

**Attached, please find a reprint of an article from Ticker/123jump.com “Ticker FundScreen” (published on November 10, 2006).**

The article represents the opinions of the author and Perkins Capital Management and are subject to change, not guaranteed and are not recommendations to buy or sell any security.

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling 800-366-8361. The fund imposes a 1.00% redemption fee on shares held less than 3 months. Performance data does not reflect the redemption fee. If reflected total returns would be reduced.*

Investment returns for the Discovery Fund reflect fee waivers in effect. In the absence of such waivers, total return would be reduced.

*The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-366-8361, or visiting [www.perkinscapital.com](http://www.perkinscapital.com). Read it carefully before investing.*

**Small and medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. Growth stocks typically are more volatile than value stock; however, value stocks have a lower expected growth rate in earnings and sales.**

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The Price/Book Ratio is 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. Alpha is a measure of a fund's risk relative to the market. A positive alpha is the extra return awarded to the investor for taking additional risk rather than accepting the market return. Beta is a measure of the volatility, or systematic risk, of a fund in comparison to the market as a whole. You can think of beta as the tendency of a fund's returns to respond to swings in the market. The standard deviation is a measure of volatility and explains how much the return on the fund is deviating from the expected normal return. The SharpeRatio is a measure of risk-adjusted performance. It is calculated by subtracting the risk-free rate from the rate of return for a fund and dividing the result by the standard deviation of the fund returns. Head and shoulders and trend channels are technical chart patterns that develop on price/volume charts and indicate trend changes and trend continuation. The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3,000 Index, as ranked by market capitalization. The S&P 500 Index is an unmanaged index commonly used to measure the performance of U.S. stocks. You cannot invest directly in an index.

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## Discoveries in Micro Caps

*Investing in small and micro-cap stocks requires a special focus. A fund manager not only has to watch for business fundamentals but also look for investor sentiment. These thinly traded stocks can deliver outsized gains when very few analysts and investors are following the companies. The fund managers at the Perkins Discovery Fund combine fundamental valuation analysis with investor sentiment by following technical patterns on price charts to stay ahead of other investors in discovering under-followed companies.*

### **Q: What is your investment philosophy?**

**A:** We invest primarily in micro-cap stocks under \$500 million market cap at the time of investment. We like small company stocks because small companies are more nimble and able to grow and make changes faster than larger companies. A new product can make a much bigger difference for a small company than for a large company.

The small-cap market is less efficient than the large-cap market. Many of these stocks aren't widely followed by analysts, which presents more opportunities. Over the long term, small and micro-cap companies provide a higher total return than larger companies, which has been documented by various studies, one of them done by Ibbotson & Associates. It shows that short-term debt, like T-bills, provide the lowest return, then longer term Treasury bonds and Corporate bonds, then large stocks and then small stocks over the long term provide the highest return. Of course, along with higher return comes higher volatility.

### **Q: What is your approach to investing?**

**A:** We are bottom-up stock pickers and we look for investment ideas one at a time. We do that by combining fundamental and technical analysis in a multi-disciplined approach.

Fundamentally, we are looking for companies that are going through some change, be it a new product, a turnaround situation, or an external change in an industry that is affecting a particular company. Technically, we use price charts and pattern recognition. We are looking for stocks that have built a base formation in market trading and are breaking out to the topside after they have traded in a price range for an extended period of time.

There are many different types of bases. Probably the best recognized is the inverted head and shoulders pattern. Basically, we try to combine the fundamentals with the chart. We want to find a company early on, but we want to see that other people also recognize what we see. That comes through watching the chart patterns which build naturally as the stock is under accumulation by investors or under distribution when a top is built. Using this approach, we end up owning both growth stocks and value stocks.

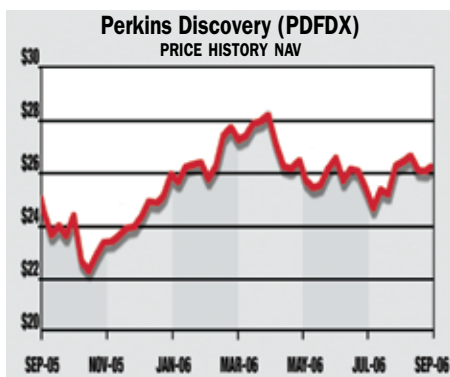
### **Q: How low do you go in your selection of the market cap - \$50 million or \$100 million?**

**A:** We will go below \$100 million. Typically, we'll go to \$50 million, sometimes less. In the fund right now the majority of stocks are over \$50 million but we will go lower than that. There are many companies in the stock mar-



**RICHARD W. PERKINS** (left) has more than 46 years of experience in the investment business. In 1955, he received a BA in Business from the University of Wisconsin, Madison, and in 1957 earned an MBA in Financial Analysis and Investment Management from that same institution. Mr. Perkins served as Assistant Investment Manager of the Mayo Foundation Endowment Fund from 1958 to 1965. He then moved to Cleveland, Ohio, where he became the Pension Fund Manager for Standard Oil Company of Ohio. In 1966, Mr. Perkins joined Piper, Jaffray & Hopwood, Inc., in Minneapolis, Minnesota. As a Vice President at Piper, Jaffray & Hopwood, Inc., Mr. Perkins was involved in corporate finance and venture capital activities, as well as rendering investment advice to domestic investment managers until he co-founded Perkins Capital Management, Inc., in 1984.

**DANIEL S. PERKINS** (right) graduated from the University of Colorado, Boulder, with a BS degree in Business Administration in 1976. He was employed as an auditor for Modern Merchandising, Inc., Hopkins, Minnesota from 1978 to 1982, and then attended graduate school where he received his MBA in Finance from the University of Minnesota in 1983. Starting in 1983, he was employed as a financial analyst for Perkins and Partners, Inc., Wayzata, Minnesota, and co-founded Perkins Capital Management, Inc. in 1984.



ket to choose from between \$50 million and \$500 million.

**Q: How do you go about narrowing such a large universe down? Do you use screens and measures to come up with fewer names to follow?**

**A:** We don't do screening. We get ideas from a lot of different sources - both in-house research and external research. We meet with managements whenever we can; we get information from brokers and various small-cap services, from investment relations firms, from newspapers and magazines. We go through these sources and look for companies that have some change taking place, some reason to believe that the company's revenue and earnings can go up significantly. When this happens it often results in a double play with the P/E ratio going up also which can result in a stock that appreciates significantly in value.

**Q: Once you get an idea from an investment relations firm, or a newspaper, what do you do with it?**

**A:** We use an online stock service called WONDA (William O'Neil Direct Access) that includes charts and fundamental information. WONDA makes

**“Our multi-disciplined approach of using business fundamentals and technical price charts is different from most small or micro-cap funds.”**

it easy to quickly see what business a company is in, what kind of revenues and earnings they have, what kind of growth they have had, and what the stock price chart looks like. If we are intrigued, then we will do more research including talking to management. If management is coming to town, we will often have them in our office to hear their story. Then, if we like the company, we will typically watch it until we are comfortable with the fundamentals and the chart.

**Q: Generally, what is your sell and buy discipline? When do you decide to trim or sell positions?**

**A:** On the sell side, we use the same multi-disciplined approach, combining fundamental analysis with technical chart analysis. If the reason we bought a company changes, if the change we were looking for fails to take place, then of course we'll sell the stock. When an investment idea works for us, then once again, we're looking at the fundamentals and the chart. A lot of times when an investment is working and momentum players eventually come in, the stock can go higher than you think it should. When this happens, technical analysis can become even more important. When the stock is in an uptrend, you can keep an eye on the trend channel and watch for a top formation building, so we find that the charts help us a lot on the sell side.

**Q: Can you give an example of something that turned from an idea into a holding, which also helped you realize investment gain?**

**A:** One stock that worked out well for us was First Cash Financial Services (FCFS). They own and operate pawnshops and payday lending stores. At the time we bought the stock, it was trading at a discount to its fundamental value. When the market came down in 2000, the pawn shop operators were out of favor with investors. In early 2002, there were two major changes taking place in the company. First of all, they were expanding into a new market, Mexico, where they

were doing very well. They were also expanding into the payday lending market, which is a totally different business than the pawnshop business. The stock was underpriced and it had formed a head and shoulders bottom; then in early 2002 it started breaking out of that base. At that time it traded at 10 times trailing earnings. We took a position when the stock was in the \$2.25 - \$2.75 range in the winter and spring of 2002, and held it through September of 2005 when we sold most of our position at about \$12. We sold it because it got up to a point where it was trading at 20 times trailing earnings and made a top pattern on the chart.

**Q: Can you give another example of an investment that worked out for you?**

**A:** BTU International is a stock that we owned and have sold. BTU is a company that's expert in building equipment that relies on thermal processing systems for manufacturing such things as circuit boards, semi-conductor packaging, other electronics, fuel cells, etc. The change that was taking place when we bought it was that the company was completing a turnaround and just turning profitable. We bought all of our position in January of 2005 between \$3.10 and \$3.20. We sold it primarily in the range of \$13 to \$19 between May and July of this year, so we held it for about a year and a half. The company, fundamentally, is still doing well, but technically, it just got ahead of itself on the chart. It ran up too fast, ended up building a top on the chart and moving down to below \$10.00.

**Q: How do you generally go about building these positions?**

**A:** Our target for the fund is 50 holdings so, basically, when we find a stock to buy we buy a 2% position. We are in the small-cap core category, which means we have both growth and value companies. We usually have more growth stocks than value stocks, but that can fluctuate with the time period.

**Q: What kind of benchmark do you generally look at?**

**A:** The Russell 2000 is probably the best readily available benchmark for the small-cap area.

**Q: Do you try to follow the sector breakdown in your fund according to the index?**

**A:** No, we don't. We are bottom-up stock pickers. We look for ideas one by one. We don't try to match the sectors in any index, and we don't decide that we have to own stocks in a particular industry and go looking for the best stocks in that industry.

**Q: The micro cap sector is fairly volatile. How do you handle the volatility in terms of the stocks being thinly traded or liquidity-wise?**

**A:** Liquidity is an issue both when you buy and sell. You just have to be careful and take the necessary time to buy or sell positions. It all depends on the stock. A lot of stocks can be bought or sold in a day or two. But other stocks, when there isn't anyone on the other side, then you need to work it carefully with limit orders or with a trader you can trust with discretion.

**Q: Do you follow any rules of procedures as to whether to hold or sell the stock?**

**A:** That depends totally on the individual company. If a stock we bought suddenly drops 20% and violates technical support, then sometimes we'll sell it after talking to management and doing whatever work we need to do. We may decide that we were wrong and the chart was saying to get out. But in other cases, for these small stocks to move 20% in a matter of days, it can be just a natural part of the process. We look at each situation independently.

**Q: How does your micro-cap fund differ from other micro-cap funds in terms of your approach in investing?**

**A:** Our multi-disciplined approach of using business fundamentals and

technical price charts is different from most small or micro-cap funds.

**Q: Do you insist on meeting management before you invest?**

**A:** In the majority of cases, we meet with management before we invest. We think this is very important.


**Q: If you are sometimes looking for growth companies, how do you arrive at the future projections of earnings?**

**A:** In many cases we have earnings estimates that have been developed by analysts, but in other cases there aren't any analysts following the company and management doesn't give guidance. A lot of times it is difficult to have firm earnings estimates for the future. That isn't something we necessarily require. We're looking more for a change such as a new product that gives us confidence that they can grow their revenue and grow their earnings.

**Q: How do you come to a judgment that the company may have a good product? Sometimes the market doesn't think that and doesn't embrace it as well as it should and then you obviously are disappointed in the revenue earnings growth.**

**A:** That can happen. Once you buy a company you still have to monitor it on a going forward basis, which means watching as the revenue and earnings come out each quarter, and watching the chart, and watching for companies that don't work out the way we thought they would. It's an ongoing process.

**Q: Do you require the companies to have positive earnings, or doesn't it really matter with the change coming down the road?**

**A:** At the time we invest, many of our companies do have earnings, but that isn't a requirement. Many times we invest in companies where the loss has been decreasing and we believe, as was the case with BTU, that they are turning a corner and will have earnings in the near future. 

**Perkins Discovery**

Symbol	PDFDX
Website	<a href="http://www.perkinscapital.com">www.perkinscapital.com</a>
Address	Perkins Capital Management, Inc. 730 East Lake Street Wayzata, MN 55391-1769
Tel. No.	800-998-3190
Inception	4/09/1998

**PORTFOLIO**

Total Net Assets*	\$12.5
Avg Mkt Cap (\$ Weighted)*	\$108
Average Price/Book Ratio	4.11x
Turnover Ratio	36%

**INVESTMENT INFORMATION**

New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$1,000

**RISK (AGAINST S&P 500 - 3 YEARS)**

Alpha	0.19
Beta	1.23
R-Squared	0.44
Ann Std Deviation	14.10
Sharpe Ratio	.95

**RETURNS VS. RUSSELL 2000 INDEX**

	PDFDX	Index
1 Year (Cum.)	14.12%	9.92%
3 Year (Ann.)	14.31%	15.46%
5 Year (Ann.)	12.90%	13.77%
Inception (Ann.)	16.36%	6.32%

**RETURNS VS. S&P 500 INDEX**

	PDFDX	Index
1 Year (Cum.)	14.12%	10.77%
3 Year (Ann.)	14.31%	12.28%
5 Year (Ann.)	12.90%	6.96%
Inception (Ann.)	16.36%	3.79%

**FEES AND EXPENSES**

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	1.00%
Total Expense Ratio	2.50%

**PORTFOLIO MANAGER**

Daniel S. Perkins	4/09/1998
Richard W. Perkins	4/09/1998

\*millions

Data through: 9/30/06

Source: Company Documents; Lipper

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