RESEARCH:

IDEAS FOR TODAY'S BROKERS SEPTEMBER 1995

Money manager Richard Perkins doesn't look much farther than his own backyard for **hot investment opportunities.**

By Ellen Uzelac

It's a long haul from Wall Street to Wayzata, but it is in that rich Minnesota landscape that folksy stock-picker Richard W. Perkins has hit pay dirt.

As founder and chief executive officer of Perkins Capital Management, the money manager has scored big wins with backyard stocks, clocking an average 17.18 percent annual return for investors over the last decade. Along the way, the father-and-sons firm has beaten the widely watched Standard & Poor's 500 index and most other industry yardsticks.

"There are a lot of ways to run money," says the 64-year-old Perkins from his offices in Wayzata, a community near Minneapolis. "There are great money managers who do all sorts of things: just buy stocks in the best companies in America: follow the 50 stocks that haven't had a down quarter since Noah's ark. There are a lot of different ways to do it. I happen to think our way is a lot more fun."

Every day after the market closes, analysts at the investment house chart – by hand – 600 stocks in search of the one characteristic that might signal a Perkins buy: change.

"We try to identify a company that's undergoing some change of some kind that creates a special opportunity," says Perkins, who, along with sons Dan and Richard, visits executives on-site to get a hands-on feel for their companies. "Usually, it's a new product, new management, sometimes a reorganization – some catalyst. I believe that change is key in everyone's life, certainly in mine. I think the same thing is true of corporate life."

The firm, which handles about $300 million in accounts, specializes in smaller companies, the bulk located in Perkins' home territory, the Upper Midwest.

Why the emphasis on homegrown stocks?

"Since 1959, I've probably visited every company that's here," says Perkins. "I know the managements. It's important, I think, to have a good understanding of what companies do and to know who's running them. It's also easier if you're concentrating your shots in an area you're familiar with. The other reason, and this is more difficult to phrase, is we think in the Upper Midwest that there's a strong work ethic. We seem to have more than our share of companies that are very successful. There's a strong sense of entrepreneurship in this part of the world."

For instance, it was a Minnesota Mining & Manufacturing Co. employee, looking for a way to mark the pages in his hymnal, who came up with Post-it notes. "Can you imagine what that would have been if it were a stand-alone company?" says Perkins. "Just think of it. Everyone in the world now is familiar with those little yellow Post-it-notes."

Perkins has jumped in on the ground floor with many new products, including, most recently, a nose strip called Breathe Right, used by athletes and people who snore. The device, which looks like a Band-Aid, was invented by a little company called CNS that's located 10 miles from Perkins' office. It can be found now in 90,000 stores.

Other current company favorites in the Perkins sampler:

- Angeion, which has built a new defibrillator for the heart, "a better mousetrap," according to Perkins, because it is smaller than anything else on the market.
- Minnesota Brewing Company, in its second year, is operating an old Schmidt's brewery at 23 percent of capacity and stands to make a lot of money. "There will be a lot of dollars floating to the bottom line," Perkins says. "It's not semiconductors or anything, but it's an awfully cheap stock. We like it a lot."
- Orphan Medical, which develops drugs for small markets with fixed demands. "People say, 'A what?' An orphan drug is literally what it says: an orphan. No one loves it," notes Perkins. "An Eli Lilly isn't going to market a drug that only benefits 50,000 people. This company will."

Perkins Capital typically will hold onto a stock for 18 months to three years.

"It takes a while, even if you identify a company with a new product and if you're lucky enough to get in early on. It takes time for others to find what you've found," says Perkins. "On the other hand, if it's a mistake, you might be aware of it in six months."

A sign in Perkins' office says "Believe what you see. Not what you hear. Not what you feel."

As Perkins himself admits, he should have listened to that advice when it came time to unload Education Alternatives, a Minneapolis-based firm with innovative approaches to education. The firm fit the Perkins prototype, and in 1994 – convinced that Education Alternatives could improve classroom performance – Perkins bought the stock for about $13. A few months later, it was trading at around $19, a significant gain in a period during which most stocks fell.

"When it came public, I said, 'Gee, this has got to work. This is going to be a trend.' Goodness knows we need to do something about schools," says Perkins, whose visit to Education Alternatives classrooms in Miami Beach so impressed him that he cried. "I thought it was just fantastic what they were doing. I got emotionally involved. I shouldn't have."

At one point, the Perkins firm owned 14 percent of the company. Since then, it has sold off all its interest. "I did what we aren't supposed to do," admits Perkins. "What I saw on the chart was the opposite of what I felt. I can't tell you how many times Dan and Dick and I said, 'We've got to sell our stock.' Then we'd say, 'No, schools all over America need this help. "We sold one-third of our stock when we should have sold every last bloody share. It was so plain, that's what the chart was telling us to do. But we got our gut into it. In the end, we wound up selling for $15 or something. We made a lot of money for everybody, but we could have made a lot more. We went against our credo. We shouldn't have done that."

The mighty chart has been a fixture in Perkins' life since the late 1950's, when he was hired on as junior investment officer for the Mayo Foundation's endowment fund. It was there that he picked up the key strategies that continue to guide his way of doing business.

Back then, he's sit at his kitchen table in Rochester, Minnesota, and track 30 to 40 charts. "Even now, I can punch this button or that button, and bingo, I have a chart. Believe me, we look at a lot of them," Perkins says. "But it isn't the same as hand-drawing them. You can't get the same nuances. Maybe it's old-fashioned. I don't do a lot of fancy footwork. I liken the chart to a road Map. The chart is going to show you a whole lot about what's happened, and at some point it will tell you a whole lot about what's going to happen."

Perkins, a one-time barber, joined Piper, Jaffray & Hopwood in 1966 and helped establish its research department. He concluded his career there as senior vice president, providing investment advice to domestic and foreign institutions, before starting Perkins Capital Management in 1984.

He is a likable guy, and his folksiness comes through in monthly newsletters that reveal as much about the man as they do the money manager. In them, clients will learn that Perkins has seen the show “Cats” 13 times (“I love it!”); that he is anti-smoking and anti-Clinton; and that he adores duck hunting. Ever the chart-meister, one recent newsletter highlighted a chart on estimated duck breeding populations. The same newsletter invited readers to stop by for “a cup of coffee and a tour” at the company’s new digs on “the north shore of beautiful Lake Minnetonka.”

Ask Perkins just about anything, but don’t ask him about his retirement plans.

“I don’t plan to stop working,” says the affable and energetic Perkins. “It was Satchel Paige who said, ‘How old would you be if you didn’t know how old you were?’ The way I look at it, I’d be 55.”