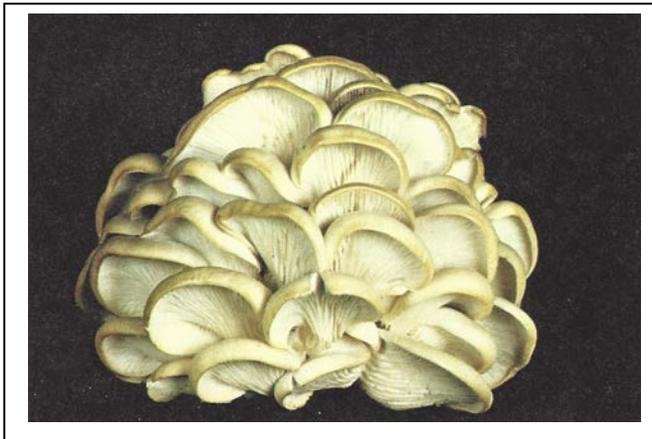


July 19, 2016

Dear PCM Clients and Friends:

We always look forward to May (mid-May specifically) when our favorite woodland treat emerges for about a two- to three-week period. We would be talking, of course, about the morel mushroom (*morchella esculenta*), the very best of the wild mushrooms. Unfortunately, this year was one of the worst in many years, too dry in the woodlands as the normal April rains came in late May, and the melting snow cover was just not sufficient to have enough moisture in the woodlands to bring them up in quantity. The key to a bumper crop of morels is rain in early to mid-May, then some warm weather—really warm. We got some mushrooms, but after giving some to friends and shipping some to Perk's sister, and having them with steaks several nights, they were gone. Not enough for dehydrating some, which we usually do, but we can't complain too much as we enjoyed what we had and have quite a few bags of previously dehydrated morels for future use in the winter.

It is already mid-July and the summer months will be gone too soon and autumn will be upon us with its wild mushrooms. The puffball (*calvatia gigantea*) is first, though for taste you can't beat the morel, but the puffball can be good if properly prepared. Then there is the sulphur shelf, which fruits on trees (*laetiporus sulphureus*) and the hen of the woods



(*grifola frondosa*), so-called because it looks like a chicken hunkered down in the leaves of the forest. Let's not forget the oyster mushroom (*pleurotus ostreatus*), which also fruits on trees or more often on a stump; these are pictured here. They are among the tastiest of wild mushrooms, much like the meadow mushroom (*agaricus campestris*) or champignon, which is very similar to the mushrooms that are in the store year-round. Last, but not least, of the mushrooms that fruit in the late summer

or fall is the shaggy mane (*coprinus comatus*), which is excellent when young, but the older it gets the less desirable it is.

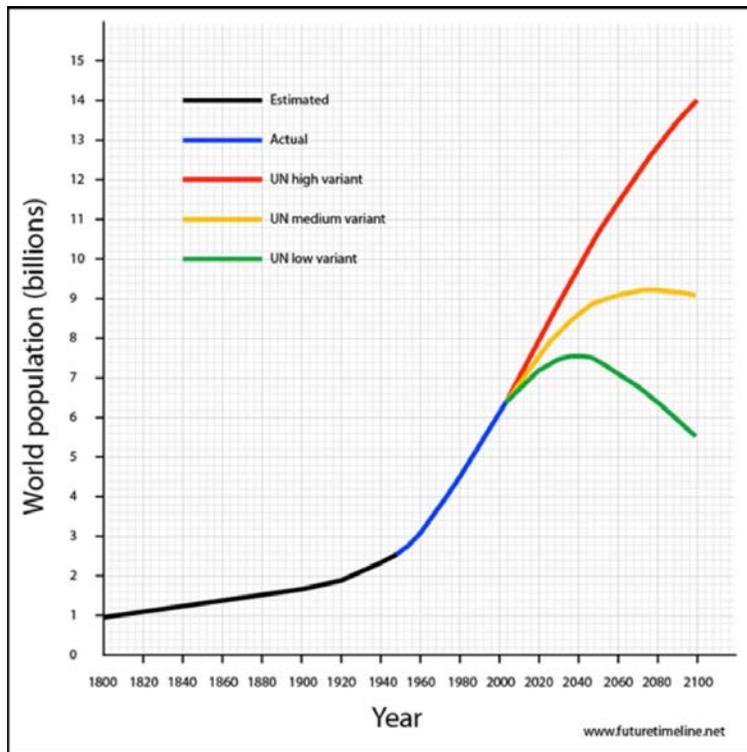
It is amazing to see the array of fresh mushrooms for sale in the grocery store these days, which are grown on mushroom farms. The morel has not yet been successfully grown, but not without trying on the part of many people. Whoever is successful would probably be an instant millionaire.

## A MESSAGE FROM PERK

We have often mentioned that we subscribe to many publications to get the views of our peers, and others, who likely know more than we do. My son Dick's father-in-law summed it all up when he said years ago, "You never know what you're going to know next."

In this quest for the views of others, we subscribe to a monthly publication called "*Nick Murray Interactive*," obviously written by one Nick Murray. As long time subscribers, we find that he has a lot of straight from the hip advice, and we look forward to each monthly issue. Obviously, all of this is leading up to what I want to say in this message—something that we have wrestled with for years, and that is the tendency to project a current trend into the future, a judgment made as the result of a need to make an estimate about a matter that is inherently uncertain. We must assume that what Nick Murray said in one of his recent letters is true: The title of that issue was *Extrapolating Our Way to Armageddon*." The story is that in 1894 *The Times of London* estimated that by 1950, some 56 years later, we would be buried in nine feet of horse manure. Similarly, a forecaster in New York concluded that by 1930 horse manure would rise to Manhattan's third-story windows. So in 1898 delegates from around the world met in New York for the first urban planning conference, which was occasioned by the crisis in all of the world's urban centers because of horse manure. The problem bore the earmarks of a disaster as the growth of the horse population was greater than the rise in human city dwellers, as more of them became able to afford a horse drawn carriage. Since these trends in place seemed unsolvable, the

conference ended early without a conclusion. Little did they know that the automobile was just around the corner, and would in turn solve the problem.



That brings us to the point of this message—namely that it is often futile, and dangerous to extrapolate current trends into the future. The first thing that comes to mind is a chart I recently saw projecting world population to the year 2100. At this time we are at the seven billion mark, up from about three billion in 1960, so it took 55 years to add four billion people. The chart shows the growth from 1800, and when acceleration began in 1960 and the trend from 1960 to the present is extrapolated into the

future with these scenarios: high, medium and low. But which is right, if any of them are, as it is as unpredictable as the horse poop situation many years prior. Just as the

automobile changed that unknowable, future events such as wars, famines, or epidemics could change the population projection. There are many other similar situations which come to mind that lend themselves to extrapolation. One certainly is entitlement spending (Medicare, Medicaid, Social Security and food stamps) which is all subject to extrapolating present trends into the future. Likewise, federal debt at over \$19 trillion, having been raised by 50% over the last two Obama terms. Nick Murray has the answer and that is that such extrapolations are of unsustainable trajectories. He notes that Herbert Stein, former chairman of the Council of Economic Advisers observed: "If something cannot go on forever, it will stop."

Of shorter duration, but nevertheless, using extrapolation again we think of crude oil when it was \$100 a barrel on its way to \$200, or Eastman Kodak whose lock on the camera business in the 1990s was taken away from it with the advent of the digital camera. Remember the book *The Great Depression of 1990*, by Ravi Batra, and published in 1985? After the crash of 1987 he seemed prescient and the book became a best seller. Well 1990 came and went, and doomsday was once again postponed, maybe forever. But, unfortunately, bad news sells—good news does not, which is why we see precious little good news on television or in the newspapers. Extrapolation of potential bad news into disastrous news is what people want to buy. Certain market letter writers and authors are always negative, and anything they can project into really bad future news can be counted on. In fact, people feel the pain of losses or potential losses much more than they feel the pleasure of gains. So people will go to great lengths to avoid losses or potential losses, which is why bad news or potential bad news sells.

The takeaway message here is to be cognizant of this tendency to project current trends into the future; always use logic or common sense in interpreting what others say the future may hold based upon past or current trends. This was written before the Brexit vote, which offers a perfect example of extrapolating an event into a calamity; let enough time pass to give common sense an opportunity to prevail.

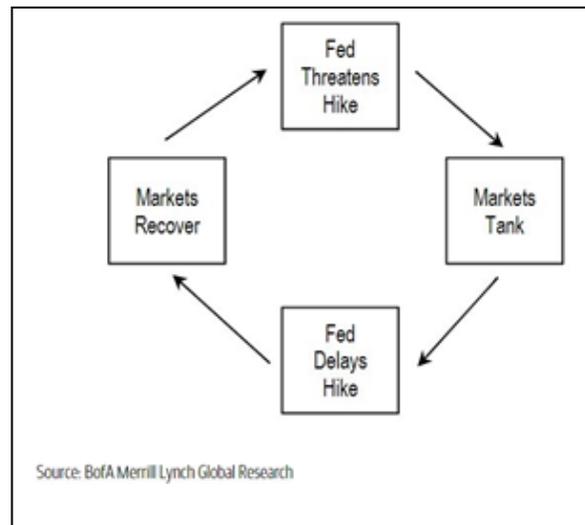
### MARKET SCOREBOARD

Indexes	% Return YTD 2016	% Return Q2 2016	% Return Q1 2016
S&P Small-Cap 600 Total Return	6.23	3.48	2.66
Russell 1000 Total Return	3.74	2.54	1.17
Russell 3000 Total Return	3.62	2.63	0.97
NYSE Composite	3.41	2.77	0.63
Value Line Composite	2.94	1.27	1.65
Dow Jones Industrial Average	2.90	1.38	1.49
S&P 500 Composite	2.69	1.90	0.77
Wilshire 5000	2.57	2.29	0.27
Russell 2000 Total Return	2.22	3.79	-1.52
NASDAQ Composite	-3.29	-0.56	-2.75

The NASDAQ stood out as the only negative in the second quarter and year-to-date performance numbers. For both the quarter and YTD small-caps did best, but the prominent market averages were up as well. All in all, a decent quarter and excellent YTD despite the Brexit unnecessary volatility in all the market averages.

## THE FED'S MERRY-GO-ROUND

Once again, despite a prolonged period in which the Federal Reserve prepared us for a mid-June hike in rates, mid-June came and went without one, just as in other recent periods. We call it the Fed's Merry-Go-Round strategy:

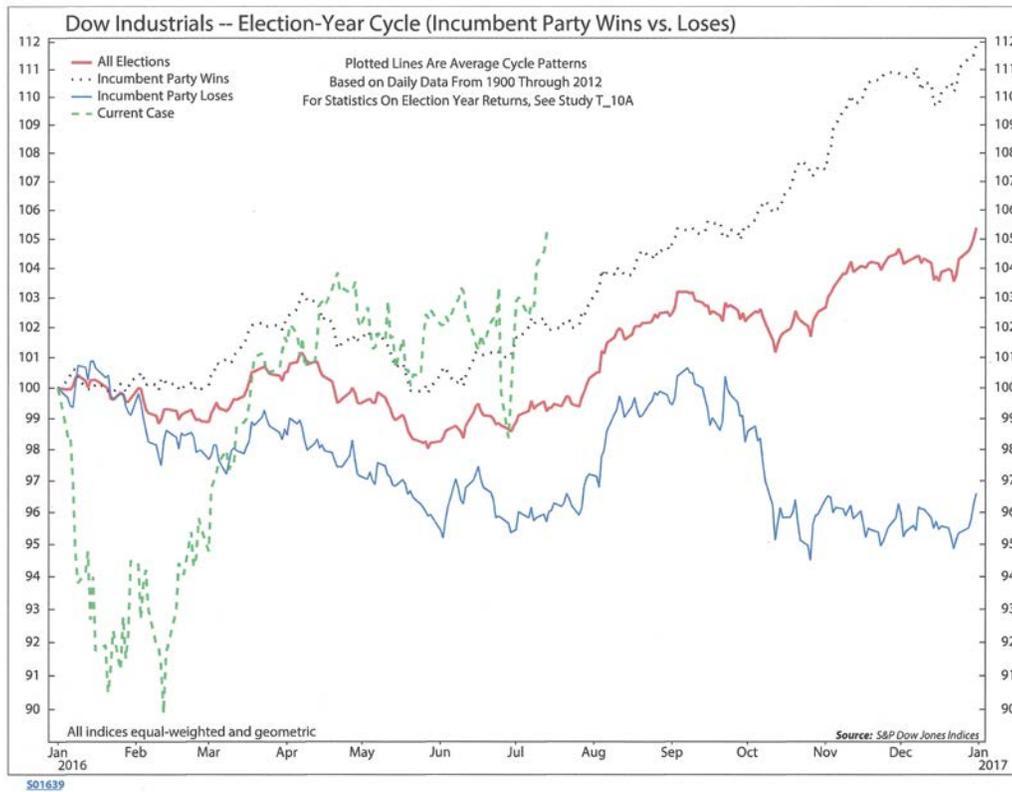


The announced reason for no change in rates was the uncertain job market, despite the improvement in the overall economy. We think the real reason was likely the European bank situation with interest rates below zero as well as the upcoming Brexit vote, which if in favor of a UK exit from the EU it could be a destabilizing event for the entire European Union with unknown repercussions for the U.S. The Brexit vote has now changed our view on rate increases this year. There may not be any or at most one late in the year, depending on future trends here and abroad.

## THE PRESIDENTIAL ELECTION STOCK MARKET

Over the years, there has been a pronounced tendency for the market to decline into mid-year, call it the mid-year slump or the result of the sell in May and go away notion or whatever you want. Certainly, New Yorkers take a summer retreat to the Hamptons or perhaps New England. And, of course, the Bostonians go further north in New England to places like Ogunquit or way up in Maine to Bar Harbor. Cite whatever reason you want, but that tendency exists, especially in election years as the chart, on the following page shows. But, the chart reveals more than that; if the incumbent political party wins the presidency the market continues higher, while if the challenger wins the market declines. This is the way it has been since 1900, a pretty good length of time for an accurate sample. Recent polls, as well as the [www.predictit.org](http://www.predictit.org) prognostications show that the betting is, at least for now, for the democrats to retain the White House which, of course, means the election of Hillary. The reason for a better market is the continuation of present policies, i.e., more socialism, and its giveaways, as well as spending on the economy ala

Obama. If the incumbent party loses i.e., Trump (or another GOP candidate) wins, the message is clear—reduced spending, the reeling in of giveaway programs and the



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possibility of an accompanying economic slowdown or a recession. So it is pretty clear—the anticipated election results are the market’s tea leaves. You can decide which result you prefer as we get closer to November!

One chart that may help direct us to a lower summer market is the Average Year of Crude Oil, shown here. We are all of aware of the big move in crude oil from below 30 to about 50 now, but looking at the 2016 chart on the next page, one would expect a right shoulder to develop taking oil back down to the level of last fall, about 40. That would pave the way for a move to 60 or so and an ultimate attack on the old 100 plus high. In the recent past, the market followed the price of oil, and if it does that again we could see lower stock prices in the weeks ahead as oil declines. All of which would fit perfectly with the election year scenario.



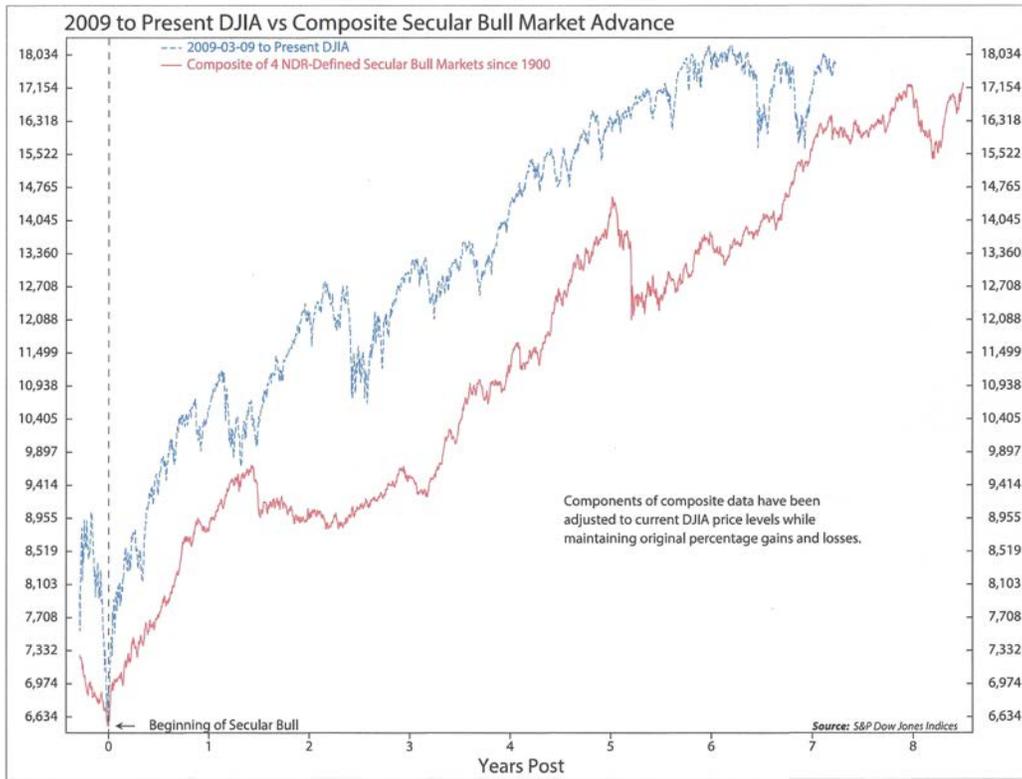
Oil, shown here. We are all of aware of the big move in crude oil from below 30 to about 50 now, but looking at the 2016 chart on the next page, one would expect a right shoulder to develop taking oil back down to the level of last fall, about 40. That would pave the way for a move to 60 or so and an ultimate attack on the old 100 plus high. In the recent past, the market followed the price of oil, and if it does that again we could see lower stock prices in the weeks ahead as oil declines. All of which would fit perfectly with the election year scenario.



However, we do not expect any summer weakness to last long as we should witness strength coming out of the summer bottom rallying into September/October until everyone begins to access the presidential race making a judgment call on the outcome. Refer again to the election chart for insight into this thought.

Compared to other secular bull markets going back to 1900, this market should have a little juice left in it as shown in the accompanying chart. All things considered, the Brexit market decline was modest compared to others, such as October 1987 when the Dow fell 23%. We do not feel the Brexit repercussions will be that negative, and continue to expect better prices ahead when the dust settles. In fact, one week later the Dow, S&P 500 and NASDAQ were all within just a few points of where they were before the vote!

We do expect new highs in the market averages this year (the S&P 500 & Dow just did make new highs), but caution that this market is getting “a little long in the tooth” and is, in fact, turning out to be one of the longest bull markets on record. Our friend and technician, Walter Deemer, refers to it as a bull market extension, one of four by his measure: 1961, 1987, 2007, and now. His analysis shows that the declines after those extensions were more severe than average at 29%, 41% and 58%. In each case, the extensions gave the excesses of the preceding bull market more time to build up. In the current instance, he thinks the Fed’s quantitative easing will be shown to be the reason. A recent bullish occurrence, however, is the recent Deemer report of “Breakaway Momentum” which implies a very strong market ahead. This is the 21<sup>st</sup> time since 1949 that this has happened, which suggests that a significant decline has been postponed for now. However, we have always been careful watchers of the individual stocks in the portfolios we manage and are always willing to sell when it is the practical thing to do. But, it is often wrong to sell too soon, so “watchful waiting” is the right approach in our view.



### THE BREAKING POINT

The Brexit vote in the UK is remindful of a Peasant’s Revolt in days of yore when they shouted “Down with the King.” Today it is not the king, but the establishment, much as we have seen in the United States with Donald Trump who represents those who want their country back, with immigration controls at the front of the changes. It is here, as well as in other countries; the underlying cultural phenomenon is a rejection of the establishment and the embracement of populism. Likewise, in Britain, where a slim majority want their country back, and by that they mean cutting loose from Brussels and their establishment rules and securing their own borders. England now, especially London, is made up of many diverse cultures, and many Brits are not happy about it, just as we are not happy in our culture with all the changes which we must accept, like it or not. The UK has never really embraced the EU for at the beginning it kept its own currency, the pound, and did not embrace the euro, just as Sweden did not accept the euro and kept the krona. Multiculturalism is deemed not to have succeeded, although globalism has. Perk says he saw the beginning of this 40 years or more ago, especially in England. The small groceries all of a sudden were run by Pakistanis and he quit staying at his favorite hotel because it became so multicultural so quickly. And this has continued by one hundred fold or more over the years.

Many of the other EU members feel as Britain did and they are likely to have a similar vote; Sweden, for example, has been sending migrants (immigrants) back where they came from. Pre-Euro days, each country had its own secure border, but that is no longer true, as the EU demands free movement throughout Europe, although some countries have erected barbed wire fences to turn them away. In the end, much of the anti-EU sentiment is about immigration—hence the British cry “We want our country back.” But it may be too little, and too late. It is difficult, if not impossible, to put the toothpaste back in the tube. Along with the migrants come different religious views and mores, especially about the treatment of women, or lack of it. The western culture values are far afield from those of the MENA countries. Many religious wars were fought over the years because of these different customs, and this may be one too, but of a different nature. The bottom line is that the European Union is in the early stages of breaking up, and that may take as many years as it took to build it. We were skeptical at the beginning (see our July 25, 2005 letter) and we are now. It is true that the EU is failing badly with its prime goal of creating a more vibrant European economy. As Britain’s Daniel Hannan, a member of the European Parliament said, “The year we joined, 1973, the 28 countries that now make up the EU were 36% of the world’s economy, last year it was 17% and falling.”

Italy wants out, and their lira back; so does Greece and its drachma. France is one of the biggest EU skeptics as 61% have an unfavorable view of the union, and the right-wing National Front Party, which is gaining more power under the party’s leader, Marine Le Pen, is known to support a Frexit. Likewise, Geert Wilders, the head of the right-wing Populist Party in the Netherlands, has supported Brexit and hopes for a similar referendum to take place in the Netherlands. Surely others will follow as well, but some, such as Scotland want membership based on their own stay voting, which may need to be preceded by a vote to exit Great Britain creating a separate Scotland, after all. But by then there may not be a functioning EU that they would want to join.

### IN THE NEWS

Much ado is being made these days about sugar in our diets. The FDA has now declared that henceforth labels shall have a separate line for “added sugar” as contrasted with the natural sugar in the product. Finally, after forty years, the government has recognized what many of us knew all along—and that is additional sugar is what causes obesity, not to mention other ills such as diabetes. This was all pointed out in William Dufty’s *Sugar Blues*, first published in 1975. We have written about this many times in these pages, as recently as July 2012. If you have not read this book you should; it would give you important information that could affect your health and longevity.

Of note also is the ban on plastic bags that was passed nearly unanimously by the Minneapolis Council to start next April. Other cities have done the same, albeit, some time ago. We are just playing catch up. Our cartoon speaks to this issue.

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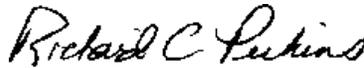
“It’s paradoxical that the idea of living a long life appeals to everyone, but the idea of getting old doesn’t appeal to anyone.”– Andy Rooney

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Sincerely,



Richard W. Perkins, C.F.A.  
President  
Senior Portfolio Manager

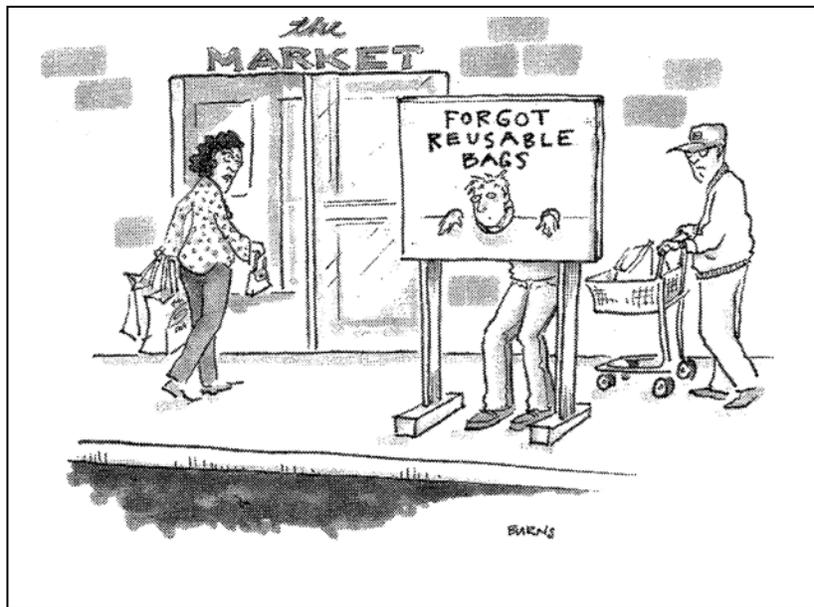


Richard C. Perkins, C.F.A.  
Executive Vice President  
Portfolio Manager



Daniel S. Perkins, C.F.A.  
Executive Vice President  
Portfolio Manager

RWP:RCP:DSP/jah



JOKE PAGES FOLLOW 

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## PLANNING AHEAD

Dan was a single guy living at home with his father and working in the family business. When he found out he was going to inherit a fortune when his sickly father died, he decided he needed to find a wife with whom to share his fortune.

One evening, at an investment meeting, he spotted the most beautiful woman he had ever seen. Her natural beauty took his breath away. "I may look like just an ordinary guy," he said to her, "but in just a few years, my father will die and I will inherit \$200 million."

Intrigued and impressed, the woman asked for his business card; three weeks later she became his stepmother.

## IRISH HUMOR

A London lawyer runs a stop sign and gets pulled over by an Irish cop. He thinks he's smarter than the cop because he's a lawyer from London and is certain that he has a better education than any Irish cop.

Irish cop says, "License and registration, please."

London lawyer says, "What for?"

Irish cop says, "Ye didnae come to a complete stop at the stop sign."

London lawyer says, "I slowed down, and no one was coming."

Irish cop says, "Ye still didnae come to a complete stop. License and registration, please?"

London lawyer says, "What's the difference?"

Irish cop says, "The difference is, ye huvte come a to complete stop, that's the law. License and registration, please?"

London lawyer says, "If you can show me the legal difference between slow down and stop, I'll give you my license and registration and you give me the ticket. If not, you let me go and don't give me the ticket."

Irish cop says, "Sounds fair. Exit your vehicle, sir."

The London lawyer exits his vehicle.

The Irish cop takes out his baton and starts beating the living crap out of the lawyer and says, "Daeye want me to stop or just slow down?"

## NORWEGIAN HUMOR

Lena called the airlines information desk and inquired, "How long does it take to fly from Minneapolis to Fargo?" "Just a minute," said the busy clerk. "Vell," said Lena, "if it has to go dat fast, I tink I'll yust take da bus."

-----

The judge had just awarded a divorce to Lena, who had charged non-support. He said to Ole, "I have decided to give your wife \$400 a month for support." "Vell, dat's fine, Judge," said Ole. "And vunce in a while I'll try to chip in a few bucks, myself."

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Lars asked Ole, "Do ya know da difference between a Norwegian and a canoe?" "No, I don't," said Ole. "A canoe will sometimes tip," explained Lars.

-----

Ole is so cheap that after his airplane landed safely he grumbled, "Vell, dere gose five dollars down da drain for dat flight insurance!"

-----

Lars: "Ole, stant in front of my car and tell me if da turn signals are working." Ole: "Yes, No, Yes, No, Yes, No, Yes, No...."

-----

Ole and Lena got married. On their honeymoon trip they were nearing Minneapolis when Ole put his hand on Lena's knee. Giggling, Lena said, "Ole, you can go a little farther now if ya vant to." So Ole drove to Duluth.

-----

Ole died. So Lena went to the local paper to put a notice in the obituaries. The gentleman at the counter, after offering his condolences, asked Lena what she would like to say about Ole. Lena replied, "You yust put 'Ole died.'" The gentleman, somewhat perplexed, said, "That's it? Just 'Ole died' surely, there must be something more you'd like to say about Ole. If it's money you're concerned about, the first five words are free. You must say something more." So Lena pondered for a few minutes and finally said, "O.K. You put 'Ole died. Boat for sale.'"

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"Hey, Sven," said Ole, "how many Swedes does it take to grease a combine?" Sven replied, "I don't know." Ole said, "Only two, if you run them through real slow."

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Ole and Lars were on their very first train ride. They had brought along bananas for lunch. Just as they began to peel them, the train entered a long, dark tunnel. "Have you eaten your banana yet?" Ole asked excitedly. "No," replied Lars. "Vell, don't touch it den," Ole exclaimed. "I yust took vun bite and vent blind!"

-----

Ole bought Lena a piano for her birthday. A few weeks later, Lars inquired how she was doing with it. "Oh," said Ole, "I persuaded her to svitch to a clarinet." "How come?" asked Lars. "Vell," Ole answered, "because vith a clarinet she can't sing."

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Ole and Lena went to the Olympics. While sitting on a bench, a lady turned to Ole and said, "Are you a pole vaulter?" Ole said, "No, I'm Norwegian and my name isn't Valter."

-----

Ole was arrested one night while walking bare naked down the streets of the little town of Minnetonka, Minnesota. The policeman, who was a good friend of Ole's said, "Ole...What in the world are you doing? Where are your clothes? You're naked." "Yah, I know," said Ole. "You see, I vas over to dat 'playboy' Sven's for his birthday party. Dere vas about 28 of us. Der vas boys and girls."

"Is that right?" his policeman friend asked. "Yah, yah, anyway, dat Sven, he says, 'Everybody get into the bedroom!' So vee all go into the bedroom, where den he yells, 'Everybody get naked!' Vel, vee all got undressed. Den he yells, 'Everybody go to town!'" "Oh, my!" Exclaimed the policeman. "Yah, yah. I guess I'm the first one here."

---

Ole was stopped by a game warden in northern Wisconsin recently leaving a lake well known for its Walleyes. He had two buckets of fish. As it was during the spawning season, the game warden asked, "Do you have a license to catch those fish?" Ole replied, "No, sir! Dese here are my pet fish." "Pet fish?" the warden replied. "Ya sure, you betcha" answered Ole.

"Every night I take dese fish here down to da lake and let dem svim around for a while. Den I whistle and dey yump back into deir buckets and I take dem home." "That's a bunch of hooley. Fish can't do that." Said the game warden. Ole looked at the game warden with an expression of great hurt, and then said, "Yumpin Yimminy! Vell den, I'll just show you den. It really does vork, don'tcha know?" "O.K. I've got to see this!"

The game warden was really curious now. So Ole poured the fish into the lake and stood waiting. After several minutes, the game warden turned to Ole and said, "Well?" "Vell vat?" responded Ole. "When are you going to call them back?" "Call who back?" asked Ole. "The fish!" "Vat fish?"

---

To those in North Dakota, Minnesota, and for that matter the rest of the country, including Canada, I must report the sad news that Ole was shot. He was up by the Canadian border on his 4-wheeler cutting some trees when some rangers looking for terrorists spotted him. According to the news reports, the rangers shouted to him over a loudspeaker, "Who are you and what are you doing?" Ole shouted back, "OLE..... BIN LOGGIN'!"

Ole is survived by his wife Lena and Lena's good friend Lars.

---

Lena has a very nice voice and she was asked to sing a solo in church every Sunday morning. There was a slight problem though. Lena knew only two songs, and she sang them Sunday after Sunday. Finally Pastor Peterson stopped Ole after church one Sunday. "Ole" he said. "If yer vife, Lena, is going tew sing in da shurch every Sunday, she needs tew expand on her repertoire!" "Vell, uff-da, Pastor Peterson." explained Ole. "She can hardly get slacks big enough tew fit vut she's got now!"

---

Little Lars came home from the movie. "How vas da movie?" asked Mama. "Vell, it vas yust terrible, it vas so bad dat I could hardly sit tru it da second time." said Lil Lars.

