

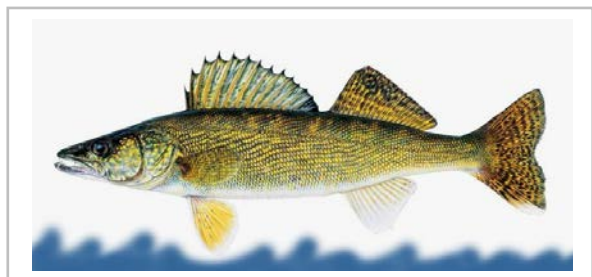
April 18, 2018

Dear PCM Clients and Friends:

Minnesota is the land of 10,000 lakes, or so our license plate says. But because of the below zero temperatures during the Super Bowl in early February, Minnesota is now known as the nation's icebox. We prefer the 10,000 lakes version because it reminds us



of the walleye, the official Minnesota state fish that is sought through the ice in the winter, as we described in this space in our last letter, and on the water the rest of the year. About a half million anglers look forward to the walleye opener on Saturday, May 12, this year, which creates a lot of “fishing widows” as the next day, Sunday, May 13, is Mother’s Day. By then most lakes will be ice free, and fish houses will be in storage for another year. They need to be off the southern lakes by March 5, and the northern lakes no later than March 19. The penalties for not complying are severe, as some that don’t comply have found out, ranging from hefty fines to life in prison (just kidding about that). It is a surprise to many that Lake Minnetonka, which we look at from our office, is one of the “Big Five” walleye lakes. The other four are Mille Lacs Lake, Lake Winnibigoshish, Leech Lake, and Lake of the Woods, which are all in northern Minnesota. We are blessed with many quality lakes and plentiful walleyes thanks to the Minnesota Department of Natural Resources restocking program, which annually results in stocking walleye fry, and fingerlings, in as many as 900 lakes, although most go into about 300. It works like this: Each spring DNR workers net female walleyes, harvesting up to 500 million eggs before the females go back in the water. The DNR can do a much better job growing these eggs, because they are depositing millions of mosquito size “fry” into the lakes. In a few months the fry will be 1” to 2” long. Some of the fry go into rearing ponds growing into 4” to 6” fingerlings before stocking. This entire program is not cheap, at about \$7 million per year. But it is essential to keep Minnesota as a walleye haven for resident and tourist anglers, which in turn contribute \$2.5 billion annually to the state’s economy.



### A MESSAGE FROM PERK

While thinking about a message this quarter, I came up with a totally common thought, which most of us never do. It is just this—if there is an activity you love, do it while you can, life can be short. The same thought applies to favorite entertainers—go see them while you can and while they can still perform. I say while we can as we get one year older every year. And, while most of us have not made an appointment with the Grim Reaper, one never knows. And we say while the entertainer can perform because Jerry Jeff Walker had been diagnosed with throat cancer last year, which if not cured can be fatal; his was cured through radiation and he is able to sing again. A lifelong friend of mine, Dick Spurzem, died from it last year. Well, doing it while we still can, and hearing our favorite entertainer while he can still sing is just what Dana and I did for two weeks in late January, and early February, when we made our 20<sup>th</sup> annual trip to Belize for Jerry Jeff Walker's annual Camp Belize, a two-week time where Jerry Jeff, his wife Susan, and 250 fans assemble in San Pedro on Ambergris Caye, an island 35 miles north of Belize City. Actually, our first trip was in 1996, but we missed two years. I have written about these trips in at least four of these quarterly letters, with the most recent in April of 2005, 2006 and 2007, all of which are still fun to read as they don't go out of date. They are all archived at [www.perkinscap.com](http://www.perkinscap.com). Jerry's first show at Camp Belize this year was the first time he had sung publicly since his cancer was diagnosed last year. Same Jerry Jeff with



a voice I thought was better as it was an octave or so lower. He was supported by having his son, Django, there who is an accomplished entertainer with great guitar skills, and just like his dad, gives a little banter before many songs, and what the circumstances were when he wrote the song. Most of the songs he sang he had written, and I can honestly say both Django, and his songs, were memorable. Here is a picture of father and son performing together.

Considering that Jerry Jeff is still with us and performing with his talented son creates memories that will never be forgotten. And Django can be with us back in MN, as he has his own CDs, just not as many as his dad.

Jerry Jeff always opens his Belize shows with a song he wrote, "Come Away To Belize With Me:"

*Hey come away to Belize with me, I'll show you how simple life can be  
Long hazy days in the sun, where it seems everyone has a smile when we meet  
Under blue skies and emerald seas, warm winds and those coconut trees  
They say your heart never leaves, once you've been down to Belize*

*So at sunset we'll go sit, way out on the dock, till the pink light is gone  
From a funky old bar, I can hear a guitar, playing a down island song  
The moon on the water, the pina colada, something you just gotta see  
And that's when you start to notice, your heart has fallen in love with Belize*

During two shows (first and third nights) Jerry Jeff played my favorite song, "Rodeo Wind," which he wrote, and those nights he dedicated it to me (but only two verses here) from the stage:

*Even as she sleeps, she feels his restless turning  
As he struggles with an old dream all night long  
And when she awakes, she turns to reassure him  
She whispers to a shadow and finds him gone*

*She's losing him, to the rodeo wind  
That blows through his soul, when the summer begins  
When the winter snow falls, he'll come back again  
But his heart always drifts, on the rodeo wind*

So after several hours of Jerry Jeff and Django playing many songs, some of which they each had written, it was time to close the show. And, as usual, Jerry Jeff closed with another song he wrote, "Cowboy Boots & Bathin' Suits:"

*We've been here a week or so,  
Now it's finally time to go.  
Can't believe how quickly time has flown,  
Packin' up the bathin' suits,  
Getting' out the cowboy boots,  
That's a sign we must be going home....*

*Time just stopped for a little while,  
We were part of a tiny island.  
Made a lot of friends we'll keep for life.  
When we get back home to Texas,  
And they ask us what we missed most,  
I'll shrug my shoulders, and I'll smile....*

*Early mornings on the long boat dock,  
Drinkin' coffee as the sun comes up  
Lazy days napping in the big deck chair.  
Late night dancing in a front street bar,  
Walking home underneath the stars,  
Man it's like some dream we live down here....*

Jerry Jeff always takes time to greet people and as in this picture, he is greeting me.



Jerry Jeff has had a storybook life, which he told in his book “*Gypsy Songman*” published in 1999. Born Ronald Clyde Crosby, in Oneonta in upstate New York, he grew up as a kid in a small town, as many of us did. But he had wanderlust, and eventually left home with a ukulele, hitchhiking his way around the country, and eventually to New Orleans, where his life as a songwriter and balladeer began. Friendship beget friendships and a guitar from one of those friends resulted in playing the streets in the French Quarter, graduating to bars where he learned to drink as well as play. Then one time he got thrown in jail for a drunken dance on a table in a New Orleans bar. This was a turning point in his life, as a cellmate, Bojangles, resulted in his writing the song (but only three verses here) that made him famous: “Mr. Bojangles:”

It wasn't until 1967 or 1968 that Mr. Bojangles got recorded, and it did a lot for his career, but the big change came in the mid-1970s when Jerry met Susan Streit who changed his life in more ways than one; she is the glue that makes it all stick now. Sometimes it takes a woman to make the man who he should be. Jerry Jeff's book, “*Gypsy Songman*” is well worth your reading time and is available in hardbound on their website [www.jerryjeff.com](http://www.jerryjeff.com).

The first time I heard Jerry Jeff was when Steve Leuthold and A. J. Greenshields took me to hear him at the Paradise Ballroom in Waconia, MN in about 1970. Waconia was quite small back then, but the ballroom brought people from miles around to dance or watch a show. You can say it has been a long love affair!

#### *Mr. Bojangles*

*I knew a man Bojangles and he'd dance for you  
In worn out shoes.  
With silver hair, a ragged shirt, and baggy pants  
He did the old soft shoe.  
He jumped so high, jumped so high  
Then he'd lightly touched down.  
Mr. Bojangles, Mr. Bojangles, Mr. Bojangles, dance*

*I met him in a cell in New Orleans.  
I was down and out.  
He looked to me to be the eyes of age,  
And he spoke right out.  
He talked of life, he talked of life.  
He laughed and slapped his leg a step.*

*He said the name Bojangles  
And he danced a lick' cross the cell.  
He grabbed his pants, a better stance,  
Then he jumped up so high.  
He clicked his heels.  
He let go a laugh, oh he let go a laugh.  
Shook back his clothes all around.  
Mr. Bojangles, Mr. Bojangles, Mr. Bojangles, dance*

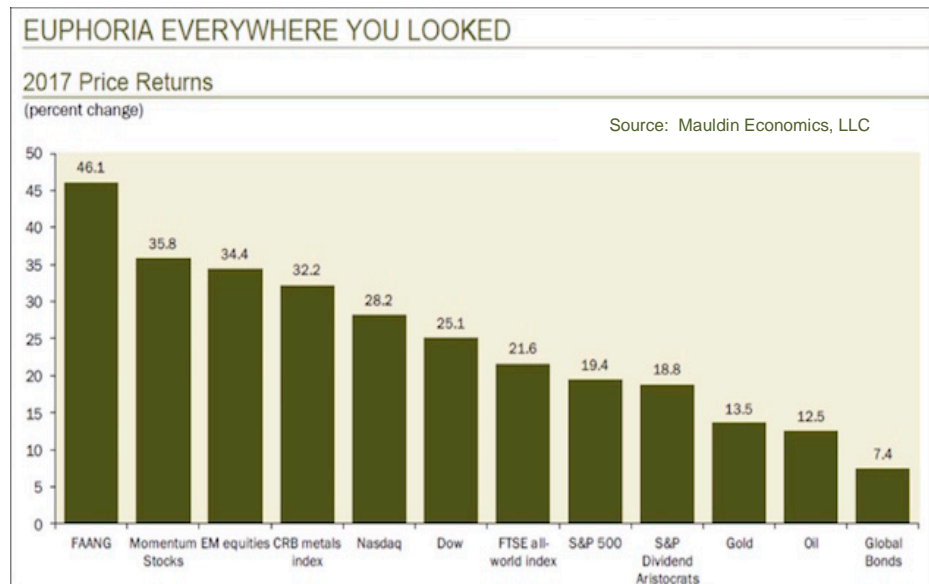
**THE MARKET SCOREBOARD**

Ranked by Q1 Return Indexes	% Return Q1 2018
NASDAQ Composite	+2.32
S&P Small-Cap 600 Total Return	+0.57
Russell 2000 Total Return	-0.08
Russell 3000 Total Return	-0.64
Russell 1000 Total Return	-0.69
S&P 500 Total Return	-0.76
Wilshire 5000	-1.38
Dow Jones Industrial Average	-2.49
Value Line Composite	-2.78
NYSE Composite	-2.79

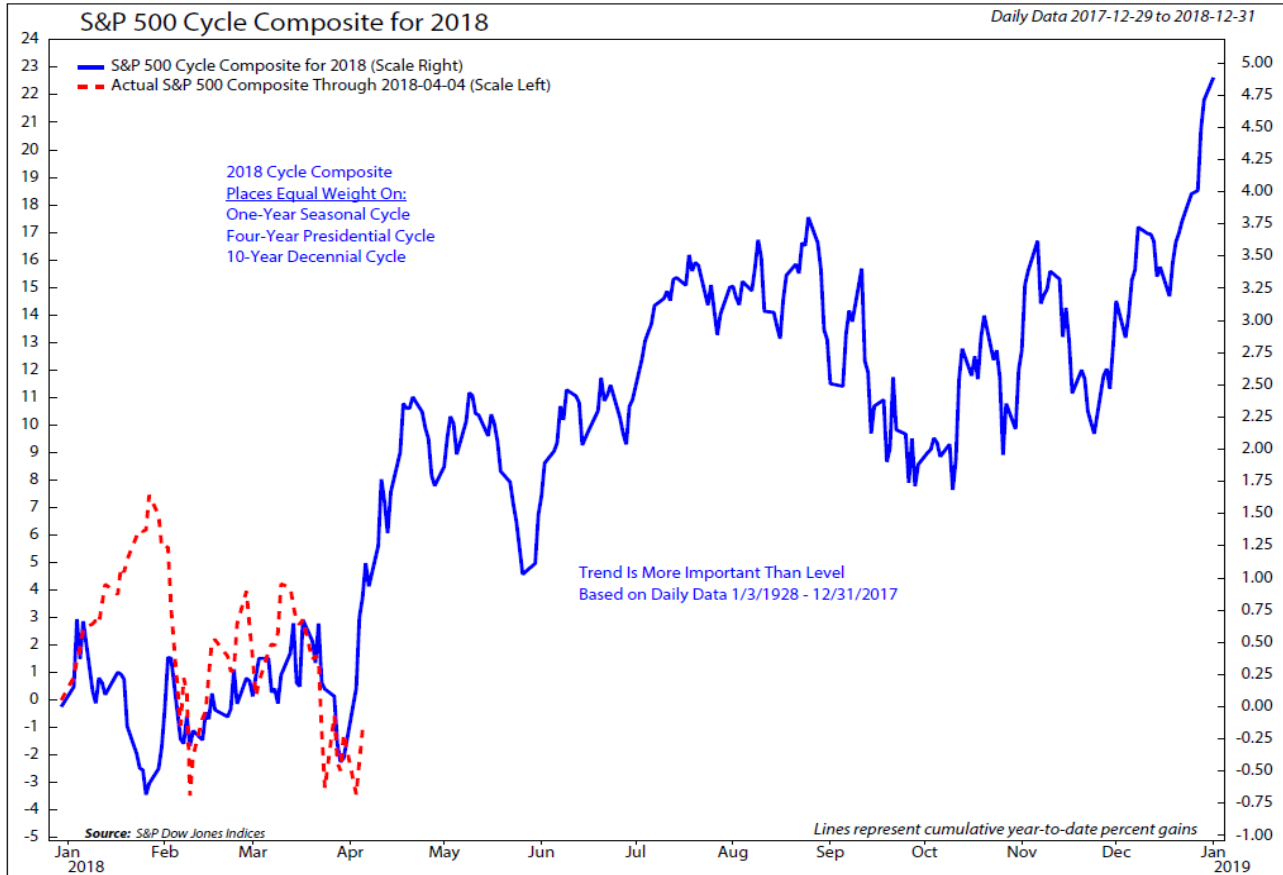
Wow! What a first quarter! We all knew the market was down, and it was—except for tech heavy NASDAQ, and guess what else? Small-caps. Yes, they went against logic, with the S&P 600 actually up, and the Russell 2000 essentially flat. Quite interesting, we think, as market watchers knew it was down—but we saw many of our small-caps up. And we’re very pleased.

**OUR MARKET VIEW**

In our October letter, we talked about time cycles and the decennial pattern, noting that certain market moves take place year after year, such as the bottom in the 2<sup>nd</sup> year, the 5<sup>th</sup> year rise, the 7<sup>th</sup> year decline followed by the 8<sup>th</sup> year rise into the 9<sup>th</sup> year, and then with it starting all over again with the 2<sup>nd</sup> year bottom. In our January letter, after the 7<sup>th</sup> year decline did not materialize in the Dow (the first time in 132 years that the Index did not correct by at least 10% in year seven), we said that maybe the decline would simply be postponed until 2018, and it was. This postponement was the result, we think, of a very strong market following the Trump election, up 34% in the fifteen months following the election until the end of 2017; it was just too euphoric to correct. It was indeed a terrific market with gains in all recognized asset classes. But we vividly recall the February 2 decline of 1175 Dow points, while large and scary was only 4.6%, still significantly less than the other declines in this long bull market as shown in the table on page seven.



In support of the 8<sup>th</sup> year rise, the Ned Davis summary of 8<sup>th</sup> years from 1928 to 2017 is shown below, and if it included the 9<sup>th</sup> year, we believe it would be up into 2019.



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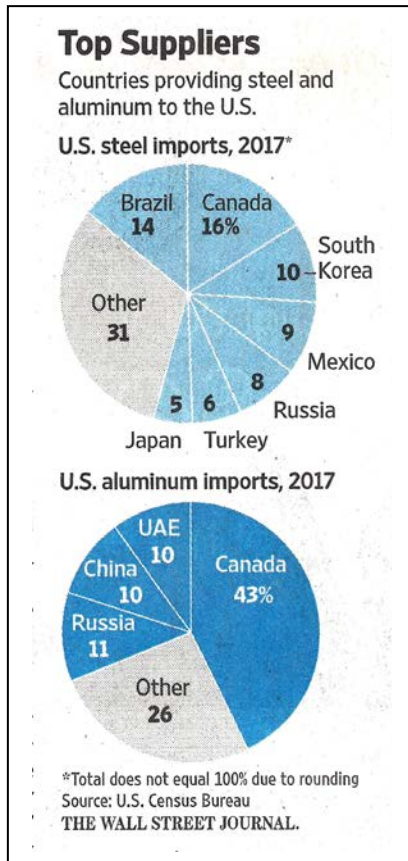
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This bull market turned 9 years old in early March, and after that 15 months post-election 34% increase, it was entitled to a pause, although it was pushed to 2018. Corrections are temporary setbacks and are necessary during bull markets. The table below shows that during this 9-year Bull Run there have been nine corrections and this recent one has not been the worst. The market during this two-month time frame (February and March) has been very volatile—up 500 Dow points one day, down 500 the next, then repeat, repeat, and repeat again. In fact, on March 28 there were ten 1% moves, up and down in the NASDAQ 100. Obviously, all the volatility is not institutional trading, but rather carries the definite imprint of high speed algorithm generated trading; i.e., machines and not humans. We need to be aware of this, which is not based on fundamentals, but speed. After a severe correction, markets always tend to rally and then trade down to or near the lows, and sometimes lower. All this is called a retest of the previous correction low and that is the process which we have been enduring during March. It may, or may not be completed as we write, because the month of April has historically been volatile. But, when the

### S&P 500 Corrections During The Nine-Year Bull Market

© 2018 The Leuthold Group				Normalized
Date of Interim High	Date of Correction Low	Percent Loss	No. Weeks	P/E at Low
June 12, 2009	July 10, 2009	-7.1	4	14.1 x
January 19, 2010	February 8, 2010	-8.1	3	16.8
April 23, 2010	July 2, 2010	-16.0	10	16.0
April 29, 2011	October 3, 2011	-19.4	22	16.3
April 2, 2012	June 1, 2012	-9.9	9	18.6
September 14, 2012	November 15, 2012	-7.7	9	18.8
September 18, 2014	October 14, 2014	-7.4	4	19.6
May 21, 2015	February 11, 2016	-14.2	39	18.3
January 26, 2018	February 8, 2018	-10.2	2	24.3
<b>Average (ex. latest)</b>		<b>-11.2 %</b>	<b>13</b>	<b>17.3 x</b>

market tells us it has made a solid bottom from which it can relaunch just as it has eight other times in the past nine years, then we can embark on the 8<sup>th</sup> year rise, as shown in the chart which, based on history, lasts into the middle of the 9<sup>th</sup> year.

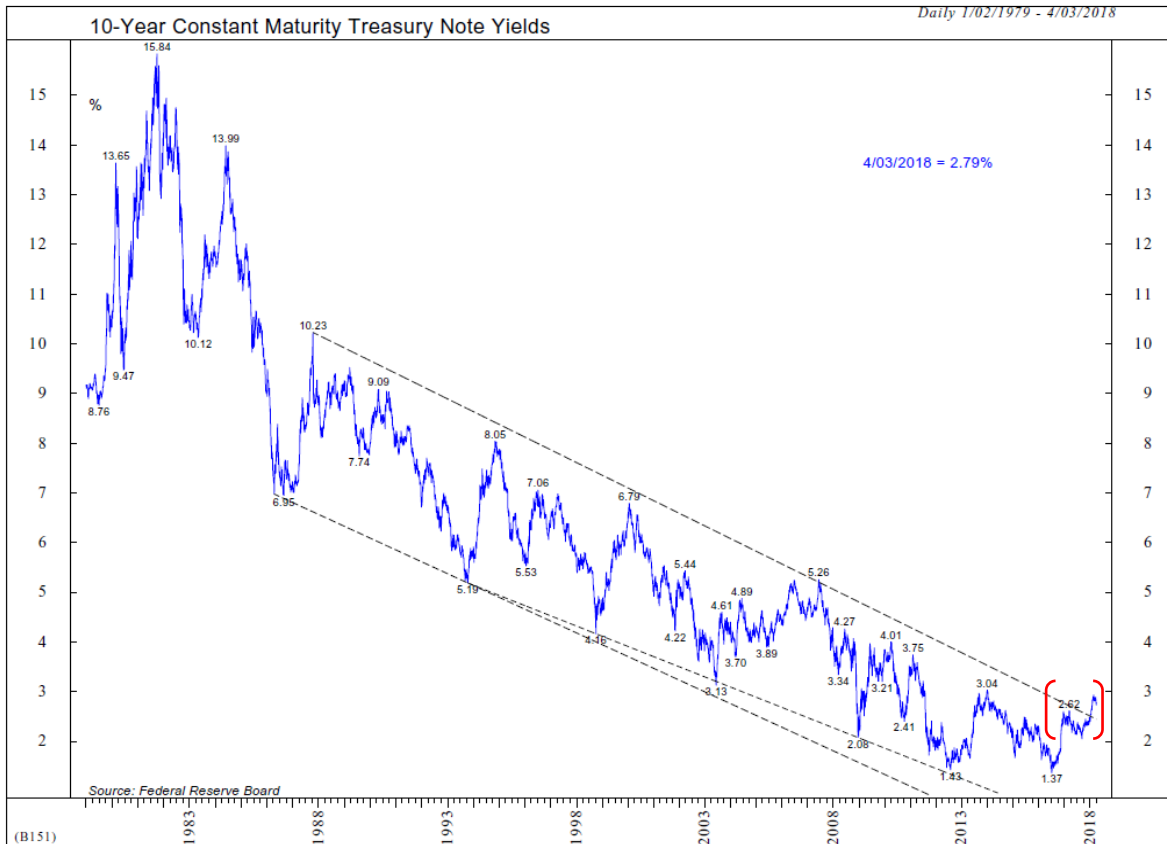


There were, to be fair, two other happenings during the months of February and March after the early February decline. First, in March, Trump stated his intent to announce in a week or so tariffs of 10% to 25% on imported steel and aluminum. This gave the market worries of trade wars which would, in the end, raise the costs of U.S. companies which use steel and aluminum in their products. While seeming to be aimed at China, in particular, the chart shows that China is part of “other” in the chart, and actually ranks 11<sup>th</sup> in steel import and 10% in aluminum. Canada is the country hurt the most, and it has been given a negotiated exemption as will doubtless happen with other countries as well. So the Trump bark, as usual, is greater than his bite, which comes later.

Furthermore, on March 22 the Fed, acting under its new President, Jay Powell, saw fit to raise the discount rate by .25% to an official range of 1.50% to 1.75%, with the expectation that there could be three more increases during the year. Investors then will face rising interest rates as shown in the Trend Line break in the long-term chart on page eight of rates going back to the 1981 high. Higher rates have not necessarily kept a market from rising in the past, but the implications are negative for the annual budget

deficit as well as higher consumer costs. So the market has had more than one reason to pause to digest all of the negative news from Tariffs, to Treasuries, and Trump. Still, we

do not think the sky is falling. The Fed has raised its outlook for GDP growth to 2.7% this year, and 2.4% in 2019, up from 2.5% and 2.1% respectively. The fundamentals of the economy are strengthening. Higher interest rates are, after all, a byproduct of a stronger economy. We should take the market correction as a gift as economic growth and earnings growth are strong. We think it will all come together, and that the eighth year rise will carry the market ahead for at least a year from now, if not more. However, nothing lasts forever, so stay tuned.

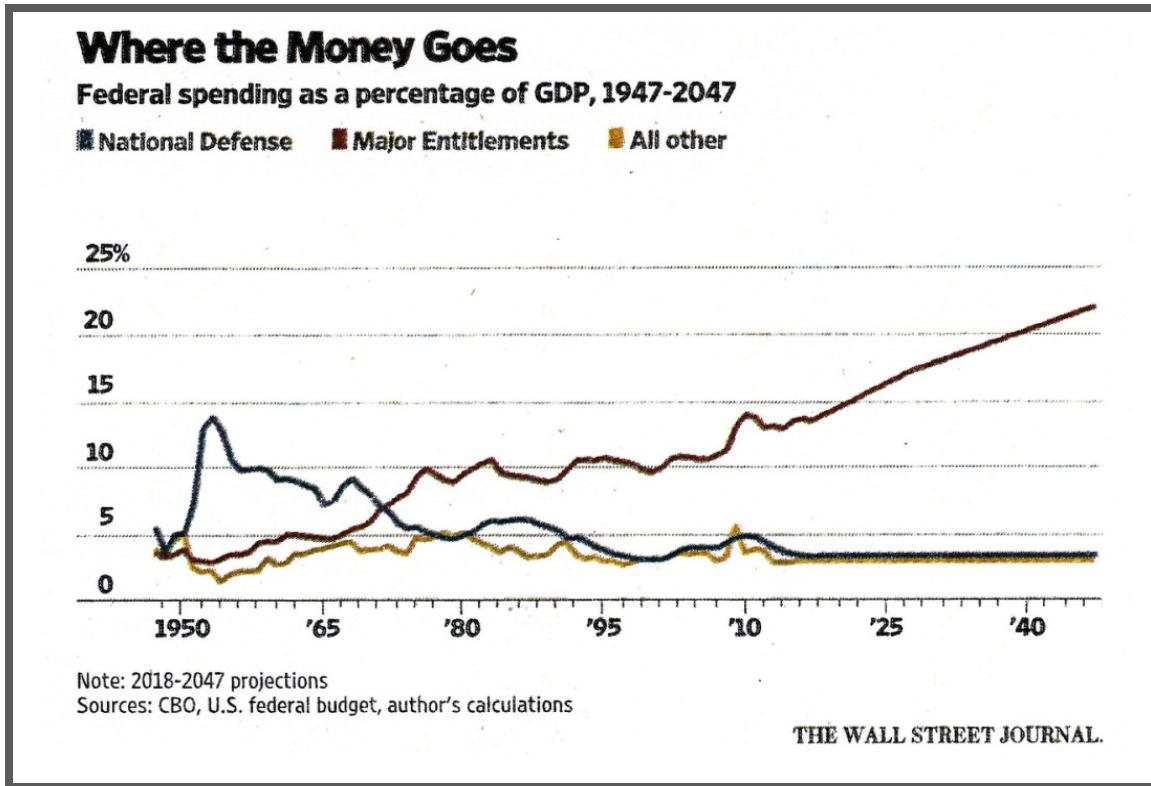


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### GOING BROKE SLOWLY

The federal deficit is large and getting larger, and if this trend continues the deficit will become unmanageable, especially as interest rates rise and the cost of supporting the federal debt rises. Growing entitlements are a further contributing problem today as entitlement spending accounts for nearly two-thirds of federal spending while defense spending (which needs to be increased) only accounts for about one sixth of the federal budget. Interest rates are most certainly on the rise, which will weigh heavily on the budget deficit. The Treasury Department “blew it” as with interest rates very low for years





it could have sold billions of 50- or 100-year bonds to lighten our interest load as other countries have done. And it may not be too late. This would be a partial preventative measure, but the real culprit will continue to be entitlements. President Trump has declared more than once that this must change. He could do what Reagan did by raising the retirement age over time, ultimately to 70, which would be more reasonable in light of greater longevity. This is only one of the ways to slow the rise in government outlays for Social Security and welfare. But Trump and Congress need to work out a bipartisan plan. The chart makes it clear that ALL of the increase in federal spending relative to GDP since 1950 has been attributable to entitlement spending. However, it is incorrect to call Social Security an entitlement, as recipients paid money into the Social Security fund via salary deductions. Entitlement, yes! We are entitled to receive our own money back in our retirement years. Quite the opposite of welfare or food stamps. A few years ago, A. Gary Shilling, in a detailed report, showed that over half of all employed people worked for the government in one way or another, whether as an employee, in the military or a recipient of some kind of entitlement all the way from Obamacare, to Social Security, to welfare, to food stamps, etc. This is a battleship that will take a very long time to turn around, if indeed it can. And, of course, the main issue is votes as recipients of government largess are voters and they will be lost to a government that starts to reduce what they have been dependent upon for years. We as a nation are between the proverbial rock and a hard place. Something has to change for us to increase defense expenditures, build (rebuild) an infrastructure including high-speed railroads, freeways, and bridges. We can't finance the world and exclude our own country, which we have done for years.

The cartoon refers to the Minnesota fishing season opening day on May 12.

Sincerely,



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

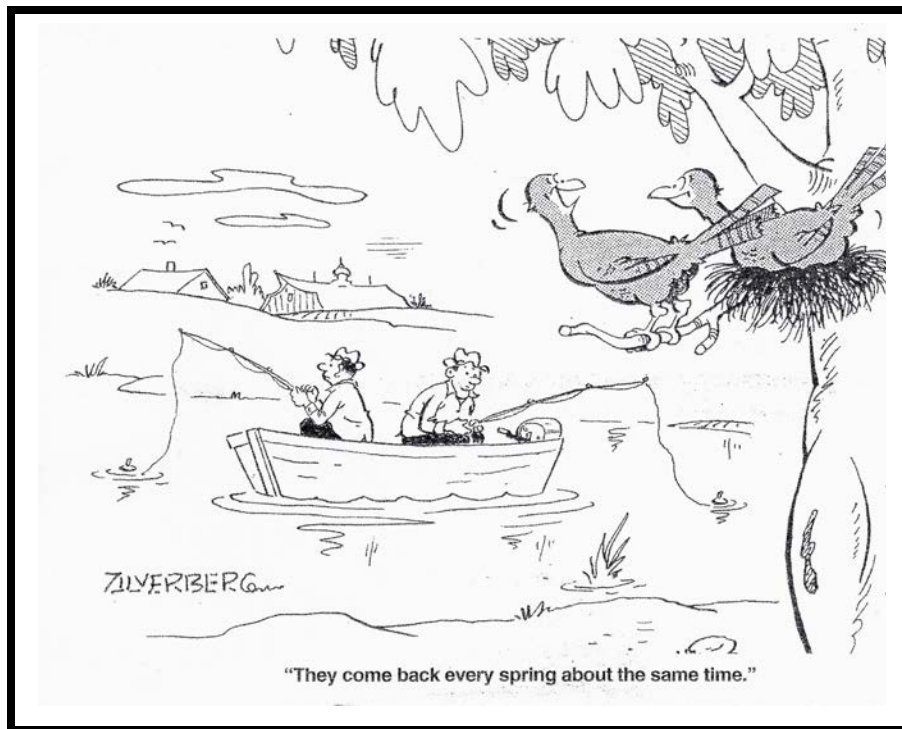


Richard C. Perkins, C.F.A.  
Executive Vice President  
Portfolio Manager



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

RWP:RCP:DSP/jah



JOKE PAGES FOLLOW



## A LITTLE OLE AND LENA FUN

The telephone rang at the hospital and a very excited man said, "Dis is Ole Olson and I'm bring my wife, Lena in! She is going tew have a baby any minute now!"

"Just calm down," said the nurse. "Is this her first baby?" "Vell, no" said desperate Ole. "Dis is her husband!"

---

Little Ole was sitting at the kitchen table doing his school homework. He had a puzzled look on his face as he considered the assignment that was due--writing an essay about his origin.

He turned to question his mother. "Mama, vere did Grandma come from?" he asked. "Da stork brought her," answered Mama Lena. "And vere did yew come from?" asked Little Ole. "Da stork brought me" Lena answered. "And vere did I come from?" Little Ole inquired. "Vell, son, da stork brought yew, tew," Mama Lena replied.

With a scowl on his face, Little Ole picked up his pencil, turned to his school tablet, and began writing his essay: "Dere have been no natural births in our family for three generations."

---

Young Ole was a police officer at one time! One day he was sent to patrol a nudist colony. After a couple of hours, he called the station to file a routine report.

"Officer Ole Olson reporting," he said to the dispatcher. "How are things going out there, Olson?" asked the dispatcher. "Vell, no problems, sir," answered Ole. "Except my badge is yust killing me!"

---

Lena was having a terrible day. Now, she sat in her stalled car waiting for help. Finally, two nice men came by. "I am out of gas," said Lena. "I vas vondering if yew could push me tew da gas station?" "Vell, sure, ve can dew dat, lady" said Olaf. And they pushed with all their might to get Lena to the gas station....and of course, Lena steered. Soon they were exhausted and as Olaf looked up, he saw that they had already passed a gas station!

"Hey, lady! How come yew didn't turn in tew dat station back dere?" he asked. "Vell, I never go dere!" replied Lena. "Dey don't have full service!"

Ole and Lena had never been camping and they heard about a nice camp near Black River Falls, Wisconsin. Lena was worried about the toilet facilities, but she didn't want to use the word "toilet," so she wrote a letter to the campground owner. She remembered that around Minot, North Dakota where they lived, they used to call it an L.C. or Lavatory Commode. But she was so prim that she didn't want to say toilet or Lavatory Commode, so she simply asked in her letter if the camp had an L.C.

The campground owner read Lena's letter and was puzzled about the initials L.C. He finally decided it meant LUTHERAN CHURCH. So he wrote back to Lena the following letter:

"I am happy to inform you there is a local L.C. located nine miles north of the camp ground. I realize this is kind of far if you are used to going regular. It is really a nice one...it seats 250 people. The last time my wife and I went was 6 years ago and it was so crowded we had to wait 20 minutes to be seated. Some people like it so much that they bring their lunch and make a day of it.

There is going to be a fund raising dinner in the basement of the L.C. and they're going to use the money to buy more seats. It pains me that I can't go more often like I know I should, but it gets more difficult when you get older, especially in the winter. So, you come down and stay at our camp, and maybe we can go with you the first time to the L.C. and sit with you and I'll introduce you to all the nice folks around here, because, after all, this is a very friendly community."

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### **NORVEGIAN MEDICAL TERMS**

Artery - Study of paintings  
Bacteria - Back door to cafeteria  
Benign - What you be after you be eight  
Bowel - Letter like A, E, I, O, U  
Coma - A punctuation mark  
Diarrhea - Journal of daily events  
Dilate - To live long  
Enema - Not a friend  
Fester - Quicker  
Fibula - Small lie

Hangnail - Coat Hook  
Impotent - Distinguished; well known  
Labor Pain - Getting hurt at work  
Morbid - Higher offer  
Nitrate - Cheaper than day rate  
Outpatient - Person who has fainted  
Post Operative - A letter carrier  
Tibia - Country in North Africa  
Tumor - An extra pair  
Varicose - Located nearby

## WHAT'S SO FUNNY?

There is a two-letter word that perhaps has more meanings than any other two-letter word, and that is "UP." It's easy to understand UP, meaning toward the sky or at the top of the list, but when we awaken in the morning, why do we wake UP?

At a meeting, why does a topic come UP? Why do we speak UP and why are the officers UP for election and why is it UP to the secretary to write UP a report?

We call UP our friends. And we use it to brighten UP a room, polish UP the silver; we warm UP the leftovers and clean UP the kitchen. We lock UP the house and some guys fix UP the old car.

At other times the little word has real special meaning. People stir UP trouble, line UP for tickets, work UP an appetite, and think UP excuses. To be dressed is one thing, but to be dressed UP is special. A drain must be opened UP because it is stopped UP. We open UP a store in the morning, but we close it UP at night.

We seem to be pretty mixed UP about UP. To be knowledgeable about the proper uses of UP, look UP the word UP in the dictionary, it takes UP almost 1/4<sup>th</sup> of the page and can add UP to about thirty definitions. If you are UP to it, you might try building UP a list of the many ways UP is used. It will take UP a lot of your time, but if you don't give UP, you may wind UP with a hundred or more.

When it threatens to rain, we say it is clouding UP. When the sun comes out we say it is clearing UP. When it rains, it wets the earth and often messes things UP, when it doesn't rain for a while, things dry UP.

One could go on and on, but I'll wrap it UP, for now my time is UP, so.....it is time to shut UP!

## PUNCTUATE

A teacher writes on a chalkboard the sentence:

"A woman without her man is nothing."

The teacher then asks the boys to punctuate it properly, and they all write:

"A woman, without her man, is nothing."

The teacher asks the girls to punctuate it and they write:

"A woman: without her, man is nothing."

## **WRONG SIDE OF THE BED**

Mother Superior was on her way to late morning prayers, when she passed two novices just leaving early morning prayers, on their way to classes. As she passed the young ladies, Mother Superior said, "Good morning, ladies."

The novices replied, "Good morning, Mother Superior, may God be with you." But after they had passed, Mother Superior heard one say to the other, "I think she got out of the wrong side of the bed this morning." This startled Mother Superior, but she chose not to pursue it.

A little further down the hall, Mother Superior passed two of the Sisters who had been teaching at the convent for several years. She greeted them with, "Good morning, Sister Martha, Sister Jessica, may God give you wisdom for our students today."

"Good morning, Mother Superior. Thank you and May God be with you."

But again, after passing, Mother Superior overheard, "She got out of the wrong side of bed today." Baffled, she started to wonder if she had spoken harshly, or with an irritated look on her face. She vowed to be more pleasant.

Looking down the hall, Mother Superior saw retired Sister Mary approaching, step by step, with her walker. As Sister Mary was rather deaf, Mother Superior had plenty of time to arrange a pleasant smile on her face, before greeting Sister Mary. "Good morning, Sister Mary. I'm so happy to see you up and about. I pray God watches over you today, and grants you a wonderful day."

"Ah, good morning, Mother Superior, and thank you. I see you got up on the wrong side of bed this morning."

Mother Superior was floored! "Sister Mary, what have I done wrong? I have tried to be pleasant, but three times already today, people have said that about me."

Sister Mary stopped her walker, and looked Mother Superior in the face. "Oh, don't take it personally, Mother Superior. It's just that you're wearing Father Murphy's slippers."

## **AMAZINGLY SIMPLE HOME REMEDY**

You only need two tools in life - WD-40 and duct tape. If it doesn't move and should, use the WD-40. If it shouldn't move and does, use the duct tape.