PERKINS CAPITAL MANAGEMENT, INC.

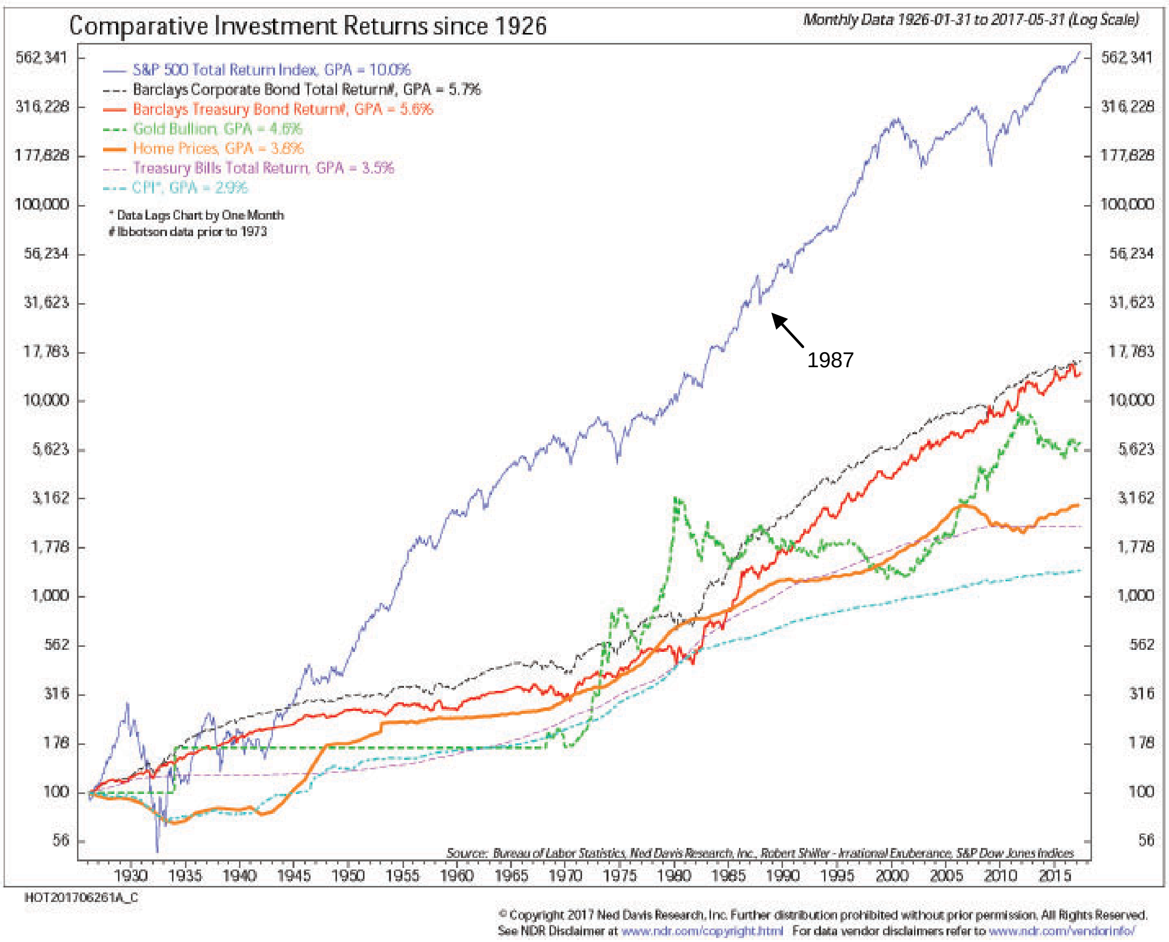
October 19, 2017

Dear PCM Clients and Friends:

In our July letter we extolled on the big things happening in Wayzata as a result of the Promenade project and its various parts; we covered the Lake Effect in our April 2016 letter. And now we can report to you that the Wayzata Community Sailing Center is in the final stretch of its fund raising effort for its new facility. Their neighbor, the Wayzata Yacht Club, has been an integral part of Wayzata since its founding in 1965. Even the Perks had an Ensign sailboat on the lake, back in those years. The sailing center is anticipating replacing the 126-year-old house that has been its home for many years, where young sailors will learn sailing even while the lake is frozen solid. This new facility will be named for Lake Minnetonka sailor Mike Plant, who died in 1992 when his boat capsized on the ocean while he was preparing for his fourth circumnavigation around the globe. In 1994 Mary Plant established the Mike Plant Fund in honor of her son; the fund provides scholarships for summer camps and other youth racing programs. The location of the Wayzata Yacht Club, and the planned sailing center, is on the lake just east of the Promenade and the Landing Hotel and across the railroad tracks.

A MESSAGE FROM PERK

In every letter we have a section devoted to what we think the “market” will do in both the near-term and the long-term. We do this for two reasons. We like to have some sort of road map to give us a guideline to be optimistic in our purchases, as opposed to being a little more cautious when it comes to stock selection. The other reason is that clients always ask when we meet: “What is your outlook for the market?” Our outlook is usually pretty optimistic for the simple reason that we, nor anyone we know, knows for sure what the “market” is going to do. Besides, it is just what it says it is “A stock market, or rather, a market of stocks.” In a bull market there are always some stocks not to own as they don’t participate. Likewise, the same is true in a down market as there are always some stocks that do better than the market and go up. We think our friend, Steve Leuthold, was right when he said “Predictions are for show, but Actions are for dough.” Most of our accounts own a variety of stocks, some large companies, some mid-size companies, and small-caps as well with emphasis on one of these at the client's request. The important thing is to be invested while having enough cash on hand for one or two new stock ideas when they present themselves and to avoid selling something that you don't want to part with, especially at that time. Our readers know we are fond of using charts for "show and tell" as a chart is truly worth more than a thousand words. The chart shown here, courtesy of Ned Davis Research, shows the Total Return (price and dividends) of the S&P 500 from 1926 to the present, a total of 91 years, as well as various bond indexes, gold, home prices and the CPI. This chart shows without a doubt that stocks for the long term are the place to be, compounding over that 91-year period at 10% compared to 5.7%, and 5.6% respectively for corporate and treasury bonds. Do you remember October 1987 when the market literally fell out of bed and scared the wits out of all of us, falling over 20% in one day? I have marked it on the chart. And that will show you how meaningless corrections like that are in the long-term scheme of things.



Each month Nick Murray writes his Interactive newsletter, and while he does not allow copies of it or any content, he does have one page each month called "Client's Corner" which he allows use of. The Client's Corner from August is reprinted below. We believe it very aptly describes long-term investing and the corrections that come along the way, whether you like them or not.

CLIENT'S CORNER

How Successful Investors Navigated The Last 57 Market Corrections

IF YOU DEFINE A STOCK MARKET "CORRECTION" AS MOST people do—that is, as a decline in the Standard & Poor's 500-Stock Index (ignoring dividends) of at least ten percent, then in the 71 years from the beginning of 1946 through the end of 2016 there were 57 of them.

That's about one every fifteen months.

There are a couple of interesting number sets around the history of these 57 corrections that the patient, disciplined, goal-focused, long-term investor might want to be aware of. The first is that, despite market corrections that have come along with such frequency, the S&P 500 (still excluding dividends, just measuring by price) provided a positive return in 50 of the 71 years under consideration. (All these are S&P's statistics, and they ought to know.)

That's a bunch of disparate numbers, but I'm hoping you can see something of a pattern emerging here. To wit, the equity market must have been importantly resilient lo these seven decades past to have been able to shake off corrections relatively quickly, to the point where its value advanced in 50 of 71 (or 70% of) calendar years.

Even more important—and probably easier to understand—is the second number set to which I referred a moment ago. It is that the Index came into 1946 at about 15, and went out of 2016 at 2,240. That is—***still taking no account of dividends***—the Index went up around 150 times ***in the process of overcoming 57 corrections***. This, to me, is resilience on steroids.

And yet I cannot pick up a newspaper or turn on the television this summer without someone telling me we are overdue for a correction—as if that's supposed to frighten me, and as if I'm somehow supposed to try to do something about it. Heck, for all I know (or anybody else knows either), they may be right: we may be, in some strained statistical sense, overdue for a correction, inasmuch as the last one happened in January-February 2016. And that was…well, more than fifteen months ago.

Ah, but that's not the real issue, is it? The real issue is, given that corrections have historically been quite frequent yet overall rather fleeting, ***what are we long-term investors supposed to do about them?***

At this point, two important problems rear their heads simultaneously. (1) We don't know when, or from what S&P price level, the correction will start. That is, we can't call the top. (No shame in this; no one has ever been able consistently to anticipate market tops.) (2) We don't know when, or at what price level, the correction will blow itself out. That is, we can't call the bottom. (No shame etc., etc.)

It appears, therefore, that we can't with any consistency get out of the market in advance of a correction, nor get back in just before a resumption of the advance. This is, or certainly ought to be, a very sobering realization, particularly when we remember that the overall trend across the last 57 corrections increased the S&P 500's value 150 times.

How, then, did generations of patient, disciplined, goal-focused, long-term investors navigate these 57 corrections? I hope the answer will by this time be intuitively obvious to you: *they didn't.* ***They simply rode them out.*** They decided that they could not, in all probability, gain an advantage over the market by guessing at its interim peaks and troughs.

And in the past they've certainly been well rewarded for doing so. With full dividend reinvestment, the S&P's return compounded at about 10.7% in these 71 years—seven percentage points above the CPI inflation rate, which the Wharton scholar Jeremy Siegel maintains has been par for the course going all the way back to Thomas Jefferson's presidency.

Next time you hear some pundit calling for a correction, and you feel your trigger finger getting itchy, check in with your financial advisor, who will—I predict with something approaching 100% certainty—advise against it. In the meantime, you'll want to remember this wonderful (and wonderfully true) quote from Peter Lynch:

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

THE MARKET SCOREBOARD

Pretty easy to sum up performance so far this year. Small-caps contributed mightily in the YTD numbers, and carried the day in Q3. Small-caps were in vogue and large-caps not so much is how it looks to us.

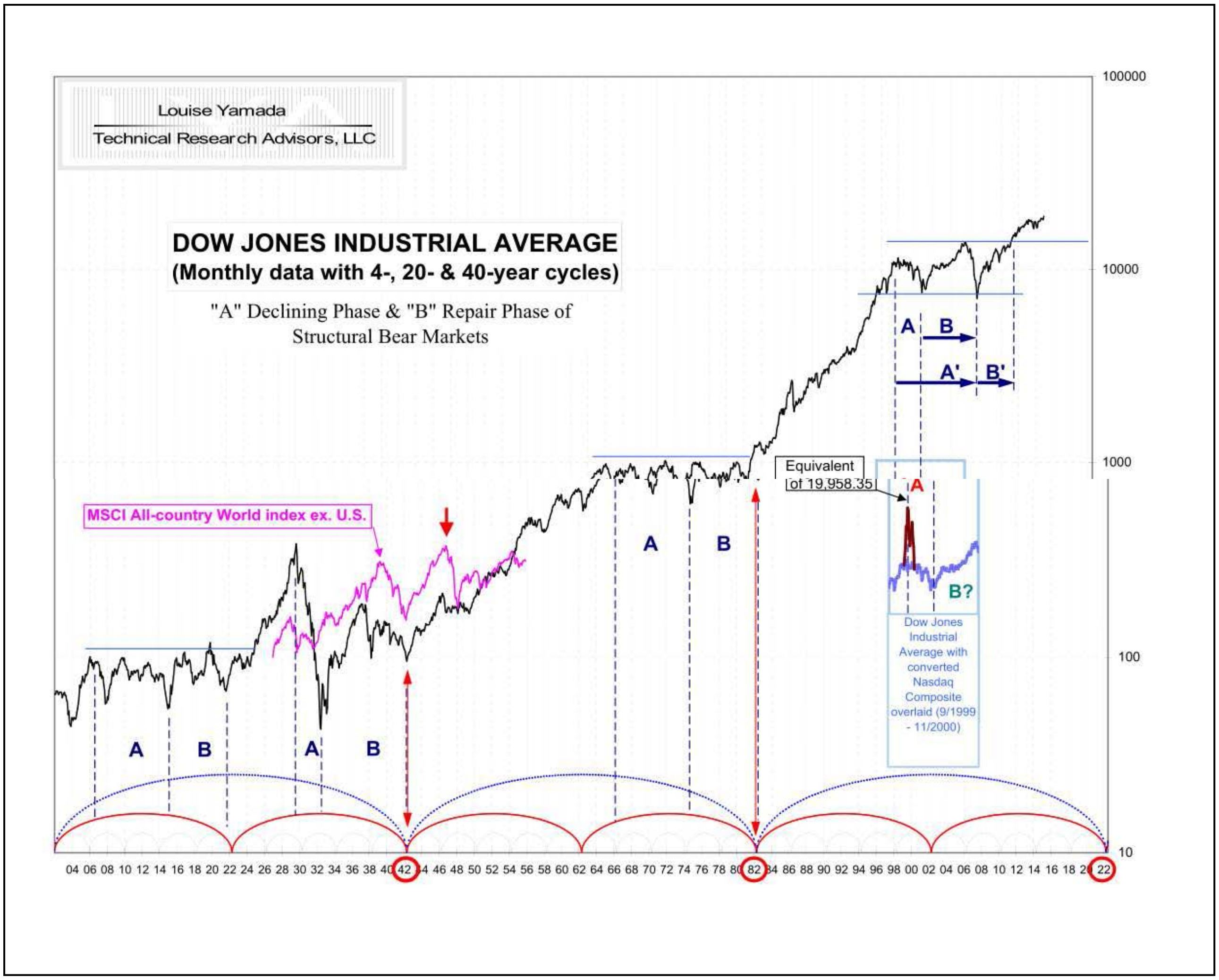
Ranked by Q3 Return **Indexes**	**% Return Q3 2017**
Value Line Composite	6.55
S&P Small-Cap 600 Total Return	5.96
NASDAQ Composite	5.79
Russell 2000 Total Return	5.67
Dow Jones Industrial Average	4.94
Russell 3000 Total Return	4.57
Russell 1000 Total Return	4.48
Wilshire 5000	3.98
NYSE Composite	3.80
S&P 500 Total Return	3.60

Ranked by YTD Return **Indexes**	**% Return YTD 2017**
NASDAQ Composite	20.67
Russell 1000 Total Return	14.17
Russell 3000 Total Return	13.91
Dow Jones Industrial Average	13.37
Wilshire 5000	11.98
S&P 500 Total Return	11.94
Russell 2000 Total Return	10.94
NYSE Composite	10.42
S&P Small-Cap 600 Total Return	8.92
Value Line Composite	3.18

STOCK MARKET CYCLES

In our last letter (July 20) we noted the market's tendency to have a bottom in years ending in 2 such as 1932, 1942, 1962, 1982, and 2002. Likewise, we have noted the 5th and 8th years in the decennial pattern have generally been strong years, but the 7th year often sees a correction, some more severe than others. In past letters, we illustrated this by printing the Ned Davis 10-Year Decennial Pattern chart, which is an important summation of market performance by year for each year in the decade based on market data from 1900 to the present. It is on page 8 of our July 20, 2017 letter or, if you don't have our July letter handy, in the archives of our website: www.perkinscapital.com.

Now we have an opportunity to present again a chart from the January 2017 issue of *Technical Perspectives*, a technical newsletter that is a monthly publication of Louise Yamada Technical Research Advisors, LLC. We reproduce it here with their permission. This chart gives an insight into what we have been putting into words—namely, the 4-, 20-, and 40-year cycles. The most interesting thing that we observe is the long bull markets that emanated from the bottom of the 40-year cycles in 1942 and 1982—a 24-year bull market following the 1942 bottom, and an 18-year bull market following the 1982 bottom, whereas the other bottoms mentioned are really the 20-year cycle lows such as in 1922, 1962 and 2002. The 20-year cycle bottom, and subsequent up moves, are not as dramatic as the 40-year cycle from 1902 to 1942 since it had the disruption of the 1929 bull market top, and the subsequent decline into the 1932 bottom, but nevertheless, over that time it can be perceived as a good market. Seventh year corrections seem evident, to



some extent, in every 7th year, but more discernable in 1907, 1917, 1937, 1977, and 2007 than in other years, presumably, from the effect of the 20-year cycle. The thing about this year is that in our view a modest correction would be a good thing as we have had a very long bull streak, and to have a good so-called 7th inning stretch, might be very helpful to lead us into the 8th year rise. September has typically been just a so-so month, as contrasted with this September, which has been exceptionally good. Most investors still clearly remember October 1987, and the extreme one-day decline on October 16 of over 23% and thus almost expect a decline in October. The Leuthold Group's September book reminded us of the late George Lindsay's projection methodology of the low-to-low-to-high measurement technique, which targets early October 2017 as a likely time for a correction to begin. They don't expect this correction, if it comes, to be a final bull market top (as some do), but rather a buying opportunity prior to the 8th year rise, which often continues into the 9th year following which, in the past, we have had a decline—rally—decline—rally market until the 2nd decade of the year, in this case 2022, which is expected to be the next bottom of the 40-year cycle.

HURRICANES AND GLOBAL WARMING

Here comes that global warming theory again—now telling us that studies have linked climate change to increased hurricane activity—and worse, hurricanes today are therefore more frequent, stronger in intensity, and duration. That sounds fine, but we looked at a sixteen-page list of past hurricanes put out by NOAA (National Oceanic and Atmospheric Administration) from the Galveston Hurricane in 1900 to Hurricane Ike in 2008 (36 all together). And while reading that does not answer the global warming question, it does give us a lot of insight into past hurricane disasters, which we can compare to Harvey, Irma and Maria. The 1900 Galveston Hurricane was the real thing, a Category 4, which was labeled as the worst weather disaster in United States history, with tides of 8 to 15 feet, which were responsible for approximately 8,000 deaths, with estimates ranging from 6,000 to 12,000. Remember now, this was 117 years ago; think what the damage would be today. Then the Atlantic-Gulf Hurricane of 1919 cut through the Florida Keys and on to Corpus Christi with major damage, but nothing compared to the Great Miami Hurricane in 1926, which was a Category 4 right over Miami Beach and Miami with a 15-foot storm surge. This great hurricane ended the 1926 economic boom in Southern Florida and its estimated loss would be at least $90 billion today. The death toll is said to be uncertain since over 800 people were missing; the Red Cross reported 373 deaths. And on, and on, it goes to the next in 1928, another Category 4, which caused an estimated $50 billion damage in Puerto Rico with 312 deaths.

By now you get the point of this. There have always been deadly hurricanes, but today, 100 or more years later there has been extensive population growth, and the resulting additional homes, shopping centers and highways. Thus, much more damage results. Part of the problem with Harvey, as explained in the *Wall Street Journal*, is that Houston has been a major growth area for years, with the city limits extending much further, and the prairies and wetlands, capable of holding large amounts of water are gone, leaving nowhere for the water to go other than neighborhoods, shopping centers, and roads. Besides, the soil there is predominately clay, which does not drain well to begin with. But today we are more able to cope with major disasters than 100 years ago. Doubtless, much of the same is true in the Florida Keys and Puerto Rico, which has many more residents, houses, etc., than 100 years ago. One of the big problems in Puerto Rico is the Jones Act, passed by Congress in 1920 to protect the shipping industry by decreeing that only American ships could carry goods from one U.S. port to another. But Puerto Rico is caught in this World War I law, so shipping to Puerto Rico has become expensive and is one of the major reasons Puerto Rico is literally a third world country. If the Jones Act were suspended, prices in Puerto Rico would drop by 15-20%.

Still, there are the diehards who insist that global warming, and its attendant warmer weather, and water, are the culprits. We do not believe that is the case as we have long contended, but are open to changing our opinion with real evidence.

By the way, the Mexican earthquake cannot be blamed on global warming; Mexico City was built on a lake bottom! Amazing revelation, quite a number of years too late.

But there may be an upside to all of this despite the loss of life and property in Houston, the Keys and Puerto Rico, all of which need to be rebuilt—homes, businesses, churches, roads, bridges, you name it, and automobiles need to be repaired or replaced. The estimate given by InfoNation is that about 300,000 vehicles were damaged in the Houston hurricane as a result of Harvey, which does not include what happened in Florida or Puerto Rico.

Galveston Hurricane 1900

Atlantic-Gulf Hurricane 1919

Great Miami Hurricane 1926

San Felipe-Okeechobee Hurricane 1928

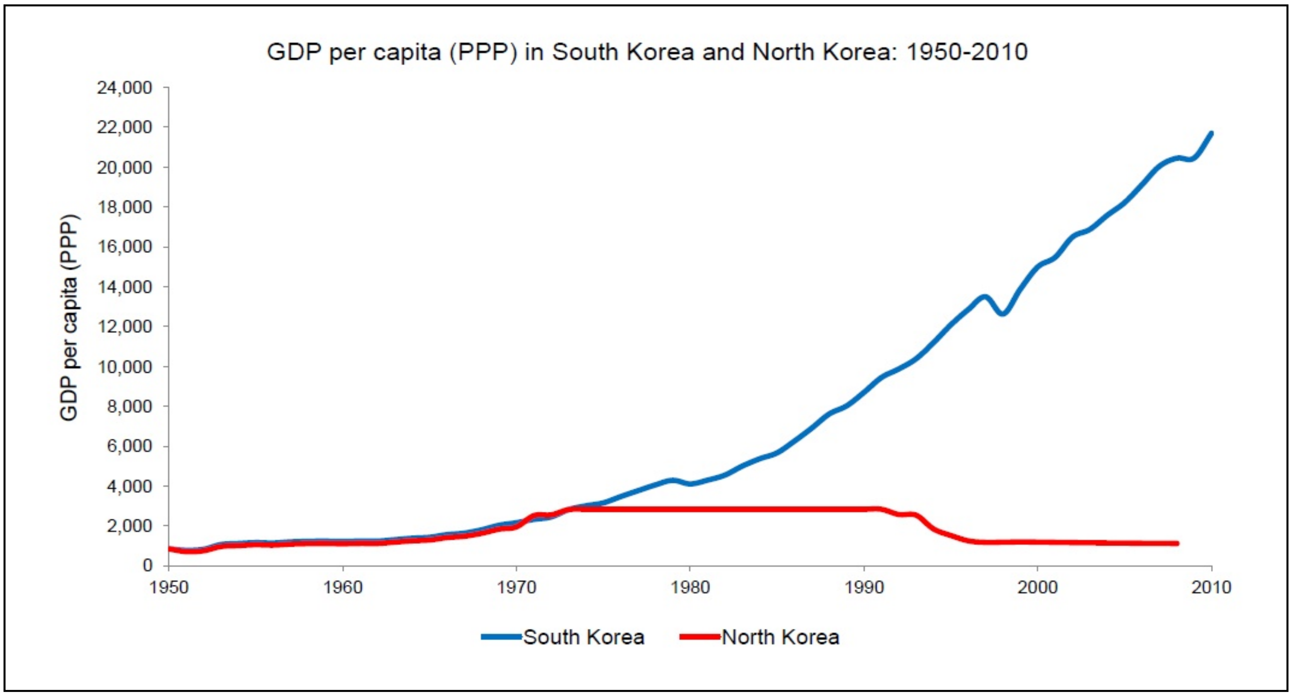
THE LITTLE ROCKET MAN

The “war of words” between President Trump and Kim Jong-un continues ramping up and hopefully does not evolve into a real war, which would have very serious and unanticipated consequences, not only in human terms, but also realignment of the world powers. We read daily about his desire to have a nuclear nation, which is felt to be intolerable because of his unpredictability. But most Americans and citizens of other nations have very little knowledge of his background and his rise to power at the young age of 33. We have read as much as we can find and believe our readers will find it of interest.

Kim Jong-un was the youngest of three sons of Kim Jong-il who led North Korea from 1994 until his death in 2011; his father Kim Il-sung ruled from 1948 when North Korea was founded until his death in 1994, and is still a much revered God-like figure. In fact, Kim Jong-un appears to have emulated his grandfather’s slow and precise walk, closely shorn hair, beaming smile, and other things, such as probably even weight gain on purpose to imitate his grandfather’s porky build. It is said that when North Koreans first saw him they thought he was Kim Il-sung reincarnated. Although the youngest of three sons, he leapfrogged his brothers to succeed his father. Evidently, the older brother (actually a half brother), Kim Jong-nam, sealed his own fate, in a way, when he was caught attempting to use a bogus passport and appeared to drop out until the startling news recently that he evidently was assassinated while at Kuala Lumpur International Airport in Malaysia. His second son, Kim Jong-chol, was cast aside, according to reports, because his father thought he was too “effeminate.” It is said that Kim Jong-il saw leadership qualities in Kim Jong-un early on, and on his eighth birthday gave him a general’s uniform as a gift, after which generals respected him. So he learned how power worked at an early age. It is also reported that for several years, perhaps from 1996 until 2000 Kim Jong-un studied in Switzerland under the disguise of being the son of a North Korean diplomat. But back in North Korea (many never knew he had left), he entered the Kim Il-sung Military University, graduating in 2006, and entering into military leadership. After his father’s death in 2011, however, his hold on power was precarious, and his uncle, Jang Song-thaek, was thought to be in charge with Kim Jong-un as a mere figurehead. But Kim saw him as a serious threat, so in a military coup he had his uncle arrested and executed on false charges of plotting to overthrow him. During this period as he gained power, Kim Jong-un continued with his purge, and had his uncle’s supporters, and all of his children killed. *The New York Times* has reported that since taking power, Kim Jong-un has had at least 140 senior officials executed. This speaks to why he is perceived as ruthless.

There have been numerous tourists who have gone to North Korea despite the occasional arrests, speedy trial, and a life sentence of hard labor in one of the North Korea death camps. Over the years, Dennis Rodman the basketball player, has made numerous trips to North Korea and is one of the few westerners that have met Kim Jong-un. He has reported that people admire him, clapping hands for long periods of time. He was even introduced to Kim's wife, Ri Sol-ju, and allowed to hold Kim's baby daughter. Why he has had these privileges is a mystery to everyone, except perhaps Rodman himself.

But Kim Jong-un appears to have built a formidable military despite also nurturing economic development, although it appears that in areas beyond Pyongyang, citizens live in extreme poverty. Satellite pictures show the country totally dark at night as contrasted with South Korea, an extreme conservation measure. There are very few mobile phones,



perhaps only one for every ten citizens, yet South Korea has more phones than people. North Korea's roads are mostly unpaved, perhaps 3% vs. about 90% paved for South Korea, because North citizens have very few automobiles. All of this is best summed up in this chart, which shows the divergence in GDP per capita between the two countries. Pretty obviously, this is because of military spending in the North. The stalemate we are seeing today is because Kim knows he has the world by the proverbial "short hairs" as they will not attack at the risk of so much loss of life, not only in North Korea, but in the South as well. Kim wants his nuclear arms to force the world and the United States into accepting the country as a full member of the International Community. After all, China, France, Russia, the United Kingdom, the United States, India and Pakistan are all nuclear powers and Iran is a serious wannabe. It is now too late, we believe, to adopt the rattle snake rule that Franklin Delano Roosevelt espoused—strike the snake before he strikes you. There is no answer to this problem, and Trump might as well tone down his rhetoric as it should be plain even to him that by now it serves no purpose. The standoff will continue, unless his rhetoric throws us into a real war, which would be unfortunate for all of us. It should be apparent even to Trump that the Kim family dictatorship has survived this long by being belligerent, but still rational.

Our cartoon speaks volumes about what we have said in this section.

Sincerely,

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

RWP:RCP:DSP/jah

JOKE PAGES FOLLOW →

IRISH BLONDE

An attractive blonde from Cork, Ireland arrived at the casino. She seemed a little intoxicated and bet $20,000 on a single roll of the dice. She said, “I hope you don't mind, but I feel much luckier when I’m completely nude.”

With that, she stripped from the neck down, rolled the dice and with an Irish brogue yelled, “Come on, baby, mama needs new clothes!”

As the dice came to a stop, she jumped up and down and squealed. “Yes! Yes! I won, I won!” She hugged each of the dealers, picked up her winnings and her clothes and quickly departed. The dealers stared at each other dumbfounded.

Finally, one of them asked, “What did she roll?” The other answered, “I don't know - I thought you were watching.”

MORAL OF THE STORY - Not all Irish are drunks, not all blondes are dumb, but all men are men!

A CATHOLIC HEART ATTACK

A man suffered a serious heart attack while shopping in a store. The store clerks called 911 when they saw him collapse to the floor. The paramedics rushed the man to the nearest hospital where he had emergency open-heart bypass surgery.

He awakened from the surgery to find himself in the care of nuns at the Catholic hospital he was taken to. A nun was seated next to his bed holding a clipboard loaded with several forms, and a pen. She asked him how he was going to pay for his treatment. “Do you have health insurance?” she asked.

He replied in a raspy voice, “No health insurance.”

The nun asked, “Do you have money in the bank?”

He replied, “No money in the bank.”

“Do you have a relative who could help you with the payments?” asked the nun.

He said, “I only have a spinster sister, and she is a nun.”

The nun became upset and proclaimed loudly, “Nuns are not spinsters! Nuns are married to God.”

The patient replied, “Perfect. Send the bill to my Brother-in-law.”

GOTTA LOVE GRANDMAS

A doctor that had been seeing an 80-year-old woman for most of her life finally retired. At her next checkup, the new doctor told her to bring a list of all the medicines that had been prescribed for her. As the doctor was looking through these, his eyes grew wide as he realized grandma had a prescription for birth control pills.

“Mrs. Smith, do you realize these are birth control pills?”

“Yes, they help me sleep at night.”

“Mrs. Smith, I assure you there is absolutely nothing in these that could possibly help you sleep!”

She reached out and patted the young doctor’s knee and said, “Yes, dear, I know that. But every morning, I grind one up and mix it in the glass of orange juice that my 16-year-old granddaughter drinks. And believe me, it definitely helps me sleep at night.”