

October 29, 2020

Dear PCM Clients and Friends:

We hope this letter continues to find you, your family, and loved ones safe and healthy during these still unprecedented times we are going through together.

We are almost through 2020 and it will be remembered as a very significant year. A year which continues to be unusual despite our efforts to return to our normal lives. This has clearly been one of the most unpredictable years in memory.

We recently came across a January 29, 2020 economic one pager report by an economist, Brian Wesbury, whose work we have read and respected for years entitled "*Quiet Year Ahead.*" Its first sentence started with: "The first Federal Reserve statement of the new decade proved one of the most uneventful in years." Then it went on to comment that in response to a question related to the coronavirus Powell suggested that the Fed will continue to monitor impacts, but that the Fed was "cautiously optimistic."

It is from this point we started what has become 2020. Three dramatic issues have developed which still continue today and make 2020 feel like it is far from over.

These three issues, as we see them are: First, COVID 19 with its serious health, societal life style and economic effects. A vaccine is in sight, but there is still the issue of restarting our individual social and economic lives to overcome in 2021. Then came damaging social unrest which could sadly continue on and off until it is not accepted. Last, during the past three months the presidential election has moved front and center. Here too, though November 3 is a fixed date, the actual election day is not likely to be the end of the very strong political split and discourse. Each of these are not discussed in detail but rather as "big picture" dramatic issues which affect all of us and are being processed by each of us and by our country and society as a whole. We have all needed to absorb all of this. This has been 2020 and it is what will likely also define 2021.

The words of the existentialist philosopher, Soren Kierkegaard, can perhaps help us as we journey on through all of this:

"Life can only be understood backwards; but it must be lived forwards."

Everyone here at PCM and our families are fine. We continue to work for you with few changes and have continued to manage – "live forward" – through these events.

THE MARKET SCOREBOARD

This past quarter US stocks turned in a second consecutive quarter of strong positive gains which built upon the second quarter's historic V-shaped price recovery. A recovery which very few predicted during the depths of the March COVID related downturn. These two quarters together resulted in the best two-quarter US stock return since 2009! Within these two quarters on February 19 the broad equity market made a new all-time high at 3,386 in the S&P 500 index and then six months later on August 18 recorded a new 3-point higher high at 3,389. Sounds like nothing much happened in between. We all know different!

After the novel coronavirus emerged and the US economy locked down, there was an epic economic decline which resulted in as far and as fast of a decline as the Great Depression. Then on March 23 the Federal Reserve took the historic step of announcing that there would be essentially no dollar limit on its willingness and ability to support the US economy. In retrospect, it turned out that within hours of the Fed's announcement, this sharp two quarter recovery began. It resulted in the best 50-day advance of all time, the best 100 market days since 1933, and new highs in the markets. We and others discussed the Fed's policies as historic at the time. We felt it was important. We described it as clear and credible; yet, we do not think that we and others clearly understood the depth of the Fed's commitment and its ultimate effect which was a strong V-shaped recovery in the markets.

Indexes	% Return YTD 2020	% Return Q3 2020	% Return Q2 2020	% Return Q1 2020
NASDAQ Composite	24.46	11.02	30.63	-14.18
S&P 500 Total Return	5.57	8.93	20.54	-19.60
Wilshire 5000	4.85	9.01	22.13	-21.25
Dow Jones Industrial Average	-2.65	7.63	17.77	-23.20
NYSE Composite	-8.71	6.79	15.45	-25.96

The most impressive recovery came in the tech-heavy NASDAQ Composite which overshadowed other indices and through September was up from its lows by 45%. That was also its strongest reading since 2009 and the eighth time since 1971 that the NASDAQ saw a six-month gain of over 40%. This performance was driven by technology companies whose innovations were perceived to be needed in the forced changing of business practices in a COVID and post-COVID world. Many of these tech companies serve the workplace with disruptive digital innovations which investors believed would be adopted more rapidly as companies adapted. Also, during the quarter healthcare companies, as an industry, re-opened and began to show they could operate in a COVID environment. Overall, 10 of the 11 S&P industry sectors finished with a positive return for the third quarter. The only sector to finish with a negative return in the quarter was energy as investors continued to worry about future global demand for still elevated supplies of oil.

There is an old Wall Street saying, an axiom, which is “Sell in May and go away.” There are different variations of the adage but in its general form it is to stay out of the markets during the summer months and until after Halloween. This year the old adage did not work; as it does not in many years. The market continued straight up off its March lows through the months of May and June, then into a busy summer during July and August. It was not until September when concern and anxiety over what *The Economist* described as: “A Dangerous Gap: The markets vs the real economy” developed. Was the market ahead of companies’ actual ability to operate and recover? Would there be another round of stimulus? Would there really be a vaccine? And when? What about the elections? Was a COVID-19 rebound from the opening of the economy going to result in another shutdown?

In the first few days of September, the tech rally off the lows became exhausted, the NASDAQ peaked and it and other indices began a correction which would last for most of the month of September, bring the 3rd quarter-end returns lower than at the August peaks.

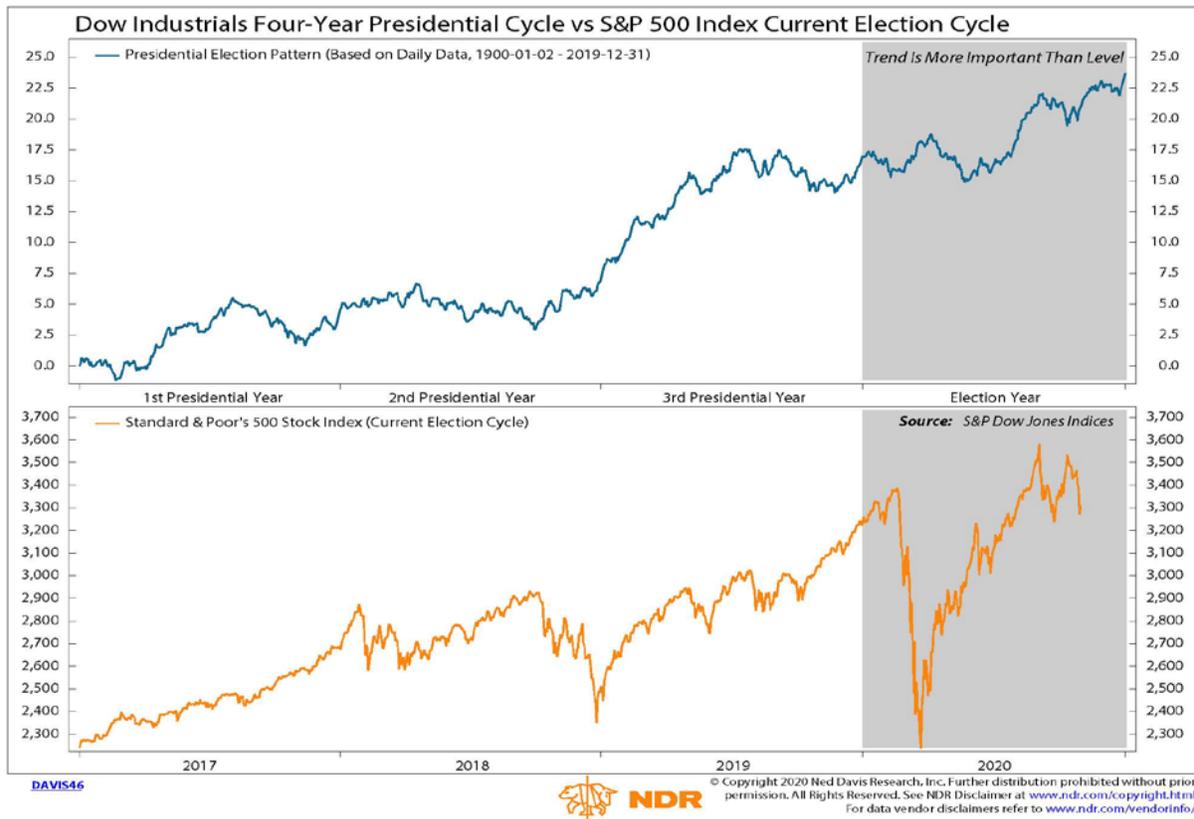
STOCK MARKET OBSERVATIONS

As we close 2020 we think it is important to address three issues as our stock market observations:

- The Four-Year Presidential Cycle.
- Three factors which we want to highlight as “important” which could materially affect the market over the next several quarters.
- The long-term trend of equity investment returns.

In our letters we have often highlighted index, market cycle, and other investment related charts from Ned Davis Research whose work we respect very much. In our January 30, 2020 letter we mentioned a piece by Ned Davis Research entitled: “Presidential Cycle Choppy into mid-2020”. What this piece highlighted and we reviewed in our January letter is that typically during an election year, the market moves sideways with ups and downs into the summer due to the uncertainty of the election. Typically, once the market begins to “see” less election risk it can begin to move up into the elections. This year, with COVID and an election which is extremely emotional and “going to the wire,” was certainly not typical. What we feel is important to highlight is this. Once a president is elected the markets quite often, or rather, should, enter into a “honeymoon” period which can last well into midyear of the 1st Presidential year. The argument against this is that this year would be different since it has been a controversial election; yet, cycles do normally repeat their form, despite people believing “it’s different this time.” Has the strength of the market until recently been telling us that despite the emotionality of this election and all the controversy that once the election uncertainty is resolved that we will adjust and go forward? Put another way, perhaps matters other than who is the President have greater long-term importance. Since “a picture is worth a thousand words” we are including an up-to-date version of the Ned Davis Four-Year Presidential Cycle which on top shows what the cycle was projected to be during the past

four years (2017 – 2020) and on the bottom what the actual cycle of the Dow Jones Industrials were.



It is interesting to see the abrupt COVID selloff and recovery. We think it also shows that the past four years, without the extraordinary COVID situation in the beginning of this year, have more or less followed the typical cyclical pattern of a slightly up market during the first year or so of a new president, then a sideways market, with a stronger market during the third and fourth years of the presidency. We will go into this and more cycles in greater detail in our January 2021 letter. We should have much more clarity at that time on a number of issues.

The three issues we want to highlight which we feel are considered necessary by the market today to have a successful economic recovery from COVID, are an effective vaccine, continuing support from the Fed and, whether actually needed or not, an additional stimulus package.

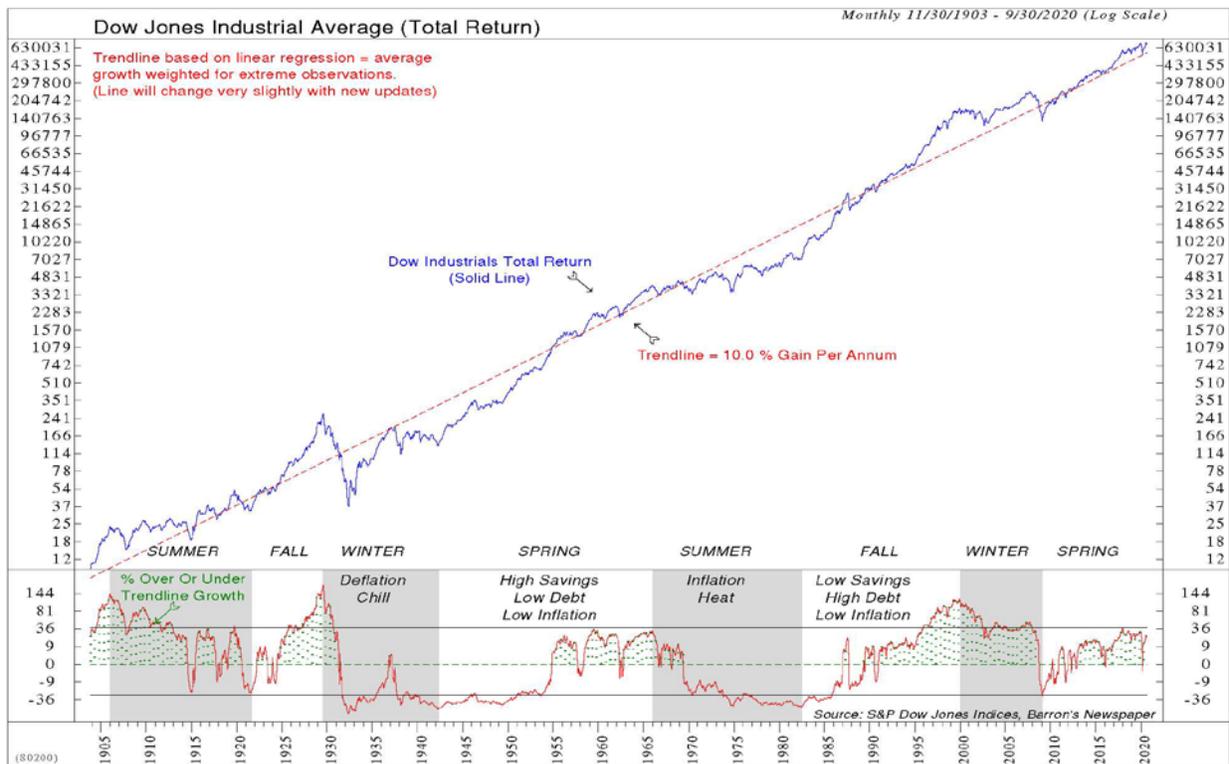
The quest for a vaccine has been moving forward incredibly fast and everything which we read suggests that Operation Warp Speed will succeed. This could well be the current generation's Manhattan Project. We believe we will see the results over the next six months as multiple companies come forward with vaccines. We believe the ultimate success of this

is built into the market and that if the vaccine is not particularly effective then the market's outlook for recovery and growth will deteriorate.

Thanks to unprecedented actions taken by the Fed we have historically low interest rates. They have recently affirmed their incredibly strong support and stated that we should expect to see interest rates at these extremely low, almost zero, levels through at least 2023.

The last issue is the issue of additional stimulus. Frankly, it seems as if it may not be needed; except, of course, to the many small businesses and people who really do need it. Earlier in the pandemic Fed Chairman Powell addressed this in an interview where he clearly stated that he felt that the greatest risk to our economy was what he described as "unnecessary bankruptcies" by businesses and individuals who have immediate liquidity issues rather than persistent solvency issues. The immediate Federal stimulus packages put many of these potential issues on hold. Although it appears most of our economy does not need further stimulus, we believe there is an expectation in the markets that there will be more appropriate stimulus. We believe that regardless of the election results, there is a call for more Federal fiscal stimulus. The concern is that an election which is contested and mired in lawsuits like the Bush vs Gore situation would not resolve itself quickly and could have the unintended consequence of delaying any stimulus. Another what if. There have certainly been plenty of these so far in 2020 and there will be more to come and resolve.

Lastly, in times like we are in now, it is important to "pinch" ourselves from time to time to remind ourselves that we have been through crises before and that in time crises can be



resolved. We have from time to time included the Ned Davis chart (shown on the previous page) which shows the Dow Jones Industrial Average over the past 115 years and what the long-term linear regression or average growth of the Dow Jones Index has been over all these years, which is 10%. In this chart the scale is not the level of the Dow, but rather the total cumulative percentage return since the beginning. We can see the ups and downs against the trend line with “the market” sometimes being above the trend line and sometimes below. This is reflected in the bottom box, which shows the averages distance above and below the trendline as it cycles around the Dow Jones average. Lots of ups and downs along the way.

We at PCM and most of us as investors have lived through these ups and downs. As tough and concerning as the ups and downs are, have been, and will continue to be; they have worked out and have turned into positive increasing growth over time, as seen in the chart. There is nothing we have seen or heard so far in 2020 which would make us think this time is any different. We continue to see the current environment as a time which calls for active management. There are sectors we are invested in like healthcare companies who appear to be learning to operate in this COVID-19 era and have plenty of opportunity ahead. For investors who desire current income and less volatility there continues to be more opportunity in high quality dividend paying companies than fixed income investments; but here too in our opinion active management is required.

MINNESOTA COOKIE INDICATOR HAS CALLED THE US ELECTION

This year our country’s voter’s opinions on the US elections are very heated and extremely emotional with a near equal split in a presidential race where each side is predicting that, though close, their candidate will prevail; but not in Red Wing, Minnesota, where cookies make a clear election prediction. In Red Wing, a lovely historic town on the Mississippi River south of the Twin Cities a very interesting indicator for predicting the US presidential election has had a perfect record of predicting the presidential election since 1984. It’s the Hanisch Bakery Cookie Poll.

In early October we decided to take a drive to enjoy the fall leaf colors down along “the river



road,” which follows the Mississippi from Red Wing south to Lake City then to Winona and La Crosse. It was an absolutely beautiful perfect fall Minnesota day with the fall colors on full display. Along the way we stopped at the Hanisch Bakery to buy our cookie and “place our vote”. They were busy with a line of 10 - 12 people outside as we waited our turn to enter with masks on. Every four years the bakery and coffee shop has baked cookies to celebrate the elections and has hosted a Presidential Cookie Poll.

Each cookie is freshly baked and frosted in a buttercream frosting which uses 18 pounds of butter in each batch. After the cookies are baked and frosted with the white buttercream frosting, they are topped with a red republican or a blue democrat frosting flag which has a candidate's name scrawled on top of the flag in white frosting. All lined up in the bakery case they look and are incredibly tasty.

The purchase of one cookie counts as one "vote." As you purchase your cookie the sales clerk's hand-tally the cookies as they are sold, right in front of you. The votes are tallied and this ballot box, or bag, is "stuffed" right out in the open. It was a fun experience.

Who does the poll predict? Well, after visiting the bakery I know who the real winner is. It clearly was the donuts!! My independent observer status count was that the donuts were outselling the poll cookies by a margin of at least 10 to 1. The donuts were the clear winner at the bakery by a wide margin!

As to the election, The Hanisch Bakery Cookie Poll, which has a 36-year 9 election streak of correctly calling the election, says it's Trump over Biden by a wide margin of cookies. Two weekends ago the poll was Trump with 9,310 cookies to Biden's 2,621 cookies.



During the past two weeks 2,495 more cookies have been sold with Trump keeping his lead by 11,143 cookies to Biden's 3,273. At this time the cookie sales favor Trump.

REMEMBERING MR. BOJANGLES

It is well known that we at PCM are Jerry Jeff Walker fans (Perk especially was). This past week Jerry Jeff, who was a mainstay performer of the Texas outlaw movement which from Austin, Texas catapulted singers like Willie Nelson and Waylon Jennings to fame, passed.

Perk and Jerry Jeff's fans enjoyed his unpretentious style and his great ability as a story teller. His ballad "Mr. Bojangles" was first recorded by Jerry Jeff in 1968 and was followed by many memorable songs including Getting' By, Up Against the Wall Redneck Mother, Railroad Lady, Trashy Women and Rodeo Wind. We still remember Jerry Jeff as he performed these songs and more at Perk's 70th birthday party at the old Rupert's - Metropolitan Club and again at Perk's 75th birthday party at the Dakota, and over the years at his many annual performances at the Minnesota Zoo and the Medina Ballroom.

In our April 18, 2018 client letter there was a MESSAGE FROM PERK which we have excerpted and included much of here in this letter because we think the message was thoughtful and clear: “If there is an activity you love, do it while you can.”

A MESSAGE FROM PERK

While thinking about a message this quarter, I came up with a totally common thought. 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 I say while



the entertainer can perform. 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. 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 20th 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. 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; as is the picture of father and son performing together.

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.

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*

We think this cartoon speaks to how many people feel about this year's presidential election.

Sincerely,

Richard C Perkins

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

Daniel S Perkins

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

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PRESIDENTIAL TIDBITS

Standing roughly 5'4" and weighing a mere 100 pounds, James Madison was our smallest president. The tallest, Abraham Lincoln, was about a foot taller, at 6'4."

On the day of Abraham Lincoln's second inauguration, Vice President-elect Andrew Johnson felt sick. Trying to steady himself, he downed two shots of whiskey before making a short speech. He then rambled incoherently for 15 minutes. The combination of his nausea and the liquor made his first day as second-in-command one he, and the nation, would not soon forget.

Andrew Johnson never had a day of formal schooling in his life.

Large-bodied William Howard Taft once became stuck in the White House bathtub. Sometime later a new, oversized model was installed for personal use.

James Polk was the first president to be photographed.

John Quincy Adams installed the first billiard table in the White House, an act much appreciated by many successors.

James Buchanan was the only president to remain a bachelor all his life. His niece, Harriet, acted as first lady throughout his term.

In 1886, 49-year-old Grover Cleveland became the first and only president to wed in the White House, when he married 21-year-old Frances Folsom.

No president divorced during their term in office.

Jimmy Carter was the first president to be born in a hospital.

Grover Cleveland left for a four-day fishing trip and had a secret surgery aboard a friend's yacht in Long Island Sound for the removal of a cancerous growth from his mouth. It was the beginning of his second term as president and the country was entering a depression, a delicate time in which a president's health was inextricably linked to that of the nation. So, Cleveland decided to keep the surgery a secret — and so it stayed for years.

Herbert Hoover kept a collection of 20,000 cartoons and caricatures of himself in a White House room he called his "chamber of horrors."

Donald Trump is the first president since 1901 to live in the White House without a dog.

A flock of sheep grazed the White House lawn during Woodrow Wilson's term. After America entered World War I, the sheep helped to save manpower by keeping the grass trimmed. Their wool was sold to raise money for the Red Cross.

Our first president, George Washington, selected the site for the White House in 1791. Every president since John Adams has occupied the White House.

Thomas Jefferson instituted the practice of shaking hands instead of bowing at White House receptions.

HYMN #365

A southern minister was completing a temperance sermon. With great emphasis he said, "If I had all the beer in the world, I'd take it and pour it into the river."

With even greater emphasis he said, "And if I had all the wine in the world, I'd take it and pour it into the river."

And then finally, he said, "And if I had all the whiskey in the world, I'd take it and pour it into the river." Sermon complete, he then sat down.

The chorus director stood up very cautiously and announced with a smile. "For our closing song let us sing Hymn #365, "Shall We Gather at the River."

51 DAYS

Ole, Sven and Nels went into a bar, they were high-fiving each other, shouting and generally having a celebration. "Line 'em up," Ole shouted as the party continued. They drank and carried on for hours. Finally, the bartender's curiosity got the better of him. "Just what are you guys celebrating?" he asked.

"51 days! Ve did it in just 51 days!" they responded.

"What did you do in 51 days?" he probed.

"Ve put the puzzle together," they replied. "just 51 days, and da box said 3-5 years!"

THE YOUNG PREACHER

A young preacher came upon Ole working in his field. Being concerned about Ole's soul, the preacher asked him, "Are you laboring in the vineyard of the Lord, my good man?" Not even looking at the preacher and continuing his work Ole replied, "Naw, dese are just soybeans."

"You don't understand," said the preacher. "Are you a Christian?" "Yew must be looking for Christen Fiskrud. He's gat a place a mile down da road." replied Ole. "You don't understand," said the preacher.

"Are you prepared for the resurrection?" the frustrated preacher asked. This caught Ole's attention and so he asked, "Vhen's it gonna be?" Thinking he had accomplished something the young preacher replied, "It could be today, tomorrow, or the next day." Taking a handkerchief from his back pocket and wiping his brow, Ole remarked, "Vell, don't tell Lena. She don't get out much, and she'll vanna go all t'ree days."

OLE AND THE STOCK BROKER

Ole went to see the stock broker. "Ole, these stocks will triple in three years." He said. "Vell, Sonny," snapped Ole, "I'm 92 years old! I von't even buy green bananas!"