



1st Quarter Review

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The first quarter of 2017 was an interesting quarter in that performance was a reversal of 2016 and particularly the fourth quarter of last year. As you can see from the table below, larger stocks outperformed smaller stocks. As measured by the S&P 500 Index, large stocks gained more than 6 percent while micro-cap stocks barely produced a gain, as the Russell Microcap Index rose by only 0.4 percent. In addition, growth stocks outperformed value stocks in the first quarter, which is also the opposite of what happened last year.

Markets At A Glance 1Q2017

Dow Jones	5.19%
S&P 500	6.07%
Russell 2000	2.47%
Russell 2000 Growth	5.35%
Russell 2000 Value	-0.13%
Russell Microcap Index	0.38%
Russell Microcap Growth	2.63%
Russell Microcap Value	-1.02%

Past performance does not guarantee future results. Index performance is not indicative of fund performance. To obtain fund performance click here: <http://www.perritcap.com/funds/>

While not a surprise, the internals of the markets show us exactly why growth stocks outperformed value stocks. Below is a table of the best and worst performance for each sector within the S&P 500 Index, as well as the best and worst performance for each sector within the smaller-cap market. Technology and health care sectors were best performers in the first quarter. Technology and health care sectors are typically found within growth-oriented indexes, while energy and financials can be found in value-oriented indexes.

A closer look within each of these sectors reveals that high return on invested capital (ROIC) companies performed worse than the rest of the market in the first quarter. For example, the top 25% of ROIC companies' stocks declined 1.91% versus a 2.86% gain for the bottom 25% of ROIC companies. We view this recent underperformance as a short-term reversal from the past year, but not a change in trend. In other words, high quality companies have been the leaders in the past year, and we expect them to resume their leadership later this year. Let's review a few of the reasons we remain optimistic.

Internal Market Dynamics (1Q2017 Performance)

S&P 500 Best Sectors

Information Technology	12.58%
Health Care	8.41%
Consumer Discretionary	8.39%
Consumer Staples	6.43%

S&P 500 Worst Sectors

Energy	-6.71%
Telecommunications	-4.02%
Financial	2.53%
Real Estate	3.52%

Smaller-Cap Market Best Sectors

Semi-Conductors	18.11%
Telecommunications	6.31%
Technology	5.92%
Real Estate	3.14%

Smaller-Cap Market & Worst Sectors

Retailing	-16.23%
Energy	-13.61%
Transportation	-7.19%
Media	-6.43%

First, we believe we are still early in the bear market recovery or new bull market for smaller-cap stocks. As we noted in our commentary a year ago, the bear market for smaller companies ended on February 11, 2016. Since that date, smaller companies have performed well, but certainly not in a straight line. We also noted in our commentary that bull markets usually don't end within a year. Bull markets tend to last at least a few years. We updated our tables of bear market

recoveries below. As you can see from the two tables below, the 6-month and 12-month performance for the current recovery are approximately 10 percentage points behind the average for the Russell 2000 Index, and approximately 12 percentage points behind the average for the Russell Microcap Index. These results give us confidence that the future 3-year performance for the current cycle could be similar to the past averages.

Second, we are forecasting strong earnings growth for smaller companies. While earnings growth in the past year was only slightly positive, we have indications that earnings growth should improve in the future. According to our internal research, we believe earnings growth should be in the double-digit range this year, as well as next year. While valuations are not cheap, strong earnings growth should justify current stocks prices as well as higher prices in the future.

RUSSELL 2000 INDEX BEAR MARKET RECOVERY

TOTAL RETURN			
Bear Market Low	6 Months	12 Months	3 Years
3/27/1980	51.9%	75.2%	127.1%
8/12/1982	65.7	93.9	98.1
7/25/1984	19.6	30.7	78.7
10/28/1987	36.5	38.8	13.2
10/31/1990	43.1	55.3	118.4
10/8/1998	28.7	37.7	32.5
10/9/2002	13.8	59.4	95.1
3/9/2009	70.8	95.1	138.0
10/3/2011	37.0	37.6	81.3
2/11/2016	29.9	47.9	
Average	39.7%	57.2%	

Source: Capital IQ as of 3/31/2017

Past performance does not guarantee future results.

RUSSELL MICROCAP INDEX BEAR MARKET RECOVERY

TOTAL RETURN			
Bear Market Low	6 Months	12 Months	3 Years
12/21/2000	24.5%	24.3%	72.6%
9/21/2001	33.0	0.3	78.9
10/9/2002	17.6	79.7	118.0
3/9/2009	79.9	102.2	143.7
8/24/2010	37.2	17.0	86.1
10/3/2011	32.5	44.9	88.1
2/11/2016	27.2	45.9	
Average	39.7%	57.2%	

Lastly, the Trump Administration has several initiatives that are pro-business. Some of those initiatives include tax reform, regulation reform and various infrastructure improvements. While it is unlikely that most of these initiatives will make it past congress, some will, which will be positive for equity markets.

Small Cap Universe*

Median Statistics on Valuations

Mkt Cap Range	ttmP/E	P/B	P/S
\$2b	24.4	2.8	2.5
\$500mm-\$2b	22.9	2.2	1.9
\$150-\$500mm	20.3	1.8	2.0
<\$150mm	17.1	1.5	1.3

First Quarter Performance

Mkt Cap Range	Median Gain
>\$2b	1.57%
\$500mm-\$2b	0.40
\$150-\$500mm	-0.64
<\$150mm	1.84

*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.

Source: Capital IQ as of 3/31/2017.

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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.

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. 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.

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. Dow Jones Industrial Average is a price weighted average of 30 significant

stocks traded on the New York Stock Exchange and the NASDAQ. S&P 500 Index is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe. 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 higher forecasted growth values. Russell 2000 Value Index measures the performance of companies within the Russell 2000 Index lower price-to-book ratio 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. Return on Invested Capital (ROIC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

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

One cannot invest directly in an index.

[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' top 10 holdings: PLOWX, PREOX, and PRCGX.

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