PERKINS
CAPITAL
MANAGEMENT, INC.

February 18, 2021

Dear PCM Clients and Friends:

We are well into the start of the new year and Wow! What a start it has been in the markets!

We thought the year ended well and that the year-end monthly statements were good. Then came the surprise of an exceptionally strong market in January which has continued with abandon into February.

At the end of our October 2020 letter to you, we felt it was necessary to address the near-term importance of several issues to the markets. We have often highlighted in the past, the importance of the "Presidential Cycle" and the positive effect on the markets of removing election uncertainty. This was especially true with the extremely controversial and now past 2020 presidential election. The tone of our comments was clear. Removing the election uncertainty would start a "honeymoon" period for the new President (whomever it was) and a positive market environment. We should have been more emphatic and stronger than we were in our statement which was: "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." I think we and others knew that a resolution was important. Removing uncertainties in the fourth quarter – election, vaccine, and fiscal stimulus -- made the end of 2020 and now the beginning of 2021 into a surprisingly strong period for market returns.

For us here at PCM, the year begins during the second week in January when many medical companies will pre-release their past year's financial information during what has become a two-week plus period when companies meet with institutional investors to talk about the past year and present their plans for the future. In the past this has been part of the J. P. Morgan Healthcare Conference which is held each year in San Francisco and has now morphed into much more than a several-day event. It is now a multi-week period of importance for investors in medical companies to start the year considering their current and potential future investments in companies, large or small, in the medical industry. This year, of course, due to COVID-19 it was a period of many "zoom" presentations and a number of lengthy more detailed streamed "analyst day" corporate presentations. We spent much of January meeting remotely with companies or listening to their presentations. We are very fortunate to be investors for you, our clients, in a number of exceptional medical companies who clearly have very developed and, we believe, achievable plans to continue their significant growth. We learned quite a bit about these plans in January. Beyond the general statement that "MedTech" is a fertile investment territory, it is now clear that, though affected by COVID, many medical companies have learned how to operate in the COVID environment.

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INVESTMENT MANAGEMENT

THE MARKET SCOREBOARD

The fourth quarter started with investors facing substantial uncertainty across multiple fronts.

During the spirited election, President Trump contracted COVID-19 underscoring the prevalence of the virus. Then, after several months of relative stability in COVID-19 cases, infections began to rise rapidly across much of the United States as autumn set in. Congress and the White House were unable to come to a compromise on a new economic stimulus bill. The S&P 500 finished the month of October with modest losses.

But the first two weeks of November provided the clarity markets desired, and that paved the way for substantial gains in stocks over the next month. First, despite COVID-19, there was nationwide voting and the presidential election occurred. While there were multiple accusations of election fraud and numerous legal challenges brought by the Trump campaign, Joe Biden was soon widely accepted as the winner and President-elect.

Importantly, on Monday, November 9, less than a week after the election, Pfizer announced that its COVID-19 vaccine was more than 90% effective at preventing infection, which was substantially better than initial estimates. A week later, Moderna announced its COVID-19 vaccine was 95% effective at preventing infection. This double dose of positive medical news provided hope for investors that the end of the pandemic was coming; perhaps now only months away. This fueled a strong rally sending the S&P 500 toward new highs as shown in the table below:

Indexes	% Return YTD 2020	% Return Q4 2020	% Return Q3 2020	% Return Q2 2020	% Return Q1 2020
NASDAQ Composite	43.64	15.41	11.02	30.63	-14.18
Wilshire 5000	19.98	14.43	9.01	22.13	-21.25
S&P 500 Total Return	18.40	12.15	8.93	20.54	-19.60
Dow Jones Industrial Average	7.25	10.17	7.63	17.77	-23.20
NYSE Composite	4.40	14.35	6.79	15.45	-25.96

As we began December, the FDA approved the distribution of both the Pfizer and Moderna vaccines and this final promise of a vaccine reassured investors that the end of the pandemic was coming. Finally, just before the end of the year, Congress approved a $900 billion stimulus bill that would help support the economy as it continues to recover from the pandemic. That news helped the S&P 500 hit a new all-time high just before yearend.

Despite the COVID-19 pandemic the markets ended a volatile year on a historic high note, as federal economic stimulus, record-breaking vaccine development, continued Federal Reserve support, and an incredibly resilient corporate America helped to more than offset the worst global pandemic in more than a century.

STOCK MARKET OBSERVATIONS

As we start 2021, we think several of our stock market observations from 2020 will continue to impact the broad markets' behavior during the rest of this year. These four observations are:

- The market's dramatic recovery from the pandemic panic lows.
- The three factors which we feel were and still are "important" and could materially affect the market over the next several quarters.
- The Four-Year Presidential Cycle.
- The long-term trend of equity investment returns.

In the market scoreboard section of our July 29, 2020 client letter, we discussed how the second quarter of 2020 was a historical reversal quarter with the S&P 500 having its best quarter since Q4 of 1998 as it rebounded. This made the 2020 second quarter a <u>dramatic</u> mirror of the first quarter which was gripped by the fear of COVID-19 and had an unprecedented decline of 34% in 33 days. Within the second quarter of 2020, the American equity markets had their best 50 days of returns within a quarter ever in history ending with a 21.73% return.

Strong up markets are referred to as "breadth thrusts." This strong market strength has continued. In our July letter we wrote: "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." Although the rate of change may not be sustainable and there will be rests and corrections along the way, the strength of the market, its breadth and strength following the COVID panic, suggest potential for additional market strength in coming quarters.

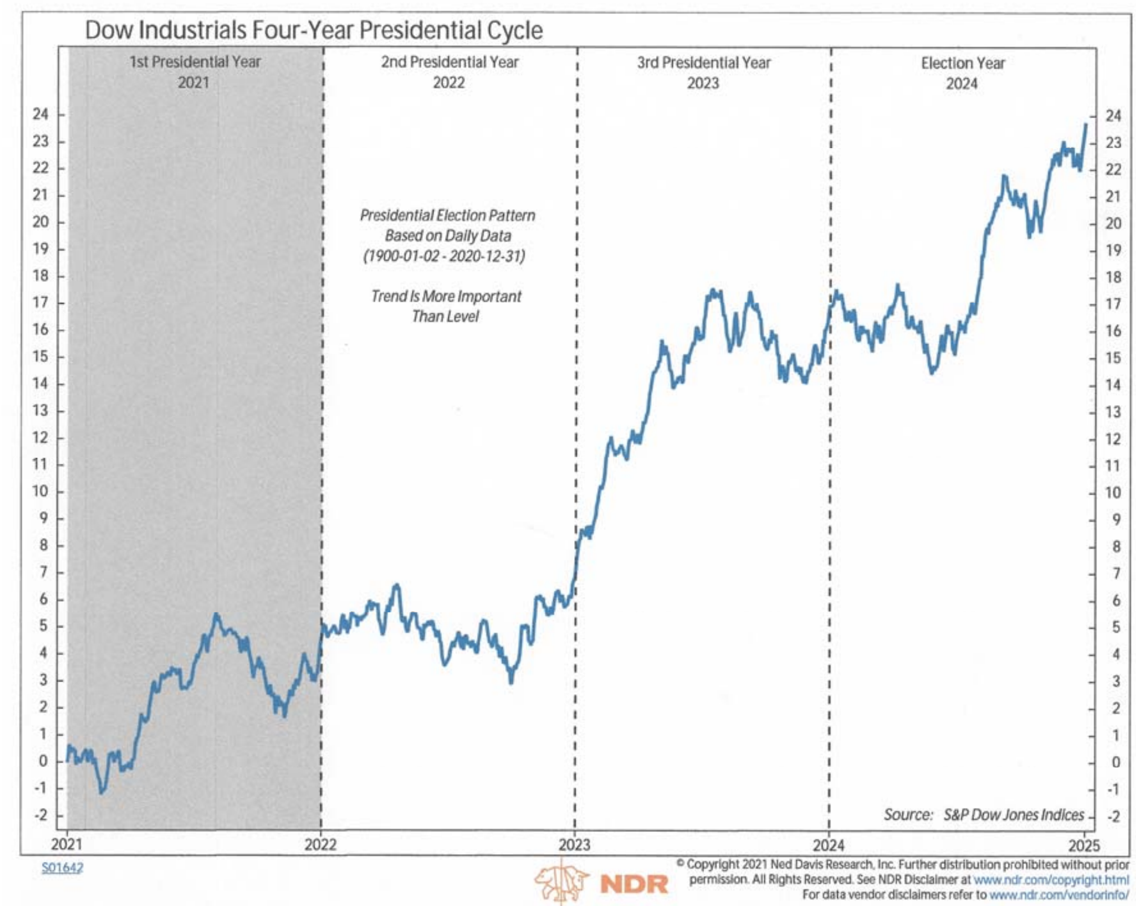
A quote by the successful investor and founder of *Investor's Business Daily*, William O'Neil, speaks to this: "It is one of the great paradoxes of the stock market that what seems too high usually goes higher, and what seems too low usually goes lower."

The breadth and trend of the markets continue and have been impressive. Strength is usually followed by further strength.

Our second observation was the Federal government's response to the COVID-19 crisis has been unprecedented and was absolutely critical in 2020. This unprecedented response in the three areas of vaccine success, Fed monetary support, and fiscal stimulus needs to continue in 2021. The November 2020 approval of the first vaccines gave us hope that with time the pandemic can be managed. Continued support from the Federal Reserve has been affirmed at each of their meetings, speeches, and Fed Chairman Powell's interviews. The

"Fed" continues to be "all in." We also have the appointment of Treasury Secretary Yellen who also adds comfort. The critical underpinning of solid monetary support will continue into 2021 and beyond. It is our feeling that additional stimulus is not needed for many sectors of the economy; yet, more is advocated by the Biden administration. We are in the early beginning stages of a business recovery from COVID-19 with more recovery to come. The outlook for corporate earnings in 2021 is positive. Economic forecasts have been consistently too pessimistic. The economy has rebounded from record low levels. In 2021 GDP growth is now projected at 4.6%. We do not feel that additional stimulus is a critical expectation by the markets at this time.

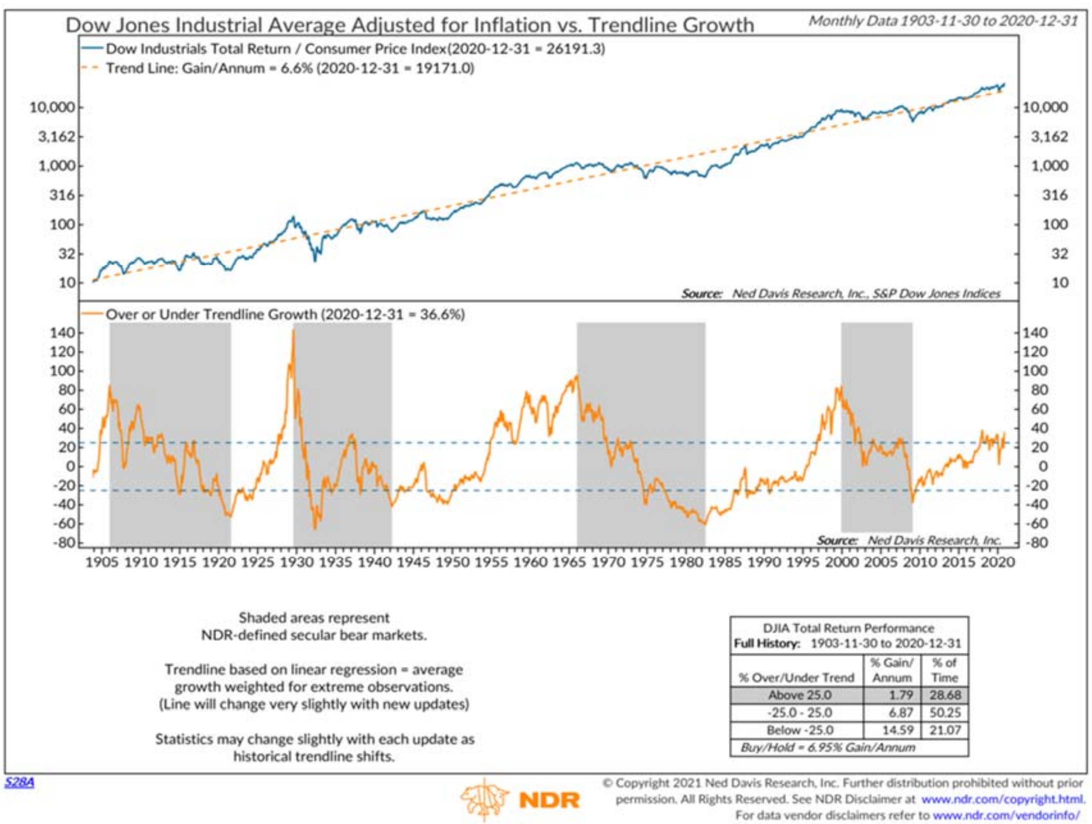
We have often included graphs of the important cycle work of *Ned Davis Research* in our quarterly letters. In October 2020 we included the graph of the Dow Industrials Four-Year Presidential Cycle which covered the four-year period of the last presidency from 2017 through 2020. That was retrospective. It was generally accurate in form and trend except for the pandemic crisis of Q1 2020. Below we include a prospective chart of the Dow Industrial Four-Year Presidential Cycle looking at potential trends in the markets over the next four years. It predicts a continuation of the "honeymoon" with normal ups and downs past summer and into early fall, a usual fall correction, and then the normal seasonally strong market from yearend into the spring of 2022.



Looking forward as long-term investors, it is always important to remind ourselves of the long-term trend of equity investing. Last quarter we included a Total Return graph for the Dow Jones Industrial Average which showed its trendline growth of 10% per annum over the 125 years since 1905. This quarter the markets are again at highs with the popular press saying the markets are too high or overvalued. We think it is instructive to study and comment on both the top and the bottom sections of the chart of the Dow Jones Industrial Average Adjusted for Inflation vs Trendline Growth which we include below.

Despite ups and downs, the trend is clearly up. The bottom section is an oscillator around zero which shows the market above or below its trend. At yearend, the market was above its trendline but not seriously above trendline as in early 1900, 1930, the mid-1960s and 2000.

The trendline growth after adjusting for inflation is 6.6%. This long-term growth greater than inflation compares favorably to the zero current returns of fixed income investors vs inflation. Equities are not overvalued when compared to interest rates and fixed income yields. At this time, 65% of S&P 500 stocks have a dividend yield greater than the 10-year treasury yield. We want to remind conservative investors that this is a fertile time to invest in high yielding conservative equities.



We think the cartoon speaks not only as it is labeled to "Economic Perspectives," but also speaks to the division of opinion which continues on many of our society's issues. Rather than "Half full." or "Half empty." and "What Glass?" the wording in the cartoon's captions could be: "Fix the problem this way." or "No, that's totally wrong, fix the problem in an opposite way." or "What problem?" We think the current environment of strong opinions and discourse will likely continue well into 2021 and beyond with much more energy and enthusiasm than the philosophical characters in the cartoon.

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 ask to schedule a time for a more formal review or to have a longer updating talk at a specific time.

We close this letter with the hope that you continue to be safe and healthy during these still-unprecedented times.

Sincerely,

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

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

RCP:DSP/jah

FALLEN

An old priest got sick of everyone in his parish seeking forgiveness during confessional. During one Sunday's sermon he told them, “If one more person confesses adultery, I'll quit!”

Since everyone liked him, they decided to use a code word: “fallen.” From then on, anyone who had committed adultery said they had “fallen.” This satisfied the old priest and the parishioners, and everything was fine for years, until the old priest passed away.

Shortly after the new young priest settled in, he paid a call to the mayor. The priest was quite concerned. “You have to do something about the sidewalks in this town, Mayor. You can't believe how many people come into the confessional talking about having fallen!”

The mayor started to laugh, realizing that no one had explained their code word to the new priest. But before the mayor could explain, the priest shook his finger at the mayor and said,

“I don't know why you're laughing; your wife fell three times last week.”

ONE PLEASE

The children were lined up in the cafeteria of a Catholic elementary school for lunch. At the head of the table was a large pile of apples. The nun made a note, and posted on the apple tray: "Take only one. God is watching." Moving further along the lunch line, at the other end of the table was a large pile of chocolate chip cookies. A child had written a note,

"Take all you want. God is watching the apples."

DON’T SELL THAT COW

The 98-year-old Mother Superior from Ireland was dying. The nuns gathered around her bed trying to make her last journey comfortable. They gave her some warm milk to drink but she refused.

Then one of the nuns took the glass back to the kitchen. Remembering a bottle of Irish whiskey received as a gift the previous Christmas, she poured a generous amount into the warm milk. Back at Mother Superior’s bed, she held the glass to her lips. Mother drank a little, then a little more and before they knew it, she had drank the whole glass down to the last drop.

“Mother,” the nuns asked with earnest, “please give us some wisdom before you die.”

Mother Superior raised herself up in bed and with a pious look on her face said, “Don’t sell that cow.”

NOT SO BRILLIANT

The doctor, lawyer, priest, and a young student found themselves together on a small plane with engine trouble. As the plane started to go down, the pilot pulled a parachute, telling the others to jump, and he bailed out. Unfortunately, only three parachutes remained.

The doctor grabbed one, explaining as he bailed out, “I save lives so I must live.” The lawyer did the same thing, saying, “I’m such a brilliant attorney, I also deserve to live.”

The priest said to the young student, “Take the last chute, your whole life is ahead of you, you go.”

“Not to worry, Father,” said the student. “Mr. Brilliant just jumped out with my backpack.”

TEAMWORK

“If you’ll make the toast and pour the juice, Sweetheart,” said the newlywed bride, “breakfast will be ready.” Good, what are we having for breakfast?” asked the new husband.

“Toast and juice,” she replied.

COINCIDENCE

A woman and a man are lying in bed next to each other when her phone rings. She picks it up and the man looks over at her and listens. She is speaking in a cheery voice, “Hi, I’m so glad you called. Really? That’s wonderful. I’m so happy for you. That sounds terrific. Great! Thanks. Okay. Bye-bye.”

She hangs up, and the man asks, “Who was that?” “Oh,” she replies, “that was my husband telling me about the great time he’s having on his golf trip with you.”

NEW SENIOR PICK UP LINE

An elderly gentleman walks into an upscale cocktail lounge. He is in his mid-eighties, very well-dressed, hair well-groomed, great looking suit, flower in his lapel and smelling slightly of an expensive aftershave. He presents a very nice image.

Seated at the bar is a classy looking lady in her mid-seventies. The sharp old gentleman walks over and sits alongside her. He orders a drink and takes a sip. He slowly turns to the lady and says:

"So, tell me ... do I come here often?"