



Muhlenkamp & Company, Inc.

Quarterly Letter

Ron Muhlenkamp

March 2013

For two years or more, we've been discussing Europe, China, and U.S. politics as drivers for the financial markets. These drivers continue.

Europe has reentered recession. That was expected. But it was also expected that, by now, Europe would have found an approach to deal with its problems. It has failed to do so, both politically and financially. Elections have been inconclusive (Greece and Italy), and the responses to the recent banking problem in Cyprus (a tiny country) were more problematic than the banking problem itself. Rather than demonstrate that the central bankers had a plan to deal with the situation, they made matters worse.

China remains in transition. Its economy is expanding, but local leadership is resisting Beijing's efforts to redirect the economy to greater domestic consumption. We think it's on track, but will take a while.

In the U.S, the consumer seems to be gradually coming back. Sales growth remains modest, but now includes a pickup in housing and autos. It appears that the increase in FICA taxes (from 4.2% to 6.2% effective 1/1/13) is coming out of savings—not spending—though, in truth, it's a bit early yet.

Employers remain cautious. For years, businessmen have been reluctant to invest or to hire, waiting for clarification of the rules. The rules are becoming clear: it will be increasingly expensive to hire people. (So far, the regulations spawned by the ACA (Affordable Care Act—Obamacare) form a stack of paper seven feet high.) As a result, we expect that hiring will remain subdued (and for less than 30 hours per week), but it may result in a pickup in corporate investment.

The clarification of the rules and continued Federal Reserve buying of bonds and mortgages (currently at \$85 billion per month) have helped drive stock prices to new highs. These factors are aided by a lack of good alternatives, either other countries (see above) or bonds (even bond managers are saying the bond bull market is over).

The above crosscurrents make us nervous. While we've done well in the recent rally, we believe stocks, on average, are now fairly priced. (Bonds are overpriced.) We're trying to stay nimble and protect your (and our) assets.

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

Muhlenkamp & Company, Inc.

FOR THE PERIOD ENDED 3/31/13

ALL-CAP VALUE COMPOSITE

Muhlenkamp & Company's All-Cap Value Composite includes all fee-paying accounts over \$100,000, full discretion, under management for at least one full quarter, which are invested in the all-cap style. The composite excludes the Muhlenkamp Fund and any wrap fee account.

OBJECTIVE

Maximize total return, consistent with reasonable risk.

STRATEGY

Invest 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).

PORTFOLIO MANAGER

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

ALL-CAP VALUE COMPOSITE TOP TEN HOLDINGS

Company	Industry	% of Net Assets
Alliance Data Systems Corporation	IT Services	5.2
Celgene Corporation	Biotechnology	3.6
Covidien LLC	Health Care Equipment & Suppliers	3.5
Discover Financial Services	Consumer Finance	3.4
Hanes Brands Incorporated	Textiles, Apparel & Luxury Goods	3.3
J.P. Morgan Chase & Company	Diversified Financial Services	3.3
State Street Corporation	Capital Markets	3.2
Microsoft Corporation	Software	3.0
American International Group	Insurance	2.9
Westport Innovations Company	Auto Components	2.9

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

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

ALL-CAP VALUE COMPOSITE PERFORMANCE (NET OF FEES) AS OF MARCH 31, 2013

Year-To-Date	Annualized				
	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
11.13%	11.28%	5.05%	1.01%	6.25%	2.38%

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.

INVESTMENT ADVISER

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ALL-CAP VALUE COMPOSITE FACTS

ROE	17.01% *
Long-Term Earnings Growth	14.80% *
Average P/E	15.80 *
Portfolio Turnover	40.00% **

* Weighted averages using
Bloomberg data as of 3/31/13

Note: Average ROE has been adjusted.
Reported ROEs >60% have been
marked down to 20%, providing a
lower, more conservative, (and we
believe more meaningful), valuation
for the company.

** Trailing 12 Months

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

Long-Term Earnings Growth is not a forecast of the Composite's future performance.

Price-to-Earnings Ratio (P/E) is the current stock price, divided by the earnings per share.



Muhlenkamp & Company, Inc.
Intelligent Investment Management

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**
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
2001	699	97	124	(2.72)	(3.51)	(11.93)			5.16
2000	428	101	99	16.10	15.23	(9.10)			5.98
1999	297	100	110	5.15	4.32	21.04			10.82
1998	338	121	118	0.89	0.12	28.58			3.26

Muhlenkamp & Company's All-Cap Value Composite includes all fee-paying accounts over \$100,000, full discretion, under management for at least one full quarter, which are invested in the All-Cap style. The composite excludes the Muhlenkamp Fund and any wrap fee account. The objective of this All-Cap Value Composite is to maximize total 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 December 31, 2012 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 December 31, 2012. 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.



Muhlenkamp & Company, Inc.
Intelligent Investment Management

Results 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.

The investment management fee schedule for the Composite is 1% on the first \$1 million, and 0.5% on the remainder. Actual investment advisory fees incurred by clients may vary.

The All-Cap Value Composite was created in November, 1978.

* **Three-Year 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 tradeable 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.