

PRUDENCE • PATIENCE • PERFORMANCE

JANUARY 2020

GraycellAdvisors.com

Portfolio

	Name	Symbol	Added to Portfolio	Current Price	Action
1	Cardlytics	CDLX	Jul-2019	\$62.86	Maintain
2	Everquote	EVER	Sep-2019	\$34.35	Maintain
3	Assembly Biosciences	ASMB	Nov-2019	\$20.46	Maintain
4	Limelight Networks	LLNW	Nov-2019	\$4.08	Maintain
5	Crocs	CROX	Nov-2019	\$41.89	Maintain
6	Kodiak Sciences	KOD	Nov-2019	\$71.95	Maintain
7	Momenta Pharmaceuticals	MNTA	Nov-2019	\$19.73	Maintain
8	Aurinia Pharmaceuticals	AUPH	Jan-2020	\$20.26	New Buy
9	<i>No Position</i>				Cash
10	<i>No Position</i>				Cash

Portfolio Performance

	2019	2018	2017	2016	2015	2014	2013
Graycell Small Cap	+27%	8%	37%	71%	15%	8%	97%
Russell 2000 (IWM)	+25%	-11%	14%	19%	-6%	4%	37%

Positions Closed This Month

	Name	Symbol
1	Natera	NTRA
2	Lattice Semiconductor	LSCC

	Name	Symbol
3	Triumph Group	TGI

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Portfolio Update

Small caps may finally be getting ready to shine. As we had noted in the last edition, small cap stocks are in a highly favorable environment where low rates, a stable economy, and a growing appetite for risk, is making the group attractive to investors. As the broader market has continued to make new all-time highs, it would come as a surprise that the small cap index is yet to eclipse the high it set in Aug 2018, over 1 ½ years ago. We may be approaching that point and believe it can happen in the first quarter.

Economic growth and low rates are key to small cap performance. With the economy steady around 1.5% to 2% GDP growth and the Fed is expected to hold rates for at least the first-half, it creates a favorable environment for stocks to do well, particularly if earnings growth resumes as expected. The signing of the first phase trade deal with China removes a highly disruptive element that was affecting the stock market and raising prices in the US. The deal will be a stimulus to global trade. However, it is at such moments when most key things appear to be heading in the right direction that unpleasant surprises strike. A case in point is the China tariff issue which began a year ago like a bolt out of the blue. Also, an election year can add its own surprises to the mix, particularly for healthcare and biotech stocks, as discussed in our [Biotech 2020 outlook](#). We expect small cap index to grow +15% in 2020.

In December, the Small Cap portfolio gained +21% and the Russell 2000 (IWM) index rose +2%. For 2019, the model portfolio gained +27% and the Russell index was up +25%. The risk environment is favorable, but we believe a near-term consolidation is possible. Earnings season begins later in Jan and will guide valuations. The model portfolio is 80% invested and we will adjust intra-month if required .

All of us at Gracell Advisors wish you a healthy and happy New Year!

Actual Published	Graycell Small Cap	Russell 2000 IWM	S&P 500 SPY
3-Year (2016-18)	152%	24%	30%
\$10,000 Portfolio	\$25,232	\$12,382	\$13,009
5-Year (2014-18)	211%	24%	49%
\$10,000 Portfolio	\$31,121	\$12,424	\$14,941
14-Year (2003-18)*	31360%	160%	145%
\$10,000 Portfolio	\$3,146,025	\$25,974	\$24,489

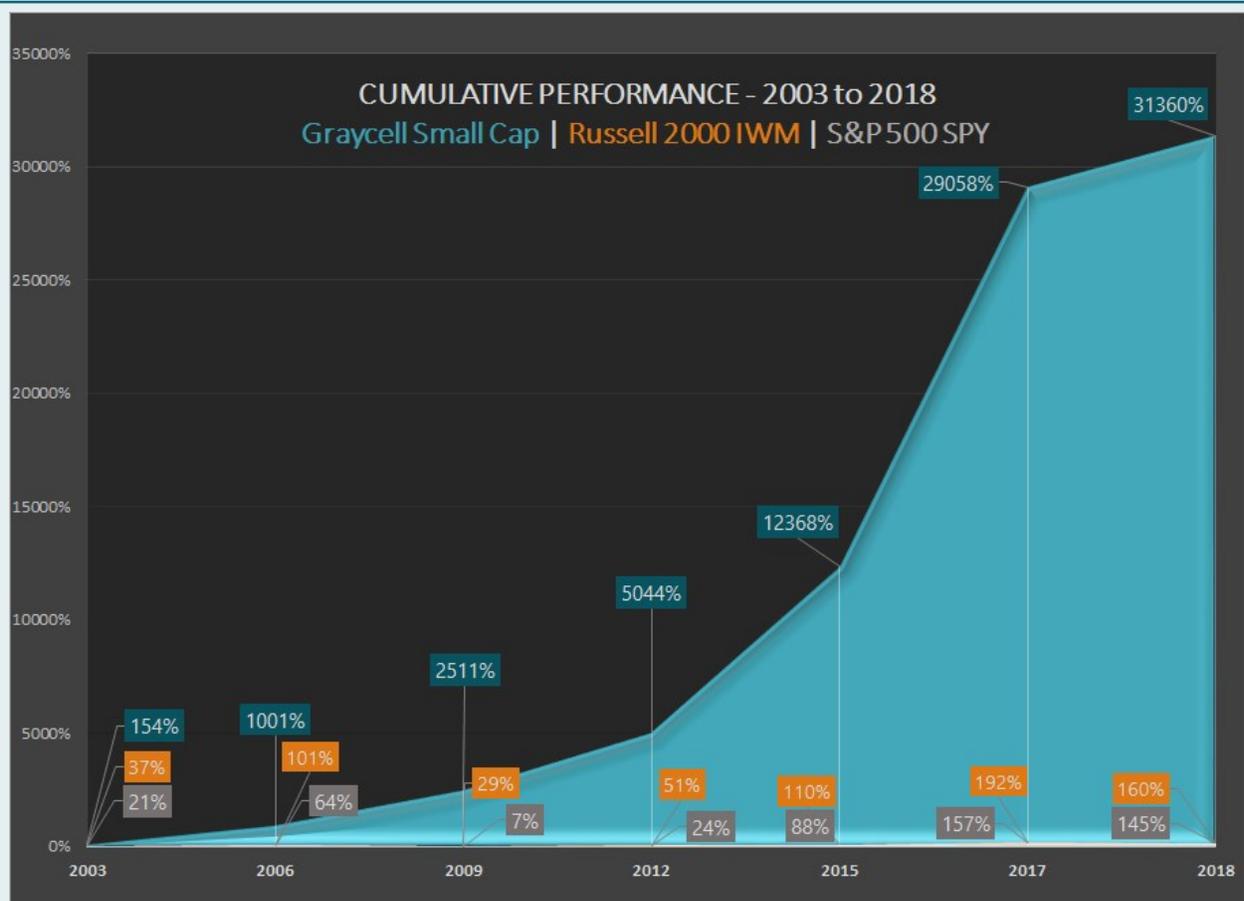
"If you do fundamental trading, one morning you feel like a genius, the next day you feel like an idiot...by 1998 I decided we would go 100% models...we slavishly follow the model...and that turned out to be a wonderful business."

Jim Simons, Founder of hedge fund, Renaissance Technologies

* Period from May 2003 to May 2009, and 2012 to 2018 | Smallcaps are \$200 million - \$3 billion marketcap

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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.

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

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