

April 19, 2024

Dear PCM Clients and Friends:

Though uncertainties abound, we began the second quarter with a growing economy which continued to have strong and stable activity, a Fed who was likely going to deliver the first rate cut in four years due to the perception of declining inflation and corporate earnings which are generally positive. This was a favorable setup for the strong market rally of the last six months to continue into the new year.

We should all find our economy's recent performance reassuring; yet, there is a disconnect today that continues, and rationally so, among many Americans who share a pessimistic view of the many "big picture" economic "concerns" we face and an economy which is robust and is functioning despite much higher interest rates and prices for everything we buy.

The predicted economic doom of 2023 never arrived. As we look further into 2024, it appears, today, that due to sustained higher interest rates, inflation will move toward the Fed's 2% target over time and there will not be a recession in 2024. The economy is performing well. Collectively, our anxiety has obscured a success story.

We continue to see investment opportunities in three broad areas.

For conservative investors there are attractively priced large-cap companies with increasing dividends. The long-term history of S&P 500 dividend-paying mainstream equities is not only price appreciation and growth, but also the ability to maintain their profits despite inflation through price increases, and then steadily increase their dividends.

We continue to find attractive small-cap and mid-cap growth companies, particularly among healthcare, software, and communications companies who are still down dramatically from their 2021 highs; yet, are attractively valued today, growing their business, executing on their business plans, and are appropriately capitalized to grow further.

Small-cap companies continue at an extreme multi-decade valuation low. Small-cap long-term earnings growth has been superior to large-caps. During the past 5, 10, and 20 years, annualized S&P 600 small-cap earnings have beaten annualized S&P 500 large-cap earnings; but not over the past year or 3 years. The long-term trend of quality small-cap strong performance should reassert itself.

We think 2024 will be a good year to remember advice from Warren Buffett: "A market downturn doesn't bother us. It is an opportunity to increase our ownership of great companies with great management at good prices."

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INVESTMENT MANAGEMENT

THE MARKET SCOREBOARD

The stock market's robust 2023 year-end rally continued in the first quarter of 2024 as a positive combination of stable economic growth, falling inflation, impending Fed rate cuts and ever-growing investor enthusiasm for artificial intelligence (AI) related investments which propelled the indices higher.

In late January, the Federal Reserve clearly signaled that rate hikes were over and strongly hinted that rate cuts would occur in the coming months. Investors seized on that positive message, moving the S&P 500 to a new all-time high. This market strength continued with investors buying at any price dip during the quarter. This sent the S&P 500 to 22 all-time closing new highs. The S&P 500 gained over 10% in the first quarter, its best start to the year since 2019 and one of the best since 1926. The Dow Jones Industrial Average was up 5.7%, its strongest Q1 performance since 2021.

While investor AI enthusiasm and large-cap semi-conductor tech stocks powered the S&P 500 higher, the 2023 dominance of the Magnificent Seven faded during the quarter with significant declines in several "Magnificent" stocks, including Tesla and Apple.

The markets did broaden their gains in 2024 with 10 of the 11 S&P 500 sectors finishing the first quarter with positive returns. At the end of Q1, more than half of the S&P 500 companies were at 52-week highs. This compared to 2023 when 70% of the companies in the S&P 500 were up by less than the index (or even down for the year). The best-performing sectors in the first quarter were communication services, financials, energy, and industrials.

Ranked by Q1 Return Indexes	% Return Q1 2024
S&P 500 Total Return	10.56
Wilshire 5000	9.56
NASDAQ Composite	9.11
NYSE Composite	8.66
Dow Jones Industrial Average	5.62

The more evenly distributed first quarter did not benefit small-cap companies. Small-caps were one of the notable laggards over the past three months. The Investor's Business Daily Small Cap Growth Index was down -15% during the first quarter from 1055 to 900. Small-cap stock returns have been affected more than large-cap companies by the higher cost of capital which results from rising and higher long-term interest rates.

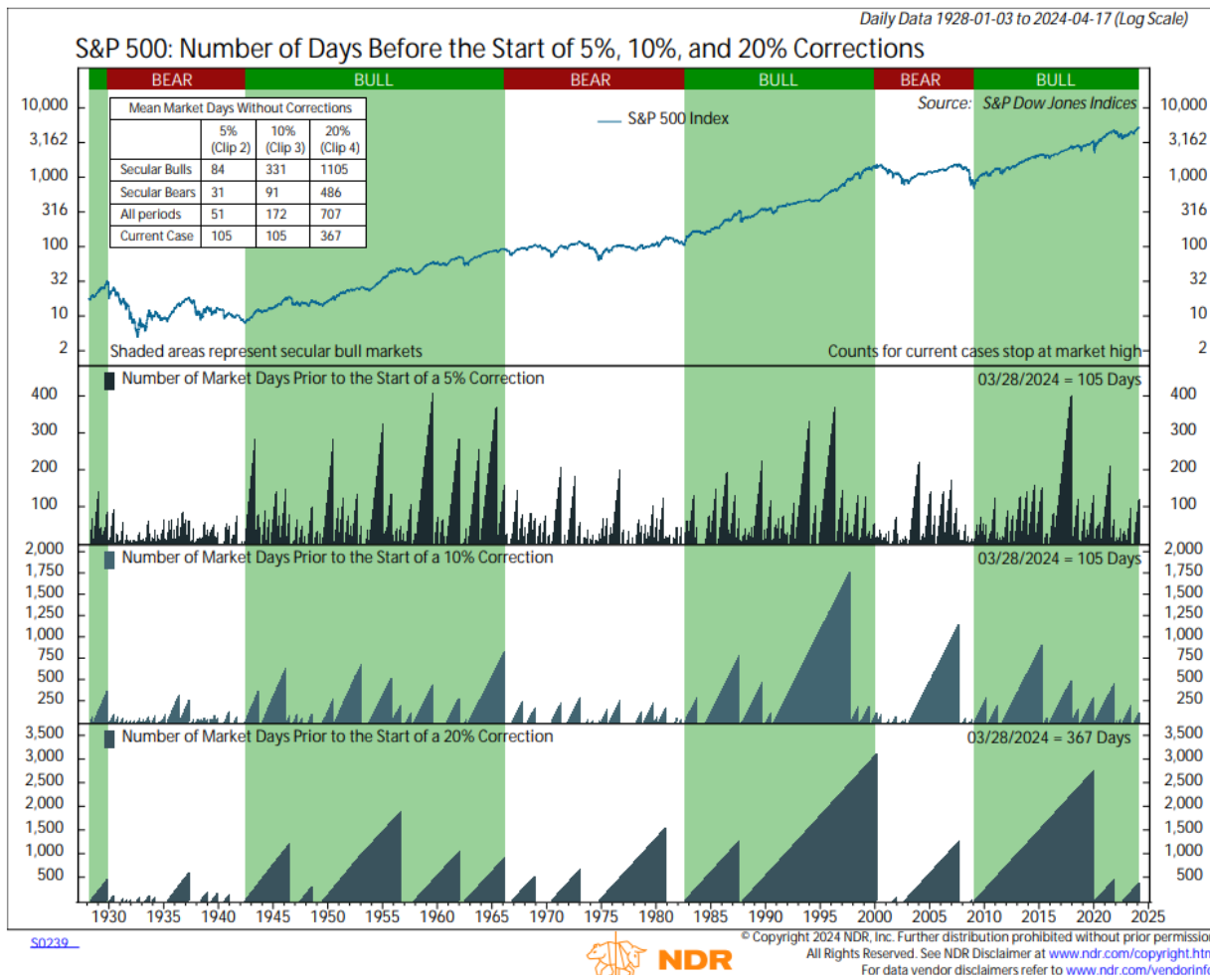
In summary, the 2023 rally continued and accelerated in the first quarter of 2024 thanks to positive newsflow that implied stable growth (no recession), still falling inflation, looming Fed rate cuts and continued AI enthusiasm. Those factors propelled the S&P 500, the Dow, and the NASDAQ to new all-time highs. At this time, just two weeks into the second quarter, with new sticky inflation worries, significant geopolitical uncertainty, and a strong economy causing the Fed to, at a minimum, hold interest rates higher for longer, it appears that investors will have to recalibrate their expectations for further near-term market gains.

STOCK MARKET OBSERVATIONS

It is not surprising that after 6 months of a strong market off the October 2023 lows we should now expect a market correction.

We believe we are now in the beginnings of a market correction. In April we had not had even a 3% correction in the S&P 500 since October 27, 2023. Normally, the S&P has a 3% or greater correction every 21 days. The stretch which ended on April 16 was 105 trading days and was the longest stretch without a 3% correction since January 26, 2018.

What should we expect in terms of a further correction in stock prices?

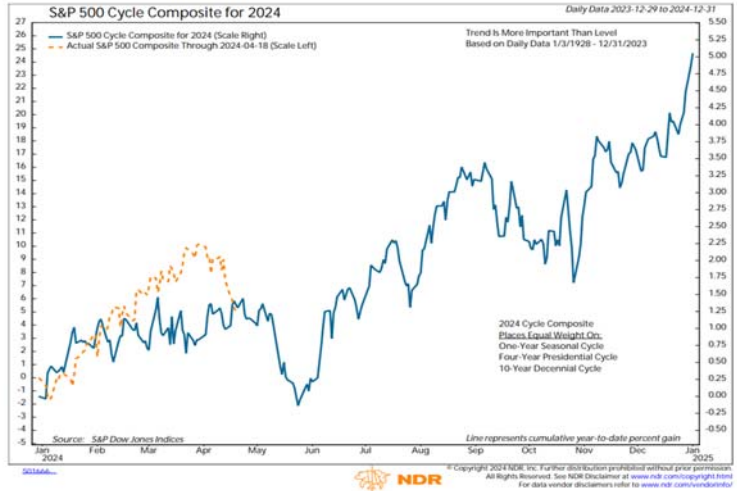


The answer is that we should always expect several 5% or greater corrections, in a range of 5% to 10%, in the market every year. The above chart from *Ned Davis Research*, though complex and requires some study, details the number of market days before the start of 5%, 10%, and 20% corrections in the S&P 500 from 1928 through today. In bull markets 5% corrections come along every 84 days. Today, at 105 days, we are only a little overdue for a greater than 5% correction. A 10% or greater correction is expected every year and we should expect one in 2024.

We have often included a copy of the Ned Davis Four-Year Presidential Cycle in our letters.

Here is the S&P 500 Cycle Composite for 2024 with the actual S&P 500 composite through April 18, 2024 highlighted in orange which shows that in the first half of an election year the markets tend to be choppy.

As always, we are interested in meeting with you by phone, Zoom, FaceTime, or in person to answer your questions, to have a review of your investments, or for you to update us on your personal investment objectives.



Sincerely,

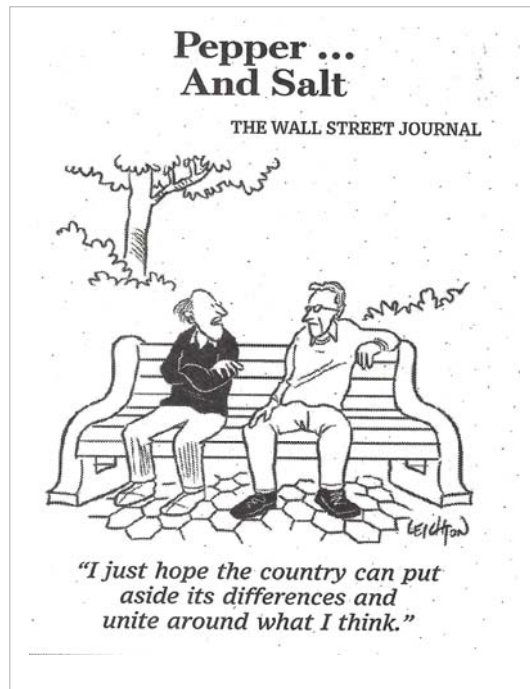
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An 80-year-old man went to his doctor for his quarterly check-up. The doctor asked him how he was feeling and the 80-year-old said, "Things are great and I've never felt better. I now have a 20-year-old bride who is pregnant with my child. So, what do you think about that?"

The doctor considered his question for a minute and then began. "I have an older friend, much like you, who is an avid hunter and never misses a season. One day when he was setting off hunting, he was in a bit of a hurry and accidentally picked up his walking cane instead of his gun. As he neared a lake, he came across a very large male beaver sitting at the water's edge. He realized he'd left his gun at home and so couldn't shoot the magnificent creature but out of habit he raised his cane, aimed it at the animal as if it were his favorite hunting rifle and went 'bang, bang.' Miraculously, two shots rang out and the beaver fell over dead. Now, what do you think of that?" asked the doctor.

The 80-year-old said, "If you ask me, I'd say somebody else shot the beaver."

The doctor replied, "My point exactly."

Little Billy returns home from school and says he got an F in arithmetic. "Why?" asks his father. "The teacher asked, 'How much is 2x3?' I said 6," replied Billy. "But that's right!" said his dad. "Yeah, but then she asked me, 'How much is 3x2?'"

"What's the #@%&ing difference?" asked his father.

"That's what I said!" replied Billy.

Ole, Lars and Sven had been going to the Sons of Norway hall meetings as long as there had been a hall. And every month, wouldn't ya know it, they never won a prize at the monthly drawing. That is, until last meeting. Sven was the first one to have his name drawn. He won 2 quarts of spaghetti sauce, 4 boxes of noodles and 3 pounds of Swedish meatballs. Ole had his name drawn next. He got round trip tickets to Duluth, MN, a night's stay in the Dew Drop Inn, and 2 tickets to see the Inger Triplets Polka Ensemble. Lars was the last to be drawn and he won a toilet brush.

At the next meeting they sat down and talked about their winnings. Sven said, "Uff-da, I had dat pasghetti for tree days. It vas so good, Helga didn't hav to buy food for dem der tree days." Ole said, "Lena vas so happy ven I brought home dem tickets. Da trip up to Duloot vas nice, and ve got to ride in da Greyhound, and ya know, dey got a built-in outhouse on dat der bus. And dose Inger triplets, if I didn't know better, I sveal dey vere sisters."

Then Ole turned to Lars, and asked him how his prize worked out. Lars looked at them both and said, "Vell, dat der toilet brush is nice, but I tink I'll go back to using paper!"

Ole and Sven are bungee-jumping one day. Ole says to Sven, "You know, ve could make a lot of money running our own bungee-jumping service in Mexico. Dey don't have it der." Ole thinks this is a great idea, so they pool their money and buy everything they need; a tower, elastic cord, insurance, etc. They travel to Mexico and begin to set up on the square. As they are constructing the tower, a crowd begins to assemble. Slowly, more and more people gather to watch them at work. When they had finished, there was such a crowd they thought it would be a good idea to give a demonstration. So Sven jumps. He bounces at the end of the cord, but when he comes back up Ole notices that he has a few cuts and scratches. Unfortunately, Ole isn't able to catch him, and he falls again, bounces and comes back up again. This time, he is bruised and bleeding. Again, Ole misses him. Sven falls again and bounces back up. This time he comes back pretty messed up, he's got a couple of broken bones and is almost unconscious.

Luckily, Ole finally catches him this time and says, "Vhat happened? Vas da cord too long?" Barely able to speak, Sven gasps, "No, da Bungee cord vas fine. It vas da crowd. Vhat da hell is a piñata?"

Dear Ms. Jones,

I wish to clarify that I am not now, nor have I ever been an exotic dancer. I work at Home Depot and I told my daughter how hectic it was last week before the blizzard hit.

Her picture does not show me dancing around a pole. It is supposed to depict me selling the last snow shovel we had at Home Depot.

Sincerely,

Cara's mom



An older man who needed surgery insisted that his son, a renowned surgeon, perform the operation. As he lay on the operating table about to receive his anesthesia he asked to speak to his son.

"Yes, Dad, what is it?"

"Don't be nervous, Son, do your best and just remember if something should go wrong, and something happens to me your mother is going to come and live with you!"

One day I was driving with my 9-year-old granddaughter and honked the horn by mistake. She turned and looked at me for an explanation. I said, "I honked by accident." She replied, "I know that Grandpa. "I replied, how did you know?" She said, "Because you didn't swear afterwards."

A little old man shuffled slowly into an ice cream parlor, crawled painfully onto a stool, and ordered a banana split. The waitress asked, "Crushed nuts?"

"No" he replied, "It's just Arthritis."

We always hear "the rules" from the female side. Now here are the rules from the male side:

Learn to work the toilet seat. You are a big girl. If it is up, put it down. We need it up, you need it down. You do not hear us complaining about you leaving it down.

Crying is blackmail.

Ask for what you want. Let us be clear on this one: Subtle hints do not work! Strong hints do not work! Obvious hints do not work! Just say it!

Yes and no are perfectly acceptable answers to almost every question.

Come to us with a problem only if you want help solving it. That is what we do. Sympathy is what your girlfriends are for.

A headache that lasts for 17 months is a problem. See a doctor.

Anything we said 6 months ago is inadmissible in an argument. In fact, all comments become null and void after 7 days.

Whenever possible, please say whatever you have to say during commercials.

Christopher Columbus did not need directions and neither do we.

All men see in only 16 colors, like Windows default settings. Peach, for example, is a fruit, not a color. Pumpkin is also a fruit. We have no idea what mauve is.

If it itches, it will be scratched. We do that.

If we ask what is wrong and you say "nothing," we will act like nothing is wrong. We know you are lying, but it is just not worth the hassle.

I am in shape. Round is a shape.

THE DIFFERENCE BETWEEN A MAN AND A WOMAN SHOWERING

How a woman takes a shower:

Remove clothing and place in laundry hamper.

Walk to bathroom wearing bathrobe, if you see your husband, cover up tightly.

Look in mirror, make mental note, need to do more sit-ups.

Get in the shower. Use face cloth, loofah, and pumice stone.

Wash hair using cucumber and sage shampoo with 43 added minerals.

Condition hair with grapefruit mint conditioner enhanced with natural avocado oil.

Leave on hair for fifteen minutes.

Wash face with crushed apricot facial scrub for ten minutes.

Wash entire rest of body with ginger nut and coconut oil body wash.

Rinse conditioner out of hair.

Shave armpits and legs.

Turn off shower.

Squeegee off all wet surfaces in the shower.

Get out of shower. Dry with towel the size of a small country. Wrap hair in a microfiber hair wrap.

Return to bedroom wearing bathrobe, and microfiber towel on head.

If you see your husband, cover up any exposed areas and sashay to bedroom to spend another hour and a half getting dressed.

Versus how a man takes showers:

Take off clothes while sitting on the edge of the bed and drop in a pile on bedroom floor.

Walk naked to the bathroom. If you see your wife along the way, shake your body making the "Woo Hoo" sound.

Look at manly physique in the mirror and suck in gut.

Get in shower.

No need to look for a washcloth.

Wash face.

Wash armpits.

Blow nose in your hands, then let the water just rinse it off.

Crack up at how loud your fart sounds in the shower.

Shampoo hair (do not use conditioner).

Pee (in the shower).

Rinse off and get out of the shower. Fail to notice water on the floor because you left the curtain hanging out of the tub the whole time.

Partially dry off.

Look at self in the mirror, flex muscles.

Leave shower curtain open and wet bath mat on the floor.

Leave bathroom fan and light on.

Return to the bedroom with towel around your waist. If you pass your wife, open towel, and make "woo-hoo" sound again.

Throw wet towel on the bed. Take two minutes to get dressed.