

Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	18038.27	88.68	0.49%	1.21%
Dow Jones Transports	8863.07	47.32	0.54%	-3.03%
Dow Jones Utilities	587.50	1.70	0.29%	-4.95%
S&P 500	2107.96	10.67	0.51%	2.38%
S&P 400 Midcap	1532.74	3.79	0.25%	5.53%
S&P 600 Smallcap	722.19	1.33	0.18%	3.90%
NASDAQ	5035.17	21.07	0.42%	6.32%
Russell 2000 (Smallcaps)	1265.48	1.33	0.11%	5.05%
BKX (Banking)	73.48	0.73	1.00%	-1.05%
BTK (Biotech)	4083.47	-10.56	-0.26%	18.74%
XOI (Oil Index)	1424.41	9.14	0.65%	5.66%
SOXX (Semiconductor)	716.82	9.70	1.37%	4.36%
XAU (Gold/Silver)	69.38	-1.84	-2.58%	0.87%

“Size Wars”

Michael Corbett, portfolio manager for Perritt Capital, recently wrote, “Size matters not, said Jedi Master Yoda. Obviously, he never had to sit with a client comparing their portfolio to the S&P 500 Index. Jedi or not, as you know too well, large-cap U.S. companies were one of the best U.S. investments in 2014. In fact, large-cap stocks as measured by the S&P 500 Index returned 8.8% more than small-caps as measured by the Russell 2000 Index in 2014, the best annual relative return for large-cap vs. small-cap since 1998. But a curious trend developed at the end of 2014 and has continued through the first quarter of this year: the return of small company stocks. The chart on page 2 shows the 12-month rolling return difference between the S&P 500 Index and the Russell 2000 Index. As you can see, large-caps reached a peak level of outperformance vs. small-caps on October 1 of last year, at 16.1%. This was almost exactly at the average peak outperformance we have seen over the past twenty-four years. Perhaps not surprisingly, since October 2014 small-cap companies have begun to outperform the S&P 500 Index.”

I have met with Michael Corbett a number of times and always found him to be a thoughtful “stock picker.” A number of the mutual funds he manages are on the Raymond James platform and of particular interest to me is the Perritt MicroCap Opportunities Fund (PRCGX/\$34.58). The reason is because the micro-cap space is where there are a lot mispriced stocks. Indeed, I have told numerous people that if I were to go back into managing money, it would be in the small to microcap space where there is little (if any) research coverage. In essence what has happened is that the small regional brokerage firms have all but disappeared, leaving many of the microcap companies that used to have research coverage now without coverage. When that happens, the mispricing of the securities often follows.

I revisit the small/micro-cap theme this morning because I have been making the case that the Russell 2000 (RUT/1265.48) has been outperforming. To be sure, the RUT, as of last Friday, was up 3.91% year-to-date versus the S&P 500's (SPX/2107.96) 1.08% gain.

“Size matters not, said Jedi Master Yoda.”

... Michael Corbett, portfolio manager for Perritt Capital Management

Index	Cur Future	Change	
Dow Jones	17,881	-64	
S&P 500	2,093	-7.2	
NASDAQ	4,432	-13.3	
Volume	ADV/DEC		
	1 Day Volume	Volume	
NYSE	753,315,189	2.5	
NASDAQ	1,702,030,000	1.4	
	Issues	1.1	
Foreign Markets	Intraday	Net	% Chg
U.K. FTSE 100	7,036	7.26	0.10%
Germany DAX	11,742	-125.06	-1.05%
Brazil Bovespa	54,617	856.09	1.59%
Japan Nikkei 225	20,188	53.75	0.27%
Hong Kong Hang Seng	27,828	-106.15	-0.38%
S&P Sectors	Close	% Chg	1 mo %
Consumer Discretionary	604.63	0.14%	-0.71%
Consumer Staples	507.25	0.11%	0.80%
Health Care	859.12	0.16%	-0.85%
Information Technology	711.40	1.09%	0.13%
Telecom Services	155.31	0.65%	-0.46%
Energy	598.17	0.63%	6.19%
Financials	327.15	0.70%	-1.74%
Industrials	487.55	0.45%	-0.69%
Materials	311.98	0.25%	0.78%
Utilities	225.87	0.25%	-1.24%
Key Commodity Prices	Last	Net	
Crude Oil (WTI)/bbl	56.06	-0.10	
Natural Gas/mmbtu	2.70	-0.02	
Gasoline (USD/gal)	1.93	0.01	
Gold/oz.	1189.20	2.30	
Silver/oz.	15.85	0.05	
U.S. Dollar Index	98.14	-	
Copper (USD/lb.)	2.68	0.00	
Cotton #2 (USD/lb.)	63.31	0.39	
Market Valuation	2014	2015E	2016E
Consensus S&P 500 EPS	\$113	\$118	\$134
P/E	18.7	17.9	15.7
Earnings Yield		5.6%	6.4%
Equity Risk Premium (10 yr)		3.6%	4.4%
Treasury Yields	90D	10 Yr	30 Yr
	0.02%	1.97%	2.65%

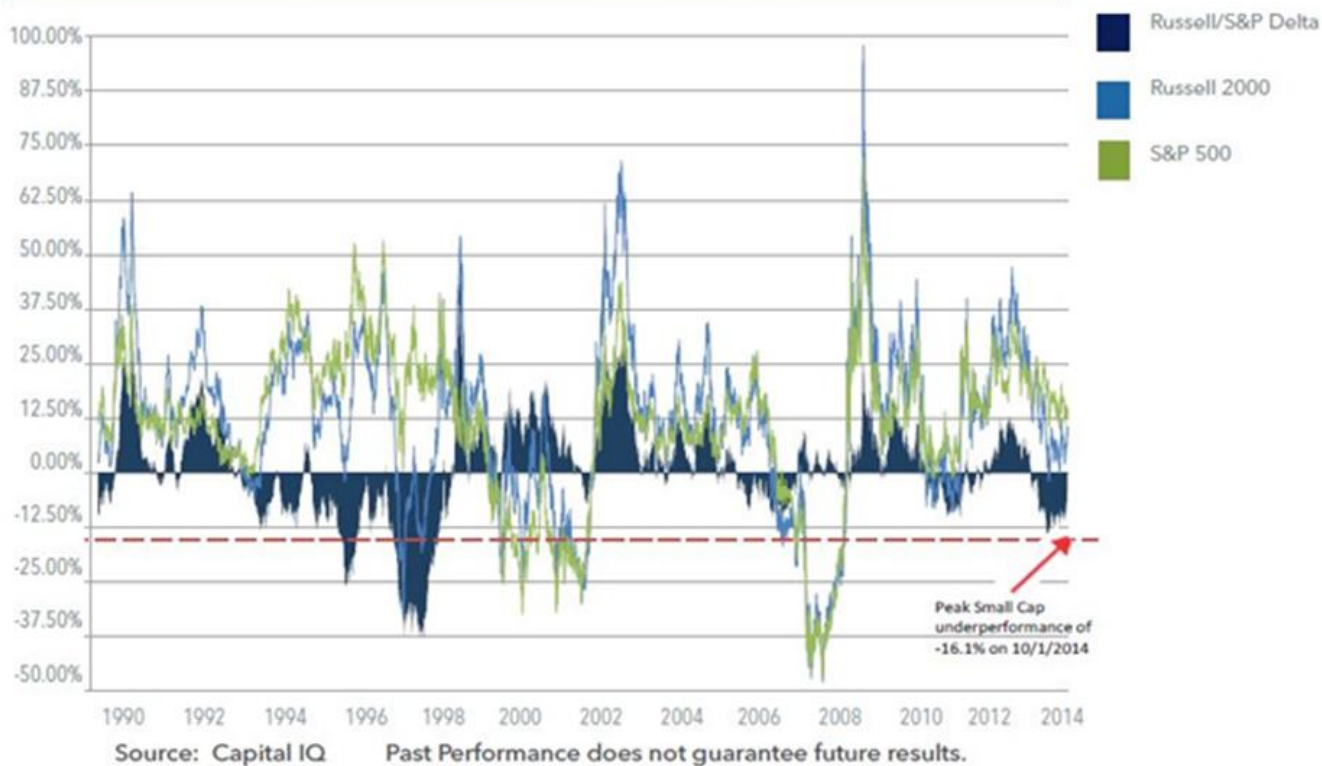
Source: Thomson Reuters Data as of: 6:41 AM



Source: Market Q

I have also opined that the RUT is composed mainly of growth stocks and if the equity markets were about to turn nasty, the growth stocks would not be acting so perky. Speaking of perky, the SPX has “perked” its way back up to the downtrend line that comprises the topside of the wedge chart formation so often referenced in these comments. This is the fourth time the SPX has done this and my hunch is that this time it will break out on the upside. Since both Andrew Adams and I are traveling back from the Raymond James Financial Services national conference, the Morning Tack will not be published tomorrow.

SMALL VS. LARGE ROLLING 12 MONTH RETURN



Source: Capital IQ

U.S. Markets Index Information: *U.S. Treasury securities* are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The *Dow Jones Industrial Average* is an unmanaged index of 30 widely held securities. The *Dow Jones Transportation Average* is the most widely recognized gauge of the American transportation sector. The *Dow Jones Utility Average* keeps track of the performance of 15 prominent utility companies. The *S&P 500* is an unmanaged index of 500 widely held stocks. The *S&P Mid Cap 400 Index* is a capitalization-weighted index that measures the performance of the mid-range sector of the U.S. stock market. The *S&P Small Cap 600 Index* is an unmanaged index of 600 small-cap stocks. The *NASDAQ Composite Index* is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The *Russell 2000 index* is an unmanaged index of small cap securities which generally involve greater risks. The *KBW Bank Sector (BKX)* is a capitalization-weighted index composed of 24 geographically diverse stocks representing national money center banks and leading regional institutions. The *NYSE Arca Biotechnology Index (BTK)* is an equal dollar weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services. The *NYSE Arca Oil Index (XOI)* is a price-weighted index of the leading companies involved in the exploration, production, and development of petroleum. The *PHLX Semiconductor Sector Index (SOXX)* measures the performance of U.S.-traded securities of companies engaged in the semiconductor business, which includes companies engaged in the design, distribution, manufacture, and sales of semiconductors. The *Philadelphia Gold and Silver Index (XAU)* is an index of 16 precious metal mining companies that is traded on the Philadelphia Stock Exchange.

Futures: Futures prices are current as of the publication of this report, but will fluctuate. Please contact your financial advisor for updated information.

Foreign Markets Information: The FTSE 100 Index is a share index of the stocks of the 100 companies with the highest market capitalization listed on the London Stock Exchange. The *DAX* (German stock index) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The *Bovespa* Index is a gross total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The *Nikkei 225* is a price-weighted index consisting of 225 prominent stocks on the Tokyo Stock Exchange. The *Hang Seng Index* is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

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