

MuhlenkampMemorandum

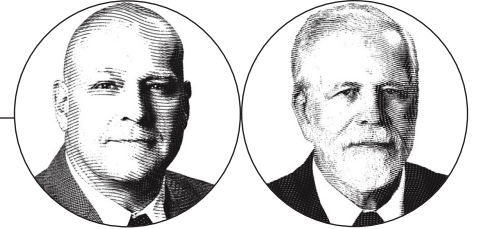
Issue 134

Published Second Quarter

April 2020

Quarterly Letter

By Jeff Muhlenkamp, Portfolio Manager and Ron Muhlenkamp, Founder



Before Ron and I start with our normal topics, please allow us to extend our heartfelt wishes for good health and good luck during this exceptional period. Also, our deepest thanks to all of you that are reaching out to help others. We are continually amazed at the many, many ways we see people helping each other and are inspired and heartened by such actions. Thank you.

Additionally, we'd like to reassure you that Muhlenkamp and Company is fully operational and open for business. Our employees are doing a fantastic job working from home continuing to provide the service you've come to expect. I'd like to publicly thank Rich Dean, our Operations and IT Manager, for his hard work putting in the systems that allow us to do that. Thanks Rich.

Now, here's what we're seeing:

The week of March 9th is when America changed its mind about the novel Coronavirus now called COVID-19. To be sure, the subject had been in the news prior to that, but received little notice. That week, however, the seriousness of the illness caught America's attention and decision makers at all levels reacted. Like a school of fish that suddenly changes direction with

no obvious leader or signal, America shut down its colleges, athletic events, concerts and gatherings, local schools, bars and restaurants, then finally, in many places, anything deemed "non-essential". I find it really interesting that this change in direction was much more "bottom up" than "top down".

The stock market reaction was similarly rapid with the S&P 500 Index falling approximately 34% from the peak on February 19th to the trough (to date) on March 23rd. Bond markets tanked as well. Investment-grade bonds as represented by the Markit iBoxx USD liquid investment-grade index fell 18.9% from March 6th to March 20th. High-yield bonds, as represented by the Markit iBoxx USD liquid high-yield index fell 21.8% from February 20th to March 23rd.

Unlike most recessions where the change in economic activity is relatively slow, and even at the trough most businesses have some revenue, this time we shut down many businesses (airlines, cruise ships, theme parks, restaurants, many retail stores, etc.) very suddenly and many of them will have zero revenue for an indeterminate period of time. Businesses and investors suddenly started thinking about cash the way consumers suddenly started thinking about toilet paper: they couldn't get enough of it fast enough. Companies drew down lines of credit, businesses and investors sold

assets to include stocks, bonds, and shares in money market funds. This was not just a U.S. phenomenon. Overseas companies have borrowed heavily in dollars and they too ran for cash denominated in dollars. This sudden dash for cash created enormous stress in the banks and asset markets.

In order to support the continued functioning of credit markets, the Federal Reserve has embarked on a massive buying program of pretty much everything but junk bonds and equities. They've also created swap lines with other central banks to get dollars overseas. Their intervention has been huge, fast, and necessary. In order to help small businesses, households, and specific industries remain solvent during this shutdown, Congress passed a \$2 trillion support package. It is not yet clear if the Federal Reserve interventions or the Federal Government support will be enough, it's too early to tell. The speed with which the government acted is noteworthy.

America is intentionally holding the economy down to slow the spread of the virus. The key to letting the economy back up off the mat is: reduce the risk of rapid contagion to a level we can live with. I don't think we'll eradicate the virus any more than we've eradicated the flu or the common cold. In the long term this will be another chronic condition that we will

continued on page 3



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Letter to My Daughters: On Crises and Disasters

By Tony Muhlenkamp, President



Right now, we are in the middle of a crisis. Schools and colleges and churches and businesses are closed. Restaurants are takeout and delivery only. Paper towels and toilet paper and bleach wipes are all sold out. The stock market is tanking; people are dying from the Coronavirus and it keeps spreading; politicians are predicting disaster unless we vote for them. It's chaotic and if it isn't disastrous then disaster appears to be right around the corner

Here's the thing girls; there is ALWAYS a crisis somewhere; always a new disaster. But it's never the end of the world. The world as I knew it at 16 years old ended; just as it did for your Grandpa, my Grandpa; etc. Just as it did for you. Just as it always does; the world is always changing; and change is always scary. The world as they knew it ended for Adam and Eve, it was calamitous.

There is ALWAYS a crisis or the POTENTIAL for a crisis. During your lifetime alone we have had 9/11, Wars on Terror, Financial Crisis, Bird Flu, Swine Flu, Cow Flu, Ebola, SARS, Killer bees, extinction of honeybees, environmental disasters, hurricanes, tornados, wildfires, etc. etc. etc. And I'm not minimizing these events; they are terrible, and people suffer and die from them and it is awful.

It's also normal. The world is a large and dangerous and scary place; life is tenuous and fragile at best. Periodically we are reminded of that in no uncertain terms. It's tempting to just throw up our arms in

despair and conclude there's nothing we can do to make it better.

*Here's the thing girls;
there is ALWAYS a
crisis somewhere;
always a new disaster.
But it's never the
end of the world.*


Tempting, but wrong. The temptation is a lie, as happens with most temptations. It's easy to despair, which makes it the wrong thing to do. The right thing to do is the hard thing to do. The right thing is to equip ourselves with the mental, physical (including financial), emotional, and spiritual resources to deal with whatever life and the world throws at us. I've written to you before about developing the skills and habits needed to be healthy in mind and body, heart and soul. About acquiring financial resources that enable you to survive and thrive during chaotic times. Now is when all that hard work pays off; this is the reason for all the work and discipline and delayed gratification, and yes, blood and sweat and tears, that we've been talking about.

Different people describe the quality of having these resources differently; grit, resilient, anti-fragile. But they all mean

the same thing; you can handle what comes your way with grace and wit and use adverse circumstances to grow and strengthen. Now is the time to CONTINUE to read and think and study and pray and exercise and develop your relationships; to grow and learn.

But it's not enough to develop your own resources; it's not enough to have grit and resilience and to be anti-fragile for your own sake. We are social creatures; we belong with other people; so, you must put those resources to work for other people; using your powers for good. You become the person that other people rely on; they know they can count on you for help. That's leadership in the best and truest sense of the word.

And if other people in your family, neighborhood, community, tribe, clan, pack (whatever you want to call it) are busy developing the same resources you are then soon you have an ongoing solution to any crisis that occurs. You have people you trust and respect that will work together to support and care for one another. And that provides the one true solution to crises and disasters; hope. You now have cause for hope.

Let me know if I can help. 

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

MuhlenkampMemorandum

Letter

Continued from page 1

collectively manage. We think the leading indicator now for economic activity is going to be the change in the acceleration of new corona virus cases. In other words, when will the spread of the virus slow? Our guess, based on the Chinese experience, is that the acceleration will begin to slow 2-4 weeks after social distancing measures really took effect. We are tracking publicly available information to see if our base case is working out, or not. That will give us some idea of the duration of the intervention. The other big unknown is how much damage was done to the economy. We probably won't really start to understand that until April as companies start to report their quarterly earnings and government data starts to come in. There remain a lot of unknowns.

The United States is not, of course, the only country affected by the virus. China has already been through the worst of it and is recovering. Europe is maybe a week or two ahead of the U.S. in dealing with the virus. Even as China's lock down affected our supply chains, China's exports are going to be affected by the shutdowns in Europe and the U.S., two of their biggest customers. These linkages will slow everyone's recovery somewhat.

It is also possible that the economic stress of dealing with the virus kicks off a self-reinforcing cycle of problems. Cascading defaults on loans are possible which is why governments are pumping money into households and businesses so quickly in an attempt to deal with the problem before it grows out of control. The increase in oil production by Russia and Saudi Arabia, which has collapsed the price of oil to

\$20 per barrel, is putting enormous stress on energy producers globally, increasing the likelihood of defaults there. Banks are always vulnerable in a recession: reduced credit availability or even bank failures are possible. (The Federal Reserve, in particular, is acting quickly to nip this potential problem in the bud). Finally, this is an election year in the U.S. and the agenda just changed. It's too early to know what new policy proposals will be put on the table or to hypothesize what their impact will be economically, but a major shift in how the government interacts with all or some of the economy is possible. Europe is also vulnerable to upheaval, and we'll be watching that.

The selloff in the markets is presenting us with better pricing on companies than we've seen in quite a while and we are working hard looking for the best opportunities. Jeff developed a rule of thumb in '08-'09 that goes like this "When the market is down 30% and the headlines are all screaming 'Recession!' the next six months will be a pretty good time to put money to work." Substitute "Virus" for "Recession" and that is exactly where we are today. We're not calling a bottom, we really don't know if we've hit the market bottom or not, but we are pretty sure the next six months will be a good time to go shopping, and that's what we're focusing on.

With our best wishes for your success and good health! 

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

S&P 500 Index is a widely recognized, unmanaged index of common stock prices.

The S&P 500 Index is weighted by market value and its performance is thought to be representative of the stock market as a whole. *You cannot invest directly in an index.*

Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe. The index is used as a basis for tradable products, including ETFs. *You cannot invest directly in an index.*


Markit iBoxx USD Liquid Investment Grade Index is designed to reflect the performance of US Dollar (USD) denominated investment grade corporate debt. The index rules aim to offer a broad coverage of the USD investment grade liquid bond universe. *You cannot invest directly in an index.*

3

Announcements

Register for our Upcoming Webcast
MAPPING YOUR FINANCIAL FUTURE
Thursday, May 28, 2020
4:00 p.m. – 5:00 p.m. ET
Register at www.muhlenkamp.com or call us at (877)935-5520.

Webcast Archive Available
Our February 27, 2020 webcast is available on www.muhlenkamp.com. Visit Our Library collection for webcast archives and to access other videos and essays.

Muhlenkamp & Company, Inc. on LinkedIn
Follow us on LinkedIn. We are excited to share our posts with you throughout the week. 



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MuhlenkampMemorandum

Inside this issue:

- Quarterly Letter
- Letter to My Daughters: On Crises and Disasters
- Announcements

If you are a parent or grandparent of teens, we invite you and your teens to attend this informative webcast, as the timing could never be better.

MAPPING YOUR FINANCIAL FUTURE: It's Never Too Late to Save for College

Thursday, May 28, 2020
4:00 pm – 5:00 pm EST



Our webcast, led by Tony Muhlenkamp, is not only timely to the COVID-19 but, the time is now to host this webcast simply because financial planning for college, trade school, your “teen’s” future...should never be a second thought. Don’t panic...we will cover topics that will not resemble the past but the future. Please join this conversation as we think about planning for our financial future,...a bit differently.

This webcast has key takeaways:

- The Future WILL NOT resemble the past. Never has. Never will.
- What does “educated” mean to us?
 - As a teenager, are you interested in a trade school, the armed forces/ service or college? There are a lot of right paths ~ be open to them!
 - In an emergency, it is blue-collar workers that we depend on the most for fast food, Amazon deliveries, home improvements/ plumbers, electricians
- Does saving for your future have you thinking about the difference between necessities, convenience, luxuries?
- Understanding Investing
 - Time and compound interest; the sooner you start the better it works

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

For the period ended 03/31/2020

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.



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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	-24.22%	-19.05%	-6.09%	-4.79%	1.98%	0.51%
S&P 500 Total Return*	-19.60%	-6.98%	5.10%	6.73%	10.53%	7.58%
Consumer Price Index**	0.66%	2.33%	2.02%	1.96%	1.78%	2.01%

* 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 2020 – 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	8.02%
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	6.40%
Gilead Sciences, Inc.	Biotechnology	4.33%
SPDR Gold Shares	Exchange Traded Funds	4.31%
McKesson Corporation	Health Care Providers & Services	3.77%
Dow Inc.	Chemicals	3.63%
Bristol-Myers Squibb Company	Pharmaceuticals	3.59%
Microchip Technology Inc.	Semiconductors & Semiconductor Equipment	3.54%
CVS Health Corp.	Health Care Providers & Services	3.52%
Invesco Buyback Achievers	Exchange Traded Funds	3.51%
Berkshire Hathaway Class B	Diversified Financial Services	3.40%
UnitedHealth Group Inc.	Health Care Providers & Services	3.33%
Lockheed Martin Corp.	Aerospace & Defense	3.27%
Biogen Inc.	Biotechnology	3.09%
Broadcom Inc.	Semiconductors & Semiconductor Equipment	3.07%
Jazz Pharmaceuticals Inc.	Pharmaceuticals	2.58%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.54%
Alerian MLP ETF	Exchange Traded Funds	2.49%
Lennar Corp Class A	Household Durables	2.40%
Mastec Inc.	Construction & Engineering	2.36%

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 Manager

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	32
Cash & Cash Equivalents	9.85%
Portfolio Turnover	31.39%‡

‡ 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

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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**
2019	258	34	48	14.70	13.79	31.49	10.33	12.10	1.37
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

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 June 30, 2019 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 June 30, 2019. 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.