

PERKINS
CAPITAL
MANAGEMENT, INC.

February 24, 2025

Dear PCM Clients and Friends:

During the months following the November presidential election and up to the inauguration of the new president, I think we all knew, as a country, that the Trump presidency would bring significant change; and that this change was demanded by many in the electorate. The election results have been referred to as a mandate for change; especially in several key areas within President Trump's platform. We have felt for several months that 2025 would be a year of change and we have been preparing for this. We wrote about preparing for 2025 on the first page of our quarterly, October 29, 2024 letter to you. As Jeff Bezos, the founder of Amazon, is quoted as saying: "Maintain a firm grasp of the obvious at all times." This was obvious toward the end of last year.

What was not obvious, "known," until this past month was the pace at which the Trump presidency had prepared to act. President Trump has brought an incredible flurry of activities to the White House. The daily activities of Trump himself and his administration are both impressive and to some extent startling. Startling in a positive way for many; but also frightening to many others. The famous quote, attributed to General George Patton, which reflects both Trump's and Patton's style, which is speed and audacity, is: "A good plan, violently executed now, is better than a perfect plan next week." This essentially means that it's better to act quickly with a solid plan, even if it's not completely perfect, than to wait for an ideal plan that might take too long to materialize. The emphasis is on the importance of decisive action. Even if there are some "speed bumps" along the way. Clearly, Trump views his presidency as being on "a war footing" and was prepared to act decisively. We think 2025 will be a year with many "headlines" and in the markets, periods of day-to-day headline risk.

What is equally important to long-term investing, though, beyond the day-to-day and week-to-week that is ahead of us in 2025, is that the "pendulum" has begun to swing. Pendulum swings signal a shift from long held opinions, take time, and result in a change in direction to the opposite extreme. As Bob Dylan lyricized, "The Times They Are A-Changin'."

Change, in general, is feared by many; and early in the process of change, can be difficult to digest. Yet, as written by Heraclitus in 500 BC: "The only constant in life is change." If a society or country rejects change there is no growth, no progress. "When you are finished changing, you are finished" – Benjamin Franklin.

In our last letter, we quoted Sir John Templeton: "Success is a process of continually seeking answers to new questions." We recognize this is an ongoing process in successful investing, always important, and of particular importance at this time.

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INVESTMENT MANAGEMENT

THE MARKET SCOREBOARD

The S&P 500, Dow Jones, and Nasdaq Composite, the three most recognized large-cap indices all rose during October and November to all-time highs. Unfortunately, this year, during the month of December, Santa did not visit Wall Street. There was not a year-end “Santa Claus Rally.” The NYSE Composite was down over 2% for the quarter while most other indices were flat to up 2%. The month of December would have been worse if not for the strength of the communication, consumer, and technology sectors. The Magnificent Seven stocks, other than Nvidia, continued to outperform the broad market. As a result of this, the market’s sector concentration continued to rise with the ten largest S&P 500 stocks accounting for a record 39% of the market cap-weighted S&P 500 index. The technology’s sector weighting within the S&P 500 index rose to 32.5%, near a record high; having only exceeded this level for two months in 2000 during the “Technology and Telecom Bubble.”

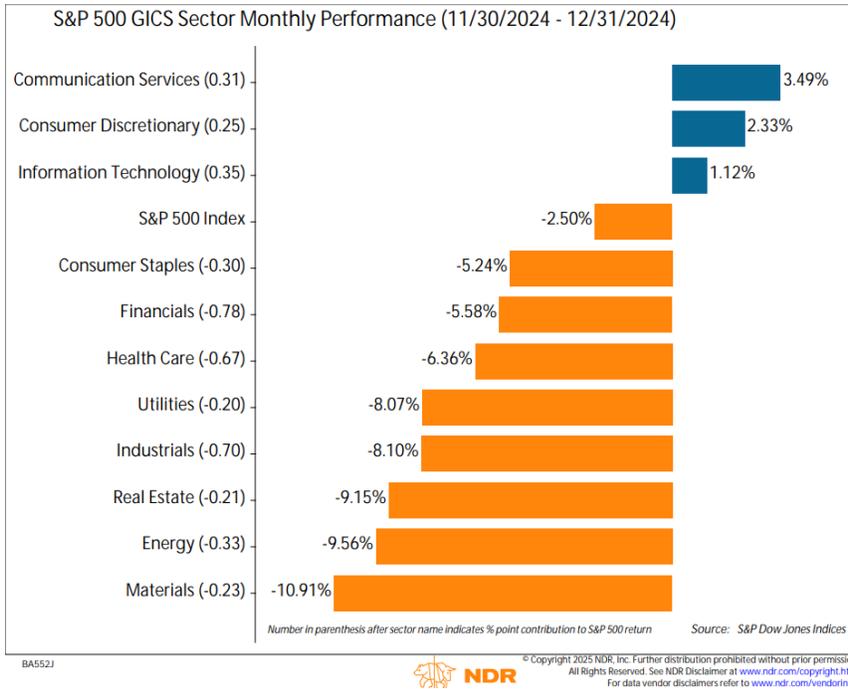
Indexes	% Return YTD Through 12/31/2024	% Return Q4 2024	% Return Q3 2024	% Return Q2 2024	% Return Q1 2024
NASDAQ Composite	28.64	6.17	2.57	8.26	9.11
S&P 500 Total Return	25.02	2.41	5.89	4.28	10.56
Wilshire 5000	22.57	2.54	5.98	2.95	9.56
NYSE Composite	13.32	-2.15	8.27	-1.56	8.66
Dow Jones Industrial Average	12.88	0.51	8.21	-1.73	5.62

Despite the late year-end dip, all four major U.S. stock indices finished the quarter with a positive return. The Nasdaq was the best performing major index in the fourth quarter due to AI enthusiasm. The small-cap Russell 2000 also saw a solid rally early in the fourth quarter.

The fourth quarter started with election anxiety. The fiscal state of the U.S. also weighed on market sentiment in October. A *Wall Street Journal* article focused on potential large future increases in the U.S. deficit and a national debt that could cripple future economic growth. Those fiscal concerns, along with stronger-than-expected economic data, pushed Treasury yields higher and the 10-year Treasury yield rose from 3.75% at the start of October to over 4.20% by Halloween. That rise in yields, combined with political and policy uncertainty, pressured stocks and the S&P 500 finished October with a modest decline, falling 0.91%.

Those headwinds on stocks were short-lived, however, as Donald Trump convincingly won re-election while Republicans took control of both houses of Congress; completing a “Red Sweep.” Reminiscent of 2016, the Trump and Republican victories proved to be bullish catalysts in November as investors embraced the idea of future tax cuts, deregulation and a pro-business administration. That helped the S&P 500 rise above 6,000 for the first time.

The post-election rally stalled mid-month when the Federal Reserve cut interest rates at its December meeting; but also, reduced expectations for the number of expected cuts in 2025 to just two (from four). That sparked a sharp selloff in stocks that continued into year-end.



On a sector level, only the Communication Services, Consumer Discretionary, and Information Technology sectors of the 11 S&P 500 sectors finished the fourth quarter with a positive return; although all 11 sectors ended 2024 with gains.

In 2025, Communication Services has continued its leading performance while the Health Care, Financial, and Materials groups have also become the top performing groups so far in 2025.

Growth significantly outperformed value both in the fourth quarter and for the full year. The reason was familiar: Artificial intelligence enthusiasm powered AI-related and tech-heavy investments. Internationally, the foreign markets, both developed and emerging countries, produced solidly negative returns in the fourth quarter.

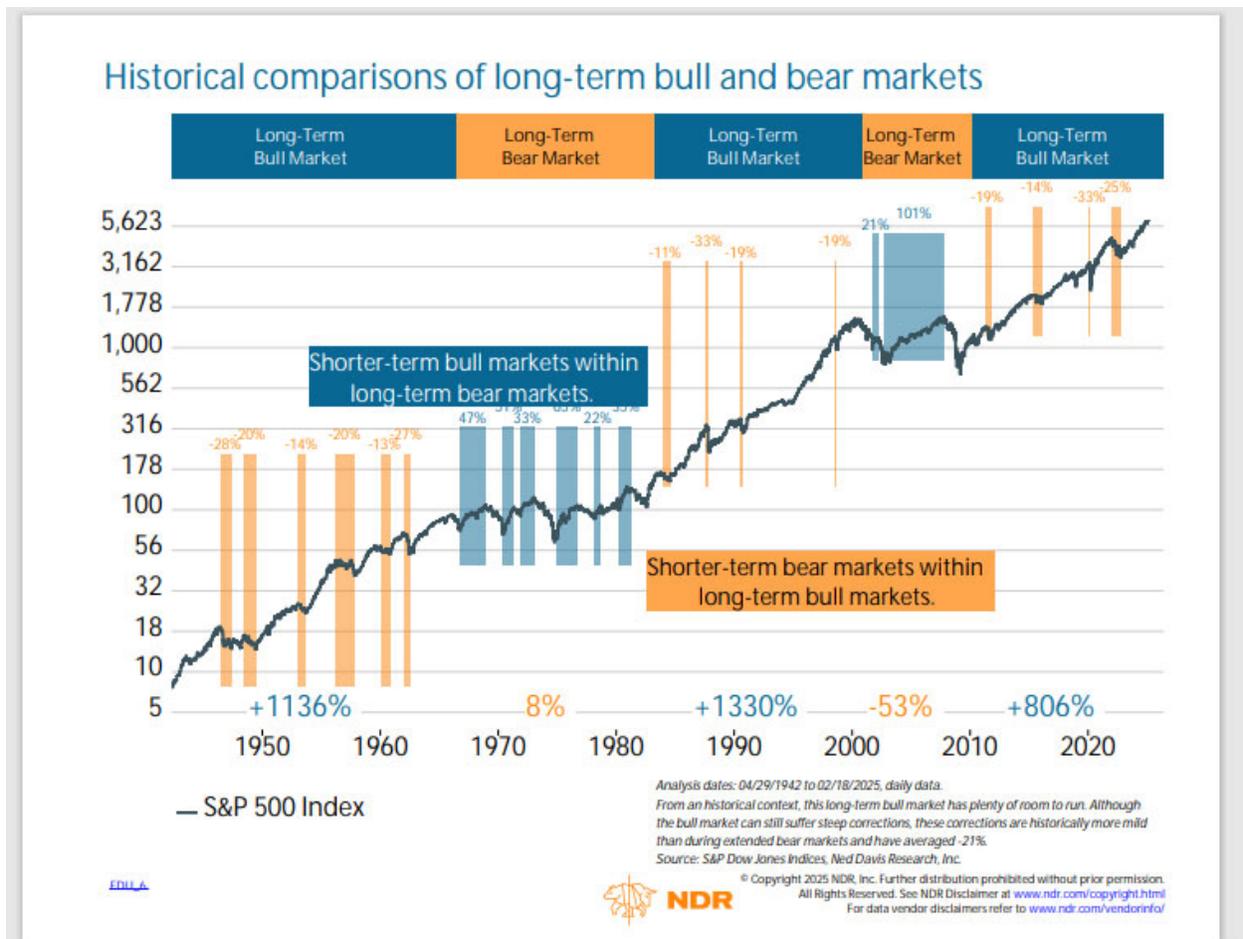
During January and February, the markets have consolidated in a trading range which began in early December with the markets at or near all-time highs and included a modest December and January correction. After the presidential inauguration, the markets have rallied with the Dow and the S&P 500 back at their all-time highs; while most of the other indices, including the Russell 2000, the Dow Transports and the Dow Utilities, have rallied short of their highs. The Mag 7 companies as a group have trailed the S&P 500 year-to-date. Is this the beginning of a decrease in The Mag 7 and the Top 10's concentration in the S&P 500 market cap-weighted index? In the fourth quarter of 2024 the top 10 stocks as a percentage of the entire market's total capitalization peaked above 26% and has now also begun to decline. During the previous 30 years, the market has never been as concentrated as today. Perhaps, this is the beginning of a broadening market; where market breadth increases and more companies participate in the market's advance in 2025 and future years.

In sum, 2024 was a very strong year for the US markets as the Fed seemingly achieved the elusive "soft economic landing" and aggressively cut interest rates during the year, the economy and consumer remained strong, corporate earnings were robust, the 2024 presidential election uncertainty was resolved and foreign risks failed to derail the markets.

STOCK MARKET OBSERVATIONS

In previous letters, we have written about the well-documented four-year presidential cycle and we included in our October 29, 2024 letter the Ned Davis Dow Industrials Four-Year Presidential Cycle. What is most important about the four-year presidential cycle is that, at this time, we should expect a “honeymoon” period for the new president. This “honeymoon” typically lasts until the middle of the first presidential year. A strong start to the year and then a weaker second half which lasts into the middle of the next year.

In this stock market observation, we are including below, the Ned Davis Research chart which shows in black the long-term trend of the S&P 500 from 1942 through mid-February 2025. The upward overtime trend is clear. Within this chart are two orange and blue sets of information. At the top are horizontal blue bars which define periods of “bull” or up markets within the long-term trend of the S&P 500 and, also, orange bars which highlight periods of “bear” or down or sideways markets. There are three blue “bull” periods and two orange “bear” time periods defined in this historical comparison of long-term bull and bear markets.

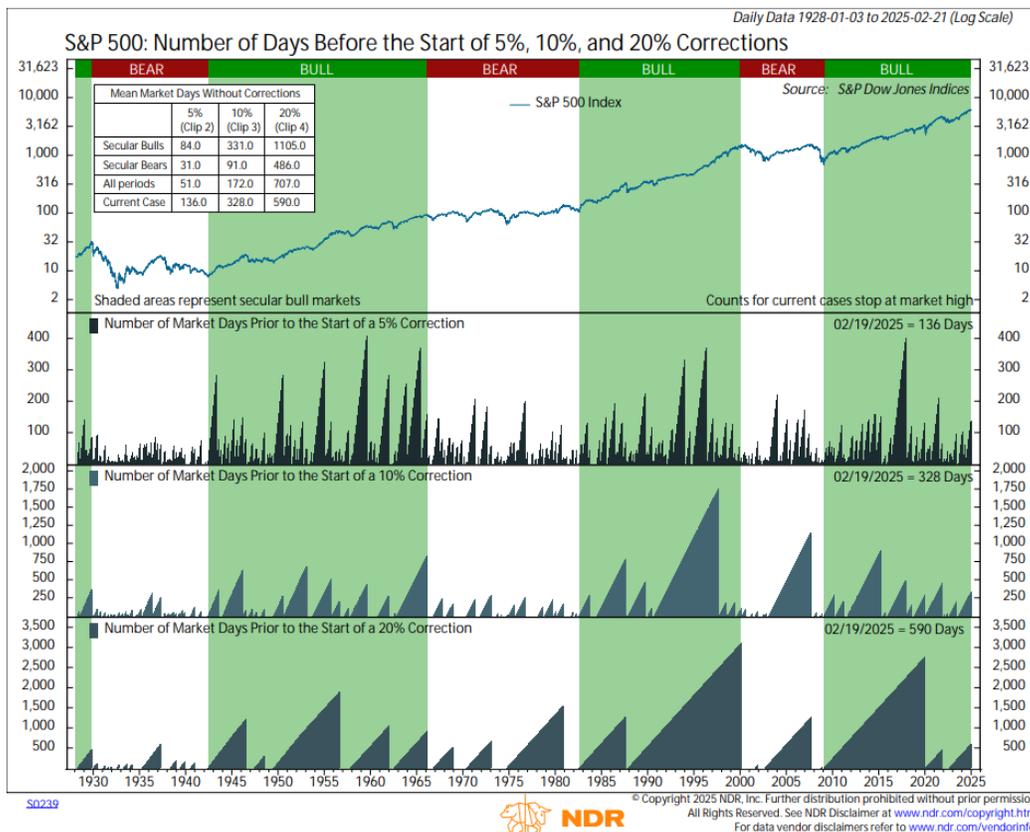


Within the five highlighted “bull” or “bear” market periods, touching the black long-term trend of the S&P 500 are vertical blue or orange bars with negative percent change numbers at the top of each vertical orange bar and positive percent change numbers at the top of each vertical blue bar.

What is important about this historical S&P 500 chart is that the vertical bars, throughout this historical comparison, show that within both up (blue) and down (orange) markets there are significant countertrend market changes – both up appreciation and down corrections.

In the first long-term (blue) bull market, which ended in 1966, there were five corrections varying from -13% to -28% against the bull trend. In the second period (the first orange “bear” market), there were six significant up periods. The long-term bull market, which ended in 2000, had four highlighted declines. This historical comparison just highlights countertrend market corrections; so, the significant decline, the start of the “TNT” bear market in 2000, is not highlighted. That tough period, the second orange long-term bear market, lasted until the market bottom in 2009; but did include a lengthy 101% countertrend up market appreciation from late 2002 to late 2007. From the 2009 low to today, which included the Covid market fluctuation, there are four declines highlighted in orange.

Below, another Ned Davis chart shows much more detailed market correction information.



The box in the upper left-hand corner of the chart details the number of days between various market corrections in bull, bear, and all periods. At 136 days since a 5% market correction in a bull market S&P 500, we are overdue for one. At 328 days since a 10% or greater correction we should expect one. At 590 days since a 20% or greater correction we could have one now or later in this year or in 2026. This is part of investing. In the last week, the Dow had a 3% correction, which was right on target. One is expected every 26 days or so.

Although the markets have recently been driven by a fascination with “AI,” and we poke fun at it with this cartoon, the reality is that our lives are and will be even more and more driven by many differing technologies. As some people say, “Can’t live with it, can’t live without it”.

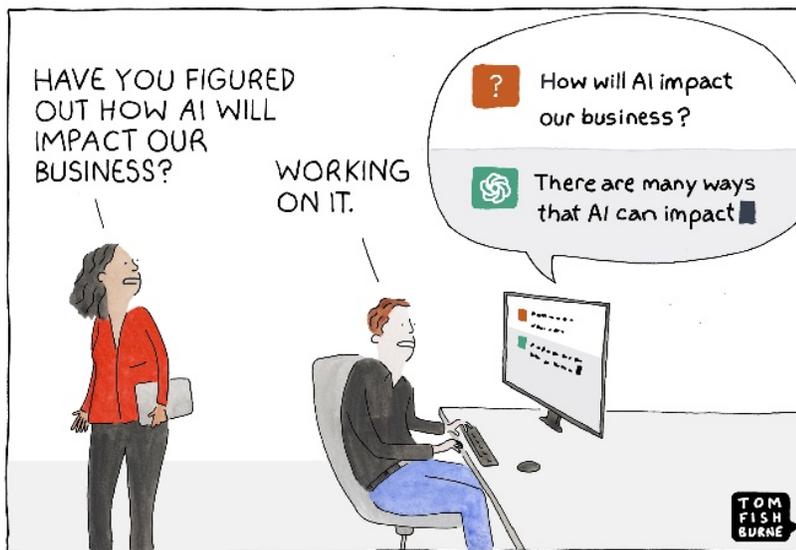
We thank you for your ongoing confidence and trust. We are always available to meet with you by phone, Zoom, FaceTime, or in person to review your investments or for you to update us with any change in your investment objectives. If you have any questions, please give us a call. Or call and ask to schedule a time to talk or meet in person.

Sincerely,

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

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

RCP:DSP/jah



Two campers are walking through the woods when a huge brown bear appears in the clearing about fifty feet away. The bear sees the campers and begins heading toward them.

The first guy drops his backpack, digs out a pair of sneakers, and frantically begins to put them on. "The second guy says what are you doing? Sneakers won't help you outrun that bear."

"I don't need to outrun the bear," the first guy says. "I just need to outrun you."

A woman in a pet shop sees a beautiful parrot. A tag on the cage says \$50. "Why so little?" she asks. The store manager says, "This bird used to live in a house of prostitution. It has kind of a vulgar mouth." The woman decides to buy the parrot anyway. She puts the cage in her house. First thing the bird says is, "New house, new madam." She is a little shocked but figures that's not so bad. When her daughters get home from school, the bird sees them and says "New house, new madam, new girls." The woman is surprised, but she figures the parrot will straighten out once it figures out who everyone is.

Later that day, the woman's husband comes home from work. As he walks in the house, the bird immediately says: "Hi Gary."

A Swiss guy, looking for directions, pulls up at a street corner where two Americans are standing. "Entschuldigung Sie Bitte, Koennen Sie Deutsch sprechen?" he says. The two guys just stare at him. "Excusez-moi, parlez-vous francais." The two men continue to stare. "Parlare Italiano?" No response. "Hablan ustedes Espanol?" Still nothing. The Swiss guy drives off, extremely disgusted and frustrated.

The first American turns to the second and says, "Y'know, maybe we should learn a foreign language." "Why?" says the other. "That guy knew four languages, and it didn't do him any good."

Three guys arrive at the pearly gates of heaven at around the same time. St. Peter asks the first man to explain how he died.

The first guy says, "Well, I came home from work early, and my wife was in the bedroom putting on her clothes, and I saw a cigar burning in the ashtray. I don't smoke cigars, so I looked out the window and saw a guy running out of the building frantically trying to catch a cab. I was so enraged; I dragged the refrigerator from the kitchen and pushed it out the window so it would crush him. I guess the stress of that moment, and the strain of pushing the refrigerator, gave me a heart attack." St. Peter nods and allows the man to enter heaven. Then he asks the second man how he died.

The second guy says, "I was late for an afternoon meeting, I was running out of my apartment building to catch the cab, when a refrigerator fell on top of me." St. Peter nods and allows the man to enter heaven. Then he asks the third man to explain how he died.

"Well, it's a funny coincidence," he says. "I was completely naked and hiding inside a refrigerator...."

CHILDREN'S SCIENCE EXAM ANSWERS

Q: Name the four seasons.

A: Salt, pepper, mustard and vinegar.

Q: Explain one of the processes by which water can be made safe to drink.

A: Flirtation makes water safe to drink. It removes large pollutants like grit, sand, dead sheep and canoeists.

Q: How is dew formed?

A: The sun shines down on the leaves and makes them perspire.

Q: How can you delay milk turning sour?

A: Keep it in the cow.

Q: What are steroids?

A: Things for keeping carpets still on the stairs.

Q: What happens to your body as you age?

A: When you get old, so do your bowels and you get intercontinental.

Q: What happens to a boy when he reaches puberty?

A: He says good-bye to his boyhood and looks forward to his adultery.

Q: Name a major disease associated with cigarettes.

A: Premature death.

Q: What is the fibula?

A: A small lie.

Q: What does "varicose" mean?

A: Nearby.

Q: What does the word "benign" mean?

A: Benign is what you will be after you be eight.

THE LOGIC OF CHILDREN

Susie Sunshine asked her Sunday School class to draw pictures of their favorite Bible stories. She was puzzled by Jimmy's picture which showed four people on an airplane, so she asked him which story it was meant to represent. "The flight to Egypt," said Jimmy. "I see and that must be Mary, Joseph, and Baby Jesus," Ms. Susie said. "But who's the fourth person?" "Oh, that's Pontius the Pilot," said Jimmy.

A nursery school teacher was delivering a station wagon full of kids home one day when a fire truck zoomed past. Sitting in the front seat of the fire truck was a Dalmatian dog. The children started discussing the dog's duties. "They use him to keep crowds back," said one youngster. "No," said another, "he's just for good luck." A third child brought the argument to a close. "They use the dogs," she said firmly, "to find the fire hydrant."

SERVICE

At one time in my life, I thought I had a handle on the meaning of the word “service.” The act of doing things for other people. Then I heard these terms:

- Internal Revenue Service
- Postal Service
- Civil Service
- City/County Public Service
- Customer Service
- Internet Service
- Cell Phone Service
- Driver and Vehicle Services

And, over time, I had encounters with these service providers, and so I became confused about the word “service.” What I was getting was not what I thought “service” meant.

Then today, I overheard two farmers talking and one of them mentioned that he was having a bull over to “service” a few of his cows.

SHAZAM! It all came into perspective. Now I understand what all those “service” agencies have been doing to us.

WHY MEN HAVE DOGS INSTEAD OF WIVES

Dogs don't notice if you call them by another dog's name.

Dogs like it if you leave a lot of things on the floor.

A dog's parents never visit.

Dogs like to do their snooping outside rather than in your wallet or phone.

Dogs can't talk.

Dogs enjoy petting in public.

You never have to wait for a dog; they're ready to go 24-hours a day.

Dogs find you amusing when you're drunk.

Dogs like to go hunting.

Another man will seldom steal your dog.

If a dog smells another dog on you, they don't get mad, they just think it's interesting.

If a dog leaves, it won't take half your stuff.



DT Walsh

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"Is there any way we can change 'embezzlement' to 'hidden costs'?"



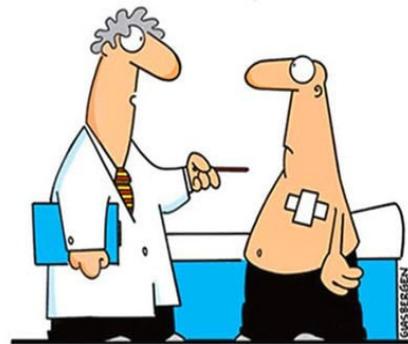
"So the sky never fell, no one wanted to help me cook, and the other side of the road?
Big disappointment."



"Guess which one I made with a 3-D printer."



Sheld



GOSSBERGER

"It's a pacemaker for your heart.
Plus, you can download apps for your liver,
kidneys, lungs, and pancreas!"