

July 29, 2020

Dear PCM Clients and Friends:

We hope that this letter finds you, your family, and loved ones safe and healthy during these unprecedented times.

The investment markets staged a historic rebound in the second quarter driven by an initial peak in the growth of coronavirus infections in April, an economic reopening across the United States and the rest of the world, strong hope for a COVID-19 vaccine, and continued stimulus from global central banks, including the Federal Reserve.

The end of the first quarter marked the lows for markets so far in 2020 as the initial coronavirus cases in the U.S. had an initial peak in mid-April thanks to the historic economic shutdown. That peak and decline in new COVID-19 cases throughout April and into May gave investors and markets hope that the economic shutdown would not last too much longer. Our national psyche began a shift to let's "reopen" which exploded around the Memorial Day weekend and has continued into this summer. We saw this here in Wayzata as well as around the country. In April and into mid-May the streets of Wayzata were very quiet as most people were serious about "cocooning," social distancing, and just plain staying safe at home. But spring arrived and we all had been shut in too long. There was a sudden change throughout the country and here too in Wayzata with lots of activity. People are out walking, doing errands, and going about more. Couples are walking dogs together. The bikers are back in packs. The groups of people are back out again taking selfies and pictures of themselves on our front steps (our front steps seem to be "in fashion" - must be the bricks, ivy, and nice plantings). Folks were back parking behind our building to do some spring shoreline fishing on Lake Minnetonka. Starbucks is open, so the "Starbucksers" cars are back and parking around us. Wayzata's many restaurants are not just open but active; with the outdoor dining visibly full. The attitude here and elsewhere, we think, is summer's here, let's enjoy it!

Everyone here at PCM and our families are fine. We truly hope you and your families are also fine. We have continued to operate as we have described in the past. Working with few changes beyond what would be expected. More remote working and far fewer in-the-office meetings. There are summer vacations and things have slowed down some in July and this will also continue in August. We have so far adjusted and sheltered ourselves from the coronavirus risk. Yet, looking forward, the sudden surge in coronavirus cases around the country has been a stern reminder to us that we need to continue to focus on safe practices in both our personal and business lives. Our thought is that in order to work through this successfully we will have to be cautious, sensible and continue to adjust so we can benefit from the vaccines and medicines - permanent solutions - which appear to be developing.

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INVESTMENT MANAGEMENT

THE MARKET SCOREBOARD

Indexes	% Return YTD 2020	% Return Q2 2020	% Return Q1 2020
NASDAQ Composite	12.11	30.63	-14.18
Wilshire 5000	-3.82	22.13	-21.25
Dow Jones Industrial Average	-9.55	17.77	-23.20
S&P 500 Total Return	-10.77	21.73	-26.70
NYSE Composite	-14.51	15.45	-25.96

The past quarter was a historical reversal quarter. The S&P 500 index had its best quarter since Q4 of 1998. As can be seen in our indexes table, the major U.S. stock indices all enjoyed a strong rebound and substantial gains in the second quarter with the tech-heavy NASDAQ

notably outperforming all other indices. This is due to the NASDAQ's focus on technology companies and its composition as a "market-cap" weighted index. Large-cap tech companies are viewed by investors as the longer-term beneficiaries from changing work habits and shopping trends in response to the pandemic, specifically remote "work from home," cloud computing and online shopping.

By market capitalization, small-caps outperformed large caps in the second quarter, and that is what we'd expect given that the market rally of the past three months was partially driven by a sooner-than-expected economic rebound, as small-caps are historically more sensitive to changes in economic growth compared to large caps. From an investment style standpoint, growth substantially outperformed value, yet again, because of strength in large-cap tech and a focus among investors to reward companies who they believe can return to revenue and earnings growth sooner than others; despite COVID-19. This broadly translates to healthcare, software, communications technology, internet, and online shopping; areas we have been invested in.

On a sector level, performance was again the opposite of the first quarter, as all eleven S&P 500 sectors finished the second quarter with positive returns. Energy, the worst performing sector in the first quarter, was the best performing sector in the second quarter, thanks to a significant rebound in oil prices and growing expectations for a global economic recovery.

The past two quarters were certainly dramatic mirrors of each other. In the first quarter, gripped by the COVID-19 virus, the markets fell from an all-time high in 33 days into a 34% decline which was without historical precedent. This decline was then followed in this quarter, Q2, by an increasing market which had within it the best 50 days in history of returns for the American equity markets. So Q1 was an unprecedented historical decline from an all-time high. From that despair has come a historical rise. What is interesting is that strong momentum like we have been experiencing often leads to further additional price gains. Ned Davis Research in a July 2020 research piece studied S&P 500 Index returns after a single-quarter performance of 15% or greater. The market's performance was generally positive in future quarters for up to 2 years; with the depression years of the 1930s being the exception. Their conclusion was that unless the economy is sinking into another depression, the strong momentum reversal in Q2 is bullish.

STOCK MARKET OBSERVATIONS

In our last letter we mentioned the Wall Street saying: “Don’t Fight the Tape” and postulated that at that time, with the strong market since the quarter end on March 31 that the market’s performance begged the question: “So what about now?” We discussed at that time a Ned Davis Research piece which asked the question: “Does the historic rally eliminate the need for a retest?” which we felt should be answered with a simple straight forward answer of No.

We still feel this way.

We said: “Based on our experience, the strength which we have had off the lows does not eliminate the need for or eliminate the likelihood of a correction during the next several months which would go back and test the lows.” Yet, here we are today with the NASDAQ having spiked to new highs, the Dow 10% from its former high and the S&P 500 at around 5% from its former high; after having an “only” almost 10% price correction which lasted several days during the second week of June. Hardly a test of the lows. So, again, what about now? Could it be as the Ned Davis Research summarized ... “the bigger the retracement, the less severe the retest?” Perhaps, yet here again, the number of down calendar days was so brief and the % decline so modest compared to the March decline that what we experienced would be an “outlier;” the example most different from the past.

We still feel that though there is a historical market precedent for bigger retracement rallies to be followed by milder retests we should expect more of a retest of the lows. This would be expected, would be normal, and would be part of a long-term bottom process.

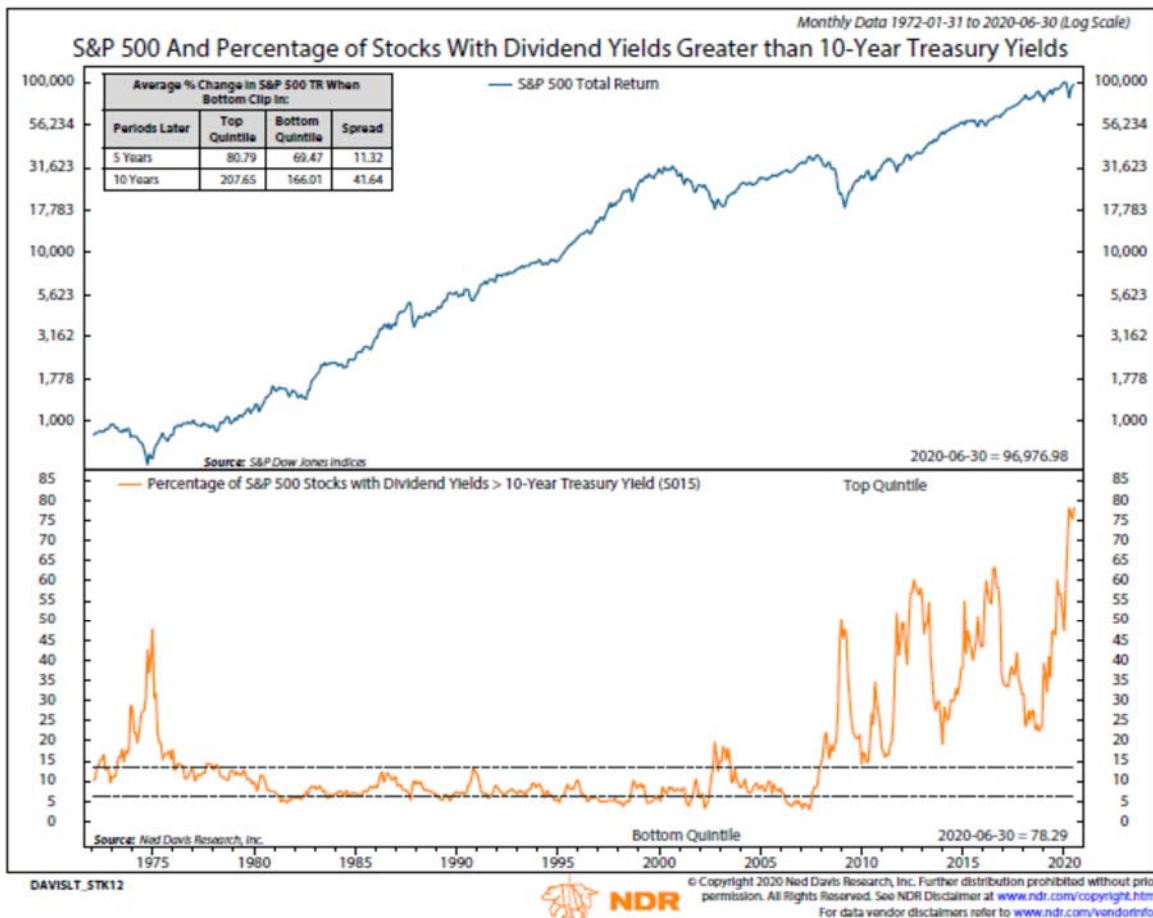
So again, “So what about now?” and more importantly, “How do you manage through this?” Two very important questions.

By the end of May, all 50 states had at least partially reopened their economies which has led to a stronger-than-expected partial immediate economic recovery. From a positive point of view, the markets have clearly been supported by economic stimulus from both the Federal government, via unemployment checks and “PPP loans” to businesses, and, importantly, the Federal Reserve, via continued low interest rates and bond purchases. We feel the answer to the strong rally of the indices, a development that seemed almost impossible during the depths of the March declines, lies in this intervention. It gives credence to the Wall Street adage: “Don’t Fight the Fed”. Interest rates and freer money do matter!

The Fed in recent FOMC decisions and statements has met expectations, as they provided no surprises and reiterated that the Fed remains essentially “all in” on supporting the economy and asset prices. The Fed in its comments, interviews and statements has acknowledged an uptick in economic activity over the past few months (since April), but at the same time clarified that activity remains well below pre-coronavirus levels. The Fed also explicitly stated that the path of the economic recovery now is very dependent on what happens with the virus. Fed Chairman Powell has said the Fed remains committed to doing

whatever it takes to support the economy (and asset prices) and they are not out of bullets (which they aren't). So positive continued comments, action, and leadership from the Fed has been at the foundation of this. As investment managers and as investors we should be skeptical, but not negative; just attentive and concerned as there is still much more work to do and no "silver bullets". Increased volatility in the markets from time to time is likely to be part of future quarters.

This is a very unique time for investors. Some of the negative realities we face are massive political unrest, an extremely divided and ineffective elected leadership, the uncertainty of the upcoming elections, the need to appropriately provide more stimulus to portions of our economy and, of course, far from resolved COVID-19 issues and questions. A more positive reality is that interest rates are at essentially zero and likely to remain there for some time. The Fed Chairman has said that the aggressive Fed policy will continue until the economic goals are met which include full employment and 2% inflation. We are in a very unique environment which can continue for a long time where you can get economic growth in some sectors of the economy with little fear of higher rates. This makes for a very attractive environment for some equities. An environment, for example, where today 78% of the S&P 500 stocks which do pay a dividend have a yield greater than the yield of the 10-year Treasury Bond. The opportunity to invest in high quality dividend paying companies versus bonds is, despite the increase in stock prices, at an attractive extreme today.

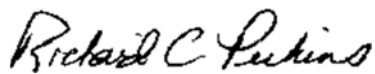


We see the current environment as a time which calls for active management. This continues to be a “stock pickers market”. Despite the averages being at highs, the reality is that the returns on individual stocks right now are very split with half of company returns being up and half being down; though you would not know it by the averages. There are sectors of stocks which will continue to be tested like the airlines, the oil patch, restaurants, cruise ship operators, and conventional retail. There are sectors like healthcare which can learn to operate in a COVID-19 environment. We like diagnostic companies, software companies, communications technology, internet, and online shopping companies who are positive beneficiaries of the current changes and where we like to invest for growth. For investors who desire current income there is tremendous investment opportunity in high quality dividend paying companies; but here too active management is required.

HOUSEKEEPING

Enclosed with this mailing is our quarterly report to you and a copy of the SEC’s new Form CRS. As always, if you have any questions about your investment accounts or any of the specific investments in them, please give us a call. Or call in and schedule a time for a review or to talk.

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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OLE AND LENA LAUGHS

Each Friday night after work, Ole would fire up his outdoor grill on the shore of Green Lake and cook a venison steak. But all of Ole's neighbors were Catholic, and since it was Lent, they were forbidden from eating meat on Friday. The delicious aroma from the grilled venison steaks wafted over Spicer all the way to Willmar, and was causing such a problem for the Catholic faithful that they finally talked to their priest. The priest came to visit Ole and suggested that he become a Catholic.

After several classes and much study, Ole attended mass and as the priest sprinkled holy water over him, he said, "You were born a Lutheran, and raised a Lutheran, but now you are a Catholic."

Ole's neighbors were relieved, until Friday night arrived, and there was a wonderful aroma of grilled venison filling the neighborhood. The priest was called immediately by the neighbors, and as he rushed into Ole's yard, clutching a rosary and prepared to scold him, he stopped and watched in amazement. There stood Ole, clutching a small bottle of holy water which he carefully sprinkled over the grilling meat and chanted: "You vuz born a deer, you vuz raised a deer, but now you is a walleye."

Sven was checking in at the doctor's office and was asked to fill out a registration form. He was surprised to see that after his address the form inquired about his zip.

He promptly wrote, "not bad fer my age!"

Pastor Ole and Pastor Sven passed away and, of course, went to Heaven. They were greeted by St. Peter. "Your condos are not quite ready," he said. "So, until they are finished, I have arranged for you to return to earth as anything you would like to be." "Vunderful! said Pastor Ole. "I've always wanted tew be an eagle soaring over da Grand Canyon." "Your wish is granted, Ole," said St. Peter. "And now, what would you like to be Pastor Sven?" "Vell, said Pastor Sven. "I've always wanted tew be a real cool stud." "Your wish is granted, Sven," said St. Peter.

Finally, the condos were finished and St. Peter asked his assistant to bring back the two ministers. "How will I find them, Sir?" asked the assistant. "One is soaring as an eagle, over the Grand Canyon," said St. Peter. "The other one may be hard to locate. He's someplace in North Dakota on a snow tire."

Ole and Lena went to the Town Hall to apply for a marriage license. After all the papers were filled out, the clerk said, "This license is good for thirty days." "Oh no, yew don't vunderstand," said the nervous Ole. "Ve vant vun dat's 'till death dew us part."

Ole and Sven got hungry while they were out walking their dogs and decided to stop in the local café for a bite to eat. "Vell, ve can't dew that," said Ole. "Dey von't let dogs in dere." "Oh, don't vorry," said Sven as he walked thru the door. "Yust follow my lead."

"You can't bring that Doberman in here." Said the Proprieter. "Vell, sir, I am blind and dis is my seeing eye dog." said Sven. "Oh, come right in my friend," said the proprieter. Good trick thought Ole, so he walked in with his dog. "Hey, you can't bring that Pekinese in here!" yelled the proprieter. "Vat! Exclaimed Ole. "Dey sold me a Pekinese!"

BULLETIN BLOOPERS

Lena is always saving things. She saved the following Bulletin Bloopers from Norwegian church bulletins:

Dis afternoon dere vill be a meeting in da sout and nort ends of da church. Children vill be baptized at bot ends.

Tuesday at 4 p.m. dere vill be an ice cream social. All ladies giving milk, please come early.

Vednesday, da Ladies Liturgy Society vill meet. Mrs. Yonson vill sing, "Put Me in My Little Bed" accompanied by da pastor.

Tursday dere vill be a meeting of da Little Mudders Club. All dose vishing tew be little mudders, please meet da minister in his study.

Dis being Easter Sunday, ve vill ask Mrs. Peterson tew come forward and lay an egg on da alter.

Sunday a special collection vill be taken to defray da expense of da new carpet. All dose vishing tew dew something on da carpet, please come forward and get a piece of paper.

Da rosebud on da alter dis morning is tew announce da birth of Olaf Olson, da sin of Rev. and Mrs. Lars Olson.

The pastor vill preach his farewell message, after vich the choir vill sing, "Break Forth into Joy."

Tventy-tew members vere present at da church meeting held at da home of Mrs. Lena Olson last evening. Mrs. Olson and Mrs. Larson sang a duet, *Da Lord Knows Why*.