

MuhlenkampMemorandum

Issue 123

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Quarterly Letter

By Ron Muhlenkamp and Jeff Muhlenkamp, Co-Managers

As June comes to a close, we find that most of the things we talked about in March haven't changed much. Starting at the international level, both the European and Japanese Central banks continue to buy bonds (Japan also buys equities) in order to manage interest rates and support their economies. The European Central Bank hinted during a speech in late June that it may be appropriate to think about ending their program, but the Bank of Japan isn't even discussing ending theirs. We'll have to see how things develop. French elections, which had the potential to be disruptive, turned out to be a non-event. We'll see what Macron does now that he's in power. He may manage to make some changes that will free up the French economy and get it moving again.

International trade has not been disrupted by a U.S./China trade war which some feared based on statements made by President Trump. Chinese economic growth continues to meet their government-set goals of about 6.5% and the renminbi has been fairly stable against the dollar. Interestingly, the organization that governs what countries are included in global stock indices decided in mid-June to start including Chinese shares in the global index (MSCI EAFE Index*) for the first time. Lastly, the war in Syria hasn't created any economic problems either.

Domestically, the economy continues to grow at about 2% when adjusted for inflation. Inflation remains below 2%, aided by declining oil prices which have dropped from about \$50 per barrel at the start of the year to close to \$40 per barrel currently. Unemployment remains low but

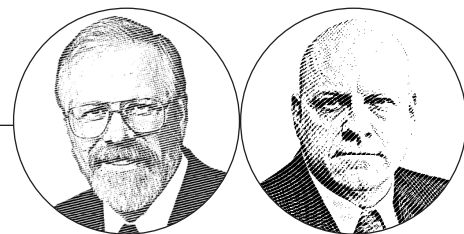
wages haven't grown much. The Federal Reserve raised the Federal Funds rate (short-term interest rate they charge banks that sets short-term rates in the U.S.) by another .25% to 1.25% as expected and they detailed how they intend to reduce the size of their balance sheet in the near future, but not when they would start. While short-term interest rates have risen, long term-interest rates have not.

In the March newsletter and again during our May webcast (both of which can be located on our website www.muhlenkamp.com) we told you that small business optimism had improved immensely post-election—it remains at high levels even though neither the promised health care revamp nor tax cuts have yet come out of Washington. First quarter earnings in the aggregate were good, with both revenues and earnings coming in higher than the prior quarter. On the negative side, we are seeing enormous disruption in the retail sector as consumers change how they shop, creating a few big winners and many big losers. A year ago we saw increased bankruptcies in energy companies, now it's happening to retailers. We are also seeing an increase in credit defaults by consumers—mostly with auto loans but a little bit with credit cards too.

The U.S. stock market, in aggregate, is expensive relative to its own history and margin debt (money borrowed from brokers to buy stocks, using the stocks themselves as collateral) is once again setting new highs.

That's what we are seeing. Here's what we think:

- We expect slow economic growth in the U.S. to continue in the short term while recognizing we can't see very far down the road. The signs we are seeing in the credit markets are not immediately



disconcerting, but will become a concern if they get worse. Increased business optimism hasn't resulted in increased capital investment by companies—we're watching for signs of that too.

- We think assets in general (bonds and stocks) have been supported in part by central bank asset purchases. That era may be coming to an end as the Federal Reserve begins to shrink its balance sheet. This makes us cautious and we'll be paying close attention to the plans of the foreign central banks we've talked about as well as the implementation of the Fed's plans.

Here's what we are doing:

- We continue to sell assets that have done well for us and reached what we consider full value and invest in undervalued companies when we find them. We are comfortable holding cash when we can't immediately find undervalued companies.
- We don't own any bonds as they remain overpriced relative to inflation.
- We are slowly reducing our holdings of companies that are most exposed to the cyclical aspects of the domestic economy.

The comments made by Ron and Jeff Muhlenkamp in this commentary are opinions and are not intended to be investment advice or a forecast of future events.

***MSCI EAFE Index** is a stock market index that represents the equity market performance of large and mid-cap securities outside the U.S. and Canada. The EAFE acronym indicates that the location of the 21 developed markets are within Europe, Australasia, and the Far East.



Muhlenkamp & Company, Inc.
Intelligent Investment Management

MuhlenkampMemorandum

Muhlenkamp & Company's 40th Anniversary

By Ron, Jeff, and Tony Muhlenkamp



This year marks the 40th anniversary of the founding of Muhlenkamp and Company, Inc. We are pleased, proud, and grateful that we have been able to serve our clients and the community for the last forty years. It is unusual in this industry for a small, independent firm that is NOT located on Wall Street to survive, much less thrive, for that long. For the last forty years we have worked to help families and institutions achieve their financial goals by implementing sound and disciplined investment decisions. Consistent leadership, common sense, and a continuously improving approach to investing has helped us avoid much of the hype that typically surrounds our profession. Today we would like to recognize the two groups of individuals that we have to thank for making the last forty years possible: our clients and our people.


We extend our profound thanks to our clients, past and present, for the opportunity to earn your trust and work with you to meet your financial goals. Ron started the company because he observed that marketing agendas were sometimes taking precedence over sound investing principles and the client was not being well served. Working initially from his home, Ron managed individual client portfolios, then expanded Muhlenkamp & Company's services in 1988 by launching our mutual fund so we could create a diversified portfolio for folks with smaller amounts of investment assets. Our experience working with individuals has taught us the importance of listening and understanding the unique financial situations and goals of each of our clients. Today, we still continue to emphasize this process for all of our clients. We have also learned that open, honest and direct communication with

our clients allows for all parties to better understand the impact of our investment decisions regarding their objectives. Out of that realization came the quarterly newsletter, website, email communications, seminars, pamphlets, and a couple of books. We continue to emphasize communication today, though the seminars have morphed into webcasts as we keep up with technology and the needs of our clients. We love talking to our clients, that's how we learn, and we'll keep doing that. Please don't ever hesitate to contact us with your feedback, questions, or concerns.



As we continue to manage Muhlenkamp & Company, we are grateful for all the members of Muhlenkamp & Company, both past and present. Our current staff includes three analysts: Jack Kunkle, Ken Dupre, and Tammy Neff, and they've been with us for 25, 20, and 14 years respectively. They do a fantastic job understanding the market and finding investments and we appreciate all of their hard work. Adrienne Caracciolo (17 years) and Rich Dean (16 years) run the office, the IT, and all of the support functions to keep things humming, and they do a great job. Literally we couldn't do it without them. Monica Leister (23 years) and Michelle Orphall (20 years) are in charge of our client communications and do a

wonderful job keeping us in touch with you. Our tenure at Muhlenkamp & Company is Ron (40 years), Tony (25 years), and Jeff (9 years). Last but not least is our most recent hire, Brad Hanes (less than a year), who is working with institutional clients. We'll let you know how he's doing at the 50-year mark, but so far so good. We'd also like to give a "shout out" to our alumni, some have continued to work within the industry, some moved into other professions, and some are enjoying retirement. Thanks for everything you did for us, we loved working with you, we wish you well and hope your time here was rewarding.

Forty years is a long time. We've seen wars, inflation, deflation, booms, busts and fads. Some years we exceeded our own high expectations, some years we've been disappointed. Our starting point forty years ago was to evaluate businesses as a businessmen would: is the business getting a good return on its invested capital and what are the prospects for that continuing? If we like the answers to that inquiry and we can acquire the business at what we consider a fair price that gives us the potential for a good return, we think we've got a good investment. We haven't found a better way to think about investing though we keep looking for one. If we do find a better way, rest assured we'll let you know. The future is uncertain, as the future always is, but we are looking forward to it and have a succession plan in place with regard to executive and portfolio management at Muhlenkamp. As a company we look forward to finding new ways to benefit our clients, new clients to work with, and new investing challenges. 

The comments made in this commentary are opinions and are not intended to be investment advice or a forecast of future events.

MuhlenkampMemorandum

Creating a Budget

Like other tools, a budget can help assist you in meeting your goals. As you decide how to allocate your assets, keep Ron's maxims in mind.

No person or company can make you buy their product (only government can do that). Unless the product and price attract a buyer, there will be no purchase.

—Ron Muhlenkamp

*The essentials of life are cheap.
Only the luxuries are expensive.*

—Ron Muhlenkamp

What is a budget?

A budget is a written plan of how you will spend your money for a specified time period (usually monthly). Typically in the form of a spreadsheet, this tool can help you manage your future spending in an attempt to keep your expenses aligned with your income and your financial goals. Budgeting is planning and looking forward, not backward.


Why have a budget?

- A budget allows you to see your financial life on paper. It takes the abstract (earning an income, spending your money, and planning your purchases) and makes it tangible. It allows you to create reports, monitor your progress, and keep a history of your financial life.
- A budget allows you and your spouse to be on the same course (to see the same thing) and to work as a team when attempting to reach your financial goals since your plan for spending is documented rather than only a thought (nobody can read your mind).
- A budget encourages you to look at necessities vs. luxuries. When you need to spend less, you can cut back in the luxury or convenience category.

- A budget helps you to reach your financial goals faster by showing you whether or not your spending is consistent with your short-term and long-term goals.

Guidelines to create a budget

- Create your own spreadsheet or use an app or software created for personal budgets.

- Decide on the level of detail for your budget, ranging from very broad categories to extremely detailed. The more specific you are, the better you can plan and analyze your spending.
- Be realistic about your expenses. Use your Cash Flow Statement as a reference for past expenses.
- Determine the amount you need to save monthly to reach your short-term and long-term goals.
- Give yourself allowances in areas that you enjoy.
- Adjust your budget as your life changes, such as increased income, additional children, or new financial goals.
- Include regular monthly expenses as well as infrequent expenses like birthday gifts. Every dollar should be accounted for, whether you spend or save it.
- Stick to it. You will get more comfortable with budgeting if you continue each month. Adjust when needed. 

Announcements

Register for our Upcoming Webcast

Please join us for our webcast with Tony, Ron, and Jeff Muhlenkamp.

Tuesday, August 22, 2017

4:00 pm – 5:00 pm ET

Register at www.muhlenkamp.com or call us at (877)935-5520 extension 4.

Webcast Archive Available on Website

During the webcast on May 11, 2017, Jeff and Tony shared our process for building portfolios. Jeff also talked about some of the key indicators that we are

following to give investors an insight into what we are doing and why. Visit www.muhlenkamp.com for the webcast archive and to access other videos and essays available in our Library collection.

Request for Email Address

Muhlenkamp & Company regularly publishes information that gets distributed by email only. To be added to our email list, visit www.muhlenkamp.com or call us at (877) 935-5520 extension 4. Your contact information will not be released to any third party. 



Muhlenkamp & Company, Inc.
Intelligent Investment Management

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Webcast Details

Please join us for our webcast with Tony, Ron, and Jeff Muhlenkamp. Along with our general economic and market observations, Ron will reflect on the first 40 years of Muhlenkamp & Company.

- What I have learned.
- Changes I have seen over the years.
- M&C going forward.

Tuesday, August 22, 2017
4:00 pm – 5:00 pm ET



Register at www.muhlenkamp.com or call us at (877)935-5520 extension 4.

MuhlenkampSMA

All-Cap Value

For the period ended 6/30/17

Muhlenkamp & Company's All-Cap Value SMA (Separately Managed Account) is designed for investors' accounts over \$100,000. We employ full discretion, applying fundamental analysis.

Investment Objective

We seek to maximize total after-tax return through capital appreciation, and income from dividends and interest, consistent with reasonable risk.

Investment Strategy

We invest in undervalued assets wherever they may be found. Typically, this results in holding a portfolio of companies we believe are materially undervalued by the market. Bonds may be included in the portfolio if they are a good investment.

Investment Process

We start with a bottom-up scan of domestic companies, typically looking at most U.S. companies at least four times per year. We add to that an understanding of the sector dynamics in which companies are operating, an assessment of the business cycle, and a review of macroeconomic conditions.

Our primary screening metric is return on shareholder equity (ROE). We are looking for companies with stable returns that can be purchased cheaply, or for companies with improving returns that have not yet been recognized by the market.

We don't believe that a holding period of "forever" is appropriate in all cases, but are comfortable holding companies as long as they continue to meet expectations.

Investment Risk

We define investment risk as the probability of losing purchasing power over long periods of time, which is quite different from Wall Street's definition of price volatility in very short periods of time. Taxes, inflation, and spending will ALL impact the purchasing power of your assets.



Muhlenkamp & Company, Inc.
Intelligent Investment Management

All-Cap Value Composite Performance (Net of Fees)

	Year to Date	One Year	Annualized			
			Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Return	5.79%	9.33%	-0.78%	8.35%	0.50%	4.49%
S&P 500 Total Return*	9.34%	17.90%	9.61%	14.63%	7.18%	8.34%
Consumer Price Index**	1.37%	1.87%	0.95%	1.27%	1.64%	2.08%

* The S&P 500 is a widely recognized, unmanaged index of common stock prices. The figures for the S&P 500 reflect all dividends reinvested but do not reflect any deductions for fees, expenses, or taxes. One cannot invest directly in an index.

** Consumer Price Index (CPI) – As of May 2017 – U.S. CPI Urban Consumers NSA (Non-Seasonally Adjusted), Index. The Consumer Price Index tracks the prices paid by urban consumers for goods and services and is generally accepted as a measure of price inflation. Price inflation affects consumers' purchasing power.

Consolidated performance with dividends and other earnings reinvested. Performance figures reflect the deduction of broker commission expenses and the deduction of investment advisory fees. Such fees are described in Part II of the adviser's Form ADV. The advisory fees and any other expenses incurred in the management of the investment advisory account will reduce the client's return. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the above accounts. A list of all security recommendations made within the past twelve months is available upon request.

Top Twenty Holdings

Company	Industry	% of Net Asset
Alliance Data Systems Corporation	IT Services	6.55%
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	4.36%
Gilead Sciences, Inc.	Biotechnology	4.28%
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	3.88%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	3.65%
Annaly Capital Management Inc.	Real Estate Investment Trusts	3.40%
McKesson Corporation	Health Care Providers & Services	3.22%
Microchip Technology	Semiconductors & Semiconductor Equipment	3.12%
Celgene Corporation	Biotechnology	3.03%
Dow Chemical Company	Chemicals	2.99%
Celanese Corporation - Series A	Chemicals	2.97%
UnitedHealth Group Inc.	Healthcare Providers & Services	2.90%
Microsoft Corporation	Software	2.85%
Biogen Idec Inc.	Biotechnology	2.80%
Lannett Company, Inc.	Pharmaceuticals	2.76%
SPDR Gold Shares	Exchange Traded Funds	2.57%
Tencent Holdings Ltd. ADR	Internet Software & Services	2.56%
PowerShares Buyback Achievers Portfolio	Exchange Traded Funds	2.46%
Federated Investors, Inc. - Class B	Capital Markets	2.42%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.39%

Composite holdings are subject to change and are not recommendations to buy or sell any security.

Composite Top Twenty Holdings are presented as supplemental information to the fully compliant presentation on the next page.

Return on Equity (ROE) is a company's net income (earnings), divided by the owner's equity in the business (book value).

Portfolio Managers

Ronald H. Muhlenkamp, Portfolio Manager, CFA, has been active in professional investment management since 1968. He is a graduate of both M.I.T. and the Harvard Business School.



SMA Facts

Average Number of Equity Holdings 32
Cash & Cash Equivalents 14.99%
Portfolio Turnover 14.25%†

† Trailing 12 months

SMA Facts are presented as supplemental information.

SMA Information

The All-Cap Value Composite was created in December 2003 and includes fee-paying accounts over \$100,000, full discretion, under management for at least one full quarter which are invested in the All-Cap Value strategy. The composite excludes the Muhlenkamp Fund and any wrap fee account.

Minimum Initial Investment \$100,000.00
Management Fee* 1% (first \$1 million);
0.5% on the remainder

* May vary by account.



Jeffrey P. Muhlenkamp, Portfolio Manager, CFA, has been active in professional investment management since 2008.

He is a graduate of both the United States Military Academy and Chapman University.

Investment Adviser

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Muhlenkamp & Company serves individual and institutional investors through our no-load mutual fund and separately managed accounts.

Muhlenkamp & Company, Inc. All-Cap Value Composite Annual Disclosure Presentation

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	ANNUAL PERFORMANCE			THREE-YEAR ANNUALIZED STANDARD DEVIATION*		
				Composite Gross	Composite Net	S&P 500 Total Return Index	Composite	S&P 500 Total Return Index	Composite Dispersion**
2016	339	39	52	(1.86)	(2.68)	11.96	9.73	10.59	1.17
2015	422	48	67	(4.66)	(5.45)	1.38	10.41	10.47	0.68
2014	541	51	67	10.27	9.37	13.69	9.55	8.97	2.06
2013	585	50	60	35.50	34.39	32.39	11.29	11.94	3.13
2012	491	41	66	11.29	10.34	16.00	12.02	15.09	1.14
2011	555	45	74	(2.84)	(3.67)	2.11	16.60	18.70	0.85
2010	724	59	82	2.96	2.15	15.06			1.45
2009	839	90	107	32.68	31.72	26.46			2.80
2008	759	112	155	(40.53)	(40.94)	(37.00)			1.97
2007	1886	327	289	(7.61)	(8.19)	5.49			3.77
2006	3393	371	337	6.09	5.34	15.79			3.70
2005	3471	287	289	10.04	9.22	4.91			3.38
2004	2261	197	206	24.54	23.56	10.88			3.33
2003	1350	132	167	43.36	42.10	28.68			5.57
2002	742	81	139	(19.80)	(20.49)	(22.06)			3.65

The objective of this All-Cap Value Composite is to maximize total after-tax return, consistent with reasonable risk—using a strategy of investing in highly profitable companies, as measured by Return on Equity (ROE), that sell at value prices, as measured by Price-to-Earnings Ratios (P/E).

Muhlenkamp & Company, Inc. (“Muhlenkamp”) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Muhlenkamp has been independently verified for the periods December 31, 1993 through June 30, 2016 by Ashland Partners & Company LLP.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The All-Cap Value Composite has been examined for the periods December 31, 1993 through June 30, 2016. The verification and performance examination reports are available upon request.

Muhlenkamp is an independent registered investment advisory firm registered with the Securities and Exchange Commission. The firm’s list of composite descriptions is available upon request.

Returns are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite may invest in American Depositary Receipts (ADRs).*** Accounts may be shown gross or net of withholding tax on foreign dividends based on the custodian. Past performance is not indicative of future results.

The U.S. dollar is the currency used to express performance. Returns are expressed as percentages and are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual Composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

* **Three-Year Annualized Standard Deviation** is a measure of volatility, calculated by taking the standard deviation of 36 monthly returns, then multiplying the result by the square root of 12 to annualize it. Since standard deviation measures the dispersion of a set of numbers from its mean, higher results indicate more variation in monthly returns over the trailing three years.

** **Composite Dispersion** is a measure of the similarity of returns among accounts in the Composite. It is the standard deviation of the annual returns for all accounts which were in the Composite for the entire year.

*** **American Depositary Receipts (ADRs)** are shares that trade in U.S. markets, but represent shares of a foreign company. A bank (the depository) purchases a number of the foreign shares and holds them in a trust or similar account; in turn, the bank issues shares tradable in the U.S. that represent an interest in the foreign company. The ratio of ADRs to foreign shares is set by the bank. ADRs do not mitigate currency risk, but can reduce transaction costs and simplify trading compared to buying the local shares in the foreign markets.