

April 27, 2023

Dear PCM Clients and Friends:

It is now official, with 89.7 inches of snow, our 2022 – 2023 winter ranks as the third snowiest on record here in Minnesota. This year most Minnesotans are very much looking forward to the end of winter and the beginning of a warm flowering spring; yet, as always, there are two ways to look at this past winter. For the snowmobilers, skiers, and sledders it was heaven. For those who wish they were “down south” in Florida, not so much so.

This same “two ways to look at things” or “strong opposite opinions” is all around us today.

We have a split stock market and divergent opinions concerning most everything else from the future of our U.S. economy to politics. Bull vs. Bear. Conservative vs. Liberal. Recession vs. Growth. New highs vs. New lows. Hard landing vs. Soft landing.

In April, the percentage of consumers expecting lower stock prices in the year ahead exceeded the percentage expecting higher stock prices for the 16th straight month based on a monthly survey by The Conference Board. Since 1987, the only longer streak of negative sentiment towards the stock market was at the time of the Financial Crisis spanning the 18 months from November 2007 through April 2009. Highlighting this sentiment is the growth in Total Retail Money Market Assets, what people call “mom and pop” sidelined cash, by \$300 billion this past year to a record high approaching \$1.4 billion. Contrasting holding cash, as reported by the Wall Street Journal, is the record buying by corporate insiders of their own company’s shares. More than 1000 officers and directors at more than 600 companies purchased their own company’s shares in March; the highest monthly number in the past year. Further, corporate share repurchase authorizations are setting a record pace and buybacks among S&P 500 companies are projected to top \$1 trillion for the first time in a calendar year in 2023. As reported in February, in the fourth quarter of 2022 corporate investment expenditures, dividends, and buybacks all increased for the quarter.

Historically, extreme negative investor sentiment is a positive predictor of future market appreciation. Stockpiled cash turns into pent-up demand for stocks when the period of pessimism finally ends.

We continue to see a split market in 2023 and into 2024 where some companies will continue to prosper, even in a slower economy; while others will falter. Our experience of over four decades of investing tells us that, while the economic chaos of the past several years has not been easy to experience, by doing our work, practicing diversification, exercising patience, learning, and being flexible we can take advantage of opportunities as they present themselves and be rewarded as long-term investors.

730 East Lake Street
Wayzata, MN 55391-1769
Telephone (952) 473-8367
Facsimile (952) 476-7911
www.perkinscap.com

INVESTMENT MANAGEMENT

THE MARKET SCOREBOARD

The markets started 2023 with strong gains in January off the end of year lows driven by a continued decline in widely followed inflation indicators and resilient economic data. With inflation closer to the Fed's targets, investors hoped that the Fed could deliver an economic soft landing, whereby the economy slows but avoids a painful recession. Many medical company earnings are pre-released in mid-January. These, and other earnings, as released in the first quarter, were generally better than feared. This resilient nature of corporate America earnings contributed to the growing hope that both an economic and earnings recession could be avoided. The S&P 500 posted strong gains in the month of January, rising more than 6%.

In February, growing optimism for an economic soft landing was delivered a setback, however, as economic data was "too good." The January jobs report, released in early February, showed a massive gain in jobs (something the Fed believes is contributing to inflation). Then widely followed inflation metrics such as the CPI and the Core PCE Price Index showed minimal further price declines, implying that the drop in inflation that had powered the gains in stocks was ending. The strong economy led investors to predict substantially higher interest rates by the Fed in the coming months, and that weighed on both stocks and bonds in February.

In March the sudden failure of Silicon Valley Bank, at the time the 16th largest bank in the United States, shifted investor focus to a potentially growing banking crisis and the impact of higher interest on businesses and the economy. Signature Bank of New York failed just days later, and concerns about a regional banking crisis surged. In response, the Federal Reserve and the Treasury Department created new lending programs aimed at shoring up regional banks and preventing bank runs; but concerns about the health of the financial system persisted and those fears weighed on markets through the middle of March.

Looming over the markets in the daily news was a potpourri of will we or won't we have any one, or more, of a number of negative economic events.

Ranked by Q1 Return Indexes	% Return Q1 2023
NASDAQ Composite	16.77
S&P 500 Total Return	7.50
Wilshire 5000	6.92
NYSE Composite	1.26
Dow Jones Industrial Average	0.38

On an index level, the Nasdaq (which badly underperformed in 2022) handily outperformed in the first quarter and finished with very impressive returns. The S&P 500, with its heavy weighting in tech, finished the quarter with a solidly positive return while the Dow Industrials and Russell 2000 logged more modest, but still positive returns through the first three months of the year.

In sum, markets were impressively resilient in the first quarter, during a period of continued uncertain economic news, continuing a reversal from the 2022 lows.

STOCK MARKET OBSERVATIONS

One of the most popular Sherlock Holmes short stories, "Silver Blaze" focuses on the disappearance of a famous winner racehorse on the eve of an important race and on the apparent murder of its trainer. In "The Adventure of Silver Blaze," the key to the story was finding the person who stole the racehorse, Silver Blaze. While solving the mystery, Sherlock proffered to Dr. Watson what he described as the "curious incident of the dog in the night." What was curious to Sherlock was that the dog in the stable yard did not bark; meaning that the dog knew the thief.

Speaking of the stock market, what is "curious" is that despite predictions of new lows and a daily barrage of negative news mixed with a lacing of every type of unimaginable impending doom, the market has, in fact, not gone down further. It has now been just over six months since the midterm S&P 500 lows last October when the index was 25% below its prior 52-week high.

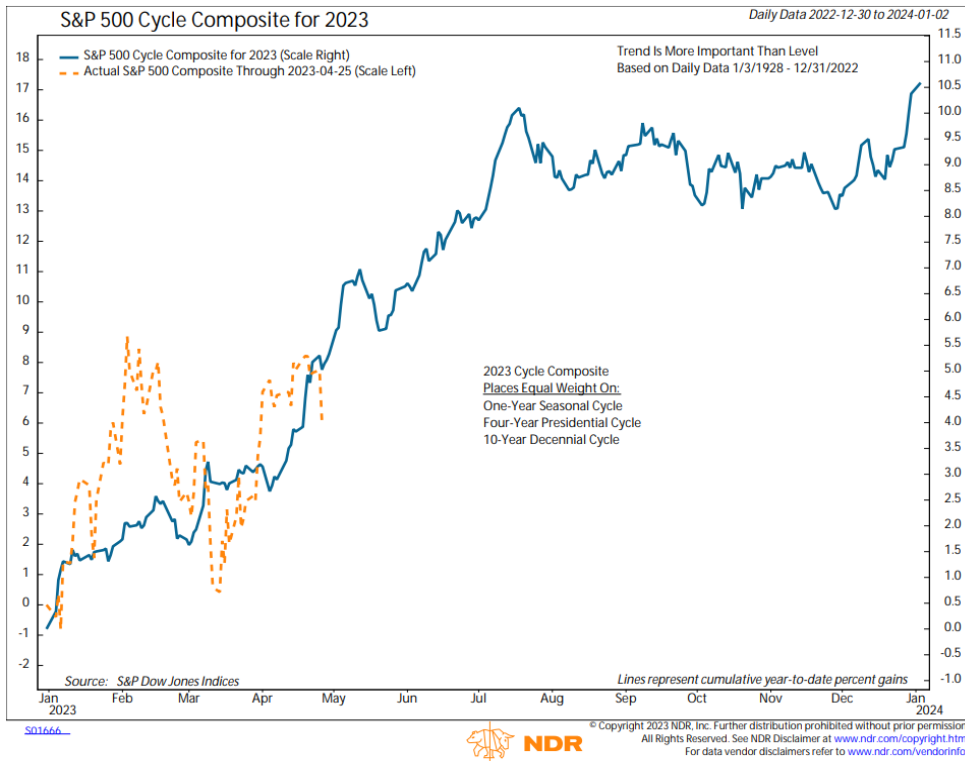
In our October letter we stated that we felt the market was in the process of making a bottom, which we described and then said: "What we would like to see now is for the market to 'get some legs' and start going up"; which it did.

In our January letter we posed the question, "So where are we at today?" We still think that most, but not all, stocks have concluded their corrections for this bear market. As investors we will need to focus on companies who have had their corrections, have been building bases, and accumulating strength from which to advance. We are now in a very split market where some stocks will do well, while others will need to adjust to the broad economic ramifications of higher interest rates and costs.

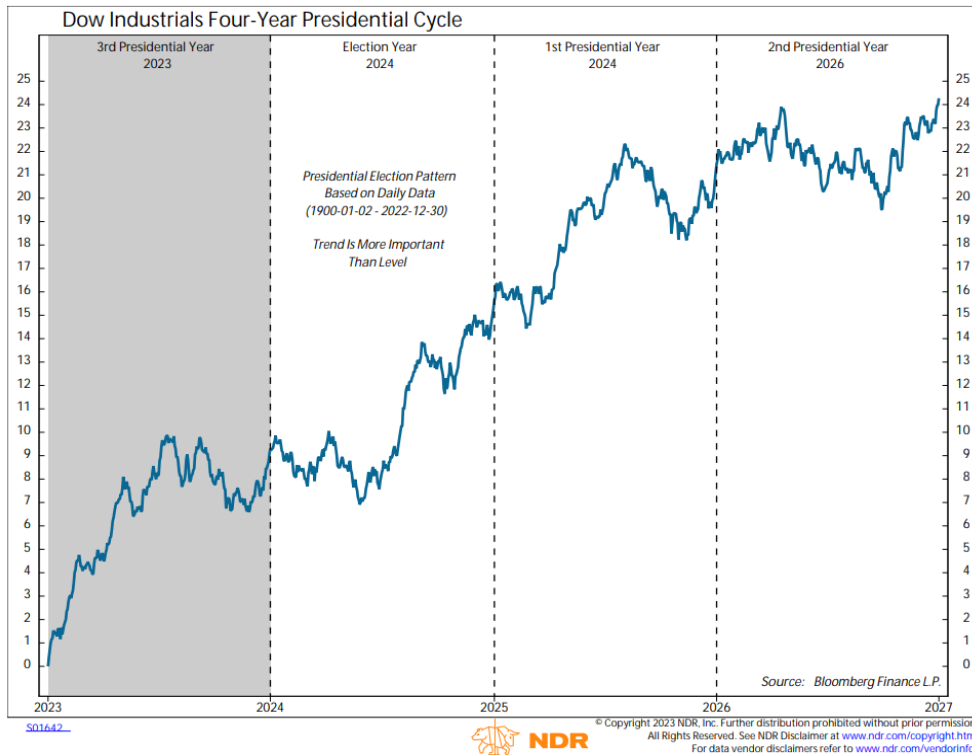
This is a time for active management. There is also significant upside for the averages if they just return to the top of their recent trading ranges and old highs. For the Dow this is an approximate 10% gain, which is consistent with history. Since World War II, when the S&P 500 has posted a first quarter gain, it has averaged a rest-of-the year gain of 8.9%. Having corrected more during the past year, the smaller company Russell 2000 index would appreciate almost 15% if it returned to the top of last summer's trading range.

We have often included the important cycle work of *Ned Davis Research* and we again include a copy of several of their Cycle Composites. Remember, they emphasize their composite and prospective cycle graphs are not forecasts; but rather historical guides. We have, over the years, found them to be useful.

The Ned Davis 2023 S&P 500 Cycle Composite, on the following page, is a combination of three historical patterns: the one-year seasonal cycle, the four-year presidential cycle, and the ten-year cycle. The 2023 Cycle Composite for 2023 in the chart is in blue and calls for a strong first half of the year and then a trading range market for the last half of the year as 2023, a pre-election year, ends. The current market YTD is in orange.



We have often included the NDR Four-Year Presidential Cycle chart. Since we are in a pre-election year and next year will, no doubt, be another “interesting” election year we feel this is a good time to again include the Dow Industrials Four-Year Presidential Cycle.



What the Presidential Cycle predicts is a trading range market beginning in the last half of this year which will last until mid-year 2024. Then, after the uncertainty of the elections is removed, the market traditionally moves higher regardless of the election outcome and continues strong after the election in a “honeymoon” rally until mid-year 2025.

The cartoons at the end of this quarter’s letter, as it began, are an acknowledgement that we are and will continue for some time to live in a period of differing strong opinions.

Thank you for your confidence in us during these times.

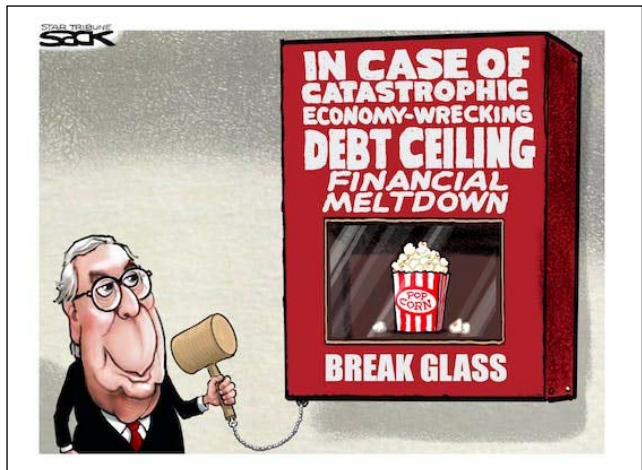
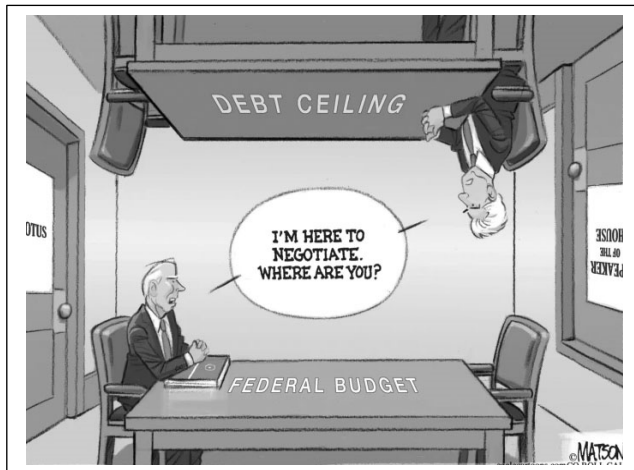
We are always open to having a conversation about any specific investments or just a general review of your account. If you have any questions, please give us a call. Or call in and ask to schedule a time to talk or meet in person.

Sincerely,

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

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

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JUST A FEW TO MAKE YOU SMILE

Ole was watching his chickens. The rooster was busy chasing the hens all over the chicken yard. Just for the heck of it, Ole took a handful of corn and threw it in the rooster's path. The rooster immediately came to a screeching halt and commenced gobbling down the corn. "Vell," said Ole, "I hope I never get DAT hungry."

Ole and Len were going home from the grocery store with Ole pushing the baby carriage. Suddenly Lena exclaimed: "Ole, ve've got da wrong baby!" "SSHHH," said Ole, "dis is a better buggy."

Ole once had an implement dealership in Wisconsin. His motto was: "Ve stands behind all of our implements, vid de exception of da manure spreader."

The time is the late 1600s. A young boy meets a bonafide classic pirate, wooden leg, hand hook, eye patch, and a black beard. "So, what happened to your leg, Mister?" "Shark bit it off!" growled the pirate. "So, what happened to your hand?" "Well, it was a hell of a battle, but the other fella, before I run him through, cut off me hand with one swipe of his sword." The wide-eyed boy stammered "And, how about your eye?" "Well, me lad, a seagull passing over, crapped in me eye." Amazed, the boy said "And that made you blind?" "Well," answered the pirate, "It happened that very first day with me new hook."

Two old ladies were outside their nursing home having a smoke when it started to rain. One of the ladies pulled out a condom, cut off the end, put it over her cigarette, and continued smoking.

First lady: "What's that?"

Second lady: "A condom."

First lady: "Where'd you get it?"

Second lady: "You can get them at any drugstore."

The next day, the first lady hobbled into the local Walgreens and announced to the pharmacist that she wanted a package of condoms. The guy looks at her kind of strangely (after all, she is in her 80s), but politely asked what brand she'd prefer. "Doesn't matter," she replied, "as long as it fits a camel."

A grandmother is watching her grandson play on the beach when a huge wave comes and takes him out to sea. She looks up and pleads, "Please God, save my only grandson. I beg of you; my life has no meaning without him. Please bring him back."

A big wave comes and washes the boy back onto the beach, good as new. The grandma looks up to heaven and says, "He had a hat!"

A magician is working on a cruise ship, but there is one problem. The captain's parrot watches every show he does, and after figuring out the tricks, the parrot has started yelling out the secrets of how the tricks are done. The bird shouts out words like "Look, it's not the same hat!" or "Hey! He's hiding the flowers under the table!" The magician is enraged. But it's the captain's parrot, so he can't do anything about it.

One day the cruise ship has an accident. The boat crashes and sinks. The magician and the parrot find themselves clinging to the same plank of wood in the middle of the ocean. For days neither one says anything. Finally, after a week, with no hope in sight, the parrot says to the magician, "Okay, I give up. Where is the ship?"

A guy tells his psychiatrist, "It was terrible. I was away on a business trip, and I sent my wife an email saying I'd be back a day early. I rushed home from the airport. And when I got home I found her in bed with my best friend, I don't get it. How could she do this to me?"

"Well," said the psychiatrist, "maybe she didn't get your email."

Sid and Irv are business partners. They make a deal that whoever dies first will contact the living one from the afterlife to tell them what it's like. After many years, Irv dies. Sid doesn't hear from him for about a year, so he figures there is no afterlife. Then one day he gets a call. It is Irv. "So, there is an afterlife! What is it like?" Sid asks.

"Well, I sleep in very late. I get up, have a big breakfast. Then I have sex, lots of sex. Then I go back to sleep, but I get up for lunch, have a big lunch. Have some more sex. Take a nap. Huge dinner. More sex. Go to sleep, and wake up the next day."
"Oh, my god," says Sid. "So that's what heaven is like?"

"No, I'm not in heaven," says Irv. "I'm a bear in Yellowstone Park."

A worker in the post office was sorting through the mail when she sees a letter addressed to "God, c/o Heaven." She opens it up, and it's a note from a little old lady. The lady says she has never asked anyone for anything in her life but desperately needs \$500 to pay her heating and other bills, and she has nowhere else to turn. She hoped maybe God could send her the money.

It was around the holidays, so the postal worker decided to take up a collection from her colleagues. She ends up getting \$450 and mails the cash to the little old lady.

A few weeks later, there's another letter addressed to God from the same little old woman. The worker opens it up, and it reads: "Dear God, thank you so much for the money you sent. It helped me through a difficult time, and I'm glad that I have faith. However, I received \$450. I think it must have been those crooks in the post office!"

In the year 2022, the Lord came unto Noah, who was now living in the United States, and said, "Once again, the earth has become wicked and overpopulated, and I see the end of all flesh before me. Build another Ark and save two of every living thing along with a few good humans."

He gave Noah the blueprints, saying, "You have 6 months to build the Ark before I will start the unending rain for 40 days and 40 nights." Six months later, the Lord looked down and saw Noah weeping in his yard -- but there was no Ark. "Noah!" He roared, "I'm about to start the rain! Where is the Ark?"

"Forgive me, Lord," begged Noah, "but things have changed. I needed a building permit. I've been arguing with the inspector about the need for a sprinkler system. My neighbors claim that I have violated the neighborhood zoning laws by building the Ark in my yard and exceeding the height limitations. We had to go to the Development Appeal Board for a decision. Then the Department of Transportation demanded a bond be posted for the future costs of moving powerlines and other overhead obstructions, to clear the passage for the Ark's move to the sea. I told them that the sea would be coming to us, but they would hear nothing of it."

"Getting the wood was another problem. There is a ban on cutting local trees in order to save the spotted owl. I tried to convince the environmentalists that I needed the wood to save the owls - but no go! When I started gathering the animals, an animal rights group sued me. They insisted that I was confining wild animals against their will. They argued the accommodation was too restrictive, and it was cruel and inhumane to put so many animals in a confined space. Then the EPA ruled that I couldn't build the Ark until they'd conducted an environmental impact study on your proposed flood."

"And I'm still trying to resolve a complaint with the Human Rights Commission on how many minorities I'm supposed to hire for my building crew. Immigration and Naturalization is checking the green card status of most of the people who want to work. The trades unions say I can't use my sons. They insist I have to hire only union workers with Ark-building experience."

"To make matters worse, the IRS seized all my assets, claiming I'm trying to leave the country illegally with endangered species. So, forgive me, Lord, but it would take at least 10 years for me to finish this Ark."

Suddenly the skies cleared, the sun began to shine, and a rainbow stretched across the sky.

Noah looked up in wonder and asked, "You mean you're not going to destroy the world?"

"No," said the Lord. "The government beat me to it."

