

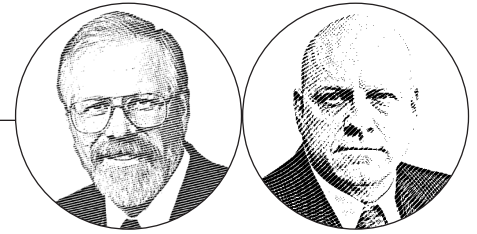
MuhlenkampMemorandum

Issue 122

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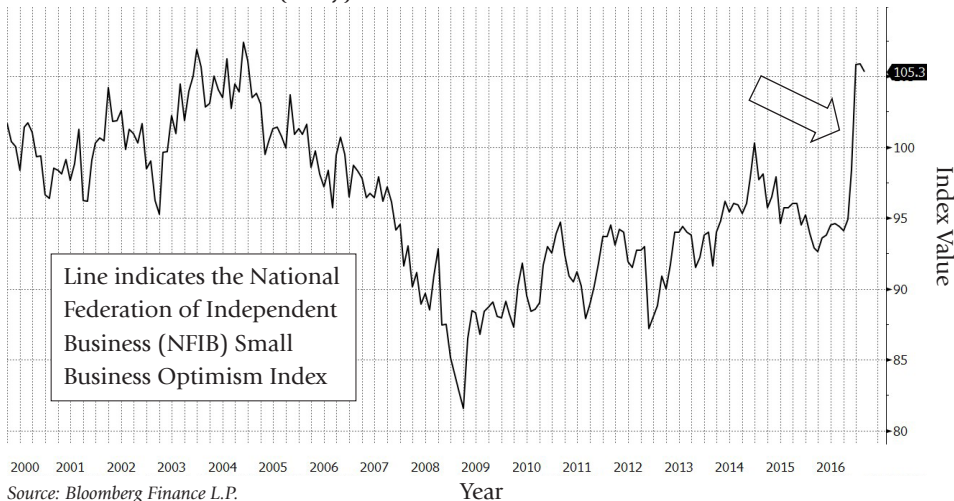
Quarterly Letter



Below is the single most interesting chart we've seen in the last quarter.

NFIB SMALL BUSINESS OPTIMISM INDEX

March 2000 - March 2017 (Daily)



It is a plot of the National Federation of Independent Business (NFIB) Small Business Optimism Index since March 2000. The NFIB conducts monthly surveys of its members in order to better understand the environment in which small businesses are operating. The way we interpret the chart is that small businesses are MUCH more optimistic about their future post-election than they were pre-election (the arrow is there to highlight that move for you). If that increased optimism results in greater hiring and spending on capital goods, we believe the economy can grow significantly faster than it has managed to do the last few years. In part we think the chart validates our assertion that increased regulations and

costs have been limiting business growth—and the promise to reduce them has small businesses more optimistic than they've been in years. The questions now are "Will our politicians deliver on their promises?" and "Which companies will benefit and which will be hurt by the changes?" That's what we are paying a lot of attention to right now.

While potential U.S. policy changes are the most important things going on, they aren't the only things to keep an eye on. A quick update on some pertinent developments: the U.S. Federal Reserve raised the Federal Funds Rate by .25% in March. This is the third rate hike by the Fed since the '09

recession and was largely expected. The Fed has stated that they may continue to raise short-term rates this year as the country is near their employment and inflation goals. At this point we don't expect a rapid run up in inflation nor do we see rising interest rates triggering a recession. Either or both of those things may happen in the future, but we don't see signs that they are imminent.

U.S. companies in the aggregate in the 4th quarter of 2016 reported an increase in both earnings and revenues—the first time we've seen that in five quarters, led by improvements in the energy sector where higher crude oil prices (now in the vicinity of \$50 per barrel) have led to increased drilling activity. The strong dollar we saw late last year has weakened a little, easing pressure on the earnings of our exporters. Long-term interest rates have also declined a bit since last year, keeping the cost of rolling over debt low for those companies that need to do so. From a consumer perspective, rising short-term rates will provide savers a marginally better return on savings accounts, money markets, and short-term certificates of deposit but inflation adjusted returns on fixed income products are still pretty poor, as we've been pointing out for a long time now. On the consumer borrowing side, rates are pretty cheap with 30 year mortgage rates at about 4% — they've been as high as 4.2% and as low as 3.8% over the last year.



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MuhlenkampMemorandum

Facing the Facts about Your Financial Life

This article is an amended excerpt from the Muhlenkamp Marathon Financial Training Workbook. The workbook is written based on the correlation between training for a marathon and creating a legacy of financial independence—both take desire, time, effort, and discipline. This article places you at the “starting line” of your financial marathon, asking you to periodically look at and assess your current financial situation.

The Starting Line

Take time to evaluate how your financial life is progressing. Past performance is no guarantee of future results, but it's a good indication of where you are heading. Are you accumulating wealth, living paycheck-to-paycheck, or amassing debt?

Accumulating Wealth

2 Good for you—you are headed in the right direction. Are you reaching all your financial goals? Could you be doing better?

Living Paycheck-to-Paycheck

If you are just getting by financially, a personal crisis could easily throw you off course. Then the domino effect could lead you to bankruptcy. What should you do to create a safety net to prevent this? What changes do you need to make to get you on the road to financial independence?

Amassing Debt

If your debt is increasing because you continue to spend more than you make, your lifestyle may look wonderful from a distance, but your financial future probably looks dismal. What could you be doing differently to change your course? What is holding you back? Reduce your outflow, pay down your debt, and start growing your assets!

Since money is needed for almost every aspect of your life, cutting it too close every month or falling into debt can create tension and anxiety. No matter your income, you must learn to live below your means. Even

if you continue to receive increases in salary, if you continue bad financial habits (like spending too much), you will never reach your goals. Old habits are hard to break, but if you set goals and put them in writing, you will have more incentive to choose a healthy financial lifestyle.

Repercussions of Stress

Since chronic mental stress takes a toll on your body, reducing your anxiety over financial matters may help improve your health. Becoming financially fit may also help your relationships. If you need to borrow money from family or friends, your relationship goes beyond family and friends and enters the lender/borrower relationship. This can cause tension and awkward feelings. No matter how old you are, your parents may also be relieved when they see you making wise decisions and becoming financially independent. Persistence, discipline, and responsibility all show when you start becoming financially fit.

Facing the Facts

You have to be honest with yourself about where you are financially—you have to face the facts. If your financial past and current trajectory indicate that you should make a change, you should probably start your financial training now.

Getting Started

Instead of being overwhelmed with the process, just get started. How do you run a marathon? One mile at a time... How do you become financially fit? One step at a time...and as you get comfortable with your finances and develop good habits, you can put your money to work, so that one day you won't have to.

Mile by Mile

To get financially fit you have to first figure out what you are trying to do. What are your goals? Once you figure out your goals, you should break them down into short-

term and long-term goals. After you've established your goals, look at your current net worth using a balance sheet to see where you are financially and how much work you have to do to get to where you want to go. Look at your cash flow statement to see where you are spending and saving your income. That leads into creating a budget—to keep your spending aligned with your financial goals.

Keep a mini-emergency fund so you can handle small financial emergencies without turning to debt. As you continue along the course, you will make sure you are insured properly to protect you and your family from financial disaster.

Prepare for any unexpected detours or dead-ends along the way. Get in shape by reducing outflow, increasing income, and reducing debt. Build up cash reserves to provide a cushion when things are tough. Spend less than you make so you can save for an automobile, a home, your retirement, an education, and charitable giving. Invest over a long period of time to allow compounding returns to put your money to work for you.

Finally, after much discipline and effort, you may enjoy the accomplishment of being financially independent as you cross the finish line of your financial marathon.

Get ready! Get set! Go! 🏁

The Muhlenkamp Marathon Financial Training Workbook is set up as a course of 26.2 “miles” to guide you along the path of your financial marathon. A complimentary copy may be requested by visiting our website www.muhlenkamp.com and using the “connect with us” form.

This article is based on opinions and is not intended to be investment advice or a forecast of future events.

MuhlenkampMemorandum

Quarterly Letter

continued from cover

Outside of the U.S., elections in France and Germany later this year have the potential to disrupt the Eurozone. Belgian elections in March resulted in a re-election of the status quo, we'll have to see what develops in France and Germany. The European Central Bank (ECB) continues to buy bonds, keeping interest rates low in Europe and, we believe, helping to keep interest rates low in the U.S. That program is scheduled to end in December, it isn't clear if the ECB will let it expire or extend it once again. On a positive note, real Gross Domestic Product (GDP) growth in Europe the last quarter was 1.9%, much improved over a year ago and on par with U.S. GDP growth.

The U.S. stock markets remain on the expensive side, as they've been for some time now. In the absence of signs of an

approaching recession or financial crisis we have stuck to our knitting, selling holdings that have reached full value and reinvesting the proceeds in companies we believe are selling for less than we think they are worth—though good companies selling cheaply are few and far between these days.

Until next quarter...

Ron Muhlenkamp and Jeff Muhlenkamp 

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.

Glossary

Federal Funds Rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. It is the interest rate banks charge each other for loans.

Federal Reserve Board (informally referred to as "the Fed"), is the central banking system of the United States, created in 1913 by the Federal Reserve Act. The main tasks of the Fed are to supervise and regulate banks, implement monetary policy by buying and selling U.S. Treasury bonds, and steer interest rates.

Gross Domestic Product (GDP) is the total market value of all goods and services produced within a country in a given period of time (usually a calendar year).

Announcements

Register for our Upcoming Webcast

Please join us for our webcast with Tony, Ron, and Jeff Muhlenkamp. They will share their observations on issues facing the economy, the markets, and investors.

Thursday, May 11, 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

Visit our website www.muhlenkamp.com for an archive of our February 16, 2017 webcast.

Ron's maxim, "When you change the rules a little, you change the game a lot," applies to many things in life. During our webcast, Jeff and Ron looked at the potential impact and the second- and third-order effects that changing policies and regulations by President Trump and his new administration could have on the economy.

A video recording of the webcast is available as well as a printable PDF of the transcription and slides.

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. 



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Muhlenkamp & Company

OUTLOOK

OBSERVATIONS

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stocks

interest rates

central banks

bonds

commodities

growth

ECONOMICS

psychology

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Visit www.muhlenkamp.com to Register for Our Upcoming Webcast on May 11, 2017.
We will share our observations on issues facing the economy, the markets, and investors.

MuhlenkampSMA

All-Cap Value

For the period ended 3/31/17

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	4.20%	6.96%	0.98%	7.12%	1.20%	3.43%
S&P 500 Total Return*	6.07%	17.17%	10.37%	13.30%	7.51%	7.09%
Consumer Price Index**	0.90%	2.74%	1.24%	1.36%	1.82%	2.12%

* 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 February 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	6.48%
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	4.40%
Gilead Sciences, Inc.	Biotechnology	4.15%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	4.12%
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	3.51%
Twenty-First Century Fox	Media	3.21%
Annaly Capital Management Inc.	Real Estate Investment Trusts	3.16%
Lannett Company, Inc.	Pharmaceuticals	3.05%
Dow Chemical Company	Chemicals	3.04%
Microchip Technology	Semiconductors & Semiconductor Equipment	3.01%
McKesson Corporation	Health Care Providers & Services	2.93%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.93%
Celgene Corporation	Biotechnology	2.93%
Celanese Corporation - Series A	Chemicals	2.85%
Biogen Idec Inc.	Biotechnology	2.85%
Microsoft Corporation	Software	2.75%
SPDR Gold Shares	Exchange Traded Funds	2.61%
Schlumberger Ltd.	Energy Equipment & Services	2.61%
UnitedHealth Group Inc.	Healthcare Providers & Services	2.59%
PowerShares Buyback Achievers Portfolio	Exchange Traded Funds	2.44%

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 14.40%
Portfolio Turnover 14.00%†

† 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.