

July 29, 2019

Dear PCM Clients and Friends:

The past three months here at PCM have come and gone very quickly. We are very much into our routine here at PCM doing what we have done for some time; looking after your investments by meeting with analysts and company management teams, reading and researching investments, and reviewing and appropriately managing your investment portfolios and the mutual fund. We, of course, do this while thinking of Perk every day. We are "ok" and getting along; but do miss him. As we should. We have also taken time to visit with our children; our families.

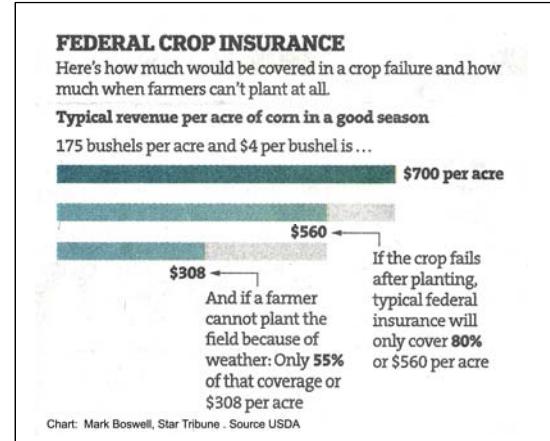
We are journeying through our grief by going forward, doing what we are used to doing, our work, and living our lives much as we always have; but still within the process of grieving which does and should take some time. We do miss seeing Perk, his humor and wit, working with him and helping him; as we did more and more over the past few years, despite his strong desire for independence, to always contribute and to do his work. He was, after all, Perk. A very unique and special person.

A WET SPRING KEEPS FARMERS OUT OF THE FIELDS

On a road trip this spring to western Minnesota you could see it -- wet muddy fields everywhere. The rain-soaked fields, little lakes, which would be impossible to plant. Many

farmers had to do the unthinkable -- delay planting to past Memorial Day. According to a University of Minnesota Extension study, farmers can lose up to 24% of their harvest if planting is delayed until just June 4 and up to 31% if delayed an additional five days past that. A June 14 posting by the USDA titled Nation's Wettest 12-Month Period on Record Slows Down 2019 Planting Season showed southwestern Minnesota as "Much Above Average" in precipitation. This was actually much better than northern Iowa and Illinois and much of the East which had one of the wettest 12 months on record. A May 26 USDA crop report detailed

that 66% of Minnesota's corn was planted eight days behind last year and 13 days behind the five-year average. Only 21% of the crop had emerged, which is two weeks behind schedule in a roughly 90-day growing season. So, this fall expect a smaller harvest and higher corn prices, which are already up. Crop insurance helps but often only covers expenses resulting in a tough year for the farmer; often only "breakeven", if lucky.



HOW ABOUT THOSE TWINS – BASEBALL SUMMER EXCITEMENT AGAIN

After another long winter it has been a very nice spring and summer so far in Minnesota.

This spring and summer our beloved Minnesota Twins have created a lot of enjoyment for their fans. Since moving to their new spectacular outdoor Target Field in 2010, our Twins have only hosted two playoff games and those were in their first season in the new ballpark.



This summer under the leadership of a 37-year-old rookie manager, Rocco Baldelli, with a number of new players, and some promising players coming alive, the Twins have come together to currently lead the American League Central Division and are leading all of baseball with 199 homers in their first 100 games – WOW!!!

We hope they recreate some long overdue excitement like we saw in 1965, 1987 and 1991 when we played in the World Series. Better yet would be to win the World Series like we did in 1987 and 1991. It's time for everyone to get their homer

hankies out and wave the Twins on to even more homers and victory. Minnesota Twins fans who relish their memories of Harmon Killebrew, Tony Oliva, Kirby Puckett and Kent Hrbek hope that the names Byron Buxton, Eddie Rosario, Jorge Polanco and Jose Berrios are remembered in the same fashion after this season.

THE MARKET SCOREBOARD

The second quarter index returns were positive across all asset classes extending the first quarter returns and posting the strongest six-month start of the year returns across most asset classes in nearly a decade. The S&P 500 Index had its best start since 1997. This is after the sharp December 2018 decline and despite a -6.4% correction within the quarter from an S&P high of 2954 on May 1 to a correction low on May 29 of 2766. April was sideways, May was down sharply and then in one strong June back up!

Indexes	% Return YTD 2019	% Return Q2 2019	% Return Q1 2019
NASDAQ Composite	20.66	3.58	16.49
S&P 500 Total Return	18.54	4.30	13.65
Wilshire 5000	17.55	3.42	13.66
NYSE Composite	14.73	2.78	11.63
Dow Jones Industrial Average	14.03	2.59	11.15
S&P Small-Cap 600 Total Return	13.69	1.87	11.61
Value Line Composite	12.90	0.05	12.84

This past May's correction was the worst May in 7 years and the second worst May since the 1960s. The second quarter was also a time when "the averages" were stronger than the majority of stocks with larger companies generally doing better than smaller. Bigger cap growth far outpaced smaller cap value in the quarter; explaining why the narrower market cap-weighted NASDAQ index far outperformed the much broader Value Line Composite.

STOCK MARKET OBSERVATIONS

We concluded our April market observation section with the thought we have expressed several times which was: "We do not anticipate a change in trend and a tougher market until we have a recession. With the recent apparent shift in Federal Reserve policy and an economy which plows along, we see a market staying modestly within its current trend; a generally positive environment for individual companies who can show positive growth." This comment still very much summarizes how we feel. Within the sentences of this comment are five thoughts:

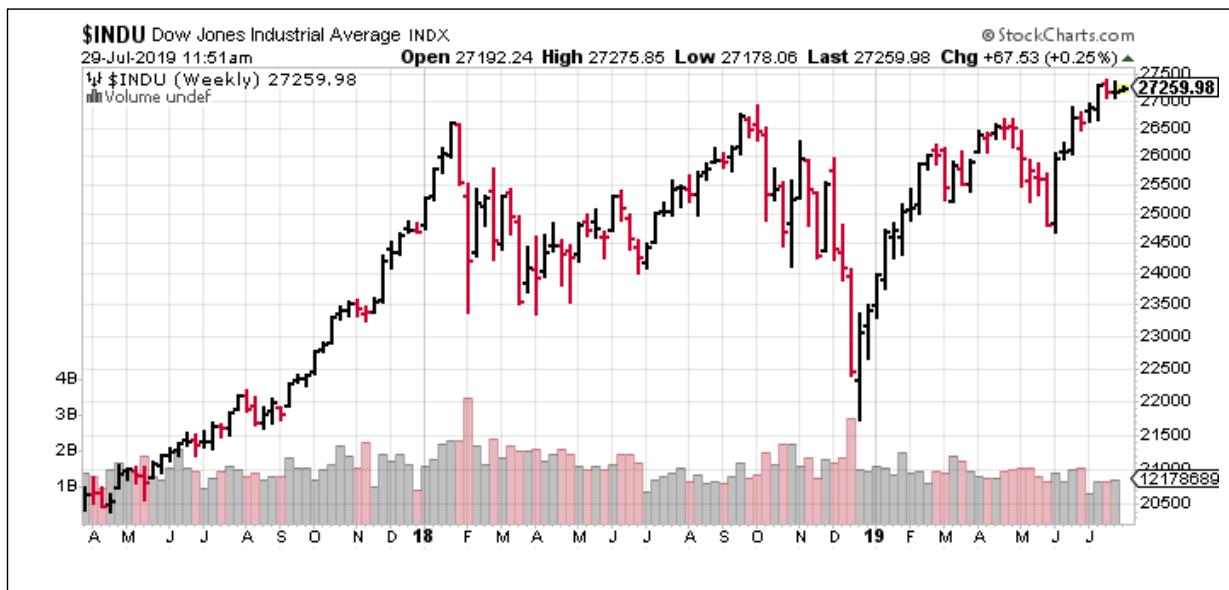
- Our "plow horse" economy continues with slower growth, but still positive growth. A significant "bear market" corrective period is not expected until positive growth turns to negative quarter-over-quarter growth; a recession.
- There appears to be a shift in Fed interest rate policy back to accommodative, which is positive for the markets.
- The generally positive current year trend of the market should continue.
- We do expect the positive long-term upward trend of the market to continue with new highs and beyond in future years.
- Most importantly, this should be a positive investment environment for companies who are "doing well" and showing improved metrics which include top-line growth, better profitability, and continued positive future guidance.

There is a Wall Street adage which is expressed in both the positive or the negative. Either way it proffers the same advice. It is either "Don't fight the tape or the Fed" or "The trend is your friend and follow the Fed." Even more simple: "Always look at what the Fed is doing." These are simple indicator questions: Is the Fed accommodative? What is the trend of the market? Is it going up or down? Is the Fed accommodative or restrictive? When these questions can be answered affirmatively the trend is up and the market has historically continued to rise.

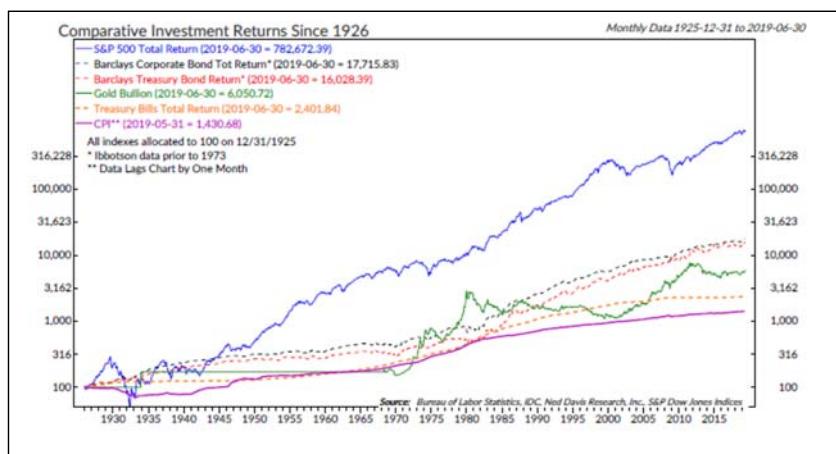
Today there, frankly, is some serious question about whether the Fed needs to reduce the already low, almost zero, interest rate. Some economists and investment professionals have offered the question: Is the economy too good for an interest rate cut or even two interest cuts? Would this restrict the Fed's future ability to stimulate if needed? Fair questions in a U.S. economy which is doing fine. Yet, in Capital Hill testimony, Federal Reserve Chairman Powell seems to have set the stage, citing concern over slower non-U.S. global growth and the uncertainty of current trade policy for, perhaps, two small interest cuts.

Right or wrong? We have two opinions about this. The first is a cut may not be needed at this time. The second more important opinion is: "Don't fight the Fed."

In our last several letters we have included a two-year chart of the Dow. It first shows 2017's strong market from 21,000 in the Dow to the new high area of 26,600. What has developed since the high is an 18-month sideways consolidation around and below the highs with a 9-month U-shaped consolidation period concluding in the sharp V down restorative correction with the 2018 Christmas Eve low. We then have the sharp bounce back to the mid-April high and the quick one-month down V of this past May with June's recovery, as seen in the chart directly below.

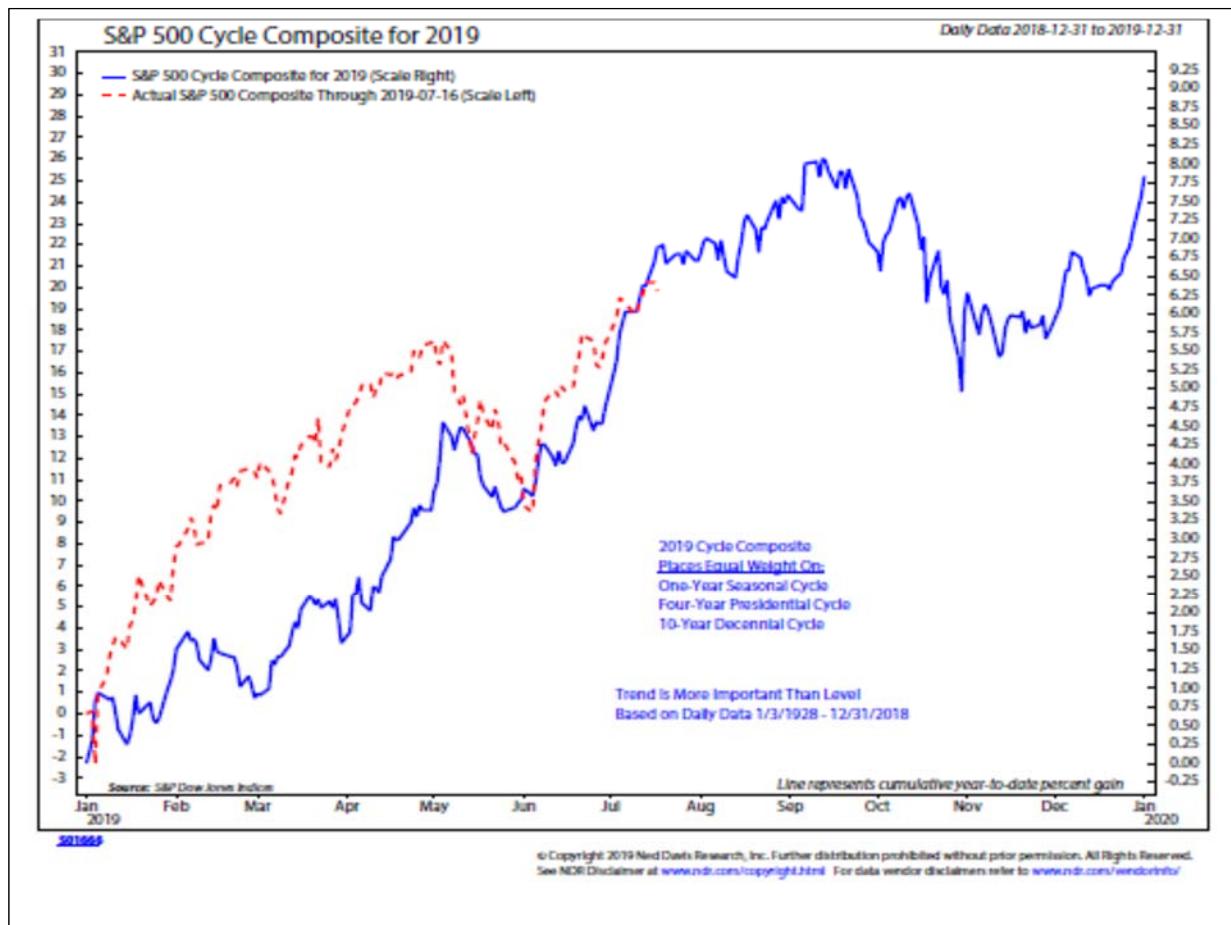


Do we go straight up and never look back from here or consolidate more? Our thought at this time is that we will continue to consolidate here and perhaps form another small V later in 2019. We are NOT negative. In the past 10 years there have been 24 (Yes, 24) corrections of greater than 5% in the S&P 500. Grouping these 24 corrections into three groups there have been nine in the 5 - 7.5% area, seven in the 7.5 - 10% area and eight greater than 10% with two of these eight in the 20% area and one at 17%. We expect a little more consolidation and choppiness here with another small V or two until we are ready to move to more permanent new high territory and continue the upward long-term trend of the market which is displayed here in the chart Comparative Investment Returns Since 1926.



Monthly Data 1925-12-31 to 2019-06-30
 Source: Bureau of Labor Statistics, IDC, Ned Davis Research, Inc., S&P Dow Jones Indices
 All indexes allocated to 100 on 12/31/1925
 Ibbotson data prior to 1973
 ** Data Lags Chart by One Month

The market so far in 2019 has closely followed the Ned Davis S&P Cycle Composite for 2019, which we reprint here again. If the market continues to track this composite, it predicts a typical later fall correction in the markets which then head back up into year-end with what could be another small V.



In summary, we feel the markets are now at another short-term inflection point with most averages above their highs. A couple, the Dow Transports and the Russell, are still lagging below. We feel the markets are strong; but not quite broad enough yet and strong enough today to move immediately dramatically higher. Rather we see a continuation of what we described in our final bullet point which is an environment which is positive for investing in individual opportunities; companies who can show positive growth and results.

Our closing cartoon speaks to what we all knew would happen one day – more frequent unwanted and unsolicited phone calls of “special offers” to what we hoped would be our “private” personal cell phone numbers.

Sincerely,



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



Daniel S. Perkins, C.F.A.
Chief Operating Officer
Portfolio Manager

RCP:DSP/jah



THE CORPORATE LADDER

A turkey was chatting with a bull. "I'd love to be able to get to the top of that tree," sighed the turkey, "but I don't have the energy." "Well, why don't you nibble on some of my droppings," replied the bull, "They're packed with nutrients." The turkey pecked at a lump of dung and found that it actually gave him enough strength to reach the first branch of the tree. The next day, after eating some more dung, he reached the second branch. Finally, after a fortnight, there he was proudly perched at the top of the tree. Soon he was spotted by a farmer, who shot the turkey out of the tree.

MORAL: Bullshit might get you to the top, but it won't keep you there.

A crow sat on a tree branch all day doing nothing. A small rabbit saw the crow and asked him, "Can I also sit like you and do nothing all day?" The crow answered, "Sure, why not." So, the rabbit sat on the ground below the crow and rested. All of a sudden, a fox appeared, jumped on the rabbit and ate it.

MORAL: To be sitting and doing nothing, you must be sitting very, very high up.

A FEW GOOD RULES OF LIFE

Never give yourself a haircut after three alcoholic beverages of any kind.

You need only two tools: WD-40 and duct tape. If it doesn't move and it should, use the WD-40. If it moves and it shouldn't, use the duct tape.

The five most essential words for a healthy, vital relationship are "I apologize" and "You are right."

Everyone seems normal until you get to know them.

SMILERS

Three dead bodies turn up at the mortuary, all with very big smiles on their faces. The coroner calls the police to tell them what has happened. The Coroner tells the Inspector "First body is a 72-year-old Frenchman. He died of heart failure while with his mistress. Hence, the enormous smile." "The second body is an Irishman, 25 years of age. He won a thousand dollars on the lottery and spent it all on whiskey. He died of alcohol poisoning, hence the smile."

The Inspector asked, "What of the third body?" "Ah, says the Coroner, this is the most unusual one. Ole Swenson, Norwegian from Starbuck, MN, 30, struck by lightning." "Why is he smiling then?" inquires the Inspector. "Thought he was having his picture taken."

CHUCKY

An old farmer went to town to see a movie. The ticket agent asked, "Sir, what's that on your shoulder?" The old farmer said, "That's my pet rooster, Chucky. Wherever I go, Chucky goes." "I'm sorry, Sir," said the ticket agent. "We can't allow animals in the theater." The old farmer went around the corner and stuffed the bird down his pants. He returned to the booth, bought a ticket and entered the theater. He sat down next to two old widows named Mildred and Marge. The movie started and the rooster began to squirm. The old farmer unzipped his pants so Chucky could stick his head out and watch the movie. "Marge," whispered Mildred. "What?" said Marge. "I think the guy next to me is a pervert." "What makes you think so?" asked Marge. "He unzipped his pants and has his thing out," whispered Mildred. "Well, don't worry about it," said Marge. "At our age we've seen them all." "I thought so too," said Mildred, "but this one's eating my popcorn."

WHY WE LOVE CHILDREN

A kindergarten pupil told his teacher he'd found a cat, but it was dead. "How do you know that the cat was dead?" she asked her pupil. "Because I pissed in its ear and it didn't move," answered the child innocently. "You did WHAT?" the teacher exclaimed in surprise. "You know," explained the boy, "I leaned over and went 'Pssst!' and it didn't move."

An exasperated mother, whose son was always getting into mischief, finally asked him "How do you expect to get into heaven?" The boy thought it over and said, "Well, I'll run in and out and in and out and keep slamming the door until St. Peter says, 'For heaven's sake, Dylan, come in or stay out!'"

It was that time, during the Sunday morning service, for the children's sermon. All the children were invited to come forward. One little girl was wearing a particularly pretty dress and, as she sat down, the pastor leaned over and said, "That is a very pretty dress. Is it your Easter dress?" The little girl replied, directly into the pastor's clip-on microphone, "Yes, and my Mom says it's a bitch to iron."

A little boy was doing his math homework. He said to himself "Two plus five, that son of a bitch is seven. Three plus six, that son of a bitch is nine...." His mother heard what he was saying and gasped, "What are you doing?" The little boy answered, "I'm doing my math homework, Mom." "And this is how your teacher taught you to do it?" the mother asked. "Yes," he answered. Infuriated, the mother asked the teacher the next day, "What are you teaching my son in math?" The teacher replied, "Right now, we are learning addition." The mother asked, "And are you teaching them to say two plus two, that son of a bitch is four?" After the teacher stopped laughing, she answered, "What I taught them was, two plus two, THE SUM OF WHICH, is four."