

PERKINS
CAPITAL
MANAGEMENT, INC.

July 28, 2003

Dear PCM Client:

As the cartoon shows, the Minnesota celebrants of the 4th of July holiday spent their time swatting mosquitoes (the state bird) as they grilled their hot dogs and hamburgers. All except Perk, however, who spent the day driving home from Mentor, OH, (east of Cleveland) where he had been for nearly a week helping his granddaughter, Allison, (Allioop) move into a cottage on a large estate which she will share with fellow Lake Erie College student, Meg Powell. That 13.5 hour drive back to Minneapolis gave Perk time to think about the meaning of July 4, which many Americans just consider to be



another time to go boating, especially when it falls on a Friday or a Monday, which provides that long three-day weekend. So, it seems to us that this past 4th of July should perhaps have more meaning for us as Americans than previous ones. Why? Because we are constantly exposed to news about countries where there is no freedom as we know it, and there may never be. Today we hear about Senegal, Liberia, Nigeria, and Ghana where there are civil wars and insurrections, resulting in massive loss of life. The same was true in Bosnia, where mass graves are still being uncovered. There was no freedom there, and there was no freedom in Iraq or Afghanistan either, but hopefully there will be in the future. Here we are in America with our many freedoms, certainly so much better off than many in the world, and yet, we complain. It makes Perk think of his Aunt Hilma, who always reminded him about the man who complained because he had no shoes, until he saw a man who had no feet. The 4th of July is a special day for Americans; we are participants in parades, and we watch fireworks displays, which are legendary throughout our land, and serve as a reminder of our national anthem, which talks of the rocket's red

glare, and the bombs bursting in air. The first of four verses is printed here. Although written by Francis Scott Key in 1814 during the British invasion of Washington, and adopted as our national anthem in 1931, to most Americans it is associated with our independence in 1776.

*Oh, say can you see by the dawn's early light
What so proudly we hailed at the twilight's last gleaming?
Whose broad stripes and bright stars thru the perilous fight,
O'er the ramparts we watched were so gallantly streaming?
And the rocket's red glare, the bombs bursting in air,
Gave proof through the night that our flag was still there.
Oh, say does that star-spangled banner yet wave
O'er the land of the free and the home of the brave?*

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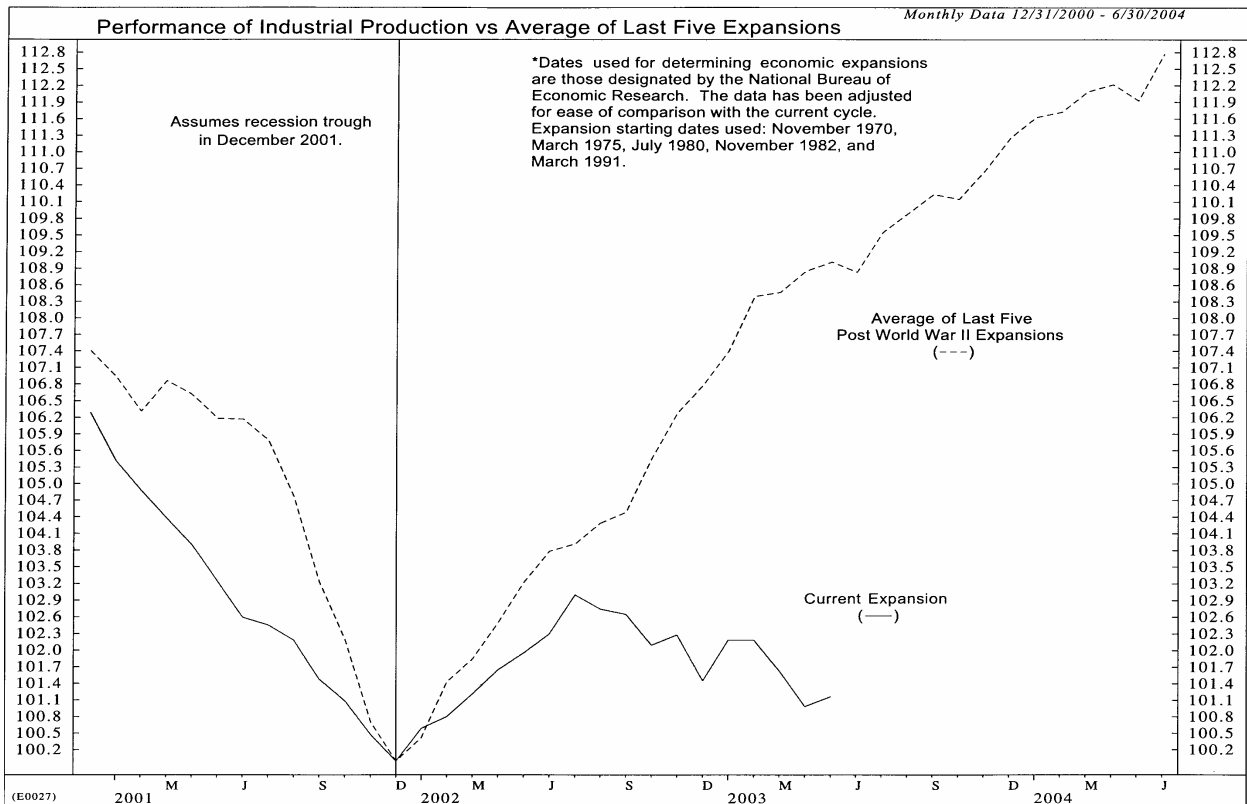
INVESTMENT MANAGEMENT

Think also about Jawad Amer Sayed, the Iraqi man who hid for 22 years in a false wall between two rooms. Pursued by Saddam’s police and facing certain death he decided to hide, however long it took. And only his mother, a brother and two sisters knew; everyone else thought he was dead. He lived in a 3’ by 7’ space, not daring to enter out. He finally emerged on April 10, the day after Saddam fell from power, thinking that he finally must be a free man. It is almost impossible for us to imagine a self decreed isolation of that length to avoid execution. One would almost think death would be better. In fact, he said at times he thought he was dead, because of the silence.

And so, although the July 4 holiday is nearly a month old by the time you read this, perhaps thinking about what has been written here will moderate your thoughts on some of the views that we Americans have, and will serve as a daily reminder that we should cherish our freedom, for there are many who do not have any.

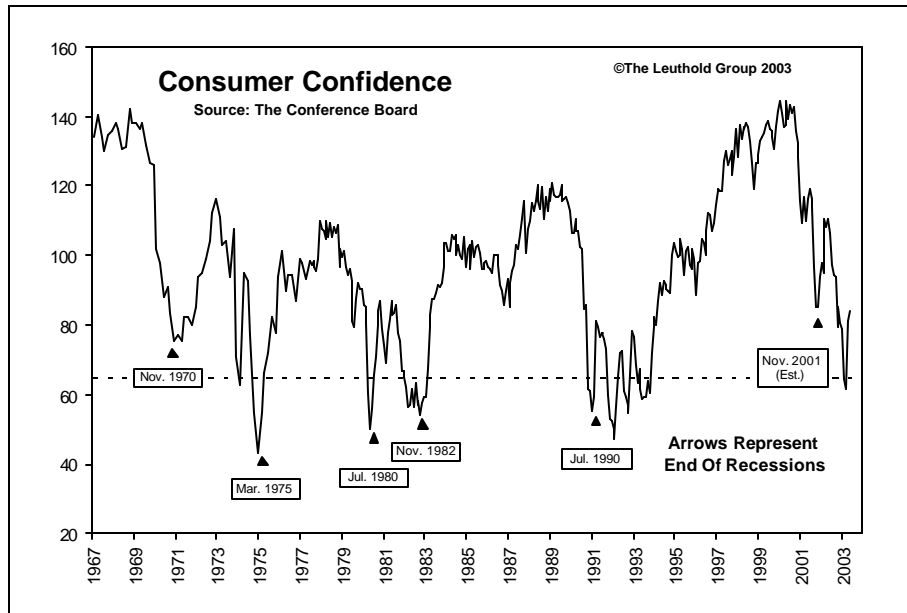
OUR ECONOMIC UNRECOVERY

It appears that our economy simply can’t get enough lift to get off the ground. The June unemployment report was disappointing as it surged to 6.4% from 6.1% the previous month. And it was reported by the Labor Department that new jobless claims rose in a recent week to 439,000, the highest level in some time. Then there is the natural gas shortage which can continue to dislocate many businesses. As the chart shows this current expansion is pretty anemic compared to previous recoveries.



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Hopefully, this will change soon as the tax cut kicked in the first week in July. Whether you like the new tax policy or not, it will put real money into the pockets of consumers, who in turn, true to form, will spend it and not save it. Remember, also, that the stock market is a leading indicator, and as such is looking ahead six to nine months. We think the strong 2nd quarter performance with the NASDAQ up 21%, the S&P 500 up 15%, and the Dow Industrials up 12.5% is telling us that better economic times lie ahead.



The present low in consumer confidence may also be of predictive value for future spending. In the past it has been used as a reliable stock market buy signal as very low consumer confidence readings typically occur at or near market lows. Looking at the chart above, it can be seen that the correlation with stock market bottoms is quite good: the 1970 bottom was in May, 1974 in December, 1980 in April, 1982 in August, 1990 in October, and 2002 in October. But *The Leuthold Group*, in its June 2003 report, provided statistics which showed the percentage change in personal consumption expenditures in 3-, 6-, 9- and 12-month time frames following periods where consumer confidence readings fell below 65. The table shows this data. What is noteworthy is that in these time frames subsequent to very low readings in consumer confidence, personal consumption expenditures went on to see higher growth than the rate of growth for all periods, and after 12 months consumption growth subsequent to very low confidence readings grew by 4% compared to 3.4% for all periods. The question is why? And the answer, of course, is that most low confidence readings tend to occur at or very near economic troughs when

Low Consumer Confidence Versus Future Spending				
Personal Consumption Expenditures	3 Month	6 Month	9 Month	12 Month
	% Chg.	% Chg.	% Chg.	% Chg.
Subsequent To Periods Of Low Confidence	0.9%	1.9%	2.9%	4.0%
vs.				
All Periods	0.8%	1.7%	2.5%	3.4%

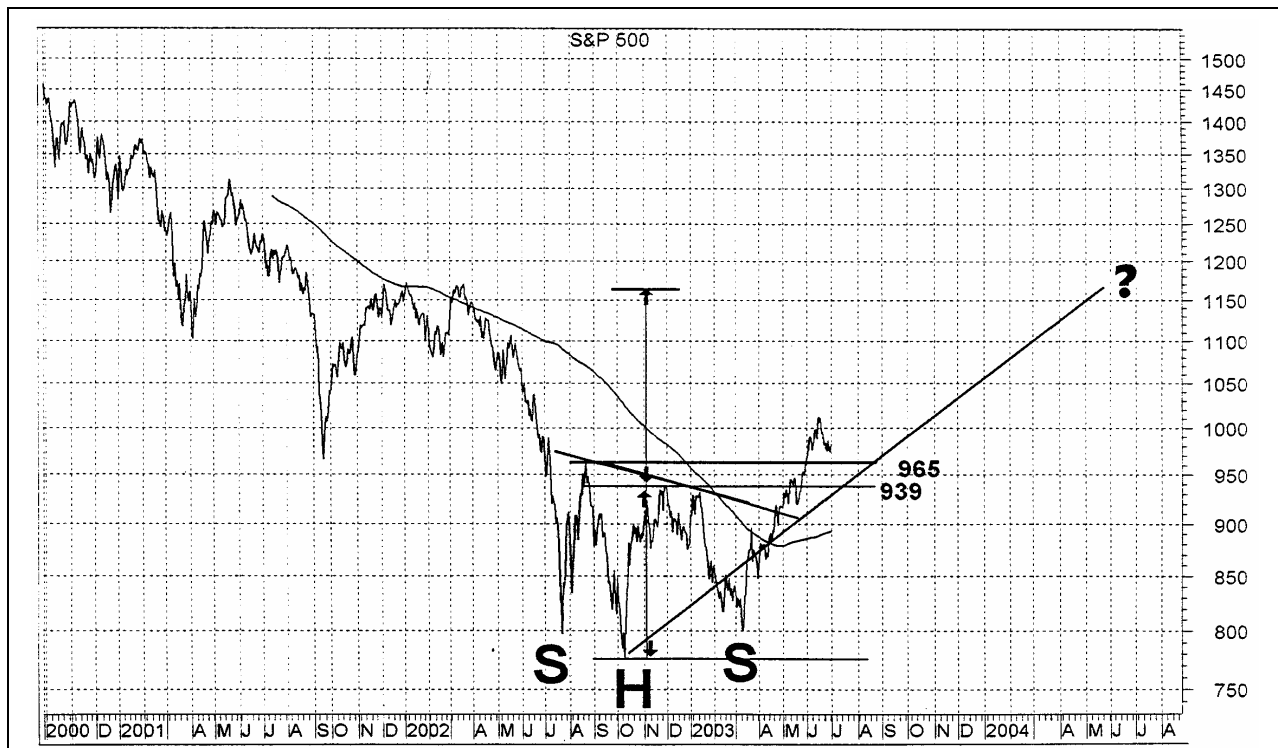
conditions always look their worst. Consumer spending typically rebounds at a greater than average growth rate as the economy transitions into the expansion phase. *The Leuthold Group* expects to see similar

improvement in consumption over the next twelve months, and based on this data we agree. All in all, it's another reason to expect a better economy in the near future.

THE AMAZING MR. MARKET

Mr. Market, as Warren Buffett calls it, does not do what the majority thinks it will do, or should do. Like the 600 lb. gorilla, it does whatever it wants. It has often been said that the market will do whatever it takes to confuse and confound the majority. Certainly the majority did not anticipate a bottom last October, but that in fact is what happened. In our October 28 letter, in a paragraph beginning on page four titled "SEARCHING FOR THE BOTTOM," we referred once again to the presidential cycle in which a market bottom is always posted in the second year of the presidential term. That four-year cycle called for a bottom in 2002. And 2002 was also the year of the 20-year cycle bottom as in 1942, 1962 and 1982. In that letter on page five we produced two tables, one of which showed the percentage gain in the Dow Jones between the mid-term election year low and the high the following year, and the other for the S&P 500 Index. Our readers will remember that the average gain for the Dow Jones between the presidential mid-term low and the high in the following year since 1914 has been 50%. Likewise, from 1934 to 1998 the average S&P gain from the mid-term election year low to the following year high was 51%. We then calculated that if a 50% gain took place from the October low, the Dow would get to 10,767 and the S&P 500 to 1153 sometime in 2003.

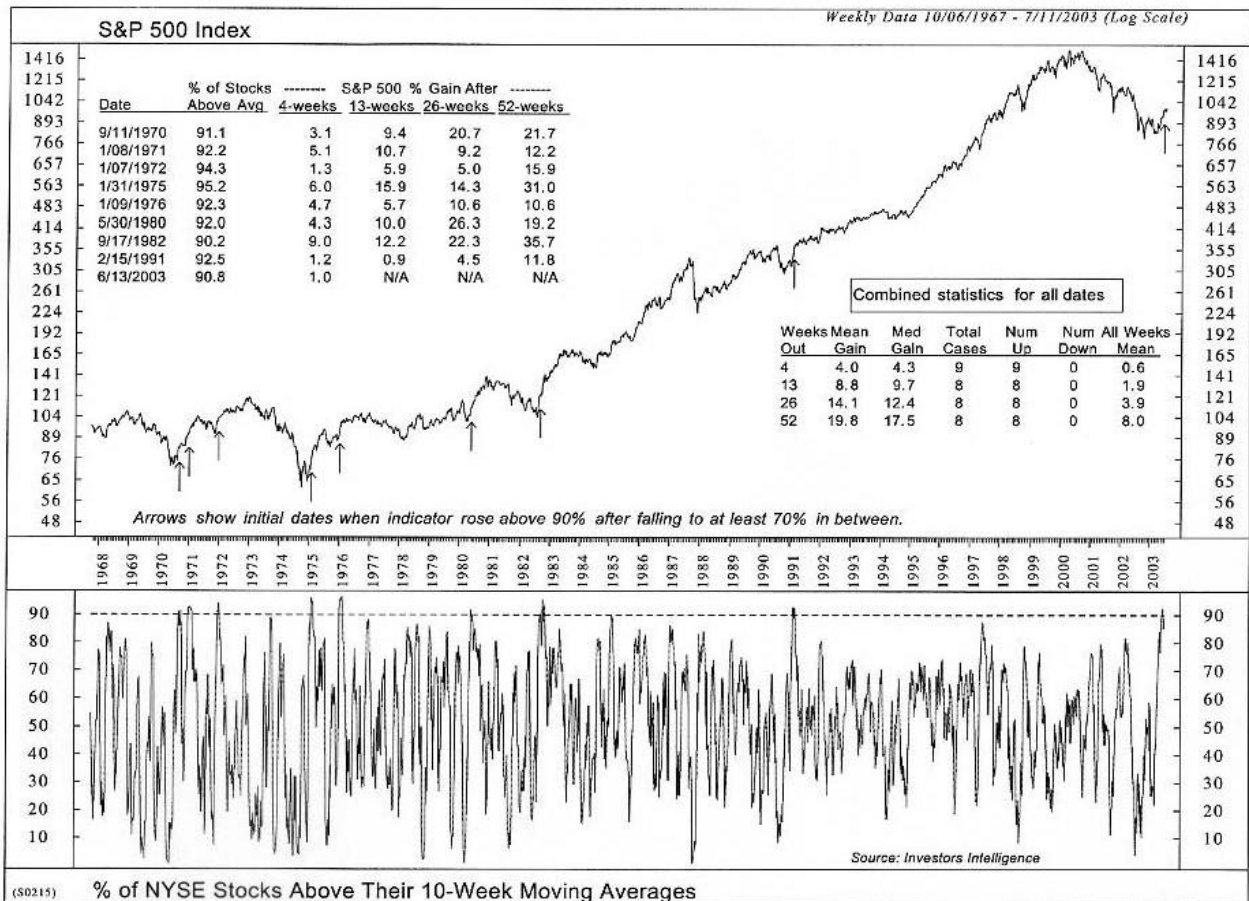
The July 4 *Market Strategies and Insights* letter included a chart of the S&P 500, with projections made by Walter Deemer, a friend, and highly respected analyst, and author of



that report. We would make the same measurement from the head-and-shoulders bottom, i.e., 1160 or so on the S&P 500, to be reached sometime this year. We think this is a realistic projection, and it falls right in line with that 51% average move of the S&P 500 which we talked about in the previous paragraph.

As many of our readers know, there is a correlation between the length of skirts and stock prices. When skirt lengths move up, so do stock prices, and vice versa. So far this year that has been true, considering the miniskirts being shown this spring and the stock market's rise so far. What we have learned, however, through our intelligence that surveys such things, is that skirt lengths are due to rise even more this fall and are headed higher than they have ever been. We don't think that means the market is also headed to a new high, but it does corroborate our view of higher stock prices.

But after a good run, the market is usually due for a correction. It is not uncommon for the market to get ahead of the economic rebound, for as we said earlier it is a leading indicator. According to Ned Davis Research, the median cyclical bull market has included five Dow Jones corrections of 3% to 5%, three of 5% to 10%, and one of more than 10%, such as the January/March 2003 sell off. One of the most interesting charts from Ned Davis Research shows the Investors Intelligence calculation of the percentage of New York Stock Exchange stocks above their 10-week moving averages. When this ratio



moves above 90% a “breadth thrust” signal is given. In the chart shown on page five these signals are marked with an up arrow, and a table in the upper left portion of the chart shows what the S&P 500 has done 4-, 13-, 26- and 52-weeks after this signal. These results are very impressive and if duplicated this time could give us a good market for up to a year.

However, there is the other side of the coin to be looked at, i.e., the negatives. One of them is the latest sentiment data from the American Association for Individual Investors which shows 71.4% bulls and 8.6% bears. This survey measures the sentiment of actual investors in the market which, since it comes from the American Association of Individual Investors, measures the sentiment of the small investor. This reading of 71.4% bulls is the second highest, and the reading of 8.6% bears is the fifth lowest in the history of the data. Bulls minus bears is the highest it has ever been, so among small investors the plurality of bulls over bears is higher now than at anytime in the past 16 years, including August 1987 at the Dow high prior to the crash, and January 2000 when the Dow made its all-time high. History has shown that it is best to take a view opposite from that of the average investor, i.e., contrary opinion. So this data is somewhat troubling.

Another negative statistic is insider selling, which is flashing yellow. Corporate insiders have recently been on a selling spree and have seen little reason to buy. Insiders sold \$1.3 billion of stock during the first half of June, and in May they sold \$3.3 billion, the highest level of selling in two years as measured by Thomson Financial Group. On the other hand, corporate executives bought only \$62 million worth of stock in June, about one-third the monthly average for the past 5 years. The theory is that if insiders are selling stock in their own companies and buying less they believe business conditions are going to remain poor, then this can be translated into poor stock market performance. Thomson Financial calculates the ratio of selling to buying and when it exceeds \$20 to \$1 a month, a stock market decline of up to 6% may be in the offing. At the present time, the ratio is \$27 to \$1 or a relatively bearish level. While both of these indicators are certainly worth paying attention to, we think some of the other information which we have provided in this section may very well override these negative indicators, at least for the time being.

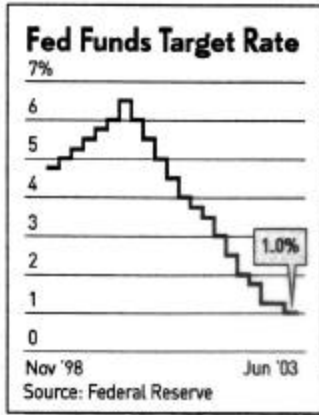
We continue to believe that small- and micro-cap stocks will continue to provide good performance in the market as they have since the October bottom. In fact, the Russell 2000 total return for the 2nd quarter was 23.4% vs. 15% for the S&P, and 12% for the Dow; the same relationship is true for the first half of this year, with the Russell 2000 up about 18% vs. 12% for the S&P, and 8% for the Dow. NASDAQ was up 16% and 10%, respectively, for those two periods. This performance of small-cap stocks over larger has been anticipated by many stock market seers, such as Steve Leuthold and Walt Deemer, both of whom have steadfastly maintained that coming off a major bottom, small-caps will do best. It was John Maynard Keynes, the famous economist, who compared the stock market to a beauty contest, as he said that one has to base one’s judgment not on the contestant you think is the most beautiful, but on the one everyone else will consider the most beautiful. Since everyone else seems to think that small-caps are best, then indeed that would be the place to be, and for us, by and large, that is where we have been.

MIRROR IMAGES II

We have written many times over the years in these client letters about interest rates and their future expected decline. Reviewing past letters, we found paragraphs and charts dating back to 1994, and each time we predicted lower rates ahead. In fact, in October 1995, we postulated that 3% Government bond yields lay ahead. In January 1996, in a paragraph titled 'MIRROR IMAGES' we again targeted 3% Treasury yields "out there sometime." Our last similar comment was in July 1999, four years ago, where we again looked for 3% rates in the future. Now here we are again discussing interest rates, but this time we will tell you that we have reached in yields, although perhaps not in time, the target that we have been anticipating for nearly ten years. The chart shows the yield level of 3-year, 5-year and 10-year Treasury notes. This "Mirror Image" shows the symmetry often seen in charts which reflect a bubble and then the aftermath; the up phase can last for years and in this instance from 1946 to 1981 or 35 years. Previous declines lasted 27 years (1798-1825), 37 years (1861-1898,) and 26 years (1920-1946). Therefore, the mirror image would require similar yield levels somewhere between 26 years out from 1981 or 2009, or as far out as 37 years if the decline lasted that long. Thus while we have reached the area of anticipated yield levels, we may have rallies and corrections for many more years with yields fluctuating around present levels.

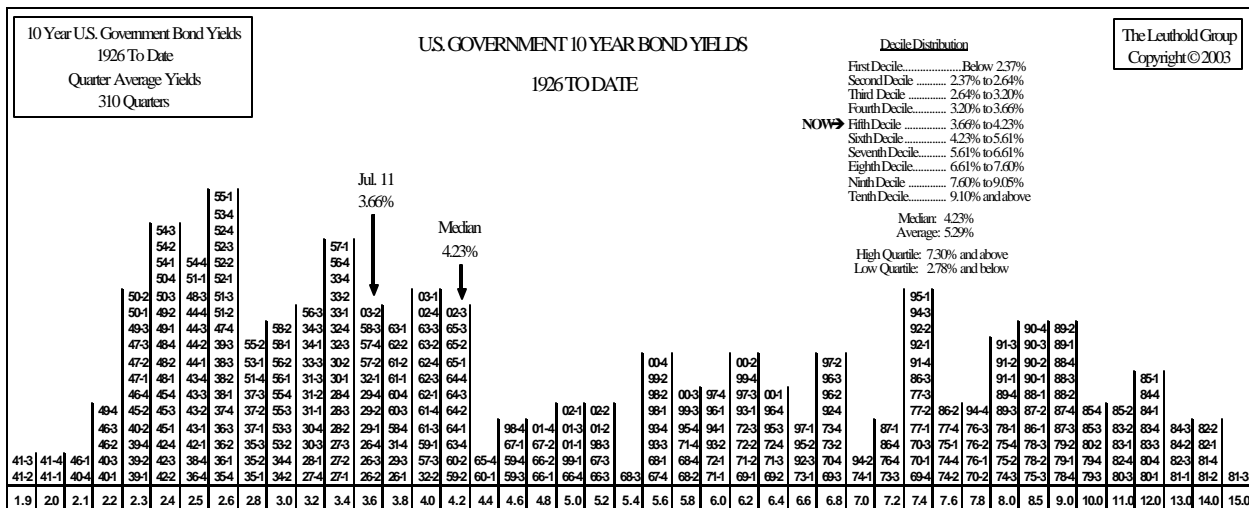
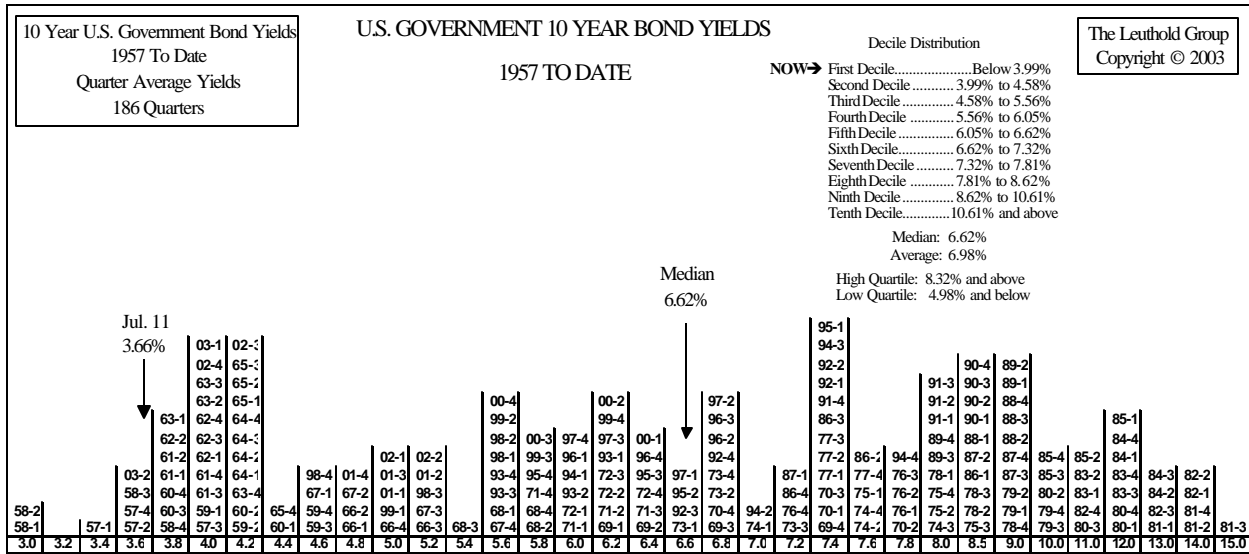


As we all know, the Fed cut the discount rate to 1% on June 25, the lowest rate seen since 1958. We suspect that based on our mirror image chart, rates will stay low for several years yet. Our respected friend and market historian, Steve Leuthold, made the case in



his June issue of *Perception* for shorting T-Bonds, the result of yields on 10-year Treasuries going from a peak of 15.8% in 1981 to current levels of about 3.3%, a 20-year secular decline. The first histogram produced here courtesy of *The Leuthold Group* shows that yields are at a level seen only a few times since 1957. Looking at the longer term, however, from 1926 to 2003, the lower histogram shows a period of rates below 3% especially during the war years of the 1940s. So rates certainly could, over future years, decline further and looking at the mirror image chart, it would not be surprising to see many more years of low interest rates. The conclusion here is that one certainly does not want to own bonds and that the big rush to refinance mortgages may in the final analysis be early if rates continue to

go down over the foreseeable future to those rates seen in the 1940s.



HARRY AND HILLARY HOOPLA

This June, within just a few days, we were inundated with J. K. Rowling's new Harry Potter book *Harry Potter and the Order of the Phoenix* and Hillary Rodham Clinton's exposé titled *Living History*. The previous Potter book, *Harry Potter and the Goblet of Fire* was released in 2000 and fans had to wait three years for the new one. But Rowling wrote a longer book this time and took time off to get married and have a child. Here are some of the interesting facts about this series of Harry Potter Books:

- *Harry Potter and the Sorcerer's Stone* (1998) 309 pages
- *Harry Potter and the Chamber of Secrets* (1999) 341 pages
- *Harry Potter and the Prisoner of Azkaban* (1999) 435 pages
- *Harry Potter and the Goblet of Fire* (2000) 734 pages
- *Harry Potter and Order of the Phoenix* (2003) 896 pages

As you can see, each succeeding book was longer than the previous one. The first four books so far have sold 80 million copies in the U.S. alone and 192 million worldwide in 55 languages. Book four, the Goblet of Fire, has sold 16 million copies and was the fastest selling book ever when 3 million copies were sold in the first 48 hours. But Order of the Phoenix did a lot better selling 5 million copies in one day! That earned J. K. Rowling about \$22.5 million that day alone. She has done well. She was a single mother on welfare when she began the Harry Potter series and is now reported to be worth more than Queen Elizabeth II. She plans two more, probably to end when Harry is 17 or 18; he was a 10-year-old in the first book in 1998 and 15 five years later in the new 2003 book. People ask why children around the world are so eager for the next installment about a boy wizard, and the answer seems to be because they see themselves in him.

Turning to Hillary, most people remember her first book, *It Takes a Village*, published in 1996, but few will remember *Dear Socks, Dear Buddy: Kids' Letters to the First Pets* in 1998 and *An Invitation to the White House: At Home With History* in 2000. The first book sold 700,000 copies, the second 325,000 and the last one 163,000. *Living History* has already sold nearly 1 million copies. So what is it that interests people in the new book? We think it was well advertised that she would "tell all" and, of course, everyone likes to read about a presidential scandal. Perk has not read the book, but he has read excerpts from the book in the June 16 *TIME* magazine, and he says she seems honest, and believable, and he now has a higher opinion of her than before. She comes through as quite human, after all, trying to deal with the same issues that other women have had to deal with and, considering her position, has managed quite well. We think this would be a worthwhile book to read, or perhaps a worthwhile book on tape. Of course, there have been the usual late night TV digs:

- "In Hillary Clinton's new book *Living History*, Hillary details what it was like meeting Bill Clinton, falling in love with him, getting married, and living a passionate, wonderful life as a husband and wife. Then on page two, the trouble starts."
Jay Leno

- “CNN found that Hillary Clinton is the most admired woman in America. Women admire her because she’s strong and successful. Men admire her because she allows her husband to cheat and get away with it.”
Jay Leno
- “Hillary Clinton got \$8 million for her memoirs and Bill Clinton is getting \$12 million for his. That’s \$20 million for memories from two people who for eight years repeatedly testified, under oath, that they couldn’t remember anything.”
Anonymous

PASSINGS

Sadly, the 2nd quarter of 2003 has witnessed the deaths of many famous people. Dr. Robert C. Atkins, the cardiologist who designed the hotly debated Dr. Atkins diet, died at age 72 on April 17 when he slipped and fell on the icy sidewalk in front of his Atkins Center for Medicine in Manhattan. His accidental death was very untimely and very unfortunate. People today are very familiar with the Atkins diet as over 15 million copies of his various books have been sold. His diet requires a significant reduction of carbohydrates and has been a success for many people who want to lose weight. It is working for Perk.

The grim reaper kicked into overdrive in June, taking away David Brinkley on June 11 at age 82, Gregory Peck on June 12 at age 87, Senator Strom Thurmond on June 26 at age 100, Sir Denis Thatcher on June 27 at age 88, Katharine Hepburn on June 29 at age 96 and Buddy Hackett on June 30 at age 78. We all get to know television commentators who come into our home in the evening. Certainly, we all remember David Brinkley, who with his partner, Chet Huntley, from 1956 to 1970 really popularized the early evening news program. Gregory Peck, of course, was one of the most distinguished movie stars whose career spanned over half a century and who won an Academy Award for his most memorable role as Atticus Finch in *To Kill a Mockingbird*, which was released in 1962. He will not soon be forgotten. Senator Strom Thurmond of South Carolina was a senator for 48 years and believe it or not, he had only recently retired from the Senate. Sir Denis Thatcher, husband of Great Britain’s former prime minister, Margaret Thatcher, was once described by Lady Thatcher as the “golden thread” that ran through her life, and he had many admirers and friends for showing his wife unswerving loyalty. He was a retired millionaire oil executive who was routinely harpooned by the British press as gin swilling, cigarette puffing and golf obsessed, a portrait that he did not disavow. The Brits thought very well of him, however. And who among us could ever forget Katharine Hepburn, one of the true Hollywood legends who pleased us all with a wide variety of roles that she played in 43 films, all the way from *Little Women* to *The African Queen*. Perk remembers *The African Queen* as if it was yesterday, and has seen the movie several times; it is interesting to reflect that it was produced in 1952, one year before his son Dick was born, and two years before son Dan. My how time flies. One of the main things about her life that few people knew was her love affair with Spencer Tracy, which created one of the great romantic legends and brilliant movie pairings of their day. Tracy was unhappily married and he remained married until the end of his life, although he and Ms. Hepburn

lived together for 27 years, until his death in 1967, and made nine films together. Finally, who among us could forget Buddy Hackett, the clown who played more than half a century in nightclubs, movies and on the stage. He was a frequent guest of the TV late night shows, and actually was funny the minute he screwed up his face to speak. He was one of the best stand-up comics we have ever seen.

Our friend, Phil Smith at Feltl and Company, forwarded this marvelous picture of our Senate Majority Leader Tom Daschle. This is priceless: using the wrong hand while repeating the Pledge of Allegiance. Too bad it is a fake picture.

Finally, as usual, we like to have some interesting add-ons to the letter. This time we have Kurt Vonnegut's MIT graduation speech courtesy of Dottie Hoel, and two pages of funny items courtesy of Bill Machgan. We think you will enjoy these two addendums.

Sincerely,

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

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

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

RWP:DSP:RCP/jah



KURT VONNEGUT'S MIT GRADUATION SPEECH

Ladies and Gentlemen:

Wear sunscreen. If I could offer you only one tip for the future, sunscreen would be it. The long-term benefits of sunscreen have been proved by scientists, whereas the rest of my advice has no basis more reliable than my own meandering experience.

Enjoy the power and beauty of your youth. Oh, never mind. You will not understand the power and beauty of your youth until they've faded. But trust me, in 20 years, you'll look back at photos of yourself and recall in a way you can't grasp now how much possibility lay before you and how fabulous you really looked.

Don't worry about the future. Or worry, but know that worrying is as effective as trying to solve an algebra equation by chewing bubble gum. The real troubles in your life are apt to be things that never crossed your worried mind, the kind that blindsides you at 4 p.m. on some idle Tuesday.

Do one thing every day that scares you.

Sing.

Don't be reckless with other people's hearts. Don't put up with people who are reckless with yours.

Floss.

Don't waste your time on jealousy. Sometimes you're ahead, sometimes you're behind. The race is long and, in the end, it's only with yourself.

Remember compliments you receive. Forget the insults. If you succeed in doing this, tell me how.

Keep your old love letters. Throw away your old bank statements.

Stretch.

Don't feel guilty if you don't know what you want to do with your life. The most interesting people I know didn't know at 22 what they wanted to do with their lives. Some of the most interesting 40-year-olds I know still don't.

Get plenty of calcium. Be kind to your knees. You'll miss them when they're gone.

Maybe you'll marry, maybe you won't. Maybe you'll have children, maybe you won't. Maybe you'll divorce at 40; maybe you'll dance the funky chicken on your 75th wedding anniversary.

Whatever you do, don't congratulate yourself too much, or berate yourself either. Your choices are half chance. So are everybody else's.

Enjoy your body. Use it every way you can. Don't be afraid of it or of what other people think of it. It's the greatest instrument you'll ever own.

Dance, even if you have nowhere to do it but your living room.

Read the directions, even if you don't follow them.

Get to know your parents. You never know when they'll be gone for good.

Be nice to your siblings. They're your best link to your past and the people most likely to stick with you in the future.

Understand that friends come and go, but with a precious few, you should hold on.

Work hard to bridge the gaps in geography and lifestyle, because the older you get, the more you need the people who knew you when you were young.

Live in New York City once, but leave before it makes you hard.

Live in Northern California once, but leave before it makes you soft.

Travel.

Accept certain inalienable truths: Prices will rise. Politicians will philander. You, too, will get old. And when you do, you'll fantasize that when you were young, prices were reasonable, politicians were noble, and children respected their elders.

Respect your elders.

Don't expect anyone else to support you. Maybe you have a trust fund. Maybe you'll have a wealthy spouse. But you never know when either one might run out.

Don't mess too much with your hair or by the time you're 40, you will look 85.

Be careful whose advice you buy, but be patient with those who supply it.

Advice is a form of nostalgia. Dispensing it is a way of fishing the past from the disposal, wiping it off, painting over the ugly parts and recycling it for more than it's worth.

...But trust me on the sunscreen.

YOU THINK YOU'RE HAVING A BAD DAY???

There was a case in one hospital's intensive care ward where patients always died in the same bed, on Sunday morning, at about 11 a.m., regardless of their medical condition. This puzzled the doctors and some even thought that it had something to do with the supernatural. No one could solve the mystery as to why the deaths occurred around 11 a.m. on Sundays. So a worldwide team of experts was assembled to investigate the cause of the incidents. The next Sunday morning, a few minutes before 11 a.m., all the doctors and nurses nervously waited outside the ward to see for themselves what the terrible phenomenon was all about. Some were holding wooden crosses, prayer books and other holy objects to ward off the evil spirits. Just when the clock struck 11:00, Pookie Johnson, the part-time Sunday sweeper, entered the ward and unplugged the life support system so that he could use the vacuum cleaner.

STILL having a Bad Day?

The average cost of rehabilitating a seal after the Exxon Valdez oil spill in Alaska was \$80,000. At a special ceremony, two of the most expensively saved animals were being released back into the wild amid cheers and applause from onlookers. A minute later, in full view, a killer whale ate them both.

STILL think you are having a bad day?

A woman came home to find her husband in the kitchen shaking frantically, almost in a dancing frenzy, with some kind of wire running from his waist towards the electric kettle. Intending to jolt him away from the deadly current, she whacked him with a handy plank of wood, breaking his arm in two places. Up to that moment, he had been happily listening to his Walkman.

STILL think you're having a bad day?

Two animal rights protesters were protesting the cruelty of sending pigs to a slaughterhouse in Bonn, Germany. Suddenly, all two thousand pigs broke loose and escaped through a broken fence, stampeding madly. The two hopeless protesters were trampled to death.

What?! STILL having a bad day?

Iraqi terrorist, Khay Rahnajet, didn't pay enough postage on a letter bomb. It came back with "return to sender" stamped on it. Forgetting it was the bomb, he opened it and was blown to bits.

There now, feeling better?

WHAT THE CHILDREN HAVE TO SAY

A little girl was talking to her teacher about whales. The teacher said it was physically impossible for a whale to swallow a human because, even though it was a very large mammal its throat was very small. The little girl stated that Jonah was swallowed by a whale. Irritated, the teacher reiterated that a whale could not swallow a human; it was physically impossible. The little girl said, "When I get to heaven I will ask Jonah." The teacher asked, "What if Jonah went to hell?" The little girl replied, "Then you ask him."

A Kindergarten teacher was observing her classroom of children while they drew. She would occasionally walk around to see each child's work. As she got to one little girl who was working diligently, she asked what the drawing was. The girl replied, "I'm drawing God." The teacher paused and said, "But no one knows what God looks like." Without missing a beat, or looking up from her drawing, the girl replied, "They will in a minute."

A Sunday school teacher was discussing the Ten Commandments with her five- and six-year olds. After explaining the commandment to "HONOR" thy Father and thy Mother, she asked, "Is there a commandment that teaches us how to treat our brothers and sisters?" One little boy answered, "Thou shall not kill."

One day a little girl was sitting and watching her mother do the dishes at the kitchen sink. She suddenly noticed that her mother has several strands of white hair sticking out in contrast on her brunette head. She looked at her mother and inquisitively asked, "Why are some of your hairs white, Mom?" Her mother replied, "Well, every time that you do something wrong and make me cry or unhappy, one of my hairs turns white." The little girl thought about this revelation for a while and then said, "Momma, how come ALL of grandma's hairs are white?"

The children had all been photographed, and the teacher was trying to persuade them each to buy a copy of the group picture. "Just think how nice it will be to look at it when you are all grown up and say, 'There's Jennifer; she's a lawyer,' or 'That's Michael, he's a doctor.'" A small voice at the back of the room rang out, "And there's the teacher. She's dead."

A teacher was giving a lesson on the circulation of the blood. Trying to make the matter clearer, she said, "Now, class, if I stood on my head, the blood, as you know, would run into it, and I would turn red in the face." "Yes," the class said. "Then why is it that while I am standing upright in the ordinary position the blood doesn't run into my feet?" A little fellow shouted, "cause your feet ain't empty."

The children were lined up in the cafeteria of a Catholic elementary school for lunch. At the head of the table was a large pile of apples. The nun made a note, and posted on the apple tray: "Take only ONE. God is watching." Moving further along the lunch line, at the other end of the table was a large pile of chocolate chip cookies. A child had written a note, "Take all you want. God is watching the apples."