Ron's Quarterly Letter
September 2013

It's been an interesting summer.

Since 2008, the Federal Reserve (Fed) has been a huge manipulator of the money supply and of interest rates. Beginning with TARP (Troubled Asset Relief Program) in 2008—and continuing through Quantitative Easing II (QE2), Operation Twist, and QE3, the Fed has added over $2 trillion to our money supply (nearly $20,000 per household) and purposely bought U.S. Treasuries and mortgaged-backed securities to keep prices of these securities up and keep interest rates artificially low. The Fed first did this to avoid a financial meltdown in 2008-09 and continued it on the theory that it would help jumpstart the economy after the 2008-09 recession.

We believe that TARP helped avoid a financial meltdown. But we find it hard to find evidence that the subsequent QEs have helped to jumpstart the economy. We do think the QEs help support the bond and stock markets. But we also notice that Mario Draghi, President of the Central European Bank since November 2011, has had at least as much success supporting the European bond market without yet spending a euro.

We were told (and always believed) that the Fed wanted its manipulation to be temporary. Beginning in May 2013, market interest rates on U.S. Treasuries began to move up. By August 2013, the interest rate on the 10-year Treasury had climbed from 1.6% to 2.9 percent. Initially, this upmove in interest rates drove stock prices and price-to-earnings ratios (P/Es) down, as one would expect; (see Chapter 4 of my book). But, by September 2013, stocks had recovered to their levels of May and had actually surpassed them. And the Fed began talking about a "tapering" in its purchases of Treasuries and mortgage-backed securities; (currently at $85 billion per month or about $800 per household per month). In our judgment, the upmove in interest rates (from 1.6% to 2.9%) had brought rates near to where they would be without the Fed's arm on the scale—and the stock market had absorbed this increase very well. This presented the Fed with a great opportunity to "taper off" its manipulation.

On September 18, 2013, the Fed chose not to "taper." For two hours, stock prices went up and some commentators celebrated; then, prices went down for five days as strategists (and I) tried to understand what the Fed's (in)action meant for the markets going forward.

Having broached the topic of tapering in May, and having carefully shifted his tone in June, July, and August to calm investor fears of tapering, why did Ben Bernanke abandon those efforts in September by not executing the action he had so carefully prepared the markets for? My real fear is that the members of the Fed don't **want** to taper, that they desire to continue to manipulate interest rates, or that they believe their continued manipulation as now **essential** to the operation of our economy.

If so, it will continue to complicate market evaluations of companies and their securities—with profitability and inflation giving one set of values (refer to my book)—and interest rates giving another. The Fed's legal mandate is to keep inflation in check and to foster employment. Despite this, one of its current goals is to increase inflation. Further, it is hard to find evidence that the Fed has increased employment. (Labor participation is the lowest it's been since the 1970s.) But the Fed seems to have adopted increasing stock prices as a substitute for its mandate and is pointing to higher stock prices to justify keeping its whole arm (not just its thumb) on the scale of interest rates.

We've seen what happens when prices get ahead of the economy reality. The bubbles in the dot-com's in 2000 and the housing market in 2007 were such effects. We fear that the apparent Fed desire to continue to manipulate interest rates may engender more bubbles.

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 9/30/13

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 the common stock of highly profitable companies that sell at discounted prices; the disparity between profitability and price creates value. We begin with Return on Equity (ROE) and Price-to-Earnings (P/E) ratios to identify companies for further research.

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.

VESTED INTEREST

The majority of Mr. Muhlenkamp's long-term investment assets are managed by Muhlenkamp & Company, by being invested in the Muhlenkamp Fund and as one of the Separately Managed Accounts of the Advisory firm.

ALL-CAP VALUE COMPOSITE TOP TEN HOLDINGS

Company	Industry	% of Net Assets
Alliance Data Systems	IT Services	6.0
Celgene Corporation	Biotechnology	4.4
Hanes Brands Incorporated	Textiles, Apparel & Luxury Goods	4.1
Spirit Airlines Incorporated	Airlines	3.4
Discover Financial Services	Consumer Finance	3.4
General Motors Company	Automobiles	3.4
Delta Air Lines, Incorporated	Airlines	3.3
American International Group	Insurance	3.3
J.P. Morgan Chase & Company	Diversified Financial Services	3.3
State Street Corporation	Capital Markets	3.2

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 SEPTEMBER 30, 2013

	Annualized				
Year-To-Date	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
24.16%	25.33%	12.22%	6.47%	4.72%	4.73%

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	18.38% *
Long-Term Earnings Growth	15.55% *
Average P/E	18.50 *
Portfolio Turnover	33.04% **

* *Weighted averages using Bloomberg data as of 9/30/13*

***Note:** Average ROE and P/E have been adjusted to provide a more meaningful valuation.*

** *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.

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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**
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.

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.*

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