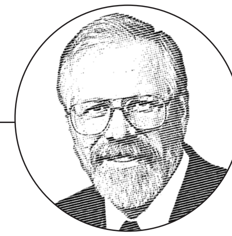
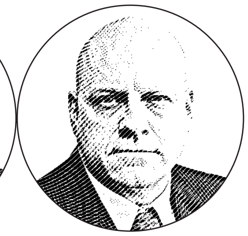
MuhlenkampMemorandum

Issue 129 **Published First Quarter** **January 2019**

Quarterly Letter

By Ron Muhlenkamp and Jeff Muhlenkamp, Co-Managers

Fellow investors,

When we began 2018 we thought the markets would be dominated by two important changes: the passage of the new tax law in the final days of 2017 and a decline in dollar liquidity as the Federal Reserve both raised short-term rates and reduced the size of its balance sheet. We thought the first change would be good for the economy in both the short and long-term and the second change would be negative for most asset markets. We didn't hazard a guess regarding when the negative influence would start to appear. As a result, we were comfortable holding some cash at the start of the year but also wanted to participate if the economy took off.

As the year unfolded we ended up selling into what was a rising market in the spring and summer—not because of the larger view, but because of changes to the fundamental outlook or the price action of the stocks we owned. We sold some companies because their business prospects changed and no longer met our expectations and sold others that had become fully valued or overvalued and lost their upward price momentum—our normal sell criteria. Since we were unable to find good companies at attractive prices we held onto the cash. As a result, we looked pretty dumb during the first half of the year with our return significantly underperforming a still rising S&P 500. When the S&P 500 began to decline in September and October we didn't look (or feel) quite so dumb as our cash helped us to outperform on a relative basis late in the year. The outperformance late in the year was not enough to outweigh the underperformance earlier in the year, thus we underperformed for the year as a whole.

As we begin 2019 we are still in a slowly shrinking dollar liquidity environment: the Federal Reserve has indicated it will continue to shrink its balance sheet and consider additional short-term rate increases during the year. Additionally, the European Central Bank (ECB) ended its asset buying program in December 2018, so it is no longer pushing additional euros into global asset markets. Thus, support of asset prices by central banks continues to gradually shift into reverse. This year we cannot identify any big positive change(s) for the U.S. economy like last year's tax bill. In fact, in October we saw a decline in U.S. housing activity as high new home prices and higher mortgage rates reduced new home sales. We expect the slowdown in housing to continue in 2019 and consider it an incremental negative as we look at the U.S. economy. Additionally, we don't see a big positive for any other economy around the globe. We are seeing slowing economic growth in Europe, Japan, and China as well. In sum we are seeing slowing economies and shrinking liquidity —a poor environment for good returns on assets.

Our outlook on inflation has shifted a little bit recently. Six months ago we said we were uncertain about whether we would see higher inflation going forward but we thought the risks were to the upside. Since then oil prices have dropped from $75 per barrel to $45 per barrel with many other commodity prices dropping as well. Consequently we no longer think the risks are to the upside and don't expect higher inflation in the near future.

We also see a couple of wild cards out there. The first is Brexit, which is scheduled to happen in late March. Currently there is no agreement between the United Kingdom and the European Union (EU) to govern relations between them post Brexit and the proposed agreement they've been negotiating for two years has yet to come up for a vote in the English Parliament. If Brexit occurs without an agreement (a "hard" Brexit) we expect some volatility, but don't know how much. It is also possible that an agreement will be reached or that the negotiation process will be extended. The second wild card is the ongoing trade

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Announcements

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

Thursday, February 28, 2019
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
At our November 15, 2018 webcast, Ron and Jeff Muhlenkamp examined the ripple effect and the unintended consequences of changes to interest rates, regulations, tariffs, and the money supply. Visit www.muhlenkamp.com for the webcast archive and to access other videos and essays available in our Library collection.

Muhlenkamp & Company, Inc.
Intelligent Investment Management

Letter to My Daughters: On Retirement

By Tony Muhlenkamp

Girls, I hate to tell you this, but you should plan on saving more and working longer than your parents and grandparents. Here's why:

"Retirement" is a fairly recent idea that didn't take hold until after WWII. Prior to that, people worked until they couldn't, and then they depended on their kids and grandkids to take care of them. An independent retirement became possible after World War II for three reasons: personal savings, Social Security, and corporate pension plans. These are referred to as the "Three-legged stool of retirement," and all three were supported by the average annual Gross Domestic Product (GDP) growth of 3.2% we produced in this country between 1948 and 2018.[1]

Since 2008, the U.S. GDP growth has averaged closer to 2.0% than to 3.0%, and this puts a damper on things. Weaker GDP growth usually results in higher unemployment, decreased wages, decreased corporate profit, and lower stock prices. As a result of this slowdown as well as some other factors, those three "legs" that support retirement are no longer solid.

First of all, the personal savings rate, which was at 10.4% in 1960, hit a low of 2.2% in 2005. It has hovered around 6.5% since 2008 (so far, the average rate for 2018 is 6.7%).[2] So individuals are saving some, but not like they did back in 1960.

The models that Social Security was built on are changing: In 1940, there were 159 workers to every Social Security beneficiary. In 2013, there are less than three workers to every beneficiary.[3] Also, many people are starting their careers later, sometimes not working until age 22. Very different from entering the work force at the age of 16. Lifespans have increased in the U.S. since 1940. Depending on the assumptions, the two funds that make up the Social Security Trust Fund are projected to remain solvent for only another 25-75 years; which doesn't bode well for you or me.[4]

The third problem is most corporations no longer offer, fund, or administer defined benefit pension plans that pay retirees a fixed dollar amount every year for life. Those plans were replaced by defined contribution plans, which depend on how well the employees (meaning you) are able to save and invest. See our article Pension Plans — Types and Characteristics for more details. (http://library.muhlenkamp.com/wp-content/uploads/sites/3/2015/05/Pension_Plans---Types_and_Characteristics.pdf) Many people retiring today don't have enough money saved to support themselves and so they are relying more and more on Social Security and Pension Plans at a time when both are running out of money as well.[5] I wouldn't plan on getting sufficient help from the government or your employers.

The problem is worsened because retirees haven't been getting much interest on their savings, and many pension plans are currently underfunded (partly due to the same low interest rates). So everyone should double check their assumptions about retirement. Whatever retirement or financial plans were made prior to the last 10 years should be revisited and updated using a new set of assumptions because conditions have changed. Without planning and increased personal savings, I'm not sure if an independent retirement around the age of 65 is still feasible. It might be more common again to have three generations under one roof and to continue to work until you can't.

I believe that for you to be able to retire someday, you have to take responsibility for your finances now: Your financial independence and material comfort will depend on how much you earn, spend, save, invest, and the performance of your investments. You are not too young to start earning more, spending less, while saving the difference. Think about what your ideal retirement looks like. Our article, Planning for a Successful Retirement provides some questions to ask yourself and some things to think about. (http://library.muhlenkamp.com/wp-content/uploads/sites/3/2015/05/Planning_For_A_Successful_Retirement.pdf) The better off you are financially, the easier it will be to have the retirement that you imagined.

Here are some steps I suggest you take on your way to retirement: Think about your goals. Once you figure these out, you should break them down into the short-term and long-term. After you've established your goals and your timeframe for them, look at

1 *Trading Economics. United States GDP Annual Growth Rate. Retrieved December 20, 2018, from https: //tradingeconomics.com/united-states/gdp-growth-annual*

2 *Fred Economic Data. Personal Savings Rate. Retrieved December 20, 2018, from https: // fred. stlouisfed . org/series/PSAVERT*

3 *Social Security Administration. Ratio of Covered Workers to Beneficiaries. Retrieved December 20, 2018 from https: //www . ssa . gov/history/ratios.html*

4 *Social Security Administration. Social Security Trust Fund FAQs. Retrieved December 20, 2018, from https: //www . ssa . gov/oact/progdata/fundFAQ.html*

5 *Pensions and Investments. Funded Status of the Largest U.S. Public Pension Funds. Retrieved December 20, 2018 from http: //www . pionline . com/article/20180205/ INTERACTIVE/180209925/funded-status-of-the-largest-us-public-pension-funds*

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your current net worth using a Balance Sheet. This allows you to see where you are financially and how much work you have to do to get to where you want to go. Consult your Cash Flow Statement, to see where you are spending and saving your income. Next, create a budget to keep your spending aligned with your financial goals.

Don't forget to keep an emergency fund so you are prepared for any unexpected detours or dead-ends along the way. If you do this you will be in a better position to handle financial emergencies without turning to debt. As you continue along the course, make sure you are insured properly to protect you and your family from financial disaster. Spend less than you make so you can save for an automobile, a home, an education, and charitable giving in addition to your retirement. Invest over a long period of time to reap the rewards of compounding returns (what we mean by putting your money to work for you). Following these steps will get you in financial shape by reducing outflow and debt, while increasing income and savings.

It will take much discipline and effort, but I believe the outcome will be worth it. Additionally, I can help you put dates and dollars to these ideas. Let me know when you want to get started.

We have a workbook that is already set up to help you get started. If you would like a copy, get in touch with us and ask for the Muhlenkamp Marathon workbook.

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

Quarterly Letter

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dispute between the U.S. and China. This has the potential to get better or worse and we have no insight into which way it will go. The range of possible outcomes is wide and could impact markets significantly either in a positive or negative fashion.

As the New Year begins we have plenty of cash available to invest but are in no hurry to put it to work. We will continue to methodically search for good investment opportunities and will be patient until we find them.

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

Central Bank is the entity responsible for overseeing the monetary system for a nation (or group of nations). The central banking system in the U.S. is known as the Federal Reserve (commonly referred to "the Fed"), composed of twelve regional Federal Reserve Banks located in major cities throughout the country. 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.

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.

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).

Personal Savings Rate Is your total personal savings divided by your total after-tax income.

S&P 500 is a widely recognized, unmanaged index of common stock prices. The S&P 500 is weighted by market value and its performance is thought to be representative of the stock market as a whole. *One cannot invest directly in an index.*

Avoiding Escheatment

Escheatment is when forgotten, abandoned, or unclaimed property (including physical and financial assets) is turned over to the state of the owner's last known residence if the company holding the property is unable to contact its rightful owner. Though it is a way for states to protect the property of its citizens (rather than assets remaining with the company forever), sometimes accounts that you are well aware of fall into the "abandoned property" category depending on the laws of your state of residence.

Steps to prevent escheatment of your accounts

- Pull one statement for each of your financial accounts (e.g. checking, savings, brokerage, IRA, 401(k), etc.), and "check in" annually via online access or by telephone to the number provided on your account statement. It may be beneficial to speak with a client service representative to make sure all of your contact information is correct.
- When applicable, make sure your beneficiaries are up to date.
- Visit the National Association of Unclaimed Property Administrators website [www . unclaimed. org] to learn the escheatment laws of your current and/or past state(s) of residence and to search for any unclaimed property registered in your name.

Muhlenkamp & Company, Inc.
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Inside this issue:

- Quarterly Letter
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- Announcements

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MuhlenkampSMA All-Cap Value

For the period ended 12/31/2018

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.

All-Cap Value Composite Performance (Net of Fees)

			Annualized			
	Year to Date	**One Year**	**Past 3 Years**	**Past 5 Years**	**Past 10 Years**	**Past 15 Years**
Return	-12.45%	-12.45%	-0.88%	0.14	6.82%	2.70%
S&P 500 Total Return*	-4.38%	-4.38%	9.26%	8.49%	13.12%	7.77%
Consumer Price Index**	2.24%	2.18%	2.02%	1.58%	1.72%	2.10%

* **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 November 2018 – 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
Microsoft Corporation	Software	4.39%
UnitedHealth Group Inc.	Healthcare Providers & Services	4.21%
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	3.87%
Alliance Data Systems Corporation	IT Services	3.61%
AutoZone, Inc.	Specialty Retail	3.37%
Cameco Corporation	Oil, Gas, & Consumable Fuels	3.32%
Annaly Capital Management Inc.	Real Estate Investment Trusts	3.11%
Microchip Technology	Semiconductors & Semiconductor Equipment	3.11%
Celanese Corporation - Series A	Chemicals	3.06%
Gilead Sciences, Inc.	Biotechnology	3.03%
SPDR Gold Shares	Exchange Traded Funds	2.92%
DowDuPont, Inc.	Chemicals	2.79%
Invesco Buyback Achievers	Exchange Traded Funds	2.72%
Biogen Idec Inc.	Biotechnology	2.52%
McKesson Corporation	Health Care Providers & Services	2.42%
Cognizant Technology Solutions Corp.	IT Services	2.29%
Alerian MLP ETF	Exchange Traded Funds	2.26%
Federated Investors, Inc. - Class B	Capital Markets	2.18%
Cigna Corporation	Healthcare Providers & Services	2.08%
Pfizer Inc.	Pharmaceuticals	1.97%

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).

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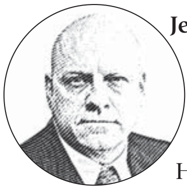
Portfolio Managers

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.



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.

SMA Facts

Average Number of Equity Holdings	25
Cash & Cash Equivalents	30.27%
Portfolio Turnover	10.70%‡

‡ *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.*

Investment Adviser

Muhlenkamp & Company, Inc.
5000 Stonewood Drive, Suite 300
Wexford, PA 15090-8395
(877)935-5520
services@muhlenkamp.com

www.muhlenkamp.com

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 Composite Gross	Composite Net	S&P 500 Total Return Index	THREE-YEAR ANNUALIZED STANDARD DEVIATION* Composite	S&P 500 Total Return Index	Composite Dispersion**
2018	254	32	51	(11.71)	(12.45)	(4.38)	9.24	10.80	1.21
2017	342	40	52	15.24	14.30	21.83	8.70	9.92	2.12
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

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 and for the periods July 1, 2016 through December 31, 2017 by ACA Performance Services, LLC.

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 December 31, 2017. 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.*