



By TONY CARIDEO

# Baby Bulls

PERKINS CAPITAL MANAGEMENT BUYS MINNESOTA'S SMALL AND MICROCAP STOCKS.

**A**ll politics are local, as the saying goes. Something similar could be said of President and CIO Dick Perkins, Sr., and his crew at Wayzata-based Perkins Capital Management: All investing is local.

Perkins has been investing other peoples' money since the late 1950s, when he began managing money for American National Bank and Trust Company in Chicago. He eventually moved on to manage funds for the Mayo Foundation in Rochester and Standard Oil Company in Cleveland. At Piper Jaffray in the mid-1960s, he essentially founded the institutional research and sales department. "Perk," as many know him, built up the company's institutional sales effort during the next 18 years, before striking out to found his own firm in 1985.

Now with \$300 million under management—including \$30 million in two mutual funds and \$20 million in a limited partnership—Perkins concentrates his efforts in Minnesota, investing in small- and microcap stocks. His belief: Big things can come in small packages, and they can be found in your own back yard.

*You've plied the small-cap Minnesota market for the better part of 40 years, and it's been very good to you, but how about now?*

There are always opportunities, there always have been, there will always continue to be. We see at least as many opportunities today in the smaller stocks because they got cheaper over the last several years when the big stocks were becoming more expensive. There were times in the late '90s when our little stocks weren't doing well, but now we're absolutely rolling in clover.

*In any particular sector?*

No. We're bottom up, and if we manage to wind up in one sector, it's not purposeful, it just happened.

*Hasn't it been rather difficult to work at this market cap level lately? Returns on small stocks have been lagging the overall market, and it seems as though any rebound is being led by the top companies in any given sector.*

Steve Leuthold [head of the Leuthold Group in Minneapolis] and other market his-



**Dick Perkins:**  
**"Small cap stocks are the first to move in a new bull market."**

torians will tell you that small-cap stocks are the first to move in a new bull market. Suffice it to say that we had a major top in early 2000. Stocks went down dramatically, and out of that bottom, it's the small companies that start up first.

*So this has been a good time for you. Are there any stocks in particular that have been really big winners?*

Sure. Insignia Systems (Nasdaq: ISIG). The old Digital Biometrics, now Visionics (Nasdaq: VSNX), which we have owned for a very long while. Datakey (Nasdaq: DKEY) has

been a very good stock for us. Raven Industries (Nasdaq: RAVN). My goodness, we bought Apogee (Nasdaq: APOG) at \$5 or \$6 and now it's \$18.

Norstan—Jim Granger [now Norstan's CEO] was a guy we thought did a marvelous job at Digital Biometrics. He acquired Visionics while he was there. When we learned that he had gone to Norstan, which had gone from \$20 a share to \$2, we piled into Norstan and became its largest shareholder. The stock (Nasdaq: NRRD) is now \$5 and change.

*Do you buy based on business fundamentals or management?*

In that case we bought management. What we have to have are two things in place. One is a good technical picture—a good chart—and the other is good fundamentals.

*But Norstan was almost bankrupt when Jim took over, wasn't it?*

Yes, but he and his new team fixed all those things. And when you talk about fundamentals, you tell me: What are good fundamentals? To us, fundamentals means a good story, not necessarily a good balance sheet. A good story you can wrap your arms around, and that might include a lot of things.

When people ask us about our investment philosophy, we say that it's trying to identify change. You need a catalyst. Change can mean new management, a new product, all sorts of things. And at the same time, we like to see a nice chart pattern. We want to have both of those things. We look at it and say, 'Gee, this makes good sense.' And we look at the chart, and if it doesn't say buy, then we put it on the side burner and watch it.

*Can you give me an example?*

A very good example is ADC Telecommunications (Nasdaq: ADCT). I took my first position in ADC two months ago, when the stock drifted down into the \$3 range. The chart said that the stock was making a bottom, so we bought some, and it has been moving up since.

*I imagine your ability to function in a thin market is helped by the fact that, relative to some of the big funds, you don't have huge amounts of money to put to work.*

If we had three times what we have now, we couldn't effectively do what we're doing. We'd have to own more names because I couldn't take a full position in a company like Stratsys, for example.

*Have you faced that problem?*

Yes. In the fall of 1990, the market was dismal. We were gearing up for war in the Middle East, the economy was really weak. All that fall, we were putting money to work, and when we invaded Iraq, the market took off, and we were fully invested.

*Obviously, you have to be patient with a lot of the companies you're in. What are you still babysitting?*

I'm surprised that Medtox Scientific (AMEX: TOX) hasn't done better. We paid \$8 for it, and it has moved up, but still, we think the stock is worth a lot more than it's trading at. One that we held forever and ever is Check Technology (Nasdaq: CTCQ). We used to worry about that division at Xerox that made the engine for their printers,

but you may have noticed that Check Technology recently bought them for a very low price. There are a couple of has-beens that are going to work. One is Appliance Recycling (OTCBB: ARCI).

*Why?*

Management can put stores up all over the place. The company just needs the money to do it. But they're in a box, the stock is selling for peanuts, so you have to find a way to raise the money.

*Generally speaking, how important is management to you in picking stocks?*

It's the most important piece. Most money managers would look at the companies we buy and throw up. But if you know the people in the situation, and know that they have the ability to fix the situation . . . . By the time it's fixed, it's too late, you've given up a big part of the potential appreciation in the stock.

*Perkins Capital runs a small hedge fund. Where do you see the downside in the market?*

Right now I don't have a single short. It's just very dangerous right here. It isn't the time to be short.

*So it sounds like you're reasonably bullish?*

On certain segments, the small stocks. You go and look through a whole slew of charts, it's kind of like being a kid in the candy store. There are so many that have these little bases, and they're coming out of them. The buyers want them. It just feels that way. It just feels good as far as a lot of these small companies are concerned. ■

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