

Michael Corbett,  
Chief Investment Officer  
Portfolio Manager

### PARTY LIKE IT'S 1999

The longest bull market in history keeps rolling along. And the recipients of this bull market's run are losing money hand over fist. There are more than 40% of listed companies in the U.S. that lose money – the highest level since the late 1990's outside of post-recession periods. 42% of those money losing companies are health care and 17% are technology companies. Approximately less than a quarter of the companies that went public in 2019 will have positive net income – the lowest level since the tech bubble. Like the tech bubble in 1999, investors are pouring money into tech and now health care. Last year investors put \$11 billion into digital health companies. Venture capital funding has reached the dot-com era level. According to research firm Preqin, private equity firms have amassed approximately \$1.5 trillion in unspent capital, the highest total on record.

This isn't the only characteristic that is like the tech bubble. The Fed's open checkbook is making many observers worried. There is extraordinary liquidity being provided by the world's central banks, which is flowing to the most liquid and largest names in the S&P 500. This reminds us of 1999, when the Fed expanded the balance sheet at the end of the year and early in 2000 as a precaution against a Y2K disruption. The Fed supplied about \$120 billion to the market through repos to prevent a disruption then. This was about the same amount pumped in during the financial crisis of 2008 and more than it provided in reaction to the September 11 attacks. Since October of last year, the Fed has supplied approximately \$400 billion in four months - a \$1.2 trillion annual rate!!

This liquidity is feeding into large, liquid names – the bigger the better. As seen by the Fear & Greed Index below, the greed reading is at 89 down from 93 a week ago. We believe this is FOMO (Fear Of Missing Out) at its best.



Kathryn Schutz,  
Director of Research

### FEAR AND GREED INDEX

What emotion is driving the market now?



Source: Bloomberg as of 12/31/19.

Here is another data point to think about. There are currently 82% of companies in the S&P 500 Index trading above their 200-day average price, the highest percent in 2 years. A senior trader and market technician at Instinet said the last time so many companies were above this level, a correction followed not long after. According to Chuck Royce, over the last 20 years the 50 biggest stocks in the Russell 3000 Index have averaged a combined total market cap of about four times the total market cap of the Russell 2000. At the end of 2019, that ratio was more than six times – higher than it was at the height of the internet bubble in 2000.



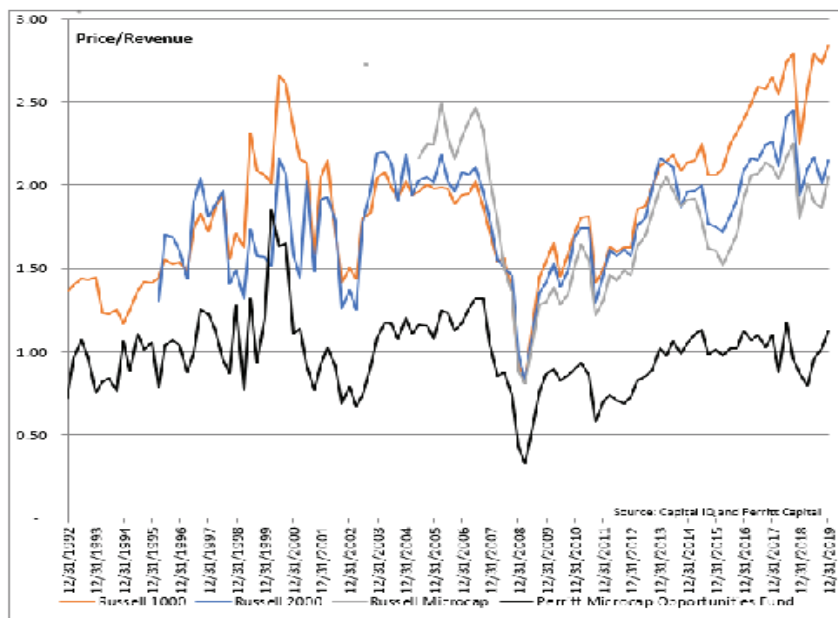
Are we beginning to sound like a broken record? This may not be the makings of a bubble, but it's the closest thing we have seen to one in a long time. If this is another bubble, the market overall could be in for a rough ride soon. While microcap stocks may get hurt if this bubble pops, we would argue that the damage would be significantly less and the rewards following the carnage could be material. As we have shown in past commentaries, microcap stocks are selling near their largest discount to large-cap stocks in decades. While past performance is no guarantee of future results, this market reminds us a great deal of 1999. The performance table below shows how our MicroCap Opportunities Fund, Russell 2000 Index and S&P 500 performed in the pre and post bubble market of 1999. The results are very striking. Unfortunately, the Russell Microcap Index was not created until 2005, so hence, the reason that Index is not included. The bottom line to us is that small-cap cycles can be very powerful when they occur, and we hope to soon be partying like it's 1999 again. We provided several other charts from our friends at Furey Research, which give us more confidence in the next positive small-cap cycle.

Index	Performance since 12/31/1999		Performance since 12/31/2005	
	1999	5 Year	2005	5 Year
S&P 500 Index	21.04%	28.56%	4.91%	0.54%
Russell 2000 Index	21.26%	16.69%	4.55%	8.22%
Perritt MicroCap	-8.17%	10.58%	14.47%	24.25%

[Click here](#) for standardized performance.

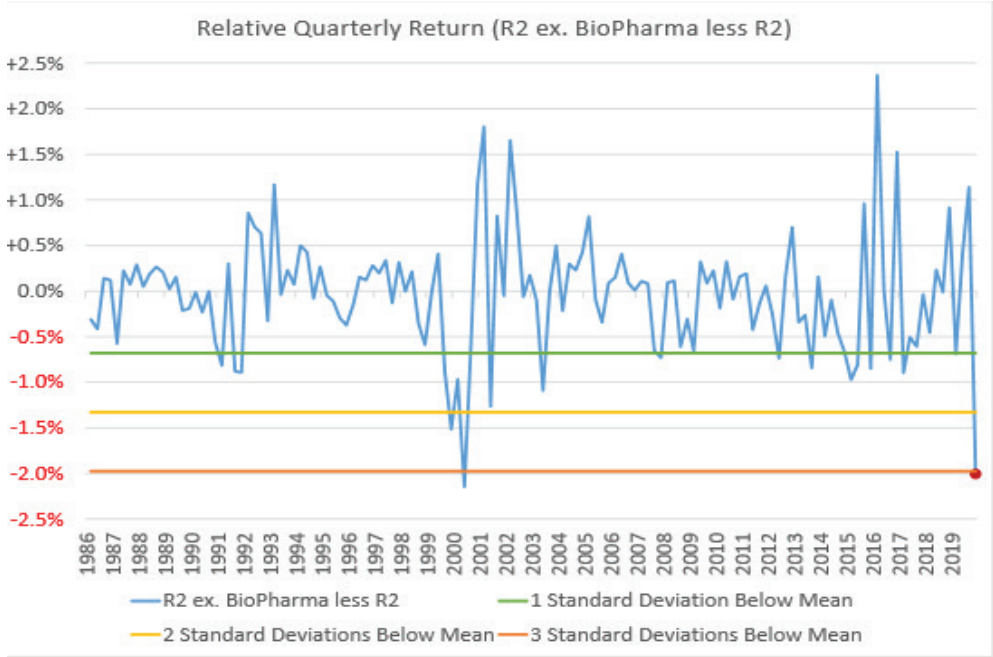
*Performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted. Performance data to the most recent month end may be obtained by calling (800) 331-8936. The fund imposes a 2% redemption fee on shares held for less than 90 days. Performance data does not reflect the redemption fee. If reflected, total returns would be reduced. The inception date for the Russell Microcap Index was 6/01/2005, therefore no average annual return figures for the 20-year period are available.*

### Historical Look at Price to Revenue



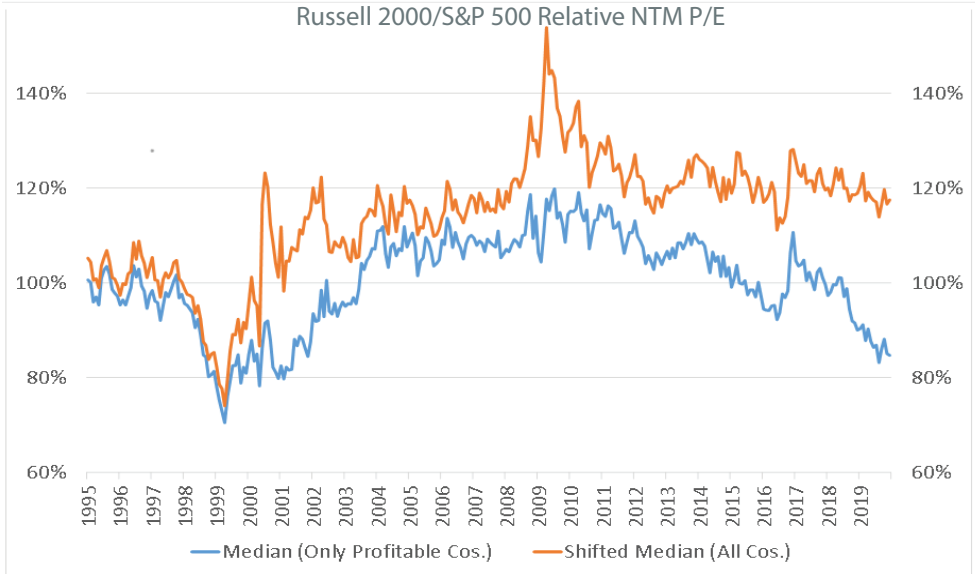


4Q19 WAS ONE OF THE MOST BIOPHARMA-DRIVEN QUARTERS IN 30+ YEARS



Source: FRP, FactSet as of 12/31/19. R2 is Russell 2000.

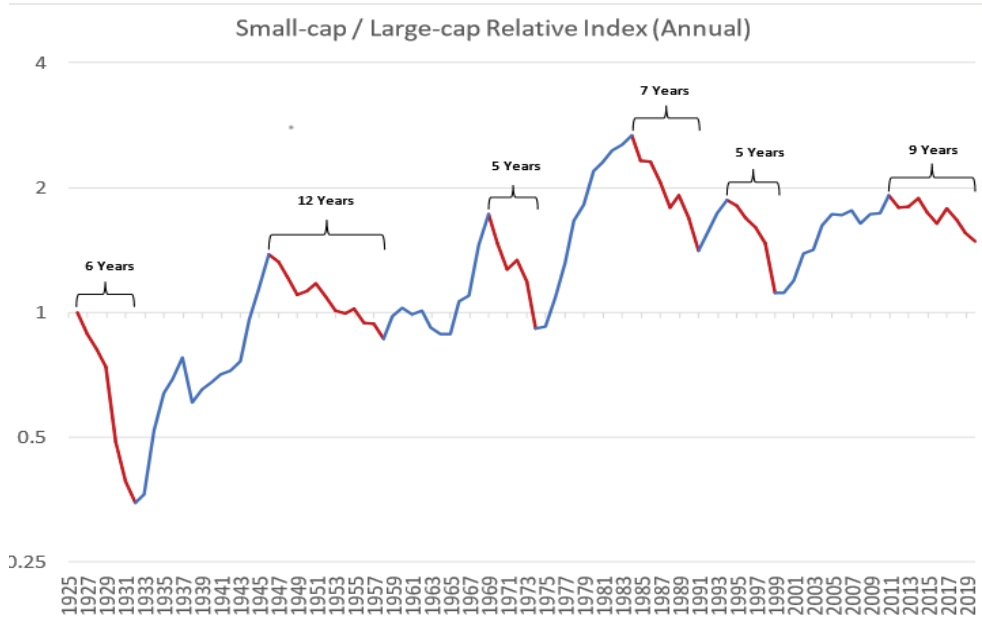
VALUATION LOOKS TO BE WORKING IN SMALL-CAPS' FAVOR



Source: FRP, FactSet as of 12/31/19.



**SMALL-CAP CYCLES CAN BE POWERFUL WHEN THEY OCCUR**  
*Probably not a good idea to exit small-caps completely*



Source: FRP, FactSet, CRSP as of 12/31/19.

**MICRO-CAPS vs R2000 LAGGING ON A TTM BASIS BUT BY LESS**  
*If Biotechnology & Healthcare can outperform, Micro-caps can continue its recent outperformance*



Source: FRP, StockCharts.com as of 1/10/20.





## DISCLOSURES

The information provided herein is opinion and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

One cannot invest directly in an index.

S&P 500 Index is a market capitalization-weighted index of the 500 largest U.S. publicly traded companies.

Russell 1000 Index is an index of approximately 1,000 of the largest companies in the U.S. equity market.

Russell 1000 Growth Index refers to a composite that includes large and mid-cap companies located in that United State that also exhibit a growth probability.

Russell 1000 Value Index refers to a composite that includes large and mid-cap companies located in that United State that also exhibit a value probability.

Russell 2000 Index is an index that measures the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.

Russell 2000 Growth Index measures the performance of Russell 2000 companies having higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Value Index measures the performance of Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell Microcap Index is a capitalization weighted index of 2,000 small-cap and micro-cap stocks that captures the smallest 1,000 companies in the Russell 2000, plus 1,000 smaller U.S.-based listed stocks.

Russell Microcap Growth Index measures the performance of those Russell Microcap companies with higher price-to-book ratios and lower forecasted growth values.

Russell Microcap Value Index measures the performance of those Russell Microcap companies with lower price-to-book ratios and lower forecasted growth values.

Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S. incorporated equity securities.

Price-to-Book is calculated by dividing a company's stock price by its book value per share, which is defined as its total assets minus any liabilities.

Debt is a financial instrument used as leverage for borrowing or purchasing purposes by corporations. A company with low or zero/no debt can enjoy higher profit margin and higher solvency.

Standard deviation is a number used to tell how measurements for a group are spread out from the average (mean) or expected value.

Healthcare sector is the sector of the economy made up of companies that specialize in products and services related to health and medical care. Biotech is a segment within the healthcare sector, which refers to products that result from biology. Biotech companies use live organisms or their products, such as bacteria or enzymes, to manufacture drugs.

*The fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company and may be obtained by calling (800) 331-8936. Read carefully before investing.*

[Click here](#) for a current prospectus. Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security. [Click here](#) for the Fund's top 10 holdings: [PRCGX](#), [PREOX](#).

Mutual fund investing involves risk. Principal loss is possible. The fund invests in smaller companies, which involve additional risks, such as limited liquidity and greater volatility. The fund invests in micro-cap companies which tend to perform poorly in times of economic stress.

Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

The Perritt Funds are distributed by Quasar Distributors, LLC.

# Perritt

CAPITAL MANAGEMENT

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*Small is passionate.*