



Michael Corbett,
Chief Investment Officer
Portfolio Manager

DON'T FIGHT THE FED

It is with great sadness that I inform everyone that our founder, Dr. Gerald W. Perritt, passed away this past month. Not only was Dr. Perritt my teacher and mentor, he was a dear friend. Dr. Perritt taught me many things about life and certainly investments. His first lesson and used often was to always investigate before you invest. Given the current environment, I am often reminded of another one of Dr. Perritt's lessons: Don't Fight the Fed! The Federal Reserve has three key objectives for monetary policy: maximizing employment, stabilizing prices and moderating long-term interest rates. Regardless of what many observers may say, the Fed generally is not concerned about increased stock market volatility. The Fed is more concerned about their mandate and the economy. While it can be argued that inflation does appear to be a threat, there are also signs of only a modest uptick in inflation. To us, the bottom line is the Fed is moving to get interest rates to a normal level, which is a perception problem. Since interest rates have been exceptionally low for nearly 10 years, we believe many investors think we are already at a normal range for interest rates. Again as Dr. Perritt always reminded me, it is always a great idea to use history as a guide. So, let's review history for interest rates. The tables below show the real history of the economy and interest rate policy. You can draw your own conclusion, but we believe interest rates still need to be higher to reach a normal interest rate policy.

Fed Funds Rate History

This chart shows the fed funds rate changes since 1971. Its complete history from 1954 to the present is found at the [Federal Reserve Bank of St. Louis](#).

Fed Chair Arthur Burns (January 1970-March 1978)

1971: GDP = 3.30%, Unemployment = 6.00%, Inflation = 3.30%

Date	Fed Funds Rate	Event
January	4.50%-4.00%	Expansion
February	3.50%	
July	5.50%	Fed raised rate to fight inflation
August	5.75%	Wage-Price Controls
November	5.00%	Lowered rate to stimulate growth

1972: GDP = 5.20%, Unemployment = 5.20%, Inflation = 3.40%

March	5.500%	Raised rate to combat inflation. Confused markets
December	5.75%	



1973: GDP = 5.60%, Unemployment = 4.90%, Inflation = 8.70%

Date	Fed Funds Rate	Event
January	6.00%	Raised four times that month
February	6.75%	Lowered to 6.5%, then raised to 6.75%
April	7.25%	Raised for next five months
August	11.00%	OPEC embargo created inflation in October

1974: GDP = 0.50%, Unemployment = 7.20%, Inflation = 12.30%

February	9.00%	Raised from March to mid-July
July	13.00%	
December	8.00%	Lowered gradually from July to December

1975: GDP = -0.20%, Unemployment = 8.20%, Inflation = 6.9%

January	6.50%	Lowered four times in January
May	5.00%	Lowered five times in five months
September	6.50%	Raised from June through September

1976: GDP = 5.40%, Unemployment = 7.80%, Inflation = 4.90%

January	4.75%	Lowered from October through January
April	5.50%	Raised in April and May
November	4.75%	Lowered from July-November

1977: GDP = 4.6%, Unemployment = 6.40%, Inflation = 6.70%

August	6.00%	Raised from December through August
October	6.50%	Raised again in September and October

Fed Chair William Miller (March 1978-August 1979)

1978: GDP=5.60%, Unemployment = 6.00%, Inflation = 9.00%

January	6.75%	Raised each month from April through December
December	10.00%	

Fed Chair Paul Volcker (August 1979-August 1987)

1979: GDP=-3.20%, Unemployment = 6.00%, Inflation = 13.3%

April	10.25%	Raised four points
October	15.50%	
December	12.00%	Gradual decline through the month



1980: GDP = 0.20%, Unemployment = 7.20%, Inflation = 12.50%

Date	Fed Funds Rate	Event
January	14.00%	Increased rapidly that month
March	20.00%	Raised rates in February and March
June	8.50%	Lowered to 9.50% in May and 8.50% in June
September	12.00%	Rates increased to 10.00% in August and 12.00% in September
December	20.00%	Raised steadily until mid-December
Dec 29	18.00%	Lowered two points

1981: GDP = 2.6%, Unemployment = 8.5%, Inflation = 8.90%

January	20.00%	Reagan took office. Volcker raised rates again
April	16.00%	Lowered four points
May	20.00%	Raised four points
December	12.00%	Lowered eight points

1982: GDP=1.90%, Unemployment = 10.80%, Inflation = 3.80%

April	15.00%	Raised three points
December	8.80%	Lowered nine times over nine months

1983: GDP = 4.60%, Unemployment = 8.30%, Inflation = 3.80%

April	9.66%	Raised from May to August
December	9.25%	Lowered from August to October

1984: GDP = 7.30%, Unemployment = 7.30%, Inflation = 3.90%

August	11.75%	Raised from March to August
December	8.25%	Lowered from April to December

1985: GDP = 4.20%, Unemployment = 7.00%, Inflation = 3.80%

March	9.00%	Raised from March to August
December	7.75%	Lowered from September to December

1986: GDP = 3.50%, Unemployment = 6.60%, Inflation = 1.10%

August	5.66%	Lowered from March to August
December	6.00%	

Fed Chair Alan Greenspan (August 1987-January 2006)

1987: GDP=3.50%, Unemployment = 5.70%, Inflation = 4.40%

September	7.25%	Raised rates from April to September
November	6.75%	Lowered after October 19 stock market crash

1988: GDP = 4.20%, Unemployment = 5.30%, Inflation = 4.40%

February	6.50%	Lowered in January and February
December	9.75%	Raised rates to fight inflation

1989: GDP = 3.7%, Unemployment = 5.40%, Inflation = 4.60%

December	8.25%	Savings & Loan crisis. Fed lowered rates
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1990: GDP = 1.90%, Unemployment = 6.30%, Inflation = 6.10%

Date	Fed Funds Rate	Event
December	7.00%	Recession began in July

1991: GDP = -0.10%, Unemployment = 7.30%, Inflation = 3.10%

December	4.00%	Recession ended in March
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1992: GDP = 3.60%, Unemployment = 7.40%, Inflation = 2.9%

April	3.75%	Expansion
July	3.25%	
September	3.00%	Clinton took office in 1993. Fed made no changes

1994: GDP = 4.0%, Unemployment = 5.50%, Inflation = 2.70%

February	3.25%	
March	3.50%	
April	3.75%	
May	4.25%	
August	4.75%	
November	5.50%	Raised rates

1995: GDP = 2.70%, Unemployment = 5.60%, Inflation = 2.50%

February	6.00%	Raised Rates
July	5.75%	Lowered Rates
December	5.50%	

1996: GDP = 3.80%, Unemployment = 5.40%, Inflation = 3.30%

January	5.25%	Kept rates low despite inflation
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1997: GDP = 4.50%, Unemployment = 4.70%, Inflation = 1.70%

March	5.50%	
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1998: GDP = 4.50%, Unemployment = 6.00%, Inflation = 1.60%

September	5.25%	Long-Term Capital Management crisis
October	5.00%	
November	4.75%	

1999: GDP = 4.70%, Unemployment = 6.00%, Inflation = 2.70%

June	5.00%	Raised rates
August	5.25%	
November	5.50%	

2000: GDP = 4.10%, Unemployment = 6.00%, Inflation = 3.40%

February	5.75%	
March	6.00%	Raised rates despite stock market decline in March
May	6.50%	



2001: GDP = 1.00%, Unemployment = 6.00%, Inflation = 1.6%

Date	Fed Funds Rate	Event
January 3	6.00%	Bush took office
January 31	5.50%	
March	5.00%	
April	4.50%	Recession began. Fed lowered rates to fight it
May	4.00%	
June	3.75%	Economic Growth and Tax Relief Reconciliation Act tax rebate enacted
August	3.50%	911 attacks
September	3.00%	Afghanistan War
October	2.50%	
November	2.00%	
December	1.75%	

2002: GDP = 1.80%, Unemployment = 6.00%, Inflation = 2.40%

June	1.25%	
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2003: GDP = 2.80%, Unemployment = 6.00%, Inflation = 1.90%

June	1.00%	Jobs and Growth Tax Relief Reconciliation Act tax cuts enacted
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2004: GDP = 3.80%, Unemployment = 6.00%, Inflation = 3.3%

June	1.25%	Low rates pushed interest-only loans. Helped cause Subprime Mortgage Crisis
August	1.50%	
September	1.75%	
November	2.00%	
December	2.25%	

2005: GDP = 3.30%, Unemployment = 6.00%, Inflation = 3.40%

February	2.50%	Borrowers could not afford mortgages when rates reset in 3rd year
March	2.75%	
May	3.00%	
June	3.25%	
August	3.50%	
September	3.75%	
November	4.00%	
December	4.25%	

Fed Chair Ben Bernanke (February 2006-January 2014)

2006: GDP = 2.70%, Unemployment = 6.00%, Inflation = 2.50%

January	4.50%	Raised to cool housing market bubble. More homeowners default
March	4.75%	
May	5.00%	
June	5.25%	



2007: GDP = 1.80%, Unemployment = 6.00%, Inflation = 4.1%

Date	Fed Funds Rate	Event
September	4.75%	Home sales fell
October	4.50%	
December	4.25%	LIBOR rose

2008: GDP = -0.30%, Unemployment = 6.00%, Inflation = 0.10%

January 22	3.50%	
January 30	3.00%	Tax Rebate
March	2.25%	Bear Stearns bailout
April	2.00%	
October 8	1.50%	Lehman fails. Bank bailout approved. AIG bailout
October 29	1.00%	
December	0.25%	Effectively zero. The lowest fed funds rate possible

Fed Chair Janet Yellen (February 2014-February 2018)

2015: GDP = 2.60%, Unemployment = 6.00%, Inflation = 0.70%

December	0.50%	Growth stabilized
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2016: GDP = 3.20%, Unemployment = 4.60%, Inflation = 2.10%

December	0.75%	
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2017: GDP = 2.60%, Unemployment = 4.10%, Inflation = 2.10%

March	1.00%	Fed was steady on its path of normalizing its benchmark rate
June	1.25%	
December	1.50%	

Fed Chair Jerome Powell (February 2018-February 2022)

March	1.75%	Fed projects steady growth
June	2.00%	
September	2.25%	



Q3 2018 Small-Cap Universe Performance*

Mkt Cap Range	Positive Performance	Negative Performance	Breadth	Average Gain/Loss %	Median Gain/Loss %
\$2b+	238	208	1.14	3.59%	1.28%
\$500mm-\$2b	514	461	1.11	2.41	1.23
\$150mm-\$500mm	527	577	0.91	0.24	-0.46
\$10mm-\$150mm	338	352	0.96	0.48	-0.24
Overall:	1617	1598	1.01	1.42	0.00

Source: Capital IQ as of 9/30/2018

*Small Cap Universe includes all equities listed in the Russell 2000 and Russell Microcap indexes plus an approximate 1,000 U.S. limited micro-cap equities not listed in the indexes.

Median Statistics of Valuation

Mkt Cap Range	ttm/P/E	P/B	P/S
\$2b+	23.6	2.7	2.6
\$500mm-\$2b	21.7	2.3	2.1
\$150mm-\$500mm	19.1	1.6	3.8
\$10mm-\$150mm	18.3	1.4	1.8
Overall:	20.8	1.8	2.5

Source: Capital IQ as of 9/30/2018



Dr. Gerald W. Perritt

"We are sad to report the loss of our founder, friend, teacher and mentor. Dr. Perritt was a pioneer in the mutual fund industry. He was one of the first in the industry to track performance and industry dynamics, and to champion mutual funds as an investment option. He launched *The Mutual Fund Letter* in 1981, a monthly newsletter tracking the mutual fund industry. Dr. Perritt's flagship newsletter was *Investment Horizons* where he recommended micro-cap stocks. He also created the Perritt MicroCap Opportunities Fund, one of the first micro-cap mutual funds, in 1988," stated Michael Corbett, the current CEO of Perritt Capital Management.

Dr. Perritt was a prolific writer, sharing his insights and expertise through newsletters and several books, including *Small Stocks, Big Profits, Mutual Funds Made Easy*, and *Expanding Your Investment Horizons*. He was also a columnist for *Forbes Magazine*. Dr. Perritt was frequently quoted in such publications as the *Wall Street Journal* and *Barron's Magazine*. He was always generous to share his wisdom, knowledge and experience with his staff, grooming successful investors.

Teaching was a passion for Dr. Perritt. He taught and mentored many throughout his illustrious career. He served as a professor at several prestigious universities, including Ball State University, Babson College, University of Miami and DePaul University.

Michael Corbett added, "our thoughts and prayers are with Dr. Perritt's family and loved ones."



Perritt Funds Tax Distribution Update

The Perritt MicroCap Opportunities Fund, the Perritt Ultra MicroCap Fund and the Perritt Low Priced Stock Fund will pay a long term capital gains distribution on 11/14/18 to shareholders. Based on our estimates:

- The long-term capital gains distribution in the Perritt MicroCap Opportunities Fund (PRCGX) will be approximately 12%, roughly 6% in the Perritt Ultra MicroCap Fund (PREOX), and about 5% in the Perritt Low Priced Stock Fund (PLOWX).
- Any income or short term gains in our Funds will be paid on 12/27/18 to shareholders of record on 12/26/18.

Long-Term Capital Gains distribution:

Distribution

Dates

Record Date	11/13/18
Ex-dividend	11/14/18
Payable Date	11/14/18

Distribution figures and distribution dates are estimates only and are subject to change. Actual distributions may be substantially different (higher or lower) or may not be distributed at all.

Actual distributions on a dollar per share basis will be available on or after 11/14/2018.

Please visit our website at www.perrittcap.com/index.php or call 1-800-331-8936 for more information. Thank you for your investment and trust in the Perritt Team.

[Click here](#) for research and insights regarding small company investing.

Any tax or legal information provided isn't an exhaustive interpretation of some of the current income tax regulations or legal counsel for advice and information concerning their particular situation. Neither the Fund nor any of its representatives may give legal or tax advice.



DISCLOSURES

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.

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 companies within the Russell 2000 Index having higher price-to-book ratios and **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.

Price/Sales (P/S) compares a company's stock price to its revenues.

Price/Book (P/B) is a financial ratio used to compare a company's stock price to its book value.

(P/E) is short for the ratio of a company's share price to its per-share earnings.

Ttm P/E is the trailing twelve months P/E.

Earnings Growth is not a measure of the Fund's future performance.

One cannot invest directly in an index.

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.

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.

[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 Funds's top 10 holdings: [PRCGX](#), [PREOX](#), [PLOWX](#).

Past performance does not guarantee future results.

The Perritt Funds are distributed by Quasar Distributors, LLC.

Perritt
CAPITAL MANAGEMENT

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Small is passionate.