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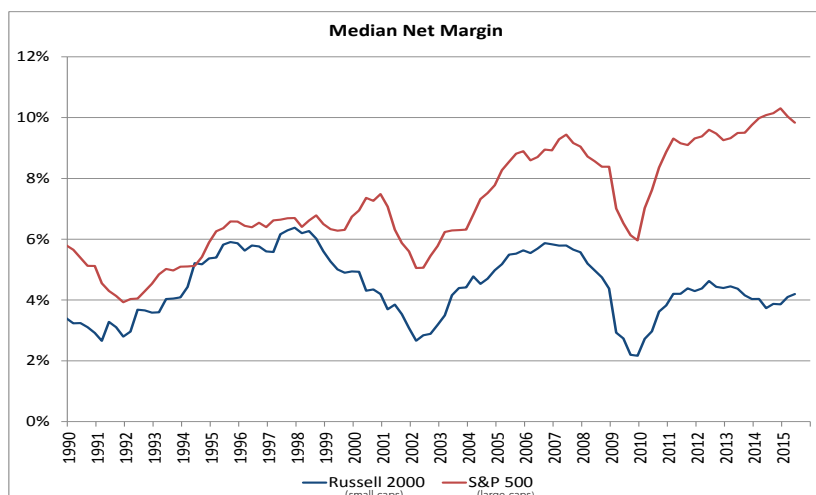
OUR BULLISH TAKE ON SMALL-CAPS

The third quarter of 2015 started off strong for stocks, with large-cap stocks climbing more than 3 percent and small-cap stocks climbing more than 1 percent in the first two weeks of July, but that rally quickly faded. As measured by the S&P 500 Index, large-cap stocks lost 6.44 percent in the third quarter and small-cap stocks fared much worse. As measured by the Russell 2000 Index, small-cap stocks lost 11.92 percent and the Russell Microcap Index declined by 13.78 percent. While each of the Perritt Fund's products performed better than their respective benchmarks, the investment losses are disappointing. However, there are several **reasons to be positive**, particularly for small-cap stocks.

According to Furey Research Partners, "whenever small-cap stock returns have been this poor in the third quarter, fourth quarter returns and even forward 6-month returns have been positive. Since 1940, excluding third quarter 2015, there have been 11 other years in which small-cap stocks were down 10 percent or more in the third quarter.* On 10 of those 11 occasions, small-cap stocks posted positive returns in the fourth quarter. Another bullish supporting point, the average bull market lasts seven plus years while the current bull market is only 6 years old." While the past behavior of the market can't predict the future, we believe the recent declines present an attractive entry point for new investments.

BEARS ARGUE ELEVATED MARGINS CREATE VALUATION DISTORTION

But...small-cap margins are far from peak levels while elevated large-cap margins can make M&A easier.



Source: Furey Research Partner as of 9/30/15.

Past performance does not guarantee future results.

Bears have often argued that net margins are too high and normal competitive pressures should bring net margins lower. As can be seen in the graph, large-cap stock's net margins have climbed significantly in the past few years, and even since the early 1990's. While net margins have modestly improved in the past few years for small-cap stocks, they have been stagnant for the past two decades. We believe net margins have not improved for smaller-cap stocks due to their business investments. In fact, capital expenditures have been rising significantly for the average company within our MicroCap Opportunities Fund. We will outline this interesting fact in a new white paper next month. Please stayed tuned.



The research team at Perritt Capital Management just finished putting together our *Perritt Small-Cap Insights*, a comprehensive report with more than 50 slides of charts and tables detailing our positive outlook for small-cap stocks. Here we present a few charts from that comprehensive report. E-mail Mark Oberrotman - mark@perrittcap.com, or call 800-331-8936 if you would like to see the full deck of slides.

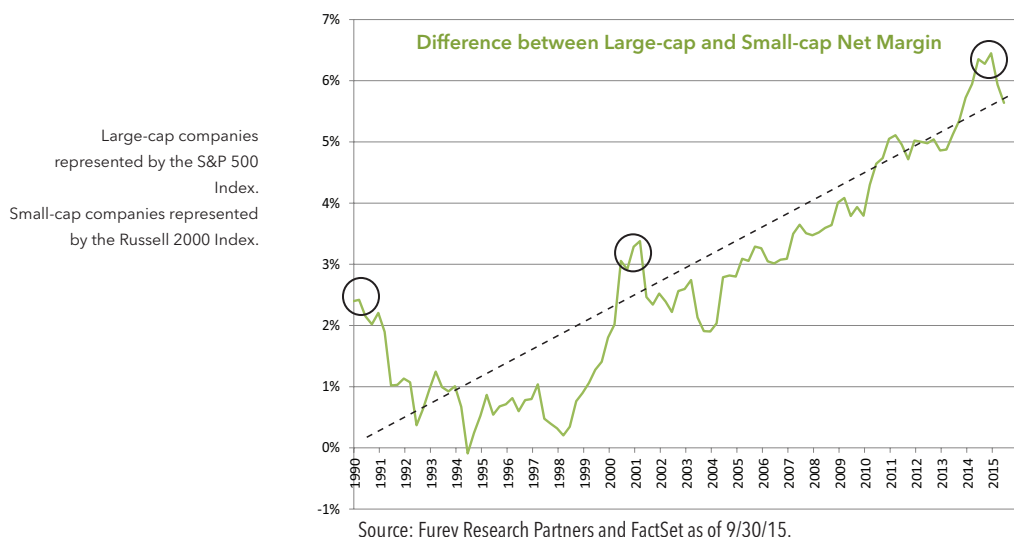
As we mentioned in one of our commentaries last year, we believe small-cap stock indexes did not reach the full definition of a bear market, but micro-cap stocks did experience a stealth bear market. A stealth bear market is one where many stocks decline by more than 20 percent, but the index has not declined by more than 20 percent. Once again, the Russell 2000 Index and the Russell Microcap Index have not reached the bear market definition this year, but the average stock is in a bear market. There are 1,681 stocks in the Russell Microcap Index, and 1,051 of the companies declined more than 20 percent from their highs. In fact, the average decline of these 1,051 companies is 32.5 percent. While this performance is certainly discouraging, historically some bear markets have not lasted more than two years.

SMALL-CAP RELATIVE MARGINS AT CYCLICAL LOW?

- Margins have accelerated faster in large-cap companies than small-cap companies, helping to boost large-cap earnings
- Large-cap margins recently hit a peak relative to small-cap margins
- At previous peaks, small-cap margins have improved relative to large-caps, helping to drive small-cap out-performance cycles

The next chart is more evidence that small-cap stock margins could improve in the near future. This chart shows the relative net margins of large-cap stocks to small-cap stocks. We believe that large-cap stocks are making a cyclical peak, as past similar above-trend moves, since 1990 have led to meaningful declines in large-caps' relative net margins. Our research and conversations with small-cap stock management teams also leads us to believe that net margins should improve for smaller stocks.

Large-cap margins have been rising relative to small-caps for nearly 25+ years, but can this continue?



We believe we appear to be making a cyclical peak, as past similar above-trend moves since 1990 have led to meaningful declines in large-caps' relative net margins.

More importantly, we may also be making a secular peak if one assumes the recent drivers of large-cap relative margin gains are unsustainable.



The final chart is one of our favorites. These two tables below not only show that small-cap stocks are less expensive than large-cap stocks, we believe they also should have the strongest earnings growth over the next few years. For example, the price-to-sales ratio for the S&P 500 Index is 1.8 versus 1.5 for the Russell Microcap Index. In addition, each of our Funds are more attractively priced based upon price/sales relative to that of Russell Microcap Index. The price-to-book value ratio and forward price earnings ratio of the Russell Microcap Index and our funds are more attractive than S&P 500 Index. Finally, the implied 2016 earnings per share growth for small-cap stocks are much stronger than large-stocks. For example, the Russell Microcap Index has an implied earnings growth of 20% vs. the S&P 500 earnings growth of 16%.

SMALL CAPS VS. LARGE CAPS: WHERE CAN INVESTORS FIND GROWTH?

| | Market Cap | Price/Sales | Price/Book Value | Trailing Twelve Months Price/Earnings | 2016 Forward Price/Earnings |
|--|--------------|-------------|------------------|---------------------------------------|-----------------------------|
| S&P 500 | 16,590.9 bil | 1.8 | 2.8 | 21.7 | 15.7 |
| Russell Microcap | 181.6 mil | 1.5 | 1.5 | 17.3 | 14.0 |
| Perritt MicroCap Opportunities Fund | 591.8 mil | 1.0 | 1.5 | 20.0 | 12.6 |
| Perritt Ultra MicroCap Fund | 253.8 mil | 0.9 | 1.5 | 16.5 | 12.3 |
| Perritt Low Priced Stock Fund | 74.0 mil | 1.3 | 1.8 | 17.6 | 13.2 |

| | Implied 2016 Earnings Per Share Growth |
|---------------------------------------|--|
| S&P 500 | 16% |
| Russell Microcap | 20% |
| Perritt MicroCap Opportunities | 21% |
| Perritt Ultra MicroCap Fund | 26% |
| Perritt Low Priced Stock Fund | 16% |

"Small-cap stocks are less expensive than large-cap stocks and we believe they also should have the strongest earnings growth over the next few years."

Source: Capital IQ as of 9/30/15.



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

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company and may be obtained by calling 1-800-331-8936 or by visiting www.perrittcap.com/index Read carefully before investing.

Net Margin is the ratio of net profits to revenues for a company. Price-To-Sales Ratio (P/S) is a tool for calculating a stock's valuation relative to other companies, calculated by dividing a stock's current price by its revenue per share. Price-Earnings Ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. It is calculated as the market value per share divided by earnings per share. Russell 2000 Index is an index measure the performance 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 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. S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Center for Research in Security Prices (CRSP) is comprised of nearly 4,000 constituents across mega, large, small and micro capitalizations. F-Forward Earnings Per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. Forward Earnings is a company's forecasted, or estimated, earnings made by analysts or by the company itself. Price-to-Book Value Ratio (P/BV) is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. Market Capitalization (Mkt Cap) is the total dollar market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. Average stock is the average value of a stock over an accounting period.

* Small-cap stocks are measured by CRSP 6-8 decile before 1979 and Russell 2000 since 1979 according to Furey Research Partners.

Mutual fund investing involves risk. Principal loss is possible. The Funds invest in smaller companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. The Funds invest in micro cap companies which tend to perform poorly during times of economic stress. The Ultra MicroCap Fund and Low Priced Stock Fund may invest in early stage companies which tend to be more volatile and somewhat more speculative than investments in more established companies. Low Priced stocks are generally more volatile than higher priced securities.

Earnings growth is not representative of the fund's future performance.

Past performance does not a guarantee of future results. Performance data quoted represents past performance. 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 may be obtained by calling (800) 331-8936. Click here for standardized performance.

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Small is passionate.