

# From the Desk of Dr. G. W. Perritt

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I am both shocked and outraged by the recent revelations of misconduct in the mutual fund industry. It appears that more than a handful of my colleagues have allowed favored clients to trade their fund's shares well after the market close. Some fund sponsors have not only allowed selected entities to engage in short-term trading in their funds (contrary to their stated policies), they have actually engaged in short-term trading themselves. Of course, chicanery in the financial services industry is nothing new. The promise of instant riches has frequently tempted greedy promoters to hatch schemes designed to separate unsuspecting investors from their hard-earned nest eggs. However, never before has the mutual fund industry experienced such widespread abuses by those entrusted with the fiduciary responsibility to act in the best interests of their shareholder investors.

The perpetrators of the nefarious schemes that siphoned off returns that rightfully belonged to long-term oriented fund shareholders will no doubt be prosecuted and eventually banned from the investment industry. However, investors will continue to pay for the actions of these greedy fund sponsors for years to come. The heap of new government regulations aimed at the mutual fund industry will no doubt increase the operating costs that all mutual fund shareholders bear. In addition, I fear that many investors will shy away from investing in mutual funds. These investors may never experience the numerous benefits mutual funds offer shareholders (professional portfolio management, risk reduction that accompanies portfolio diversification, consolidated record keeping, and modest portfolio maintenance expense to name a few).

Ever since the founding of our firm in 1988, Perritt Capital Management has strived to provide high quality, low cost investment services to individual investors. Over the years, we have taken pride in our role of assisting individuals in reaching their

financial goals. As a relatively small firm operating in the land of the giants, we can identify with the angst felt by many individual investors whose modest financial resources compete for investment returns with large institutional investors and the financially well-heeled. We pledge to continue to put the interests of our clients and fund shareholders first.



We established the Perritt MicroCap Opportunities Fund as a true no-load fund devoid of front-end, back-end or so-called 12b-1 distribution charges. Over the years, we have attempted to control the costs of investing in the Perritt MicroCap Opportunities Fund. We have always sought to provide the lowest cost service possible. When we were a relatively small fund, we capped our expense ratio at 1.75 percent of net assets. To keep short-term market timers from our door, we instituted a 2 percent redemption fee levied on any investor who held our fund's shares less than 90 days. This fee is returned to the fund to compensate our loyal shareholders for the extra costs that can result from quick reversals of cash into and out of the fund. Furthermore, whenever possible, we have barred short-term market timing investors from making future investments in the fund.

Although the mutual fund industry has been tainted by the actions of a few bad actors, I believe that the vast majority of funds are run by honest, dedicated, hard working professionals. I also believe that mutual funds provide one of the best investment alternatives available to the individual investor.

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