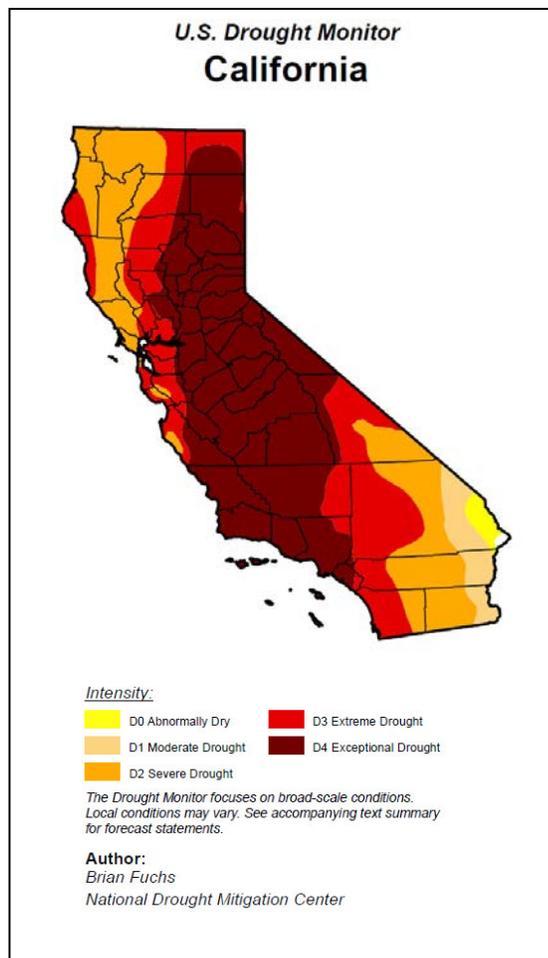




July 21, 2015

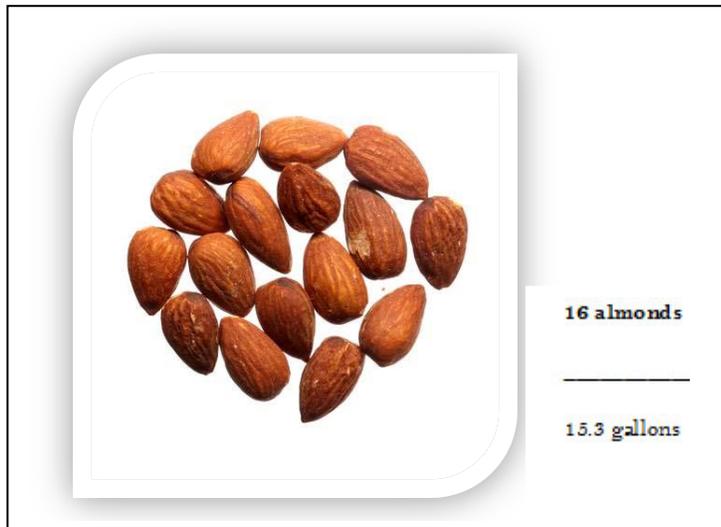
Dear PCM Clients and Friends:

There are times when life just seems unfair, but what is really unfair is the weather so far this year; it is topsy-turvy. Just look at Texas where torrential rains caused extreme flooding, huge property loss and the death of 22 people. According to the National Weather Service, over 37 trillion gallons of water fell on Texas during May, enough to cover the entire state with 8 inches of water. Considering that Texas is 266,874 square miles, that is one heck of a lot of water. California, now in its fourth straight year of drought, could certainly have used some of it. In fact, California has 158,648 square miles, so the water that fell on Texas would be enough to cover the state with over 13 inches of water. We all have heard the reports of how this will ultimately impact food prices as California is the “green grocer” to America—all things that grow in the California sun, from carrots to cauliflower, from blueberries to strawberries and everything in between. Plus, products grown on trees from almonds to pistachios, not to mention grapes and the California wine industry where deep wells to lower aquifers are being drilled by the tree farmers and vineyards to secure the water that they need. But in the end, there is only so much water and not enough to go around. This shortage is in part because the Sacramento—San Joaquin Delta, the large supplier of California water for years, is also the home of the delta smelt, a tiny fish indigenous to only that area. So the tug of war between the environmentalists and growers continues, but something has to be sacrificed—either the delta smelt, or a lot of agriculture.



Consider just almonds: In 2014 there were about 860,000 acres of almond trees. Planted at the ideal 124 trees per acre, that means that there are over 100 million almond trees, and each produces 30 to 50 pounds of almonds each year. *The New York Times* has reported on the amount of water required to produce almonds—it is very hard to believe that EACH almond requires 1 gallon of water to grow into an edible nut. As shown in the illustration, 16 almonds require 15.3 gallons. Count the number of almonds in a pound and figure an

730 East Lake Street  
Wayzata, MN 55391-1769  
Telephone (952) 473-8367  
Facsimile (952) 473-4702  
www.perkinscap.com



average of 40 pounds per tree, and multiply it by over 100 million trees. Well, you see where we are going with this, and almond trees represent only 8% of the agricultural land in California, with pistachio trees, grapes, and other crops representing the balance.

All of this, from the Texas floods to the California drought, is blamed on climate change usually referred to as “global warming.” Of course, everyone is worried about its effects, even Obama, who recently defined it

as one of the major problems to overcome. The Pope also recently made his plea, and Denmark has just passed stringent rules to mitigate global warming. But as we wrote in our last letter the cause, as put forth in the book “Dark Winter,” is sunspot activity which runs in a 206-year cycle from cold to warm, and then back to cold again. We have been in the warming phase since about 1900, and we are now headed back to cold until about 2030/2040 when there may be another warming trend.

### MESSAGE FROM PERK

This “message” is about my recent trip to California, spending some time in Los Angeles, some of it on the infamous 405 San Diego freeway, some of it at Dana’s house in Sherman Oaks, and some of it in Paso Robles (El Paso de Robles or ‘The Pass of the Oaks’), where wines from that area are rivaling those of Napa and Sonoma.

As many of our clients/friends know, Dana and I have a horse partnership (meaning she does the work and has the fun, and I pay the bills) breeding thoroughbred race horses with modest success, but a lot of enjoyment. Minister Vivendi, out of J. Vivendi by Deputy Minister, has won \$187,500 so far in his racing career. His winnings have paid his vet and farm bills and a little left over to support the other horses, such as Classy Lady Liz who has just started to race at Golden Gate Fields, a racetrack near San Francisco. Many of the horses are at Beckwith Performance Horses about ten miles east of Paso Robles. But the point of all of this is to tell you about the two recent events that we think are exciting.

Horses typically have only one foal, and if by chance the ultrasound shows two, which is rare, one is aborted early on so that the remaining baby gets all the nutrients, otherwise it would not be healthy and the other twin would likely die anyway. Well, miracle of miracles, one of our mares, General Liz, had conceived twins that were unidentified because one placenta was on top of the other, so two healthy fillies were the result. This all happened at Harris Farms in Coalinga near Fresno. The twins were foaled on February 15, and were the pride of Harris Farms, often photographed by visitors, at this major horse enterprise. It

had been 39 years since twins had been born there. As you can see in the photograph, they are quite attractive! They now are at Beckwith's to begin their life growing up to be horses that are trained to race.



But the next event is probably even more exciting. Harris Farms is the birthplace of California Chrome, the winner of the 2014 Kentucky Derby and the Preakness and second in the Belmont, sacrificing the Triple Crown. Another of our mares, J. Vivendi (the mother of Minister Vivendi), was bred to Lucky Pulpit, the father of California Chrome, and we now have Vivendi's Chrome, a "half brother" to California Chrome who looks just like

him. You can see them here side-by-side at about the same age and you can't tell the difference as the markings are identical; California Chrome is on the left and Vivendi's Chrome is on the Right. Since this happened at Harris Farms, there is great excitement about this event. Now, I don't know much about horses (other than they are expensive critters), but this colt is exceptionally handsome. The next step is the same as for the twins—growing and ultimately training to race. This will be at Beckwith Performance Horses, but just because we have California Chrome's half brother doesn't mean the Kentucky Derby is in our future as that requires a great horse and a lot of moolah. But we would be happy with a horse that wins at Golden Gate and maybe Santa Anita or Del Mar.



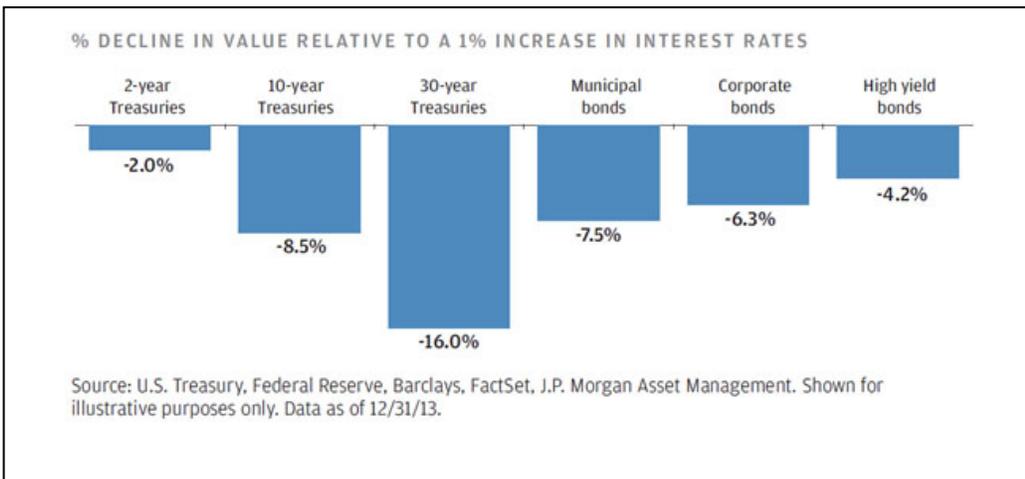
**THE MARKET SCOREBOARD**

Indexes	% Return YTD 2015	% Return Q2 2015	% Return Q1 2015
NASDAQ Composite	5.30	1.75	3.48
Russell 2000 Total Return	4.75	-0.42	4.32
S&P Small-Cap 600 Total Return	4.16	0.19	3.96
Russell 3000 Total Return	1.94	0.14	1.80
Russell 1000 Total Return	1.71	0.11	1.59
Wilshire 5000	0.79	-0.48	1.28
S&P 500 Composite	0.20	-0.23	0.44
NYSE Composite	-0.31	-0.86	0.55
Value Line Composite	-0.32	-2.15	1.87
Dow Jones Industrial Average	-1.14	-0.88	0.26

Looking at the scoreboard, two things stand out. First, most of the gains were in the first quarter. Second, for the first half, the NASDAQ stood out as the best performer at +5.30%, having recorded the only gain of consequence in the second quarter coupled with a good gain in quarter one. So, the net result was that the first half looked pretty much like the first quarter.

**A CHARLES DICKENS MARKET**

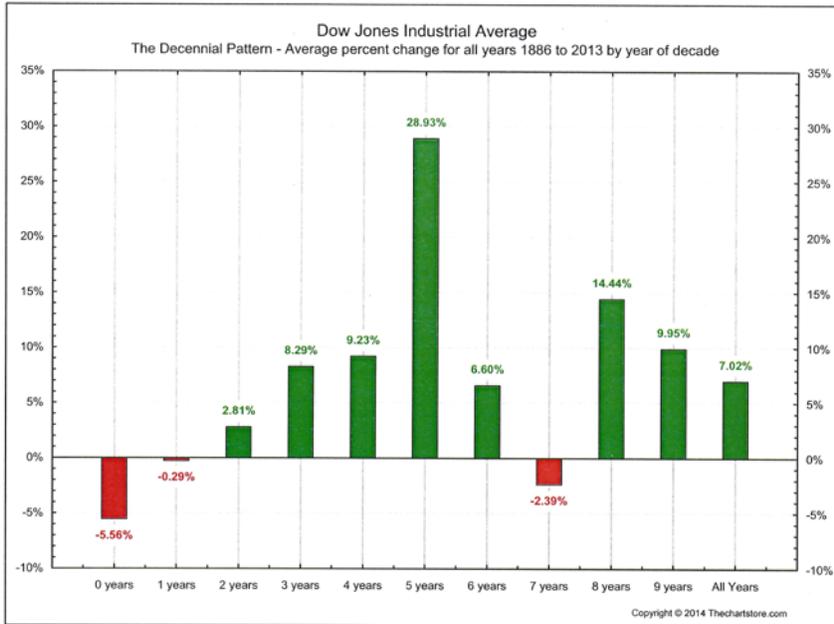
As that famous author Charles Dickens wrote in *A Tale of Two Cities*, the often quoted phrase “It was the best of times; it was the worst of times,” describes the first half market despite the sharp decline on June 29. We are further along in this secular bull market, and therefore, there is an ever widening gap between stocks that are performing fine, and those that lag the market. The important tactic, as always, is to eliminate the laggards from portfolios, which automatically results in having the cash to buy a replacement that is



rising on its merits, or appears to be getting ready to do so. What we are seeing here is typical of a market that has risen for some time vs. the early stages of a bull market when pretty much

everything goes up. Today, with very low interest rates, stocks with a good yield, coupled with even modest growth, have been the place to be and will likely continue as such until the Fed decides to bump rates up a bit. At which time dividend paying stocks will still maintain their advantage, but holders of fixed income will take a hit as shown in the chart, even with a boost of 1% in rates. Multiply that by two or more and you can see why bonds are not an alternative to dividend paying growth stocks.

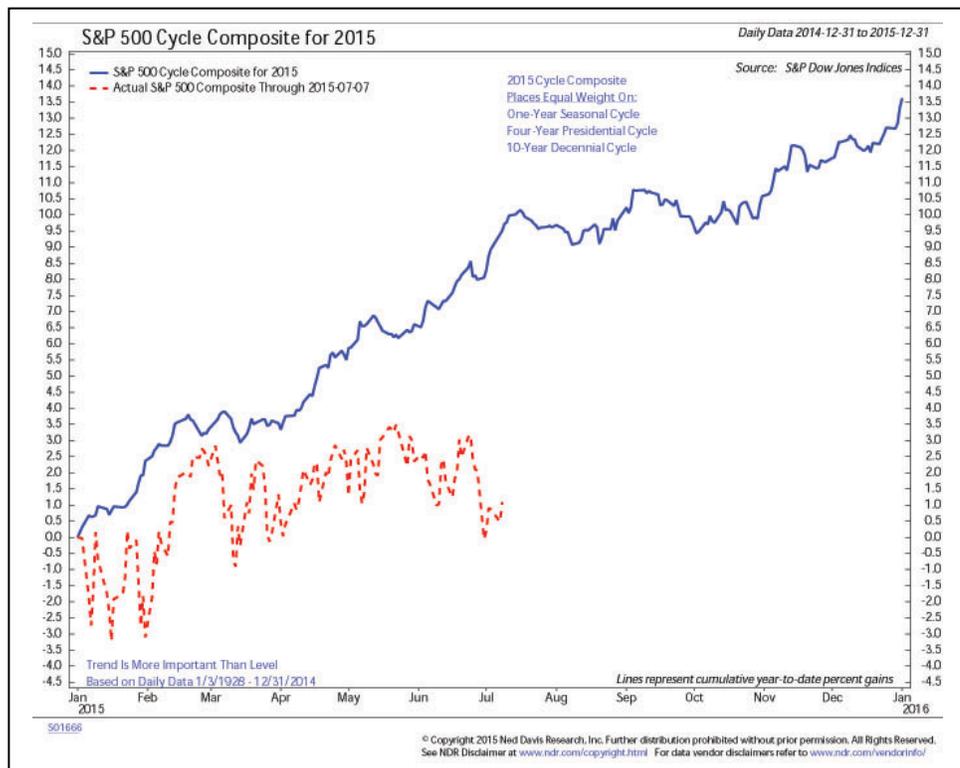
For some uncanny reason, years ending in five—that is, the 5<sup>th</sup> year in the decade has performed better than all other years on average, trailed by the 8<sup>th</sup> year. Its average gains since 1886 have been 29% per annum, as shown in the graph.



With the market generally down for the year to date, we have some catching up to do unless 2015 is like 2005, wherein that decade's 5<sup>th</sup> year there was no gain, and instead a modest loss. Thus, a big loss does not appear to be likely, as all other 5<sup>th</sup> years except 2005 have

been up. We shall see!

The research which we purchase from the Ned Davis organization has always been helpful. Shown below is the Davis Cycle Composite for 2015, which predicts a strong 2015. As we know from experience, market declines, such as the one in late June which was predicated on an event that is thought to be negative, are short-lived. In the current instance, that event is Greece where its citizens refuse to acknowledge the need for austerity in order to receive monetary help from other members of the European Union, the European Central Bank and the International



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Monetary Fund. Austerity is viewed by the Greeks as a punishment, whereas it is really a consequence. We wrote a piece several letters ago detailing the endless spending in a social framework where hairdressers, for example, one occupation out of hundreds, retired at age 50 because they worked in a dangerous environment. As Maggie Thatcher famously said about socialist governments; "They always run out of other people's money." Or as a Wall Street Journal editorial espoused: "A people who want wealth without work will have neither." Greece is a flyspeck in the whole of things; if the market wanted to go down worried by something that has a real bearing on us, it would be Iran who refuses to accept the important aspects of nuclear inspections. We should be worried about that as well as ISIS and a third world war, which is brewing in the MENA countries. Whether Greece goes bankrupt or not pales in comparison. The market, like people, often worries about the wrong thing, and when it declines for the wrong reason, that decline is short. It is possible, of course, that Greece is only a smoke screen for something we should be worried about, and if that is the case, we will find out what the real reason is soon enough.

### GLOBAL THEMES

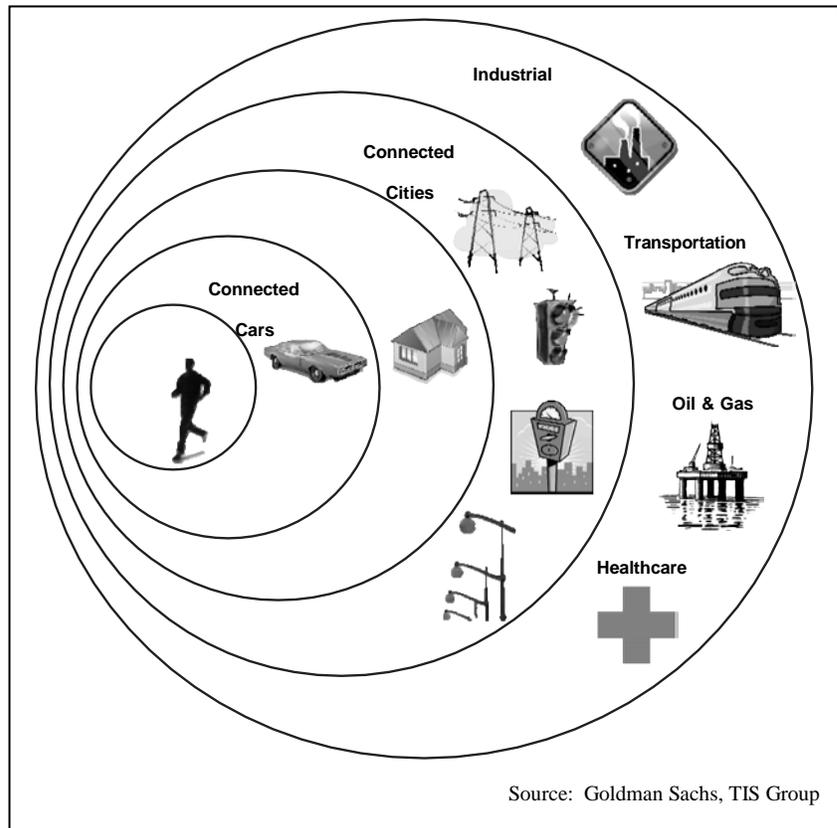
We recently attended a luncheon/information meeting with Larry Jeddelloh, one of our highly respected advisors. Larry is the founder of the *TIS Group* (The Institutional Strategist) here in Minneapolis, which he started in 1995 after a few years with the Union Bank of Switzerland in Zurich as Chief Investment Strategist in the Institutional Global Asset Management Group. Subsequently, he was Chief Investment Officer at Resource Capital Advisors and Director of Equity Research at the Leuthold Group, both also in Minneapolis. He travels throughout the world spending about half of his time seeing clients, resulting in over 300 meetings a year. He now has 20 years in which he has built a worldwide reputation advising institutional clients with one of the most valuable offerings—what he hears from clients, which tells him what they are worried about; conversely, he makes note of the questions not asked, so he can take a contrarian stance and go the other way if needed. It is important to us as he can identify the big picture investment themes which could affect stock and bond markets throughout the world. A few weeks ago he finished a six-week journey to see clients starting in Toronto, then on to Boston, Zurich, Lucerne, Geneva, France, Italy, London, and Scotland, ending in New York. He will soon leave again for Australia, Singapore, Beijing, Zurich, Geneva, London, and Boston. We are not aware of anyone else who travels to this extent, and therefore can offer opinions on the big picture that others cannot. His advice enables his clients, such as PCM, to identify the areas in which to invest, as his research is top down, i.e., identifying the major themes or trends, whereas we are bottom up, looking for individual stocks which we believe are attractive.

One of his major topics at this meeting was China, where interest rates are still high compared to the rest of the world at nearly 4%, and where the banks are required to have reserves much higher than in other countries (as much as 15%), wherein some other countries the reserves are zero. The recent collapse of the Chinese stock market bubble was not surprising. Stock ownership in China has been encouraged by the government by reducing interest rates and enabling the populace to buy securities; in fact, for banks to

buy common stocks as well. The movement from an agrarian economy to a manufacturing economy has been underway in China for years. But now the effort will be to move manufacturing from labor intensive low value production to high value manufacturing by integrating technology and industry to increase domestic demand rather than export demand. As part of this process, Chinese brands will evolve as now there are only a few recognizable Chinese brands as opposed to a multitude of recognizable American or European brands. Despite the recent market collapse, investment in China will be profitable; China is embarking on the “silk road” project, an overland route across the Eurasian landmass, in its effort to become the world’s largest cross-border investor by the end of this decade. If you are uncomfortable owning Chinese stocks directly, own U.S. companies with operations there, he says.

The Internet of Things (IoT) was a major subject as new applications are popping up daily.

Whether it is consumer applications like wearables, connected cars, and homes or new industrial applications like preventative maintenance or resource optimization, the increasing pervasiveness of IoT and how it affects our lives and how we produce goods will be mind-boggling. The growth in mobile devices combined with cost reduction of sensors and increased processing power, via software to analyze unstructured data, will balloon over the balance of this decade. As shown in the illustration, IoT goes far beyond the wearables, connected cars/electronics and smartphones. The potential applications are literally endless, and IoT



provides a promising structure to increase productivity and raise standards of living.

However, as Larry pointed out, with increased use of IoT applications, there automatically becomes a need for more cyber security as cyber thieves will find a way to end-run the benefits of IoT by hacking into almost any system and enter your house or business without you even being aware of it. Cameras will play an increasing role, even in modest homes, and small businesses as well. Everyone has become much more aware of unauthorized break-ins of retail and government databases, which will only increase as more IoT applications are installed.

Of course, it is up to us at PCM to find the best way to participate in these global themes, as Larry makes only a few individual stock and ETF recommendations. As bottom-up stock pickers, we search for investment ideas one-by-one, but like to be aware of how they fit into his global investing themes.

### **AN EXPERIMENT THAT WORKED**

We are referring, of course, to the Center of the American Experiment, which was founded here in Minneapolis in 1990, by Mitch Pearlstein, to bring conservative, free market ideas to influence the most difficult problems that face Minnesota and the U.S. The Center's website [www.americanexperiment.org](http://www.americanexperiment.org) describes the Center's mission this way: the Center of the American Experiment's mission is to build a culture of prosperity for Minnesota and the nation. Our daily pursuit is a free and thriving Minnesota whose cultural and intellectual center of gravity is grounded in the principles of free enterprise, limited government, individual freedom, and time-tested American virtues. Through research, a stream of publications, op-eds, public forums, and legislative engagement, we work to create a new climate in which free market and conservative ideas – are better understood, appreciated, and applied.

Perk served on the Board of Directors of the Center for several years when the Center was smaller and only had 12 directors compared to 36 today. When asked what an organization with such a long non-descriptive title did, Perk has replied that it was a “think tank” for conservative action. Mitch Pearlstein has described it better by saying “It is an idea for entrepreneurs.” This year the Center celebrated its 25<sup>th</sup> anniversary with a banquet featuring P. J. O'Rourke as its speaker; nearly 1,000 supporters were in attendance.

In 2012 the Center's activities were increased considerably when it merged with the Minnesota Free Market Institute, which was led by Kim Crockett who is now COO and General Counsel. In the earlier years, when Perk was on the board, membership was stimulated by annual banquets featuring world leaders, which enabled the Center to achieve a growing membership as interest in the Center was improved and membership expanded. During those years, the speakers included such dignitaries as Margaret Thatcher, Colin Powell, Mikhail Gorbachev, George H. W. Bush, Henry Kissinger, Rudy Giuliani, Benjamin Carson, and many others. Katherine Kersten, former board chairman has written about the Center's mission in the 25-year report recently issued by the Center. In paraphrasing her, she says that in the political arena, the Center stands for limited government. On the economic front, the Center is an advocate for free markets and lower taxes, and works to reduce counter-productive regulatory barriers. In her words, “Frequently, the Center is almost a lone voice calling out wrong-headed political correctness and government policies likely to produce destructive unintended consequences.” Further to paraphrase what she has said here in the “progressive” land of 10,000 lakes, liberals have dominated the government for years, as well as the media, and the education and non-profit establishments, except for just a few times when there has

been a republican governor in a democrat-dominated state. She believes the center's limited resources have made up for this imbalance by inspiring the state's conservatives.

Each Minnesotan, whether conservative or liberal, should be aware of what the Center of the American Experiment does for everyone and a trip to their website will provide information about publications that are available as well as its message for a culture of prosperity here in Minnesota.

\*\*\*\*\*

One of the more interesting events of the past quarter is the transformation of Bruce Jenner into Caitlyn Jenner. Hence the cartoon.

Sincerely,

*RW Perkins*

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

*Richard C Perkins*

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

*Daniel S Perkins*

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

RWP:RCP:DSP/jah



JOKE PAGES FOLLOW →

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## **GRANDPA OF THE YEAR**

A woman happened to be following a grandfather and his badly-behaved grandson while grocery shopping. The grandfather certainly had his hands full with the child who continually screamed for candy and cookies. But, the grandfather spoke in a controlled voice: "Easy, William, we won't be long. Easy, boy."

The boy continued with the outbursts and the grandfather calmly said: "It's okay, William. Just a couple more minutes and we'll be out of here. Hang in there, son." At the checkout the little horror continued throwing items out of the shopping cart, but the grandfather remained steady and said in a controlled voice, "William, William, relax buddy, don't get upset. We'll be home in five minutes, stay cool, William."

Very impressed, the woman walked outside to where the grandfather was loading his groceries and the little boy into the car and said, "It's none of my business, but you were amazing in there. I don't know how you did it. That whole time you kept your composure, and no matter how loud and disruptive he got, you just calmly kept saying things would be okay. William certainly is lucky to have you as his grandfather."

"Thanks," said the grandfather, "but I'm William. This little bastard's name is Kevin."

## **THE JEWISH POKER CLUB**

Six retired Jewish friends were playing poker in the condo clubhouse when Meyer loses \$500 on a single hand, clutches his chest and drops dead at the table. Showing respect for their fallen comrade, the other five continue playing, but standing up. At the end of the game, Finklestein looks around and asks, "So, who's gonna tell his wife?" They cut the cards. Goldberg picks the low card and has to carry the news. They tell him to be discreet, be gentle, don't make a bad situation any worse. "Discreet? I'm the most discreet person you'll ever meet. Discretion is my middle name. Leave it to me."

Goldberg goes over to the Meyers' condo and knocks on the door. The wife answers through the door and asks what he wants? Goldberg declares: "Your husband just lost \$500 in a poker game and is afraid to come home." The wife yells, "Tell him to drop dead!" "I'll go tell him," says Goldberg.

## **HOW TO TELL THE SEX OF A FLY**

A woman walked into the kitchen to find her husband stalking around with a flyswatter. "What are you doing?" she asked. "Hunting flies," he responded.

"Oh! Killing any?" she asked. "Yep, three males and two females." he replied. Intrigued, she asked, "How can you tell them apart?"

He responded, "Three were on a beer can, two were on the phone."

## **ARAB IN THE BAR**

A rich Arab walks into a bar and is about to order a drink when he sees a guy close by wearing a Jewish cap, a prayer shawl and traditional locks of hair. He doesn't have to be Einstein to know this guy is Jewish. So he shouts over to the bartender so loudly that everyone can hear: "Drinks for everyone in here, bartender, but not for the Jew over there." Soon after the drinks have been handed out, the Jew gives him a big smile, waves at him, and then says: "thank you," in an equally loud voice. This infuriates the Arab.

He once again loudly orders drinks for everyone except the Jew. As before, this does not seem to bother the Jewish guy. He continues to smile, and again yells: "thank you." The Arab asks the bartender: "What's the matter with that Jew? I've ordered two rounds of drinks for everyone in the bar but him, and all he does is smile and thank me."

The bartender replies: "He owns the place."

## **DON'T MESS WITH SENIORS**

Two young businessmen in Colorado were sitting down for a break in their soon-to-be new store in the shopping mall. As yet, the store's merchandise wasn't in -- only a few shelves and display racks set up. One said to the other, "I'll bet that any minute now some old senior is going to walk by, put his face to the window, and ask what we're selling."

Sure enough, just a moment later, a curious senior gentleman walked up to the window, looked around intensely and rapped on the glass, then in a loud voice asked, "What are you selling here?" One of the men replied sarcastically, "We're selling assholes." Without skipping a beat, the old timer said, "You must be doing well. Only two left."

Don't mess with the seniors! They didn't get old by being stupid.

## **CLAUDE THE HYPNOTIST**

It was entertainment night at the Senior Citizens Center. Claude the hypnotist explained: "I'm here to put you into a trance; I intend to hypnotize each and every member of the audience." The excitement was almost electric as Claude withdrew a beautiful antique pocket watch from his coat. "I want you each to keep your eye on this antique watch. It's a very special watch. It's been in my family for six generations."

He began to swing the watch gently back and forth while quietly chanting, "Watch the watch, watch the watch, watch the watch." The crowd became mesmerized as the watch swayed back and forth, light gleaming off its polished surface. Hundreds of pairs of eyes followed the swaying watch until, suddenly, it slipped from the hypnotist's fingers and fell to the floor, breaking into a hundred pieces.

"SHIT!" said the Hypnotist. Claude was never invited back to entertain.

## WHERE DID PETS COME FROM?

A new chapter in the Book of Genesis was discovered, and provided the answer: "Where did pets come from?"

Adam and Eve said, "Lord, when I was in the garden, you walked with us every day. Now we do not see you anymore. We are lonesome here and it is difficult for us to remember how much you love us."

And God said, No problem! I will create a companion for you that will be with you forever and who will be a reflection of my love for you, so that you will know I love you, even when you cannot see me. Regardless of how selfish and childish and unlovable you may be, this new companion will accept you as you are and will love you as I do, in spite of yourselves."

And God created a new animal to be a companion for Adam and Eve. And it was a good animal. And God was pleased. And the new animal was pleased to be with Adam and Eve and he wagged his tail. And Adam said, "But Lord, I have already named all the animals in the Kingdom and all the good names are taken and I cannot think of a name for this new animal."

And God said, "No problem! Because I have created this new animal to be a reflection of my love for you, his name will be a reflection of my own name, and you will call him Dog." And Dog lived with Adam and Eve and was a companion to them and loved them. And they were comforted. And God was pleased. And Dog was content and wagged his tail.

After a while, it came to pass that an angel came to the Lord and said, "Lord, Adam and Eve have become filled with pride. They strut and preen like peacocks and believe they are worthy of adoration. Dog has indeed taught them that they are loved, but perhaps too well."

And God said, "No problem! I will create for them a companion who will be with them forever and who will see them as they are. The companion will remind them of their limitations, so they will know that they are not always worthy of adoration."

And God created Cat to be a companion to Adam and Eve. And Cat would not obey them. And when Adam and Eve gazed into Cat's eyes, they were reminded that they were not the supreme beings. And Adam and Eve learned humility.

And they were greatly improved.

And God was pleased. And Dog was happy. And Cat did not care one way or the other.

## **IT'S ALL A MATTER OF PERSPECTIVE**

Dear Dad: It is with great regret and sorrow that I'm writing you. I had to elope with my new girlfriend because I wanted to avoid a scene with Mom and you. I've been finding real passion with Stacy. She is so nice, but I knew you would not approve of her because of all her piercings, tattoos, her tight Motorcycle clothes, and because she is so much older than I am.

But it's not only the passion, Dad. She's pregnant. Stacy said that we will be very happy. She owns a trailer in the woods, and has a stack of firewood for the whole winter. We share a dream of having many more children. Stacy has opened my eyes to the fact that marijuana doesn't really hurt anyone. We'll be growing it for ourselves and trading it with the other people in the commune for all the cocaine and ecstasy we want. Don't worry, Dad, I'm 15 and I know how to take care of myself. Someday, I'm sure we'll be back to visit so you can get to know your many grandchildren.

Love, Your son, Joshua.

P.S. Dad, none of the above is true. I'm over at Jason's house. I just wanted to remind you that there are worse things in life than the school report card that's on the kitchen table. Call when it is safe for me to come home!

## **GOLF NUT**

Ed and Linda met while on a singles cruise and Ed fell head over heels for her. When they discovered they lived in the same city only a few miles apart, Ed was ecstatic. He immediately started asking her out when they got home.

Within a couple of weeks, Ed had taken Linda to dance clubs, restaurants, concerts, movies, and museums. Ed became convinced that Linda was indeed his soul mate and true love. Every date seemed better than the last.

On the one-month anniversary of their first dinner on the cruise ship, Ed took Linda to a fine restaurant. While having cocktails and waiting for their salad, Ed said, "I guess you can tell I'm very much in love with you. I'd like a little serious talk before our relationship continues to the next stage. So, before I get a box out of my jacket and ask you a life changing question, it's only fair to warn you, I'm a total golf nut. I play golf, I read about golf, I watch golf on TV. In short, I eat, sleep, and breathe golf. If that's going to be a problem for us, you'd better say so now!"

Linda took a deep breath and responded, "Ed, that certainly won't be a problem. I love you as you are and I love golf too; but, since we're being totally honest with each other, you need to know that for the last five years I've been a hooker."

Ed said, "I bet it's because you're not keeping your wrists straight when you hit the ball."