



PERKINS
CAPITAL
MANAGEMENT, INC.

November 8, 2023

Dear PCM Clients and Friends:

Markets began the fourth quarter decidedly more anxious than they started the third quarter largely due to concerns about the U.S. economy. Will the economy slow down? Will inflation bounce back? Is the Fed done? Or not? A hard or soft recession? Or none?

This anxiety increased in October with Hamas's murderous surprise assault on Israel.

Paraphrasing from an Economist article, what was at first shock, changed to pure fury. We now know that Hamas's atrocities and Israel's retribution will change more than just the Middle East forever. The magnitude of the potential implications of the Israel-Hamas war, if it expands, cannot be overstated. Today, there are more "unknowns" here than "knowns."

Over twenty years ago, in February 2002, at a press briefing, when being questioned about Iraq, Donald Rumsfeld, who was serving as George W. Bush's Secretary of Defense, made a statement which is relevant to today's Middle East conflict:

"As we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say, we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know."

Clearly, the Hamas attack on Israel was an "unknown unknown."

The attack was also what is referred to as a Black Swan event - an unpredicted, extreme, paradigm-shifting event which impacts the wider world. Black Swan events are characterized by their extreme rarity, severe impact, and the widespread insistence they were obvious in hindsight.

As investors, we have experienced and held our investments through several Black Swan events; such as, the 9/11 terrorist attacks, the COVID-19 pandemic, and the 2008 financial crisis. As investment managers, this is a time to review the companies we are invested in and part company with any marginal investments. In this process we certainly do not want to liquidate solid long-term investments in response to what today seems like another unresolvable crisis that inevitably will get resolved.

Domestically, for the past several years, after recovering from the COVID-19 pandemic, the markets and the economy have faced what Donald Rumsfeld would refer to as "known unknowns." We have described these economic challenges in our letters as "big picture" concerns. That the Fed would raise interest rates was "known." The extent, the speed of the raise and its effects is an "unknown;" and has caused volatility in the markets.

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INVESTMENT MANAGEMENT

Regarding monetary policy, we believe the Federal Reserve's historic rate hike campaign is nearing an end. While we should expect the Fed to keep rates "higher for longer," the higher interest rates are merely a return to levels that were typical in the 1990s and early 2000s, before the financial crisis. The economy performed well during those periods. For now, higher rates are not causing a material loss of economic momentum.

While there are reasonable concerns about a future economic slowdown, the latest economic data remains solid. Underlying fundamentals in the U.S. economy and for many individual companies remain generally strong. Employment, consumer spending and business investment are all resilient and there simply is not much actual economic data that points to an imminent economic slowdown.

As we end 2023 and prepare to begin 2024, we still face many of the same risks and challenges that the markets have faced in both 2022 and 2023. We feel the domestic, or U.S. economic challenges are "known" by the market and priced into the market's current valuation. They do not present any new significant headwinds for stocks.

THE MARKET SCOREBOARD

The markets started the third quarter with a continuation of the second quarter gains. Stocks rose broadly in July thanks primarily to "Goldilocks" economic data. Though the Federal Reserve increased rates in late July they also signaled that increase could be the last rate hike of this cycle. Their tone and commentary fueled optimism that one of the most aggressive rate hike cycles in history was soon coming to an end. Second quarter corporate earnings were again better-than-feared, with mostly favorable corporate guidance, which supported expectations for strong earnings growth into 2024. The S&P 500 rose to its highest level since March 2022 and the index finished July with a strong monthly gain of more than 3%.

The market dynamic changed on the first day of August, however, when Fitch Ratings, one of the larger U.S. credit rating agencies, downgraded U.S. sovereign debt. Fitch cited long-term fiscal risks of the current U.S. fiscal budget and its debt trajectory as the main reason for the downgrade. Their downgrade put immediate downward pressure on U.S. Treasuries, sending their yields meaningfully higher. The Fitch downgrade combined with a rebound in inflation indicators, the government's announcement that it would sell more Treasury Bonds in coming months than anticipated, and the summer's debt ceiling drama pushed Treasury yields sharply higher to the highest levels since mid-2007. A rapid rise in yields weighed on stock prices throughout August. The S&P 500 posted its first negative monthly return since February, as higher rates pressured equity valuations and raised concerns about a future economic slowdown. The S&P 500 finished August down 1.59%.

Volatility returned during the last half of September when, in their FOMC remarks, the majority members of the Fed reiterated that they anticipated the need for an additional rate hike before the end of the year. Then, late in September, the United Auto Workers labor union began a general strike and the U.S. careened towards another government shutdown

as a divided and chaotic congress failed to agree on a “Continuing Resolution” to fund the government. The shutdown was avoided at the last minute, but the drama in the congress and the budget battle continues today, since the funding extension will only last until November 17. The stock market indexes all declined during the third quarter.

Indexes	% Return YTD 2023	% Return Q3 2023	% Return Q2 2023	% Return Q1 2023
NASDAQ Composite	26.30	-4.12	12.81	16.77
S&P 500 Total Return	13.07	-3.27	8.74	7.50
Wilshire 5000	11.42	-3.60	8.10	6.92
NYSE Composite	1.41	-3.01	3.26	1.26
Dow Jones Industrial Average	1.09	-2.62	3.41	0.38

Large caps once again outperformed small caps, as they did in the first two quarters of 2023, although both posted negative returns. Nine of the eleven S&P 500 sectors finished the third quarter with a

negative return, which was a stark reversal from the broad gains of the second quarter. Energy was, by far, the best performing sector in the third quarter thanks to a surge in oil prices. Two of the worst performing sectors, Utilities and Real Estate REITS were impacted by rising bond yields as investors sold dividend paying stocks and allocated assets into the rising yields available in government bonds.

In sum, volatility returned to both the stock and the bond markets during the third quarter and continued through October as rising bond yields pressured stock valuations, some inflation indicators pointed to a bounce back in inflation and the Fed reiterated its “higher for longer” interest rate outlook.

STOCK MARKET OBSERVATIONS

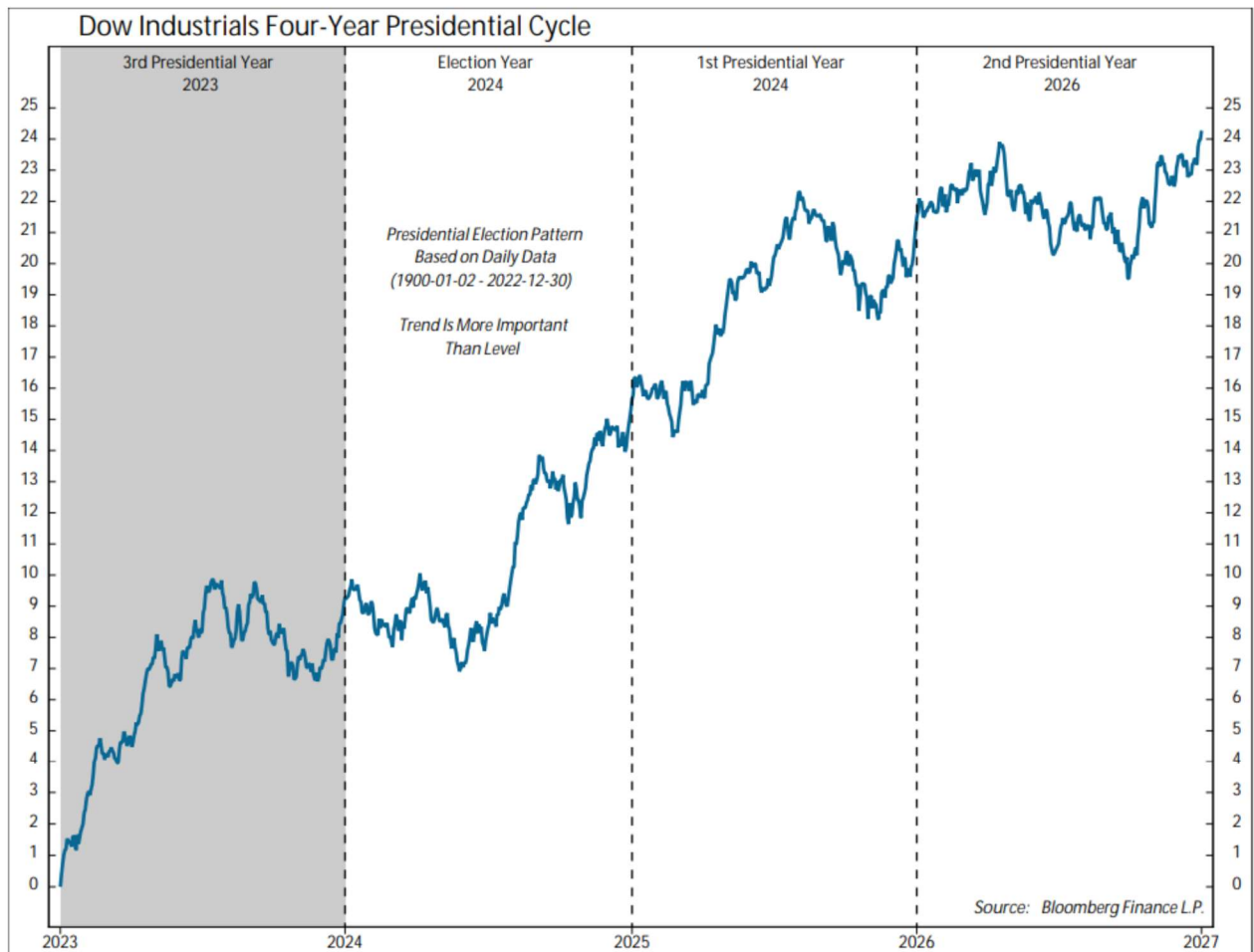
At the end of July, in our last letter, the market averages were finishing the strongest 7-month start to a year in 26 years. We wrote that we felt “The outlook for stocks remains positive; though, at this time, at the midpoint of the year and the middle of the third year of the four-year Presidential Cycle, the pre-election year, we should now expect the markets to pause and consolidate their gains off the major bottom formed at the end of last year in the off-presidential year election bottom.”

We felt a pause was in order. What we got was quite a bit more than a pause during the past three months. In terms of the S&P 500 it was five consecutive months up from March through July and then three consecutive months down during August, September, and October. Beginning on July 31 and ending on October 27 the S&P 500 had more than a 10% correction from, in round numbers, 4600 to 4100. Each year often has a 10% correction within it, and should be expected; but the past three months seemed like more than that. During this period interest rates continued to spike up and many individual companies declined much more in price than the averages.

In our April letter we wrote that there was continued “significant upside for the averages if they just returned to the top of their recent trading ranges and old highs.” This is what happened. By the end of July, the larger cap indexes, the Dow Jones Average and the S&P 500, had approached, but did not exceed, their post-COVID highs, which were all time highs. The interest sensitive Utility index and the smaller company indexes did not do as well.

Interestingly, when the S&P 500 was at 4100 a week ago, in round numbers, it was about halfway between last year’s bottom and this year’s July high. In the middle.

We think the markets are, in our opinion, likely to continue in a broad trading range, bordered by the highs and lows of the past several years, until there is clarity on several of the current uncertainties. As we have discussed, the Presidential Cycle predicts, from the summer before and until the Presidential election, a trading range market; until the uncertainty of the elections is removed. Visually, this can be best seen by, again, including a copy of the Ned Davis Research Four-Year Presidential Cycle chart, which we show below.



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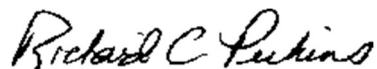
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There is, of course, much more for the markets to digest, as contentious as it is likely to be, than the Presidential election. During upcoming months and into the next year we should get more clarity on the Middle East conflict, the Russian-Ukraine war, hopefully, our government dysfunction, interest rates, the economy, inflation, and Fed policy. The key for continued market stabilization in the near term is a “calming” of recent drama.

Fortunately, through all of this, whatever today’s geopolitical, governmental, or economic woes may be, we are fortunate, in our country, to have companies with management teams working hard to sensibly advance their enterprises. We meet with them in our offices and remotely. Frankly, despite all this turmoil, many of the companies we meet with are doing quite well and see a bright future ahead. Generally, good third quarter earnings are being released now. Many of these management teams, when we meet, are as frustrated as we are with the valuation the markets have put on their enterprises. But they are positive, focused, and working on implementing their business plans for both the current and future years. Nothing but long-term optimism squares with this. As a client recently reminded us: “This too shall pass.”

We are always eager to meet or talk with you to have a general review of your account, your investment objectives, or a conversation about any specific investments. If you have any questions, please give us a call. Or call 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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LAWS OF NATURAL ORDER

Law of Mechanical Repair: After your hands become coated with grease your nose will begin to itch or you'll have to pee.

Law of the Workshop: Any tool, when dropped, will roll to the least accessible corner.

Law of probability: The probability of being watched is directly proportional to the stupidity of your act.

Law of the Alibi: If you tell the boss, you were late for work because you had a flat tire, the very next morning you will have a flat.

Law of Variation: If you change lines (or traffic lanes), the one you were in will start to move faster than the one you are in now.

Law of Close Encounters: The probability of meeting someone you know increases when you are with someone you don't want to be seen with.

Law of the Result: When you try to prove to someone that a machine won't work, it will.

Law of Product: As soon as you find a product that you really like, they will stop making it.

SOCIAL TIPS FOR REDNECKS

General

1. Never take a beer to an interview.
2. It's considered tacky to take a cooler to church.
3. If you must vacuum the bed, it's time to change the sheets.
4. Even if you're certain you're included in the will, it's rude to drive a U-Haul to the funeral.

Entertaining in your home

1. A centerpiece for your table should not be prepared by a taxidermist.
2. Do not allow the dog to eat at the table, no matter how good his manners are.

Personal Hygiene

1. Cleaning ears should be done in private, using one's own truck keys.
2. Even if you live alone, deodorant is not a waste of money.
3. Use of proper toiletries can delay bathing for several days.
4. Dirt and grease under the fingernails are a social no-no; it may alter the taste of finger foods.

LITTLE JOHNNY

Little Johnny watched, fascinated, as his mother smoothed cold cream on her face. "Why do you do that, Mommy?" he asked, "To make myself beautiful," said his mother, who then began removing the cream with a tissue. "What's the matter?" asked Little Johnny. "Giving up?"

The math teacher saw that little Johnny wasn't paying attention in class. She called on him and said, "Johnny! What are 2 and 4 and 28 and 44?" Little Johnny quickly replied, "NBC, FOX, ESPN and the Cartoon Network!"

Little Johnny attended a horse auction with his father. He watched as his father moved from horse to horse, running his hands up and down the horse's legs and rump, and chest. After a few minutes, Johnny asked, "Dad, why are you doing that?" His father replied, "Because when I'm buying horses, I must make sure that they are healthy and in good shape before I buy. Johnny, looking worried, said, "Dad, I think the UPS guy wants to buy Mom."

The teacher asks the class "Why did God create man first?" Little Johnny answers, "He wanted man to talk freely at least once in his life."

The teacher asked Little Johnny's class "What do you call a person who keeps talking when nobody else is interested?" Little Johnny answered, "A teacher."

The teacher asks the class to draw a cow eating grass. Little Johnny submits his work and it's only one cow. The teacher asks, "What about the grass?" Little Johnny replies, "The cow already ate all the grass!"

Little Johnny asks the teacher, "Can I be punished for something I haven't done?" The teacher is shocked. "Of course not, Johnny! That would be very unfair!" Johnny is relieved. "That's good to know," he says, "Because I haven't done my homework."

The teacher asked the class "What is an island?" Little Johnny answered "A piece of land surrounded by water except on one side. The teacher replied to Johnny "On one side?" "Yes, on top!" answered little Johnny.

The teacher was terrified to hear Little Johnny swear. "I never want you to use language like that again. Where on earth did you pick it up?" "From my father." said Johnny. "Well, he should be ashamed of himself. And it is no reason for you to talk like that. You don't even know what it means." "I do." said Johnny. "It means the car won't start."

Teacher asks, "Who can tell me the chemical formula for water?" Little Johnny pipes up, "HIJKLMNO"! The teacher is puzzled, "What on Earth are you talking about, Johnny?" Little Johnny looks hurt, "But sir, you yourself said yesterday that it's H to O!"

TWO QUARTERS OR A DOLLAR BILL

A young boy enters a barber shop and the barber whispers to his customer, "This is the dumbest kid in the world. Watch while I prove it to you." The barber puts a dollar bill in one hand and two quarters in the other, then calls the boy over and asks, "Which do you want, son?" The boy takes the quarters and leaves the dollar. "What did I tell you?" said the barber. "That kid never learns!"

Later, the customer sees the same young boy coming out of the ice cream store and says, "Hey, son! May I ask you a question? Why did you take the quarters instead of the dollar bill?" The boy licked his cone and replied, "Because the day I take the dollar, the game's over!"

TOO EXPENSIVE

A very cheap man was looking for a gift for a friend. Everything was too expensive, except for a broken glass vase which he could purchase for almost nothing. He asked the store to send it, hoping his friend would think it had been broken in transit.

In due time, the man received an acknowledgement from his friend. "Thanks for the vase," it read. "It was so thoughtful of you to wrap each piece separately."

MEXICAN OYSTERS

A big Texan stopped at a local restaurant after spending a day roaming around in Mexico. While sipping his tequila, he noticed a sizzling, scrumptious looking platter being served at the next table. Not only did it look good, it smelled wonderful. He asked the waiter, "What is that you just served?"

The waiter replied, "Ah Senor, you have excellent taste! Those are called Cojones de Toro, the bull's testicles from the bull fight this morning. A delicacy!"

The cowboy said, "What the heck, bring me an order." The waiter replied, "I am so sorry, Senor. There is only one serving per day because there is only one bull fight each morning. If you come early and place your order, we will be sure to save you this delicacy."

The next morning, the cowboy returned, placed his order, and that evening was served the one and only special delicacy of the day. After a few bites, inspecting his platter, he called to the waiter and said, "These are delicious, but they are much, much smaller than the ones I saw you serve yesterday."

The waiter shrugged his shoulders and replied, "Si, Senor. Sometimes the bull wins!"

JUST A WEEEEEEEE BIT!

"A very handsome man felt he had to marry the perfect woman so they could have beautiful children. With that as his mission, he began to search for the perfect wife. Shortly thereafter, he met an Irish farmer who had three stunning daughters. He explained his mission to the farmer and asked for permission to marry one of them. The farmer simply replied, "They're lookin' to get married, so you've come to the right place."

The man dated the first daughter. The next day the farmer asked the man's opinion. "Well," he said, "she's just a weeeee bit, not that you can hardly notice, pigeon-toed."

The farmer suggested the man date one of the other girls; so the man went out with the second daughter. The next day the farmer again asked how things went. "Well," the man replied, "she's just a weeeee bit, not that you can hardly tell, cross-eyed."

The farmer nodded and suggested he date the third girl to see if things might be better. The next morning the man rushed in exclaiming, "She's perfect, just perfect. She's the one I want to marry." So, they were wed right away. Months later, the baby was born. When the man visited the nursery, he was horrified. The baby was the ugliest you can imagine. He rushed to his father-in-law and asked how such a thing could happen considering the beauty of the parents.

"Well," explained the farmer..."She was just a weeeee bit, not that you could hardly tell... pregnant when you met her."

QUICK THINKING

A man in London walked into the produce section of his local Tesco's supermarket and asked to buy half a head of lettuce. The boy working in that department told him that they only sold whole heads of lettuce. The man was insistent that the boy ask the manager about the matter.

Walking into the back room, the boy said to the manager, "Some old bastard outside wants to buy half a head of lettuce." As he finished his sentence, he turned around to find that the man was standing right behind him, so the boy quickly added, "and this gentleman kindly offered to buy the other half."

The manager approved the deal and the man went on his way. Later, the manager said to the boy, "I was impressed with the way you got yourself out of that situation earlier, we like people who can think on their feet here, where are you from, son?" "New Zealand, sir." the boy replied. "Why did you leave New Zealand?" the manager asked. The boy said, "Sir, there's nothing but prostitutes and rugby players there." "Is that right?" replied the manager. "My wife is from New Zealand!"

"Really?" replied the boy. "Who did she play for?"