PERKINS
CAPITAL
MANAGEMENT, INC.

January 25, 2011

Dear PCM Clients and Friends:

Welcome to 2011. Often in the opening paragraph of these letters we have had something to say about the weather here in Minnesota. This time we think any comment is redundant, because any citizen of the world, unless having been gone on a trip to Mars, is well aware of the weather throughout the world, including Minnesota—a frozen Miami, a North America literally snowed in, with Europe a carbon copy.

Al Gore, why are you hiding rather than stumping on global warming?

A MESSAGE FROM PERK

It is not likely that many of our clients, or other esteemed readers, have heard of Philip Carret, who died in May 1998 at age 101. Philip Carret was a founder of the Pioneer Fund, one of the very first mutual funds in 1928, at age 32. He ran the fund for 55 years, going to his office every day, even in his 90s. In fact, he commuted from his Scarsdale, NY home to his mid-town Manhattan offices three days a week until his death. You might say "He died with his boots on." Talk about devotion. His book "*A Money Mind At 90*" is well worth reading as it provides lucid details from his memory of a life devoted to investment management. In a July 1991 *New York Times* interview when asked how he gets his kicks he replied, "Looking for diamonds. I find maybe two or three of them a year, but it is a great thrill when I do." This echoes what I like to do.

In December last year another of Wall Street's legendary investors died—Roy Neuberger, at age 107. He was the founder of Neuberger and Berman, the brokerage firm, in 1939 with Robert Berman, and ten years later started the Neuberger Guardian Mutual Fund, one of the first without a stiff "upfront load" of 8.5 percent. Like Philip Carret, he wrote an autobiography titled "*So Far So Good: the First 94 Years*," in 1997, and like Carret, he loved his work, continuing to go to his office every day until he was 99.

Now, I'm using Philip Carret and Roy Neuberger as the subject of this message from Perk as an example of how rewarding a life spent in the investment management business can be, and hopefully, how the older you get the easier it becomes to avoid making the same mistakes again, and how one can learn from the mistakes of others. Now as you suspect, or know, I had a milestone birthday on December 29 when I turned the page on another year, having been born in 1930. Like Philip Carret, and Roy Neuberger, I still go to the office every day, but don't have to commute to Manhattan as my office is only five miles away. I go on Saturday and Sunday to get something such as charts, account books, or reading to take home to work on in a more comfortable setting. Looking south from my

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kitchen table (my home office) there is Long Lake, (more visible in the winter), and then to the right of that window the television, and to the right of the television, the fireplace, which makes working in this setting more conducive than in the office, especially during the winter. And further to the right is a view of a several acre swamp where the deer cross, and the occasional fox can be seen. Of course, working (managing stock market assets) is really not work, but fun when you enjoy it, and live it. So there is no reason that I can think of to quit doing it as long as my clients will allow me to do so. Fact is, the clients are getting older too, as we all grow older at the same rate. Unfortunately, as my old friend, Ed Strickland, once said, “None of us are going to get out of this world alive.” Indeed, this is true as in the past few years; I have lost several clients when they left this world. As noted earlier, both Carret and Neuberger were somehow motivated to write a book late in their investment life. That is something I have talked about for years, but all I have so far is the title. But that still might happen, as for my birthday, the PCM office staff gave me a nifty little dictating machine so that when I am in the mood or when something special comes to mind I can digitally record it before I lose it. Doing a book someday is neither a promise nor a threat, but simply something that might happen to put a very long investment career into words.

Thanksgiving is normally a time for reflection and giving thanks, but I think turning the calendar page to a new year is an equally thankful time. For my part I am thankful for my family, friends, and colleagues at PCM and, of course, our PCM clients.

Several of our favorite stock market enthusiasts and market letter writers, such as Steve Leuthold and Walter Deemer, have declared that they intend to write shorter versions of their respective market letters. In fact, our old friend, Deemer, has declared “retirement,” but he will still do occasional memos. So, while we get many compliments on our musings, discontinuing blather about fun in Belize or duck decoy auctions may reduce the pages in our letters, except of course for the jokes, which everyone turns to first (which tells me something about our market prognostications), and which always receive favorable comments in the thank yous.

2010 RETURNS

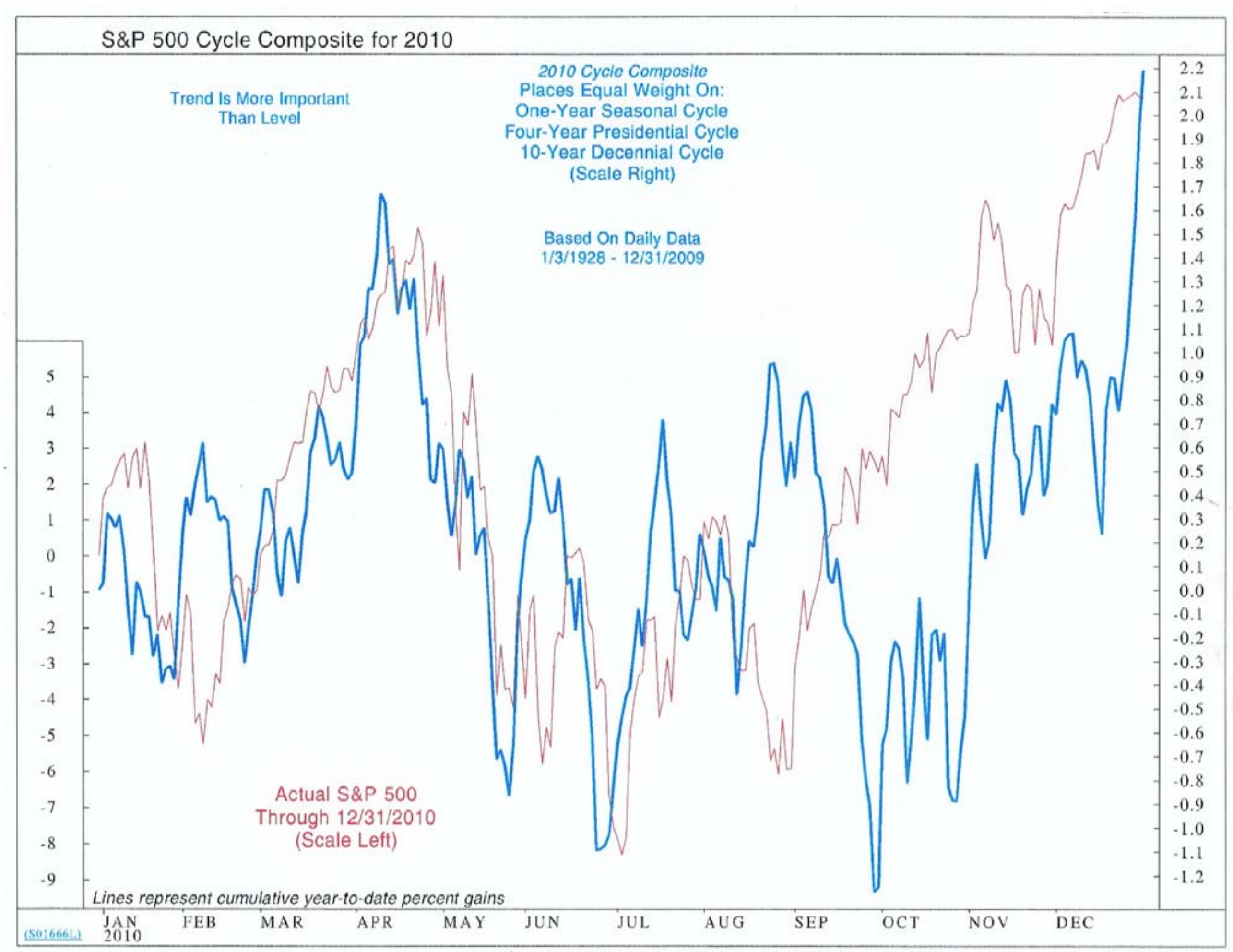
Indexes	% Return Year 2010	% Return 4Q 2010
Russell 2000 TR	26.85	16.25
Value Line Composite	26.82	14.40
S&P Small-Cap 600 TR	26.31	16.24
Russell 3000 TR	16.93	11.59
NASDAQ Composite	16.91	12.00
Russell 1000 TR	16.10	11.19
Wilshire 5000	15.69	11.14
S&P 500	12.78	10.20
Dow Jones Industrial Average	11.02	7.32
NYSE Composite	10.84	9.38

Just like the table in last January’s letter, there are no minus signs in this one; in fact, other than bond funds, none of the 50 stock averages for which results are published had a negative return. What a year! What a 4th quarter! But it did not seem possible as the year progressed, especially at the end of the 2nd quarter when everyone was so negative, chinning themselves on the curb, as we like to say, to portray extreme bearishness. As we now know and will discuss later in this letter, the Dow bottomed on July 2, right at the beginning of the 3rd quarter.

For the year, the scenario was also the same as last year with small-cap stocks leading the parade (Russell 2000 and S&P Small-Cap) and the big stocks at the parade's end (Dow and NYSE Comp). The story was the same for the 4th quarter as well.

LAST YEAR REVIEWED

In our April letter, we presented the Ned Davis S&P Cycle Composite projection for 2010. Now that the year is over, we are printing it again showing you what happened and noting that it was very accurate in its prediction, which has often been the case. This time the forecast and the market were in sync until August when the market made a higher low and never looked back. While the forecast called for a decline beginning in August and a final low in September, the bottom was in early July. However, all in all, a fabulous forecast again from the folks at Ned Davis Research.



As we emphatically stated in April and supported our case with tabular data, the "0" year of the decade has always made a market bottom. Now that the year is over, we present that same table with the results showing that the low was at Dow 9686 on July 2, and that the low compared with the beginning of the year price of Dow 10428 resulting in a decline of 7.1% from the beginning of the year to the intra year low. This was the second smallest decline since 1900. So as you can see, the zero year in the decade has an unbroken record of declining from the start of the year to the low, but that low has always resulted in a gain to year-end, this time 19.5%, right in line with the 18.4% average gain.

Dow Jones Industrials Performance In the Zero Years

Year	Year Open Price	Intra year Low Price	Intra Year Low Date	Year Close Price	% Decline Year Open To Intra Year Low	% Increase Intra Year Low To Close
1900	66.61	52.96	9/24/1900	70.7	20.5%	33.5%
1910	98.34	73.62	7/26/1910	81.4	25.1%	10.5%
1920	108.76	66.75	12/21/1920	72.0	38.6%	7.8%
1930	248.48	154.45	12/17/1930	164.6	37.8%	6.6%
1940	150.45	110.41	6/10/1940	131.1	26.6%	18.8%
1950	200.13	193.94	1/12/1950	235.4	3.1%	21.1%
1960	679.36	564.23	10/25/1960	615.9	17.0%	17.6%
1970	800.36	627.46	5/26/1970	838.9	21.6%	33.8%
1980	838.74	729.95	3/27/1980	964.0	13.0%	32.0%
1990	2753.20	2344.31	10/11/1990	2633.7	14.9%	12.3%
2000	11501.85	9571.40	10/18/2000	10788.0	16.8%	12.7%
2010	10428.00	9686.48	7/2/2010	11,577.0	7.1%	19.5%
Average					20.2%	18.4%

Source: TIS Group

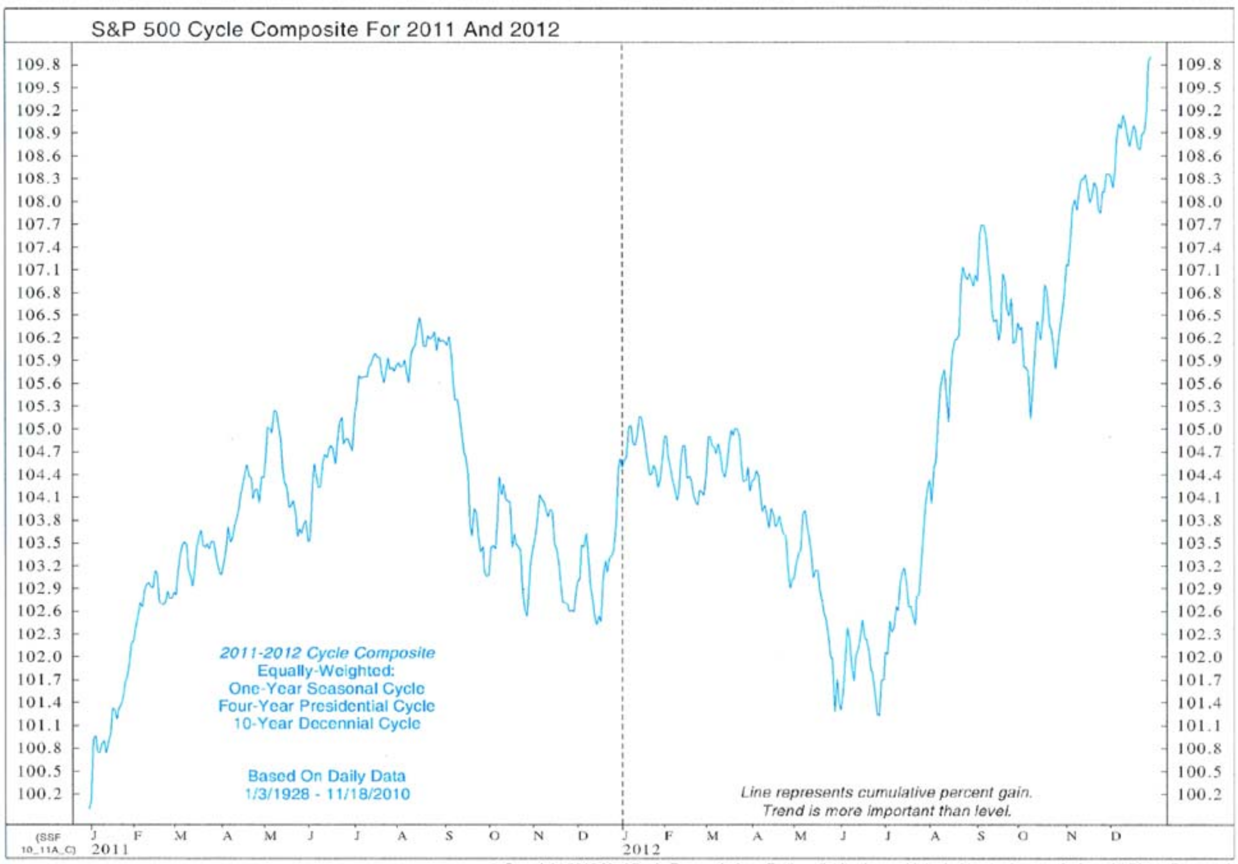
THE YEAR AHEAD

As predicted 2010 brought a bottom to the market, but as we said in July, probably not THE bottom. Then we suggested that THE bottom would be in 2012 and that the rising market from the 2010 bottom could extend well into 2011, certainly to April, maybe even later into the early fall. Following that decline, we predict a modest rise into 2012 and then a significant decline into THE bottom in 2012. We have said this many times in previous letters.

As we have noted in past letters, there are certain characteristics of a typical market year, such as the 5th year rise or the 8th year rise. It is often the case that the 2nd year in the decade witnesses a significant bottom, such as in 1932, 1942, 1952, 1962, 1982, and 2002. Missing in this sequence are 1972 and 1992; these were flat years with no particular pattern. So honestly, this second year of the decade bottom pattern does not always work, but the record is very good. The Ned Davis Research chart projection for 2011 and 2012 lines up with what we have said for many letters now, which is the "0" year low will carry the market well into the next year, probably April or May, or possibly early fall, and then a decline into year-end, a rising market into 2012 and then THE bottom in 2012, and a subsequent rise into the next bull market, which could easily last into the 8th

year rise in 2018. There would be the usual bumps along the way following the typical decade pattern.

There are other reasons to expect a good market into 2011, although it would not surprise us to see a small decline early in the year, as the market corrects its strong performance since the July low. We would note that the daily NYSE Advance-Decline line made a new high in December at about the same time that the Dow Industrials closed at a new high, generating a Dow Theory buy signal.



The table presented overleaf shows that the 2010 decline started at the end of April and declined 13.5% to the July low. We won't know the date of the next high until (with hindsight) we decide when it was, but looking at the table we see that in most cases the next high was in the 11th year (eight out of twelve) and that the average rise was 34%. If this market achieves the average gain from the Dow 9686 low, we could be looking at Dow 13000 by the projected 2011 high, a very nice gain from present levels. The average time from the end of the decline to the next high has been 13.6 months. Looking 13.6 months ahead from July 2, the projected 2011 high would be mid-August, right in line with the Ned Davis Cycle Composite projection.

DECLINES INTO 10TH YEARS & FOLLOWING RISES

Start Of Decline	% Decline	End Of Decline	Next High	% Rise
5/17/1890	-22.6%	12/8/1890	3/4/1892	+30.3%
9/5/1899	-31.8%	9/24/1900	6/17/1901	+47.8%
11/19/1909	-26.8%	7/26/1910	6/19/1911	+18.3%
11/3/1919	-44.2%	12/21/1920	5/5/1921	+19.9%
9/3/1929	-58.7%	12/16/1930	2/24/1931	+23.4%
9/12/1939	-28.3%	6/10/1940	11/9/1940	+23.5%
6/12/1950	-13.5%	7/13/1950	1/5/1953	+48.8%
1/5/1960	-17.4%	10/25/1960	12/13/1961	+29.8%
7/3/1969	-28.8%	5/26/1970	4/28/1971	+50.6%
2/13/1980	-16.0%	4/21/1980	4/27/1981	+34.9%
7/17/1990	-21.2%	10/11/1990	1/31/1994	+68.2%
1/14/2000	-14.9%	10/18/2000	5/21/2001	+13.6%
4/26/2010	-13.5%	7/2/2010	?	-
Average	-26.0%		13.6 Mos.	+34.1%

Source: Growth Fund Research, Inc.

REMEMBERING

An era ended about two years ago when Delta Airlines acquired Northwest Airlines. While we could certainly write a requiem for Northwest, the airline we loved to hate (Northworst, we called it), we wish now we had it back as Delta is no Georgia peach.

So it was almost fate that Donald Nyrop, Northwest's savior, should also leave us; he died November 16, at age 98. Nyrop was to Northwest Airlines what Bill Norris was to Control Data, although he didn't start Northwest. He did, however, take over a struggling airline as described in our client letter of July 2005, and under his leadership it became one of the country's most profitable and with one of the industry's best safety records to boot. Like Norris, Nyrop was a Nebraska native who ultimately became chairman of the Civil Aeronautics Board in 1951 and was invited to try to fix Northwest Airlines in 1954. His determination and frugality proved to be the answer. Joe Leonard, a Northwest officer and, ultimately, president of AirTran, said Nyrop's motto was "Keep it simple and say no a lot." The Nyrop stories are legendary. Frugal! The headquarters were void of windows so as not to have a distraction from looking outside, and he even removed the doors from the restroom stalls so there would be less time wasted in the biffy. The profitability of Northwest under his leadership was really its downfall, as it was taken over by Gary Wilson and Al Checci in a 1989 leveraged buyout and has been on a downhill slope ever since. Now, unfortunately, both Northwest Airlines and Don Nyrop are gone.

This past fall we have been somewhat overwhelmed by the WikiLeaks news, and in turn amazed all over again at the power of the internet. Our curiosity took us to Google to look up WikiLeaks to see what we could learn and we were taken—where else—but to Wikipedia. So what is this Wiki thing? We know it's Hawaiian for "quick." The explanation is that Wiki is server software that allows users to freely create and edit Web page content using any Web browser. Wiki is unusual among group communication mechanisms in that it allows the organization of contributions to be edited in addition to the content itself. Wiki supports hyperlinks and has a simple text syntax for creating new pages and crosslinks between internal pages on the fly. Got that? We sure hope so, because we are going to ask questions later. We don't really understand why, but we have learned that WikiLeaks started as Wiki based until December of 2010 when it moved toward a more traditional model and no longer accepts user comments or edits, but continues to accept submissions of private, secret, and classified media from anonymous news sources and news leaks. Obviously, much about WikiLeaks remains unknown and under the radar, but we are sure more will be learned in 2011 as the US Justice Department proceeds with its criminal investigation of WikiLeaks and its founder, Julian Assange. Stay tuned.

The cartoon speaks to the WikiLeaks phenomenon.

Sincerely,

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

RWP:RCP:DSP/jah

A NOTE TO THOSE WHO RECEIVE THE PCM QUARTERLY LETTER VIA EMAIL

Periodically, after we email our letter to readers, some will be returned to us because the recipient's inbox is full and unable to accept additional emails. There are also instances where emails are not deposited directly into a recipient's inbox, but instead end up in a junk mail or spam folder, as is often the case with Gmail and AOL addresses. If you have not received your quarterly letter via email by the end of the month following the calendar quarter end, check your junk mail and spam folders. Alternatively, let us know and we will send again.

Also, if you change your email and/or regular mailing address, please let us know at info@perkinscap.com.