PERKINS CAPITAL MANAGEMENT, INC.

July 28, 2021

Dear PCM Clients and Friends:

We hope you and your family are safe, healthy, and experiencing at least the beginnings of a return to a pre-pandemic normal life.

Everyone here at PCM has been safe during the pandemic, we are all healthy, and we have continued our daily work with few changes. The most significant adjustment for us was the shift during COVID from our almost daily in our office meetings with company managements to "Zoom" calls; which work but are not as enriching. We have now had a couple of management teams ask to come in and have met with several clients. This is just the beginning of a start to an "in-person" business normalcy and is very welcome. So please, we have been "open for business" and want to talk in person or remotely with you if you have any questions or are interested in an update.

Source: Wayzata.org

Though we have "carried on" and not noticed tremendous change "inside" PCM during the pandemic there HAS been considerable change "outside" PCM and all around us in Wayzata. COVID did not hold back the City of Wayzata's plans for our town. After a decade of planning and over a year of construction, Wayzata executed its Lake Effect initiative which included converting nearly one acre of parking along Lake Street to park land. The length of Lake Street was upgraded both above and below ground with the addition of a much wider and enjoyable landscaped walk along the Lake; including the addition of a bike path.

Source: Wayzata.org

One of the fun family-oriented additions is a child play fountain area where water geysers shoot up randomly from different spots. Watching "toddlers" chase the water as it shoots up is a hoot.

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THE MARKET SCOREBOARD

The market continued the first quarter's market gains into the second quarter making a strong start to the first half of the year and bringing the indexes to record highs thanks to numerous positive developments. First, the pace of vaccinations in the U.S. accelerated meaningfully in April, with daily vaccinations hitting a peak of more than three million per day causing the number of new COVID-19 infections to fall. The increased pace of vaccinations enabled the start of state-by-state total economic reopening across the country. That served as a positive signal to investors that a return to "pre-pandemic normal" was now likely just a matter of time.

Meanwhile, the Federal Reserve reiterated its support for the economy and promised not to remove any accommodation in the near term. The Fed "safety net" reaffirmed investors' confidence in both the future economic outlook and the sustainability of the economic recovery.

Importantly, first-quarter corporate earnings were very strong, as the vast majority of U.S. companies beat earnings estimates. These positive factors helped stocks rally throughout April, as the S&P 500 hit a new record above 4,200 during the final days of the month.

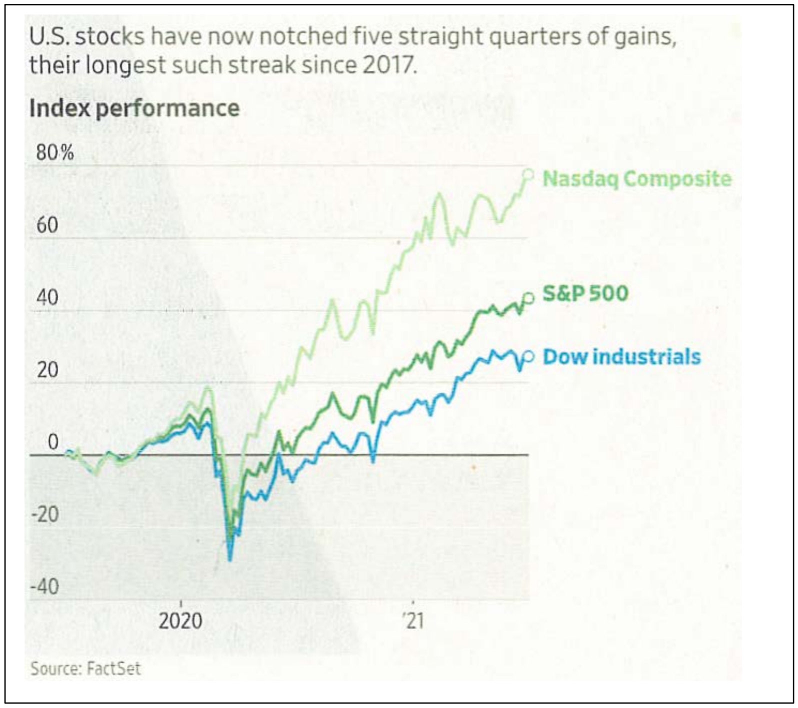
Indexes	% Return YTD 2021	% Return Q2 2021	% Return Q1 2021
S&P 500 Total Return	15.25	8.55	6.17
Wilshire 5000	14.34	8.08	5.79
NASDAQ Composite	12.54	9.49	2.78
Dow Jones Industrial Average	12.73	4.61	7.76
NYSE Composite	13.98	6.11	7.41

The large-cap indexes each traded in a new high zone during the quarter; but each, also, paused for several weeks mid-quarter from late April into mid-May when concern that increased price inflation might be the start of a longer-term trend which would force the Fed to increase interest rates sooner than expected. Market volatility continued with the July 1 *Wall Street Journal* noting: "In June stocks logged both their worst week since October and their best week since February."

This quarter marked the S&P 500's and the Dow's fifth consecutive quarter of gains, their longest such streak since a nine-quarter stretch that ended at the end of 2017. The NASDAQ outperformed both the S&P 500 and Dow Jones Industrial Average. The Dow Jones Transportation Index return was surprisingly low with a 2nd quarter increase of 1.70%.

By market capitalization, large-cap stocks outperformed small-cap stocks, which was a reversal from the previous two quarters. During the first quarter we highlighted the notable outperformance by small-cap equities with micro-cap handily outperforming all-caps. We said: "In the second quarter we will likely see a reversion back toward the mean." This is exactly what happened. Many smaller growth stocks peaked in mid-February and March then corrected during the second quarter.

On a sector level, 10 of the 11 S&P 500 sectors realized positive returns in the second quarter with real estate, due to continued low interest rates, and technology outperforming. Highlighting these two sectors, the S&P 500 Real Estate Index increased 12.31% during the quarter and the S&P 500 Information Technology Index increased 11.3%. The S&P 600 Small Cap was up 4.21%, half of the S&P 500 Total Return's 8.55% for the quarter. The utilities were the only sector to finish with a negative return for the quarter. The S&P 500 Utilities Index declined -1.13%.



The strong positive returns for the first half of the year made the start of 2021 the second-best first half this century, after 2019. This bodes well for the second half of the year.

STOCK MARKET OBSERVATIONS

The strong returns during the past year from the pandemic lows have surprised many investors. The impressive increase to new highs during the first half of the year has been with relatively low volatility and limited corrections in the averages. Piper Sandler's July 2021 *Informed Investor* noted that through mid-July the S&P had posted 39 record-high closes year-to-date which equates to a new all-time high every 3.5 trading days. We note that since mid-June this series of new highs has occurred in both the S&P 500 and NASDAQ; while most of the other averages have just flirted with their highs. Piper wrote: "Our research shows the index historically records an average of 30 new highs during record setting years."

They went on to summarize their findings:

- Since 1990, we found 20 other years when the S&P 500 recorded at least one record-high. During this timeframe, the index recorded an average of 30 record-highs within the year.
- Average and median returns during record-high years have been 13.2% and 15.2%, respectively.
- The highest number of record-highs in a single year was observed in 1995, which included 77 all-time new highs (highest level on record and equivalent to roughly a new record-high every 3.5 trading days).

- Finally, we also analyzed the maximum drawdown observed during each record-high year along with the following year's annual return. Maximum drawdowns averaged around -10.8%, while forward/next-year annual returns averaged 9.7%.

Piper has also analyzed this year's market from another perspective and posed the question: "Given the outsize gains in the first half, what should we expect for second half returns?" Their answer: "Since 1928, there have been 26 other periods when the SPX posted a first half return of at least 10%. During those years, the index generated second half average and median returns of 6.9% and 9.1%, respectively. In addition, the index posted positive returns 77% of the time." The table to the left, from Dorsey Wright, lists these years' first half, second half, and full year returns.

Years in Which the S&P 500 Returned >10% During the First Six Months

Year	First Six Months Return	Second Six Months Return	Calendar Year Return
2019	17.35%	9.82%	28.88%
2013	12.63%	15.07%	29.60%
2003	10.76%	14.10%	26.38%
1999	11.67%	7.02%	19.51%
1998	16.84%	8.43%	26.69%
1997	19.50%	9.63%	31.01%
1995	18.61%	13.07%	34.11%
1991	12.40%	12.37%	26.31%
1989	14.50%	11.14%	27.25%
1988	10.69%	1.54%	12.40%
1987	25.53%	-18.72%	2.03%
1986	18.72%	-3.46%	14.62%
1985	14.72%	10.13%	26.33%
1983	19.20%	-1.62%	17.27%
1976	15.62%	3.05%	19.15%
1975	38.84%	-5.25%	31.55%
1967	12.83%	6.43%	20.09%
1961	11.24%	10.69%	23.13%
1958	13.13%	22.04%	38.06%
1955	14.04%	10.85%	26.40%
1954	17.73%	23.18%	45.02%
1945	11.97%	16.75%	30.72%
1944	11.23%	2.31%	13.80%
1943	26.41%	-5.51%	19.45%
1936	10.50%	15.77%	27.92%
1933	57.66%	-8.62%	44.08%
1929	12.57%	-21.74%	-11.91%

It is natural to wonder after a strong move if "there is still gas in the tank," but historical data from previous strong performing First Six Months returns suggest more continued positive performance into the second half is likely, as shown on the chart to the left.

We started the Stock Market Observations section of last quarter's letter (May 12, 2021) with a chart of Stock Market Rallies in the Dow since 1900 which revealed that this current stock market rally should still have life ahead since the average post-1900 market rally off a significant bear market low has lasted, on average, 2000 trading days with a 300% increase off a major low. This market, then, has continued this past quarter along the "average" least squared line of prior rallies with more gain and more time ahead. Despite surprising everyone, the market is acting normal; at least as normal as it can be since, as we all know, the market always surprises and has its own twists and turns.

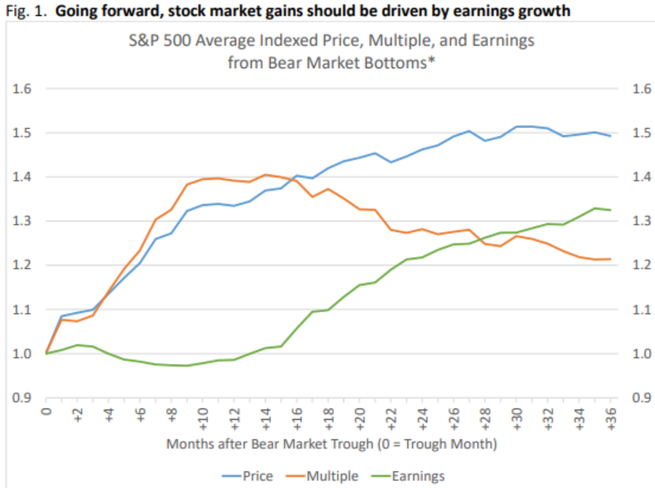
In last quarter's Stock Market Observation section, we also displayed a chart from Ned Davis Research which graphically displayed 5%, 10%, and 20% market corrections within the context of an increasingly rising S&P 500 over a 73-year period since 1928. From this market information we wrote: "In bull markets 5% corrections come along every 84 days on average (3 or 4 a year), 10% corrections occur every 331 days (every year), and 20% corrections have occurred on average every 1105 days (every 4 years or so, which is the economic cycle). We also reviewed how during the past 30 years there have been nine "drawdowns" of essentially 20% or greater.

Ned Davis Research recently updated the information on this informative chart with market data through July 19, 2021. As of their update one week ago, there have been 174 days without a 5% correction, making the market 90 days overdue. We are almost exactly due for a 10% correction with 329 days having passed and 331 days being "average."

Though the averages are today at new highs and a correction is overdue, "under the surface" of the new high averages, the broader market and many individual stocks have been correcting since March. Although a split market is normal with a fewer number of individual companies making new highs this summer, the split is more pronounced at the moment; but not noticeable in the averages. One analyst described this summer, with some stocks "good" but more stocks "off", as the "summer of indigestion. "

At this time, due to the market's continued strength off the COVID bottom, we are in a market which is both normal and a bit abnormal. This is not surprising considering all of the both positive and concerning crosscurrents which have occurred over the past year. We continue to believe that an accommodative Fed and the positive effect of unprecedented fiscal stimulus are both very positive for companies and the economy. The vaccine rollout was a success; but now we find there are many people who are reluctant to be vaccinated. Corporate America has done a credible job of managing through the significant COVID disruption. New technologies and methods have been quickly implemented in the process.

Fig. 1. **Going forward, stock market gains should be driven by earnings growth**



*Source: FRP, Robert Shiller, Standard & Poor's; as of 3/29/21; *Includes bear market bottoms from 1957, 1962, 1966, 1970, 1974, 1982 and 2002*

As the economy reopens and the recovery matures, the markets will be driven less and less by a "bounce back" and more by corporate earnings. First quarter earnings releases generally beat expectations. We have now entered the beginning of the second quarter's "earnings season" and here too earnings look good. The chart to the left, which is titled, *Going forward, stock market gains should be driven by earnings growth*, pictorially shows three trends which should matter over the next two years as this recovery cycle matures. The X-axis is time after a bear market bottom in months. We are now about 14 months past the COVID panic low. The blue line shows the price form of the "average" S&P 500 index after a bear market low which starts with a steep assent for the first year then begins to flatten out over time. The green line shows corporate earnings which recover after a year lag and then increase nicely as the recovery continues. This is the period we should be in now. Lastly, as the recovery matures and earnings increase, valuation becomes more realistic (the orange line) as earnings increase.

In summary, we see the current environment as a time which continues to call for active management. We think we will continue to be in even more of a "stock pickers market". There are sectors like healthcare, communication technology, and software who have learned to operate in the tough COVID-19 environment and will now flourish. We have also noticed a great number of companies who did quite well during COVID; in spite of it all. We continue to like the genetic diagnostic companies and other growth companies in industries who are positive beneficiaries of current technological change. We continue to see tremendous investment opportunity in this low interest rate environment in high quality dividend paying companies; but here too active management is required.

HOUSEKEEPING

Enclosed with this letter is our second quarter report to you. Time flies, it's hard to believe 2021 is already half over and we are well on our way to 2022. Also included in this mailing is our privacy statement and the annual offer of our SEC Form ADV. 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

RCP:DSP/jah

OLE AND LENA

Ole, was out in his pasture near Viking, Minnesota (yes, there is a town named Viking) when he took a lightning-quick kick from a cow...right in his crotch. Writhing in agony, he fell to the ground.

As soon as he could manage, he took himself to the doctor. He said: "How bad is it, Doc? I'm going on my honeymoon next veek and my fiancé, Lena, is still a virgin -- in every vay."

The doctor told him, “Ole, I’ll have to put your willy in a splint to let it heal, and keep it straight. It should be okay next week, but leave it on there as long as you can.” He took four tongue depressors and formed a neat little 4-sided splint, and taped it all together... quite an impressive work of art.

Ole mentioned none of this to Lena, married her, and they went on their honeymoon to Duluth. That night in the Motel 6, Lena ripped open her blouse to reveal her beautiful, untouched breasts. She said: "Ole...you're the first vun! No vun has EVER seen deez.”

Ole immediately dropped his pants and replied: “Look at dis, Lena ... still in DA CRATE!”

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 Fridays.

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 the wonderful aroma of grilled venison filled the neighborhood again. 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: “Yew vuz born a deer, yew vuz raised a deer, vut now yew is a valleye.”

At the marriage retreat, the instructor talked about the importance of knowing what matters to each other. “For example," he began, pointing to Ole, “Do you know your wife’s favorite flower?”

Ole’s answer, "Pillsbury all purpose."

Ole was walking home late at night and sees a woman in the shadows. “Twenty dollars” she whispers. Ole had never been with a hooker before, but he decides, what the heck it’s only twenty bucks.

So they hide in the bushes. They’re going “at it” for a minute when all of a sudden, a police officer flashes a light on them. “What’s going on here, people?” asks the officer.

“I’m making love to my vife,” Ole answers indignantly. “Oh, I’m sorry,” says the officer, “I didn’t know.” “Vell,” Ole says, “Neither did I, until you shined dat light on her face.”

GOD AND EXERCISE

Most seniors never get enough exercise. In his wisdom God decreed seniors become forgetful so they would have to search for their glasses, keys and other things thus doing more walking. And God looked down and saw that it was good.

Then God saw there was another need. In his wisdom he made seniors lose coordination so they would drop things requiring them to bend, reach & stretch. And God looked down and saw that it was good.

Then God considered the function of bladders and decided seniors would have additional calls of nature requiring more trips to the bathroom, thus providing more exercise. God looked down and saw that it was good.

So, if you find as you age, you are getting up and down more, remember it’s God’s will. It is all in your best interest, even though you mutter under your breath.

NINE IMPORTANT FACTS TO REMEMBER AS YOU GET OLDER

#9 Death is the number 1 killer in the world.

#8 Life is sexually transmitted.

#7 Good health is merely the slowest possible rate at which one can die.

#6 Men have 2 motivations: hunger and hanky panky, and they can't tell them apart. If you see a gleam in his eyes, make him a sandwich.

#5 Give a person a fish and you feed them for a day. Teach a person to use the Internet and they won't bother you for weeks, months, maybe years.

#4 Health nuts are going to feel stupid someday, lying in the hospital, dying of nothing.

#3 All of us could take a lesson from the weather. It pays no attention to criticism.

#2 In the 60s, people took acid to make the world weird. Now the world is weird, and people take Prozac to make it normal.

#1 Life is like a jar of jalapeno peppers. What you do today may be a burning issue tomorrow.