PERKINS
CAPITAL
MANAGEMENT, INC.

January 30, 2020

Dear PCM Clients and Friends:

We often talk about the weather on the first page of these letters. Last year we said it was the weather here in Minneapolis has been very mild for this time of the year with very little snow for Christmas. In January of 2018 we shared that Minnesota is thought of as the nation's ice box. Or, it is a well-known joke that Minnesota has two seasons – winter and road repair.

Well, here it is January in Minnesota again and we have experienced some very unusual weather!

Normally, January in Minnesota, unless snowing, is very cold here with clear sunny skies. Those "Alberta Clippers" drive the frigid arctic air our way. The way the weather newscasters describe it you can feel the cold polar air rolling its way on down toward us from the cold frozen arctic. Usually, there's no way to avoid it, except this year which has been relatively mild with a lengthy series of days in the mid-30s. What, cold Minneapolis, a January with many days almost bearable. Yes, and this is due to cloud cover.

This year in Minnesota we have had maybe one "clipper" and lots of cloud cover keeping January warmer than normal. The Minneapolis *StarTribune* reported: Clouds have been present more than 70% of the month and they have been so thick that the amount of sunlight sneaking through has been at its lowest level in January since the climate observatory on the University of Minnesota's St. Paul campus began keeping such records in 1963. There are, of course, two ways to look at this. One is, for once, we have a bearable January. On the upside, the cloud cover has kept us from the deep freeze. Or, on the down side, as the Minnesota DNR's Climate Journal is saying, this past January has been the gloomiest since 1963 due to the longest stretch of cloudy days in decades. Hey everyone, get out your vitamin D! Thankfully, February is just around the corner with its longer days and: Here comes the sun!

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THE MARKET SCOREBOARD

The fourth quarter provided a strong end to the year, making 2019 one of the top years in terms of average returns for the decade. The S&P 500's surge was the best since 2013. There was a dramatic difference in returns between 2019 and 2018 with stocks doing better than bonds and U.S. equities out performing international equities. The year started with tremendous fear after 2018's fourth quarter which had every equity index down by double digits (Q4 2018 was down almost 12% for the Dow and down 20% for the Russell's small-cap). The fear at the time concerned the Fed and interest rates and Trump's jawboning of China leading to a trade-tariff war. The first quarter of the year was the strongest of the year. We wrote: "Wow! What a return from the December lows!" Its mid-double-digit bounce-back carried the markets into a modest Q2 and flat to down Q3; then this past quarter's nice finish to the year. In our January 2019 letter we described the 2018 fourth quarter correction as "A Perfect Storm." This past year's continued strong economy provided both "The Perfect Recovery" and a move to new highs in several of the Indexes.

Ranked by YTD Return Indexes	% Return YTD 2019
NASDAQ Composite	35.23
S&P 500 Total Return	31.49
Wilshire 5000	27.72
Dow Jones Industrial Average	22.34
NYSE Composite	22.32

Ranked by Q4 Return Indexes	% Return Q4 2019
NASDAQ Composite	12.17
S&P 500 Total Return	9.07
Wilshire 5000	8.35
NYSE Composite	6.98
Dow Jones Industrial Average	6.02

STOCK MARKET OBSERVATIONS

Last year the markets welcomed the resolution of several big picture macroeconomic uncertainties. The year began with Fed uncertainty, U.S. recession fear, U.S. – China trade war fears, and global economic uncertainty.

As 2018 ended, though rates were low and the Fed had been accommodative for most of the decade, the Fed had hiked rates four times and was maintaining a tone that more rate hikes were to follow; there was angst that the Fed was changing to a more restrictive Fed. As 2019 progressed there was a shift, or "pivot" as it was called, with the Fed cutting interest rates three times for a total reduction in rates of 75 basis points, the largest annual reduction in over a decade. The Fed was accommodative throughout the year and at the end of the year in the Fed's December policy meeting, the members of the Federal Open Market Committee showed they do not expect to raise interest rates in 2020. This added clarity for future 2020 Fed policy expectations, specifically that the markets can expect rates to stay low for the foreseeable future and this has set the stage for 2020. Fed wise I think we can expect a quiet year ahead in 2020. This means in 2020 Fed policy should not impede economic growth, the markets, or the presidential election.

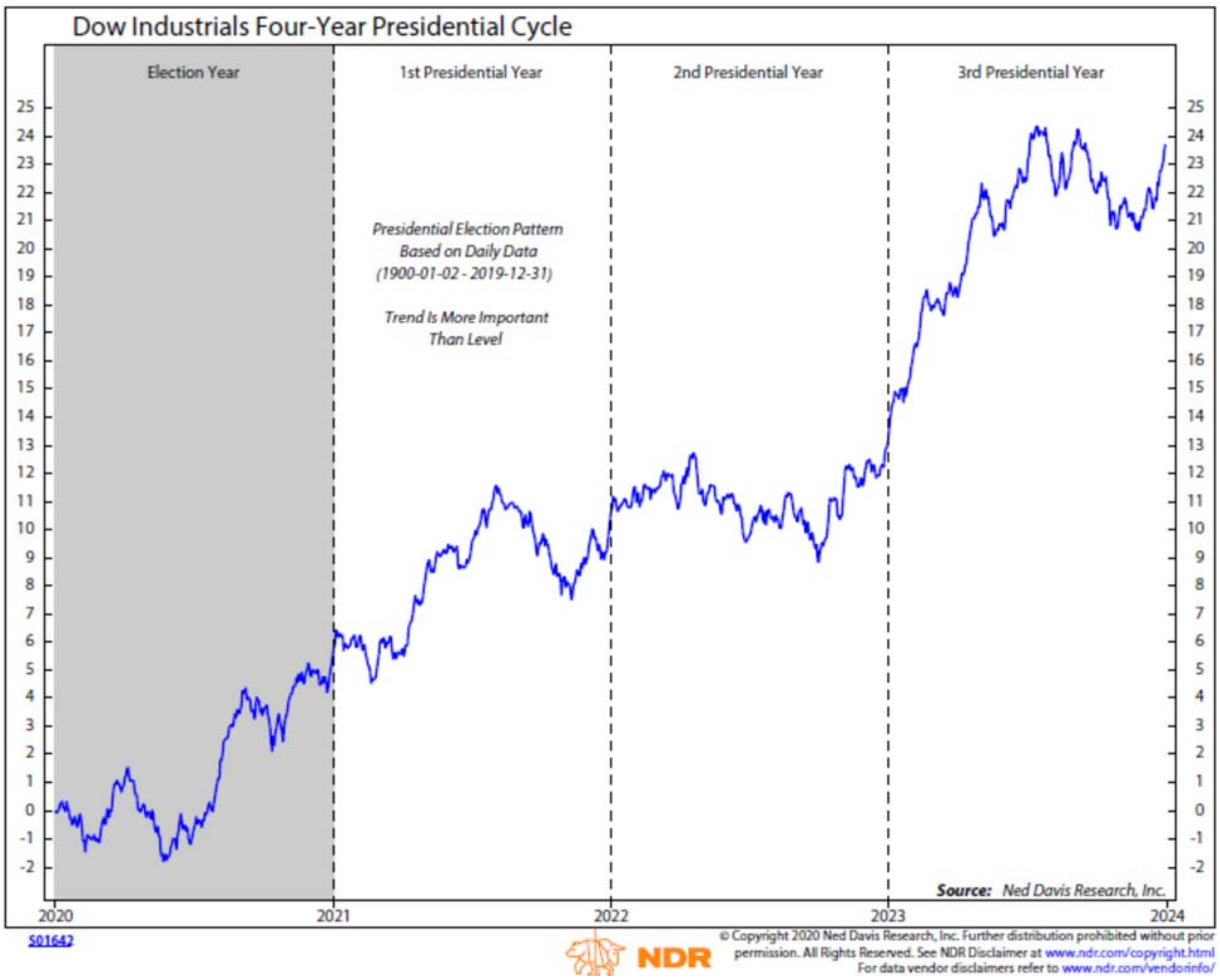
At the end of 2018 in addition to the notion that interest rates go both up and down, which affects economic growth, the news media was quick to remind everyone about “inverted yield curves” which is when short-term interest rates go above long-term rates; and that this was an almost near certain automatic predictor of a pending U.S. recession. There was also the concern that since the current expansion was the longest in U.S. history, over ten years, that it had to end and that a recession was just around the corner. Yet, the Plow Horse economy continues. At PCM we do not necessarily believe in a “new normal”; but the fact remains, that with tax decreases, low unemployment, full employment (a healthy consumer), low interest rates, an accommodative Fed, pro-business policy shifts toward less regulation, and productivity gains it is very reasonable, in fact likely, that 2020 will be another Plow Horse no recession year. Remarkably, there was also a return to global economic growth which spread through the globe during the second half of the year into year end. With low interest rates as a continued underpinning, it does appear we are heading for an 11th year of low to moderate economic expansion. The Plow Horse keeps plowing on.

One important event for the markets during the fourth quarter and leading into 2020 was a “phase one” agreement with China on a trade deal. During 2019 the questions: Will we have a trade war with China? Can we strike a trade deal with China? Tariffs? caused definite market volatility. By mid-October, after intense negotiations and much media coverage, both the U.S. and China agreed to a phase one in principal trade deal which will result in the reduction of some existing tariffs, the promise of no additional tariffs, and, an important point for Trump, increased imports of goods by China. In December more specifics were released on this trade deal. This probably sparked the year end and into January market rally. Though it all does sound like progress our concern would be in the follow through. A January 20, 2020 Bloomberg Business article summed it up with its headline: “After the Handshake Comes the Hard Part.” This is, of course, will the Chinese live up to it? The article stated: “U.S. presidents have often struggled to get China to deliver on promises. Will it be different for Trump?” In the end we are not expecting much change. It would be a positive for the market if there were results; not necessarily a negative if there are not.

In our October letter we mentioned a Ned Davis Research piece entitled: “Presidential Cycle Choppy into mid-2020. As our readers know we have often included Ned Davis’ market cycle work in our letters and, though not perfect, their work has been accurate over many years in predicting the general direction, tone, and form of the market. We are reprinting the update of their Dow Industrials Four-Year Presidential Cycle chart here. With 2019 dropped off and 2024 added in it shows, with trend more important than any specific level, what the typical form of the market could look like over the next four years.

As the Four-Year Presidential Cycle chart shows, (and this January started stronger than expected), during an election year the market moves sideways with ups and downs into the summer due to the uncertainty of the election. Once the market begins to “see” less election risk it can begin to move up into the elections. Once a President is elected the markets quite often, or rather, should, enter into a “honeymoon” period which can last well into midyear of the 1st Presidential Year. That takes us into mid-2021. Since our expectation at this time is for a continued non-recessionary decent low interest rate plow horse economy, a continuation economy in 2020, we feel at this time that the general form as laid out in the chart below – an up, down, sideways market until the elections are resolved and then a continuation of the current uptrend – is a reasonable prediction.

In summary, what we see for 2020 is a continuation of a market which is generally positive and favors investors in companies who show positive results in growth and earnings. With low interest rates, investors who desire current income will continue to find positive returns in high quality dividend paying stocks. For growth-oriented investors there will continue to



be numerous opportunities for investment in individual companies who show strong revenue growth within well managed long-term opportunities. This is often referred to as a "stock pickers" market where active rather than passive investment management succeeds. After last year's positive returns in the averages, 2020 will likely be a year where active management in specific opportunities will be a more successful investment strategy than broad-based index investing.

The cartoon below speaks to the continuing need of Washington "insiders" to bolster their egos, create monetary interest in their books, fight the President or have their day in the news by leaking information. Is it really just tattling? Sadly, it is more. It is most often an action which serves the leaker's purposes.

Sincerely,

Richard C. Perkins, C.F.A.
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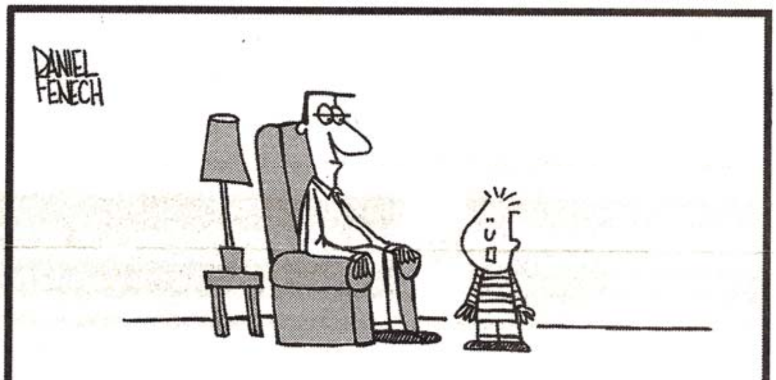

"I'M NOT TATTLING ON MY SISTER...I'M JUST LEAKING INFORMATION."

THE FISHING TRIP

Four guys from Lake Aasgaard went up to Northern Minnesota fishing. To save a little money, they rented a small cabin that had only two bedrooms. Well, Arne sleeps with Ole the first night and he comes to breakfast next morning with his hair a mess, and his eyes all bloodshot. They say, “What happened to you?”

Arne says, “Dat Ole, he snores so loud, I was kept avake vatching him all night. I can’t do that ‘other night so vun of you’s got to do it.’” Since Ole snores so loudly, no one else wanted to room with him, but they finally agree to take turns. The next night is Oscar’s turn.

In the morning, same thing - hair all standing up, eyes all bloodshot. Oscar declares, “Fer sure, dat Ole shakes the roof. And he sleeps so hard, I couldn’t vake him. I vatched him all night.”

The third night was Sven’s turn. Next morning Sven come to breakfast bright eyed and bushy tailed. They can’t believe it! They say, “Vat happened?” Sven says, “Well, ve get ready for bed, I go und tuck Ole into bed and kiss him good night, Den he vatches me all night long.”

A CLEAN SHAVE

Ole has a thriving Minnesota barbershop, specializing in giving old Norwegian shaves.

Lars walks into Ole’s barbershop for a shave and a haircut. He tells Ole he can’t get all his whiskers off because his cheeks are wrinkled from old age.

Ole gets a little wooden ball from a cup on the shelf, tells Lars to put it inside his cheek to spread out the skin.

When Ole is finished, Lars tells Ole that was the cleanest shave he'd had in years, but Lars wanted to know what would have happened if he had accidentally swallowed that little ball.

Ole replied: “Just bring it back in a couple of days like everyone else does.”

VE COULDN'T AFFORD MORE

Sven and Ole from Minnesota went fishing in Canada and returned with only one fish. “Da vay I figger it, dat fish cost us $400” said Sven. “Vell,” said Ole, “At dat price it’s a good ting ve didn't catch any more.

GENDER REVEAL

You may not know that many non-living things have a gender. For example:

1) Ziploc Bags -- They are Male, because they hold everything in, but you can see right through them.

2) Tire -- Male, because it goes bald and It's often over-inflated.

3) Hot Air Balloon -- Male, because, to get it to go anywhere, you have to light a fire under it, and of course, there's the hot air part.

4) Subway -- Male, because it uses the same old lines to pick people up.

5) Hammer -- Male, because it hasn't changed much over the last 5,000 years, but it's handy to have around.

6) Remote Control -- Female...... Ha! You thought it'd be male. But consider this – A man would be lost without it, and while he doesn't always know the right buttons to push, he keeps trying.

THE APPRECIATED GIFT

Four brothers left home for college, and they became successful doctors and lawyers and prospered. Some years later they discussed the gifts that they were able to give to their elderly mother who lived far away in another city.

The first said, "I had a big house built for Mama." The second said, "I had a huge theater built in her house." The third said, "I had my Mercedes dealer deliver her an SL600." The fourth said, "Listen to this. You know how Mama loved reading the Bible and you know she can't read it anymore because she can't see very well. I met this priest who told me about a parrot that can recite the entire Bible. It took twenty priests 12 years to teach him. I had to pledge to contribute $100,000 a year for twenty years to the church, but it was worth it. Mama just has to name the chapter and verse and the parrot will recite it."

The other brothers were impressed. After the holidays Mama sent out her Thank You notes. She wrote: "Milton, the house you built is so huge. I live in only one room, but I have to clean the whole house. Thanks anyway." "Marvin, I am too old to travel. I stay home, I have my groceries delivered, so I never use the Mercedes. The thought was good. Thanks." "Michael, you gave me an expensive theater with Dolby sound, it could hold 50 people, but all my friends are dead. I'll never use it. Thank you for the gesture." "Dearest Melvin, you were the only son to have the good sense to give a little thought to your gift. The colorful turkey was delicious. Thank you."