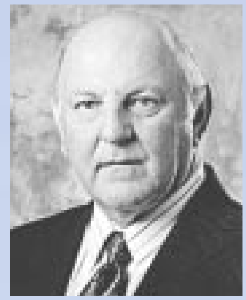
Perritt
Capital Management

The Worst Decade

Forbes magazine dubbed the last decade as the worst ever, and I heartily agree. In December 1999, investors were hailing a decade-long bull stock market, dot-com firms were raising record amounts of cash, the unemployment rate was hovering around 3.8%, and people across the country were about to welcome the onset of the twenty-first century. By decade end, natural disasters, terrorism, a banking system and a stock market collapse left Americans feeling exposed and vulnerable.

Nearly 25% of the last decade was spent in economic recession. The first recession was relatively mild and lasted eight months. The second, aside from the Great Depression, was the worst in more than a century. As is always the case, the stock market mirrored the misery in the economy. In January 2000, the Dow Jones Industrial Average peaked at 11,723 and continued in a downward spiral that ended in early October 2002 when the Dow closed at 7286. Five years later, in October 2007, the Dow peaked at 14,164 and ultimately reached bottom on March 6, 2009, when it closed at 6443, a whopping decline of 7,721 points. On a total return basis, large-cap stocks returned an average of -1.0 percent per year during the entire decade. That compares to the -0.1 percent average return of the 1930's, the only other decade during which large-cap stocks provided negative average annual returns.



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The economy entered the twentieth century at full employment (a 3.8% unemployment rate). By the end of the century's first decade, the unemployment rate stood at 10.0%. By decade-end, the number of unemployed reached a dismal 15.3 million. If one combines the unemployed with those who gave up looking for work and part-time workers who would rather be working full-time, the underemployment rate soars to 17.3%, the highest such rate since the Great Depression.

As the number of unemployed grew so did the hardship on families who were facing the loss of their homes. At the end of the decade, 7 million households were behind on mortgage payments or in foreclosure. One in ten mortgage holders were at least one payment behind on their mortgages and 1 in 22 were in foreclosure. During the final months of the decade 300,000 people a month were losing their homes to foreclosure.

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Although the stock market recouped about half of its losses between March 2009 and December 2009, market weary investors continued to abandon the stock market in favor of investments perceived to be far less risky. Inflows into fixed-income mutual funds during 2009 smashed the previous record. Investments in money market funds continued to grow despite interest yields that hovered around zero.

Although large cap stocks experienced their worst decade on record, there were a few investment bright spots in the decade. The big winner was gold bullion, which rose from $300 an ounce at the beginning of the decade to $1100 an ounce in December 2009, a compound annual return of 13.9 percent. Long-term government bonds provided a 9.9 percent average annual return and small-cap stocks rose at a 6.2 percent average annual rate. Treasury bills returned 2.8 percent annually, which topped the 2.2 percent average annual rate of inflation. A hypothetical portfolio equally balanced among these five asset classes would have provided a 6.4 percent average annual return during the decade, once again underscoring the benefit of portfolio diversification.

A Decade of Misery

March 2000: The dot-com bubble bursts with the Nasdaq peak of 5048. This Index would finish the decade at 2269, a whopping 55% decline.

December 2000: A U.S. Supreme Court decision ultimately settles the contested presidential election in favor of George W. Bush.

September 2001: On September 11 the country experiences the worst terrorist attacks ever.

October 2001: The U.S. invades Afghanistan.

July 2002: WorldCom files for bankruptcy, the largest filing in U.S. history at the time.

February 2003: The space shuttle Columbia breaks up upon re-entry, killing all seven astronauts.

March 2003: The invasion of Iraq begins with a series of air attacks.

August 2003: The largest electrical blackout in U.S. history leaves 50 million people in 8 states and Canada without power.

November 2004: An Indian Ocean earthquake and the resulting tsunami kill more than 230,000 people.

August 2005: Hurricane Katrina, the costliest hurricane in U.S. history, kills thousands of people across seven states.

April 2006: A gunman at Virginia Tech kills 32 people and wounds 25 others.

January 2008: The price of oil hits $100 per barrel for the first time ever.

September 2008: Lehman Brothers files for chapter 11 bankruptcy, far surpassing WorldCom as the largest such filing in U.S. history. The Dow Jones Industrial Average sets a single day record with a decline of 777.68 points.

December 2008: Bernie Madoff is arrested for perpetrating a giant Ponzi scheme in which thousands of investors lost almost $65 billion, including fabricated gains.

March 2009: The decline in the Dow Jones Industrial Average, which began in October 2007, finally hits bottom at 6443, a stunning decline of 7,721 points.

October 2009: The U.S. unemployment rate tops 10% for the first time in 26 years.

Financial Market Performance: Quarter IV and Full Year 2009

Commodities

	Q4	2009
Gold	8.7%	24.0%
Corn	20.5	1.8
Cattle	4.6	-0.1
Soybeans	12.2	6.9
Silver	1.1	49.3
Wheat	18.4	-11.3
Platinum	12.7	56.0
Oil	7.3	81.1
Copper	18.5	138.5
CRB Index	9.4	15.0

U.S. Sector Performance

	Q4	2009
Basic Materials	6.6%	45.1%
Consumer Goods	8.4	38.0
Consumer Services	4.0	10.0
Financials	-3.6	15.0
Health Care	8.4	17.0
Industrials	5.5	18.7
Energy	5.7	19.3
Technology	9.9	48.8
Telecomm	6.2	21.5
Utilities	5.8	6.9

Bond Yields (year end)

	Q4
30-yr T-bond	4.63%
10-yr T-bond	3.85
3-mo T-bill	0.06

Foreign Markets*

	Q4	2009
U.K.	5.4%	22.1%
Germany	5.0	23.9
France	3.7	22.3
Japan	4.1	19.0
Hong Kong	4.4	52.0
India	2.0	81.0
China	17.9	80.0
Mexico**	13.1	53.9
Brazil	13.9	122.0
Argentina	11.8	115.0

U.S. Stocks

	Q4	2009
Dow Industrials	7.4%	18.8%
Nasdaq Composite	6.9	43.9
Nasdaq 100	8.2	53.5
S&P 500	5.5	23.5
Russell 2000	3.5	25.2
Wilshire 5000	5.4	26.5

USD vs.

	Q4	2009
Euro	2.2%	-2.6%
British Pound	-0.9	-9.9
Canadian Dollar	-2.0	-13.8
Yen	3.8	2.4

Source: Yahoo Finance

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.

Past performance is not a guarantee of future results. Index performance is used for illustrative purposes and not indicative of fund performance. You cannot invest directly in an index. Please visit HYPERLINK www.perrittmutual-funds.com www.perrittmutualfunds.com for fund performance.

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 800-331-8936 or by visiting www.perrittmutualfunds.com. Read it carefully before investing.

Mutual Fund Investing involves risk. Principal loss is possible. Investments in smaller companies involve additional risks such as limited liquidity and greater volatility than larger companies. Investments in micro cap companies tend to perform poorly during times of economic stress. The funds may invest in early stage companies which tend to be more volatile and somewhat more speculative than investments in more established companies.

Fund holdings and sector allocations are subject to change at any time and should not be considered recommendations to buy or sell any security. ***Current and future portfolio holdings are subject to risk.***

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Dow Jones Industrial Average is an unmanaged index of common stocks comprised of major industrial companies and assumes reinvestment of dividend. The NASDAQ Composite Index is a market capitalization-weighted index that is designed to represent the performance of the National Market System which includes over 5,000 stocks traded only over-the-counter and not on an exchange. Nasdaq 100 Index an index composed of the 100 largest, most actively traded US companies listed on the Nasdaq stock exchange The Russell 2000 Index consists of the smallest2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. The Wilshire 5000 Stock index consists of more than 5000 companies, representing virtually all of the capitalization of the entire U.S. stock market. The CRB index is an unweighted geometric average of 17 commodities including energy, grains, industrials, livestock, precious metals and agriculturals. You cannot invest directly in an index.

Diversification does not assure a profit or protect against a loss in a declining market.

The Funds do not hold any position in WorldCom or Lehman Brothers as of 12/31/2009.

Perritt Capital Management is the distributor of The Perritt Funds which are distributed by Quasar Distributors, LLC

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